

Exhibit No. ___ (JAR-9)
Docket No. UE-050684
Witness: James A. Rothschild

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP, d/b/a Pacific Power &
Light Company, Respondent.

DOCKET NO. UE-050684

EXHIBIT TO
TESTIMONY OF

JAMES A. ROTHSCHILD

For
STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Inflation Premium Method

November 3, 2005

**COST OF EQUITY INDICATED BY
INFLATION RISK PREMIUM METHOD**

1	Interest rate on 20-year treasury bonds	4.25% [A]	August, 2025
2	Interest rate on long-term inflation indexed treasury bonds	<u>1.74% [A]</u>	January, 2025
3	Difference	2.51% Line 1 minus Line 2	
4	Round to	<u><u>2.55%</u></u>	

RISK PREMIUM

5	Historic Return on Common Stocks Net of Inflation	6.60%	to	7.00% [B]
6	Inflation expectation	<u>2.55%</u>		<u>2.55% Line 4</u>
7	Inflation Risk Premium Indicated Cost of Equity for Company of Average Risk	<u>9.15%</u>	to	<u>9.55%</u>
	Mid-point			9.35%

Sources:

[A] New York Times, June 28, 2005. Interest rates as of June 27, 2005

[B] Page 12 of Stocks for the Long Run, Second Edition, by Jeremy J. Siegel, 2002, McGraw Hill.