

PACIFIC POWER & LIGHT COMPANY
ELECTRIC UTILITY INDUSTRY COMMON EQUITY RATIOS

<u>ELECTRIC COMPANIES</u>	<u>EQUITY RATIO</u> [%]	<u>COMBINATION GAS & ELECTRIC COMPANIES</u>	<u>EQUITY RATIO</u> [%]
ALLETE, Inc. (NYSE-ALE)	53.5	Alliant Energy Corporation (NYSE-LNT)	48.4
American Electric Power Co. (NYSE-AEP)	45.8	Ameren Corporation (NYSE-AEE)	49.2
Cleco Corporation (NYSE-CNL)	54.5	Avista Corporation (NYSE-AVA)	45.8
Edison International (NYSE-EIX)	43.3	Black Hills Corporation (NYSE-BKH)	47.2
El Paso Electric Company (NYSE-EE)	47.6	CenterPoint Energy (NYSE-CNP)	34.0
FirstEnergy Corporation (ASE-FE)	37.2	Chesapeake Utilities Corporation (NYSE-CPK)	58.1
Great Plains Energy Incorporated (NYSE-GXP)	46.8	CMS Energy Corporation (NYSE-CMS)	30.2
Hawaiian Electric Industries, Inc. (NYSE-HE)	47.8	Consolidated Edison, Inc. (NYSE-ED)	49.9
IDACORP, Inc. (NYSE-IDA)	52.7	Dominion Resources, Inc. (NYSE-D)	33.3
Nextera Energy (NYSE-NEE)	38.1	DTE Energy Company (NYSE-DTE)	49.2
OGE Energy Corp. (NYSE-OGE)	50.1	Duke Energy Corporation (NYSE-DUK)	49.4
Otter Tail Corporation (NDQ-OTTR)	51.8	Empire Dist. Electric Company (NYSE-EXC)	50.5
Pinnacle West Capital Corp. (NYSE-PNW)	53.0	Entergy Corporation (NYSE-ETR)	41.5
PNM Resources, Inc. (NYSE-PNM)	45.0	Exelon Corporation (NYSE-EXC)	51.1
Portland General Electric Company (NYSE-POR)	49.2	Integrus Energy Group (NYSE-TEG)	49.8
PPL Corporation (NYSE-PPL)	36.2	MDU Resources Group, Inc. (NYSE-MDU)	57.1
Southern Company (NYSE-SO)	45.2	MGE Energy, Inc. (NYSE-MGEE)	61.2
Westar Energy, Inc. (NYSE-WR)	46.2	NiSource Inc. (NYSE-NI)	40.1
		Northeast Utilities (NYSE-NU)	50.8
		NorthWestern Corporation (NYSE-NWE)	45.8
		Pepco Holdings, Inc. (NYSE-POM)	43.3
		PG&E Corporation (NYSE-PCG)	49.2
Electric Company Average	46.9	Public Service Enterprise Group (NYSE-PEG)	58.6
		SCANA Corporation (NYSE-SCG)	44.5
		SEMPRA Energy (NYSE-SRE)	44.5
		TECO Energy, Inc. (NYSE-TE)	44.2
		UIL Holdings Corporation (NYSE-UIL)	44.4
		Unitil Corporation (ASE-UTL)	44.1
		UNS Energy Corp. (NYSE-UNS)	36.9
		Vectren Corporation (NYSE-VVC)	46.3
		Wisconsin Energy Corporation (NYSE-WEC)	45.8
		Xcel Energy Inc. (NYSE-XEL)	44.3
		Combination Company Average	46.5
OVERALL INDUSTRY AVERAGE	46.7		

PACIFIC POWER & LIGHT COMPANY
RATE IMPACT OF CAPITAL STRUCTURE CHANGES

PRE-TAX OVERALL COST OF CAPITAL WITH 51.73% COMMON EQUITY RATIO

<u>Type of Capital</u>	<u>Percent of Total</u>	<u>Cost Rate</u>	<u>Wt. Average Cost Rate</u>	<u>Pre-tax Wt. Avg. Cost Rate</u>
Common Equity	51.73%	10.00%	5.17%	7.96%
Preferred Stock	0.02%	6.75%	0.00%	0.00%
Long-term Debt	48.06%	5.19%	2.49%	2.49%
Short-term Debt	<u>0.19%</u>	<u>1.73%</u>	<u>0.00%</u>	<u>0.00%</u>
TOTAL	100.00%			10.46%

