

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-14 _____

DOCKET NO. UG-14 _____

EXHIBIT NO. ____ (AMM-9)

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REPRESENTING AVISTA CORPORATION

CURRENT BOND YIELDCurrent Equity Risk Premium

| | |
|---|----------------|
| (a) Avg. Yield over Study Period | 8.69% |
| (b) Average Utility Bond Yield | <u>4.88%</u> |
| Change in Bond Yield | -3.81% |
| (c) Risk Premium/Interest Rate Relationship | <u>-0.4246</u> |
| Adjustment to Average Risk Premium | 1.62% |
| (a) Average Risk Premium over Study Period | <u>3.53%</u> |
| Adjusted Risk Premium | 5.15% |

Implied Cost of Equity

| | |
|------------------------------------|---------------|
| (b) BBB Utility Bond Yield | 5.25% |
| Adjusted Equity Risk Premium | <u>5.15%</u> |
| Risk Premium Cost of Equity | 10.40% |

(a) Exhibit No.__(AMM-9), page 3.

(b) Average yield for Dec. 2013 from Moody's Investors Service at www.credittrends.com.

(c) Exhibit No.__(AMM-9), page 4.

PROJECTED BOND YIELD

Current Equity Risk Premium

| | |
|--|----------------|
| (a) Avg. Yield over Study Period | 8.69% |
| (b) Projected Average Utility Bond Yield 2014-2017 | <u>6.20%</u> |
| Change in Bond Yield | -2.49% |
| | |
| (c) Risk Premium/Interest Rate Relationship | <u>-0.4246</u> |
| Adjustment to Average Risk Premium | 1.06% |
| | |
| (a) Average Risk Premium over Study Period | <u>3.53%</u> |
| Adjusted Risk Premium | 4.59% |

Implied Cost of Equity

| | |
|--|---------------|
| (b) Projected BBB Utility Bond Yield 2014-2017 | 6.60% |
| Adjusted Equity Risk Premium | <u>4.59%</u> |
| Risk Premium Cost of Equity | 11.19% |

- (a) Exhibit No.__(AMM-9), page 3.
- (b) Based on data from IHS Global Insight, U.S. Economic Outlook at 25 (Nov. 2013); Energy Information Administration, Annual Energy Outlook 2014, Early Release (Dec. 16, 2013); & Moody's Investors Service at www.credittrends.com.
- (c) Exhibit No.__(AMM-9), page 4.

AUTHORIZED RETURNS

| Year | (a) Allowed ROE | (b) Average Utility Bond Yield | Risk 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 | <u>10.02%</u> | <u>4.55%</u> | <u>5.47%</u> |
| Average | 12.21% | 8.69% | 3.53% |

(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 | 0.9186517 |
| R Square | 0.8439209 |
| Adjusted R Square | 0.8398135 |
| Standard Error | 0.0051378 |
| Observations | 40 |

ANOVA

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-------------|-----------|----------|-----------------------|
| Regression | 1 | 0.005423795 | 0.005424 | 205.4662 | 6.5706E-17 |
| Residual | 38 | 0.001003105 | 2.64E-05 | | |
| Total | 39 | 0.0064269 | | | |

| | <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 | 0.0721319 | 0.002698047 | 26.73484 | 3.02E-26 | 0.06666996 | 0.07759379 | 0.066669963 | 0.077593786 |
| X Variable 1 | -0.4245597 | 0.02961887 | -14.3341 | 6.57E-17 | -0.48451992 | -0.36459938 | -0.48451992 | -0.36459938 |