

PUGET SOUND ENERGY, INC.
LEVERAGE/BETA ADJUSTMENT TO COMPANY'S COST OF EQUITY CAPITAL

| <u>COMPANY</u> | <u>COMMON EQUITY</u> | <u>FIXED INCOME CAPITAL</u> | <u>M/B RATIO</u> | <u>MKT. VALUE DEBT(1-t)/EQ.</u> |
|-----------------------------------|----------------------|-----------------------------|------------------|---------------------------------|
| Central Vermont P. S. | 59.00% | 41.00% | 1.09 | 0.41 |
| Energy East Corp. | 38.00% | 62.00% | 1.35 | 0.79 |
| FirstEnergy Corp. | 40.00% | 60.00% | 1.49 | 0.65 |
| Progress Energy | 41.00% | 59.00% | 1.34 | 0.70 |
| Cinergy Corp. | 42.00% | 58.00% | 1.79 | 0.50 |
| Cleco Corporation | 41.00% | 59.00% | 1.66 | 0.56 |
| Empire District Electric | 48.00% | 52.00% | 1.36 | 0.52 |
| Entergy Corp. | 52.00% | 48.00% | 1.44 | 0.42 |
| Great Plains Energy | 39.00% | 61.00% | 1.89 | 0.54 |
| Hawaiian Electric | 28.00% | 72.00% | 1.70 | 0.98 |
| PNM Resources | 50.00% | 50.00% | 1.12 | 0.58 |
| Pinnacle West Capital | <u>48.00%</u> | <u>52.00%</u> | <u>1.29</u> | <u>0.55</u> |
| AVERAGES | 43.83% | 56.17% | 1.46 | 0.60 |
| TARGET (PUGET CAP. STRUC.) | 40.00% | 60.00% | 1.46 | 0.67 |

AVERAGE (LEVERED) UTILITY BETA = 0.76

$$\text{Beta (Unlevered)} = \text{Beta (Levered)} / (1 + D(1-t)/E)$$

$$\text{Beta (Unlevered)} = 0.76 / (1 + .60) = \mathbf{0.48}$$

$$\text{Beta (Relevered)} = \text{Beta (Unlevered)} * (1 + D(1-t)/E)$$

$$\text{Beta (Relevered)} = 0.47(1.67) = \mathbf{0.78}$$

IMPACT ON COST OF EQUITY CAPITAL

Measured Beta 0.76

Relevered Beta 0.78

[1] Diff. in Beta -0.02

[2] Market Risk Premium (rm-rf) = 5% to 6.6%

Average Cost of equity impact = [1] x [2] = **0.12% to 0.16%**