

PUGET SOUND ENERGY, INC.

CAPM COST OF EQUITY CAPITAL

$$k = rf + B (rm - rf)$$

T-BILLS

$$\begin{aligned} [rf]^* &= 1.42\% \\ [rm - rf]^\dagger &= 6.70\% \text{ (geometric mean)} \\ [rm - rf]^\dagger &= 8.60\% \text{ (arithmetic mean)} \\ \text{average beta} &= 0.76 \end{aligned}$$

$$\begin{aligned} k &= 1.42\% + 0.76 (6.7\%/8.60\%) \\ k &= 1.42\% + 5.08\%/6.52\% \\ k &= 6.49\% / 7.93\% \end{aligned}$$

T-BONDS

$$\begin{aligned} [rf]^* &= 5.15\% \\ [rm - rf]^\dagger &= 5.00\% \text{ (geometric mean)} \\ [rm - rf]^\dagger &= 6.60\% \text{ (arithmetic mean)} \\ \text{average beta} &= 0.76 \end{aligned}$$

$$\begin{aligned} k &= 5.15\% + 0.76 (5.00\%/6.60\%) \\ k &= 5.15\% + 3.78\%/5.00\% \\ k &= \mathbf{8.94\% / 10.15\%} \end{aligned}$$

*Current T-Bill & T-Bond yields, most recent yield from Value Line Selection & Opinion (7/23/04-8/27/04)
†Geometric and arithmetic market risk premiums from Ibbotson Associates 2004 SBBI Yearbook, p. 117.