

Exhibit No. ___ (SGH-14)
Docket Nos. UE-060266/UG-060267
Witness: Stephen G. Hill

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NO. UE-060266

DOCKET NO. UG-060267

EXHIBIT TO DIRECT TESTIMONY OF

STEPHEN G. HILL

**ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

CAPM Cost of Equity Capital

July 25, 2006

PUGET SOUND ENERGY
CAPM COST OF EQUITY CAPITAL
ELECTRIC UTILITIES

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

T-BILLS

$$[rf]^* = 4.69\%$$

$$[rm - rf]^\dagger = 6.70\% \text{ (geometric mean)}$$

$$[rm - rf]^\dagger = 8.60\% \text{ (arithmetic mean)}$$

$$\text{average beta} = 0.82$$

$$k = 4.69\% + 0.82 (6.7\%/8.60\%)$$

$$k = 4.69\% + 5.48\%/7.04\%$$

$$k = 10.18\% / 11.73\%$$

T-BONDS

$$[rf]^* = 4.97\%$$

$$[rm - rf]^\dagger = 4.90\% \text{ (geometric mean)}$$

$$[rm - rf]^\dagger = 6.50\% \text{ (arithmetic mean)}$$

$$\text{average beta} = 0.82$$

$$k = 4.97\% + 0.82 (4.90\%/6.50\%)$$

$$k = 4.97\% + 4.01\%/5.32\%$$

$$k = \mathbf{8.99\% / 10.30\%}$$

*Current T-Bill & T-Bond yields, six-week average yield from Value Line Selection & Opinion (3/31/06-5/5/06)

†Geometric and arithmetic market risk premiums from Ibbotson Associates 2006 SBBY Yearbook, p. 28.

PUGET SOUND ENERGY
CAPM COST OF EQUITY CAPITAL
GAS UTILITIES

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

T-BILLS

$$\begin{aligned} [rf]^* &= 4.69\% \\ [rm - rf]^\dagger &= 6.70\% \text{ (geometric mean)} \\ [rm - rf]^\dagger &= 8.60\% \text{ (arithmetic mean)} \\ \text{average beta} &= 0.81 \end{aligned}$$

$$\begin{aligned} k &= 4.69\% + 0.81 (6.7\%/8.60\%) \\ k &= 4.69\% + 5.42\%/6.97\% \\ k &= 10.11\% / 11.65\% \end{aligned}$$

T-BONDS

$$\begin{aligned} [rf]^* &= 4.97\% \\ [rm - rf]^\dagger &= 4.90\% \text{ (geometric mean)} \\ [rm - rf]^\dagger &= 6.50\% \text{ (arithmetic mean)} \\ \text{average beta} &= 0.81 \end{aligned}$$

$$\begin{aligned} k &= 4.97\% + 0.81 (4.90\%/6.50\%) \\ k &= 4.97\% + 3.97\%/5.26\% \\ k &= 8.94\% / 10.24\% \end{aligned}$$

*Current T-Bill & T-Bond yields, six-week average yield from Value Line Selection & Opinion (3/31/06-5/5/06)
†Geometric and arithmetic market risk premiums from Ibbotson Associates 2006 SBB1 Yearbook, p. 28.