

Exhibit No.____(KGS-14)
Docket UE-14____
Witness: Kurt G. Strunk

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT COMPANY,
a division of PacifiCorp

Respondent.

Docket UE-14____

PACIFIC POWER & LIGHT COMPANY

EXHIBIT OF KURT G. STRUNK

Risk Premium Model

May 2014

Pacific Power & Light Company
Bond Yield + Risk Premium

| | Model Parameters | | | Model Results | | |
|---|------------------|-------------------------------|--------------|------------------|---|---|
| | Analysis (a) | Bond Rate ¹ (b) | Slope (c) | Intercept (d) | Risk Differential (Utilities Relative to Bond Yields) ² (e) = (b)*(c) + (d) | Risk Premium Model Equity Return (f) = (b) + (e) |
| 1 Authorized Returns to Risk Free Rate ³ | | 3.72% | -0.626392574 | 0.089006436 | 6.57% | 10.29% |
| 2 Authorized Returns to A Utility Bond Yield ⁴ | | 3.59% | -0.737919298 | 0.093135889 | 6.67% | 10.25% |
| 3 Authorized Returns to BBB Corporate Bond Yield ⁵ | | 5.16% | -0.612930246 | 0.081063763 | 4.94% | 10.10% |
| Average | | | | | | 10.22% |

Notes:

Authorized Returns are yearly averages from SNL Financial.

¹ Bond yields are as of February 12, 2014.

² The formula is $y = ax + b$, where y is a vector of authorized returns, a is the slope, x is a vector of bond yields, and b is the intercept.

³ The Risk Free Rate is the annual average of 30 Year Treasury Yields, 1994-2013. 20 Year Treasury Yields are used in 2003-2005 when 30 Year Yields are not available. Source: Federal Reserve website.

⁴ Source: The A Utility Bond Yield is provided by Bank of America Merrill Lynch Utility Bond Index, Bloomberg, L.P.

⁵ The BBB Bond Yield is the Moody's seasoned Baa average annual returns, 1994-2013. Source: Federal Reserve website.