

**PACIFIC POWER & LIGHT COMPANY
CAPM COST OF EQUITY CAPITAL**

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

$$[rf]^* = 3.33\%$$

$$[rm - rf]^{\dagger} = 6.00\%$$

$$\text{average beta}^{\dagger\dagger} = 0.74$$

$$k = 3.33\% + 0.77 (6.00\%)$$

$$k = 3.33\% + 4.44\%$$

$$k = \mathbf{7.77\%}$$

*Current T-Bond yields, six-week average yield from Value Line Selection & Opinion.

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

††Value Line beta from Summary & Index, August 15, 2014.