BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILIITES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES,

Respondent.

DOCKET NOS. UE-190334 and UG-190335, UE-190222 (*Consolidated*)

DAVID J. GARRETT

ON BEHALF OF PUBLIC COUNSEL

EXHIBIT DJG-27

CAPM Implied Equity Risk Premium Calculation

October 3, 2019

CAPM Implied Equity Risk Premium Estimate

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1																	
2																	
3			[1]		[2]		[3]		[4]		[5]		[6]		[7]		[8]
4																	
5	Year		Market Value		Operating Earnings		Dividends		Buybacks		Earnings Yield		Dividend Yield		Buyback Yield		Gross Cash Yield
6	2013		16,495		956		312		476		5.80%		1.89%		2.88%		4.77%
7	2014		18,245		1,004		350		553		5.50%		1.92%		3.03%		4.95%
8	2015		17,900		885		382		572		4.95%		2.14%		3.20%		5.33%
9	2016		19,268		920		397		536		4.77%		2.06%		2.78%		4.85%
10	2017		22,821		1,066		420		519		4.67%		1.84%		2.28%		4.12%
11	2018		21,033		1,282		456		806		6.09%		2.17%		3.83%		6.00%
12																	
13																	
14	Cash Yield		4.98%		[9]												
15	Growth Rate		6.04%		[10]												
16	Risk-free Rate		2.42%		[11]												
17	Current Index Value		2,956		[12]												
18																	
19																	
20			[13]		[14]		[15]		[16]		[17]						
21																	
22	Year		1		2		3		4		5						
23																	
24	Expected Dividends		156		165		175		186		197						
25	Expected Terminal Value										3389						
26	Present Value		144		141		138		135		2399						
27																	
28	Intrinsic Index Value		2956		[18]												
29																	
30	Required Return on Market		8.38%		[19]												
31																	
32	**Implied Equity Risk Premium**		**6.0%**		[20]												
33																	
34																	
35																	

36	[1-4] S&P Quarterly Press Releases, data found at https://us.spindices.com/indices/equity/sp-500 (additional info tab) (all dollar figures are in $ billions)
37	[1] Market value of S&P 500
38	[5] = [2] / [1]
39	[6] = [3] / [1]
40	[7] = [4] / [1]
41	[8] = [6] + [7]
42	[9] = Average of [8]
43	[10] = Compund annual growth rate of [2] = (end value / beginning value)$^{1/4}$-1
44	[11] Risk-free rate from DJG risk-free rate exhibit
45	[12] 30-day average of closing index prices from DJG stock price exhibit
46	[13-16] Expected dividends = [9]*[12]*(1+[10])^t ; Present value = expected dividend / (1+[11]+[19])^t
47	[17] Expected terminal value = expected dividend * (1+[11]) / [19] ; Present value = (expected dividend + expected terminal value) / (1+[11]+[19])^t
48	[18] = Sum([13-17]) present values.
49	[19] = [20] + [11]
50	[20] Internal rate of return calculation setting [18] equal to [12] and solving for the discount rate