PRE-TAX OVERALL COST OF CAPITAL WITH 49.10% COMMON EQUITY RATIO

<u>Type of Capital</u>	<u>Percent of Total</u>	<u>Cost Rate†</u>	<u>Wt. Average Cost Rate</u>	<u>Pre-tax Wt. Avg. Cost Rate</u>
Common Equity	49.10%	10.11%	4.96%	7.64%
Preferred Stock	0.02%	6.75%	0.00%	0.00%
Long-term Debt	50.69%	5.19%	2.63%	2.63%
Short-term Debt	<u>0.19%</u>	<u>1.73%</u>	<u>0.00%</u>	<u>0.00%</u>
TOTAL	100.00%			10.27%

Pre-tax Cost of Capital Difference with Lower Equity Ratio = **0.19%**

Company Requested Rate Base (Siores Exhibit__(NCS-2)) = **\$850 Million**

Annual Rate Impact on Washington Customers = **\$1.6 Million**

† Cost rate impact of lower common equity ratio calculated on page 5 of Exhibit No. SGH-3.

PACIFIC POWER & LIGHT COMPANY**LEVERAGE/BETA ADJUSTMENT TO THE COST OF EQUITY CAPITAL**
STRUNK SAMPLE GROUP

<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>
LNT	48.40%	51.60%	1.87	0.371
AEP	45.80%	54.20%	1.62	0.475
AVA	45.80%	54.20%	1.47	0.523
BKH	47.20%	52.80%	2.01	0.362
CNP	34.00%	66.00%	2.39	0.527
CNL	54.50%	45.50%	2.21	0.246
ED	49.90%	50.10%	1.34	0.488
D	33.30%	66.70%	3.50	0.372
DTE	49.20%	50.80%	1.69	0.396
DUK	49.40%	50.60%	1.26	0.530
EE	47.60%	52.40%	1.64	0.436
IDA	52.70%	47.30%	1.56	0.375
NEE	38.10%	61.90%	2.40	0.440
NU	50.80%	49.20%	1.51	0.417
NWE	45.80%	52.00%	2.03	0.364
OGE	50.10%	49.90%	2.45	0.264
POM	43.30%	56.70%	1.59	0.536
PNW	53.00%	56.00%	1.47	0.468
POR	49.20%	50.80%	1.43	0.470
SCG	44.50%	55.50%	1.55	0.524
SO	45.20%	54.80%	1.99	0.396
WR	46.20%	53.80%	1.55	0.489
WEC	45.80%	54.20%	2.43	0.317
XEL	<u>44.30%</u>	<u>55.70%</u>	<u>1.62</u>	<u>0.503</u>
AVERAGE	46.42%	53.86%	1.86	0.429
Equity Ratio Target 1	51.73%	48.27%	1.86	0.326
Equity Ratio Target 2	49.10%	50.90%	1.86	0.362

AVERAGE (LEVERED) UTILITY BETA = 0.71

Beta (Unlevered) = Average Beta/Sample Group (1+D(1-t)/E)

Beta (Unlevered) = 0.71/(1+0.429)= **0.497**

Target 1	51.73% Equity	Beta (Relevered) = Beta (Unlevered)*Target 1 (1+D(1-t)/E)
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Beta (Relevered) for 51.73% Equity Ratio = 0.497*(1.326)= **0.659**

Target 2	49.10% Equity	Beta (Relevered) = Beta (Unlevered)*Target 2 (1+D(1-t)/E)
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Beta (Relevered) for 49.10% Equity Ratio = 0.497*(1.362)= **0.677**IMPACT ON COST OF EQUITY CAPITAL

Beta With 49.10% Equity	0.677
Beta With 51.73% Equity	<u>0.659</u>

[1] Diff. in Beta 0.018

[2] Market Risk Premium (rm-rf) = 6.00%

Average Cost of equity impact = [1] x [2] = **0.108%**

Notes:

Equity Ratios and Market-to-book Ratios from AUS Utility Reports, July 2014.

Arithmetic market risk premium from 2011 Ibbotson SBBI Valuation Yearbook, at 23.