

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17 _____

DOCKET NO. UG-17 _____

EXH. AMM-10

ADRIEN M. MCKENZIE

REPRESENTING AVISTA CORPORATION

CURRENT BOND YIELDCurrent Equity Risk Premium

(a) Avg. Yield over Study Period	8.38%
(b) Average Utility Bond Yield	<u>4.21%</u>
Change in Bond Yield	-4.17%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4301</u>
Adjustment to Average Risk Premium	1.79%
(a) Average Risk Premium over Study Period	<u>3.67%</u>
Adjusted Risk Premium	5.46%

Implied Cost of Equity

(b) Baa Utility Bond Yield	4.60%
Adjusted Equity Risk Premium	<u>5.46%</u>
Risk Premium Cost of Equity	10.06%

(a) Exh. AMM-10, page 3.

(b) Average bond yield on all utility bonds and Baa subset for the six-months ending Mar. 2017 based on data from Moody's Investors Service at www.credittrends.com.

(c) Exh. AMM-10, page 4.

PROJECTED BOND YIELDCurrent Equity Risk Premium

(a) Avg. Yield over Study Period	8.38%
(b) Average Utility Bond Yield 2018-2022	<u>5.73%</u>
Change in Bond Yield	-2.65%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4301</u>
Adjustment to Average Risk Premium	1.14%
(a) Average Risk Premium over Study Period	<u>3.67%</u>
Adjusted Risk Premium	4.81%

Implied Cost of Equity

(b) Baa Utility Bond Yield 2018-2022	6.12%
Adjusted Equity Risk Premium	<u>4.81%</u>
Risk Premium Cost of Equity	10.93%

(a) Exh. AMM-10, page 3.

(b) Yields on all utility bonds and Baa subset based on data from IHS Global Insight (Feb. 2017); Energy Information Administration, Annual Energy Outlook 2017 (Jan. 5, 2017); & Moody's Investors Service at www.credittrends.com.

(c) Exh. AMM-10, page 4.

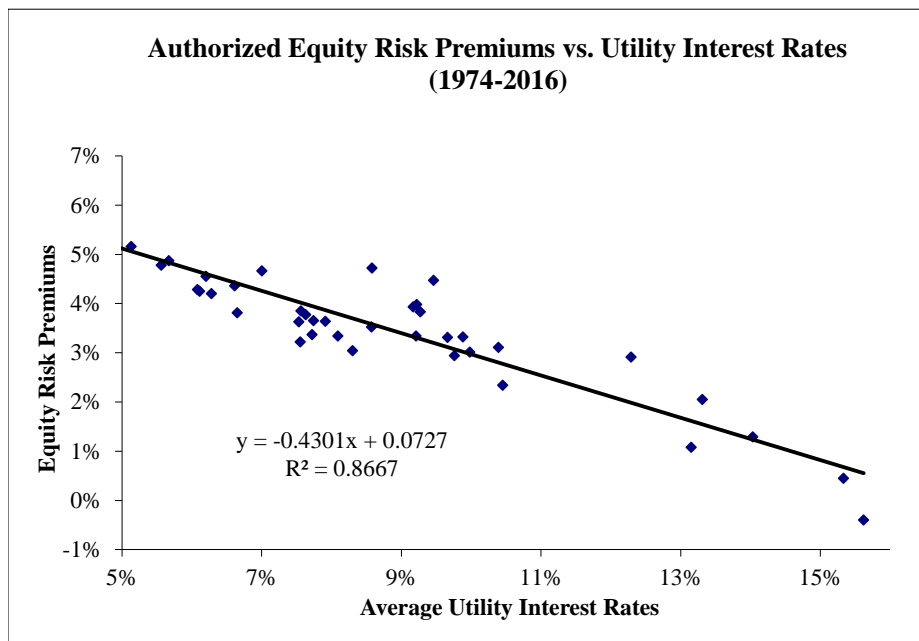
AUTHORIZED RETURNS

Year	(a)	(b)	Risk
	Allowed ROE	Average Utility Bond Yield	Premium
1974	13.10%	9.27%	3.83%
1975	13.20%	9.88%	3.32%
1976	13.10%	9.17%	3.93%
1977	13.30%	8.58%	4.72%
1978	13.20%	9.22%	3.98%
1979	13.50%	10.39%	3.11%
1980	14.23%	13.15%	1.08%
1981	15.22%	15.62%	-0.40%
1982	15.78%	15.33%	0.45%
1983	15.36%	13.31%	2.05%
1984	15.32%	14.03%	1.29%
1985	15.20%	12.29%	2.91%
1986	13.93%	9.46%	4.47%
1987	12.99%	9.98%	3.01%
1988	12.79%	10.45%	2.34%
1989	12.97%	9.66%	3.31%
1990	12.70%	9.76%	2.94%
1991	12.55%	9.21%	3.34%
1992	12.09%	8.57%	3.52%
1993	11.41%	7.56%	3.85%
1994	11.34%	8.30%	3.04%
1995	11.55%	7.91%	3.64%
1996	11.39%	7.74%	3.65%
1997	11.40%	7.63%	3.77%
1998	11.66%	7.00%	4.66%
1999	10.77%	7.55%	3.22%
2000	11.43%	8.09%	3.34%
2001	11.09%	7.72%	3.37%
2002	11.16%	7.53%	3.63%
2003	10.97%	6.61%	4.36%
2004	10.75%	6.20%	4.55%
2005	10.54%	5.67%	4.87%
2006	10.36%	6.08%	4.28%
2007	10.36%	6.11%	4.25%
2008	10.46%	6.65%	3.81%
2009	10.48%	6.28%	4.20%
2010	10.34%	5.56%	4.78%
2011	10.29%	5.13%	5.16%
2012	10.17%	4.26%	5.91%
2013	10.02%	4.55%	5.47%
2014	9.92%	4.41%	5.51%
2015	9.85%	4.37%	5.48%
2016	<u>9.77%</u>	<u>4.11%</u>	<u>5.66%</u>
Average	12.05%	8.38%	3.67%

(a) Major Rate Case Decisions, *Regulatory Focus*, Regulatory Research Associates; *UtilityScope Regulatory Service*, Argus.

(b) Moody's Investors Service.

REGRESSION RESULTS



SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.930965341
R Square	0.866696465
Adjusted R Square	0.86344516
Standard Error	0.004962017
Observations	43

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.006563352	0.006563352	266.5687384	1.51943E-19
Residual	41	0.001009486	2.46216E-05		
Total	42	0.007572838			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.072711976	0.002333891	31.15483276	3.63613E-30	0.067998588	0.077425364	0.067998588	0.077425364
X Variable 1	-0.430141523	0.026345519	-16.32693291	1.51943E-19	-0.483347378	-0.376935668	-0.483347378	-0.376935668