

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-15\_\_\_\_\_

DOCKET NO. UG-15\_\_\_\_\_

EXHIBIT NO. \_\_\_\_ (AMM-9)

ADRIEN M. MCKENZIE

REPRESENTING AVISTA CORPORATION

CURRENT BOND YIELDCurrent Equity Risk Premium

(a) Avg. Yield over Study Period	8.58%
(b) Average Utility Bond Yield	<u>4.29%</u>
Change in Bond Yield	-4.29%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4267</u>
Adjustment to Average Risk Premium	1.83%
(a) Average Risk Premium over Study Period	<u>3.57%</u>
<b>Adjusted Risk Premium</b>	<b>5.40%</b>

Implied Cost of Equity

(b) BBB Utility Bond Yield	4.70%
Adjusted Equity Risk Premium	<u>5.40%</u>
<b>Risk Premium Cost of Equity</b>	<b>10.10%</b>

(a) Exhibit No.\_\_(AMM-9), page 3.

(b) Average bond yield for six-months ending Dec. 2014 based on data from Moody's Investors Service at [www.credittrends.com](http://www.credittrends.com).

(c) Exhibit No.\_\_(AMM-9), page 4.

PROJECTED BOND YIELDCurrent Equity Risk Premium

(a) Avg. Yield over Study Period	8.58%
(b) Average Utility Bond Yield 2015-2019	<u>6.44%</u>
Change in Bond Yield	-2.14%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4267</u>
Adjustment to Average Risk Premium	0.91%
(a) Average Risk Premium over Study Period	<u>3.57%</u>
<b>Adjusted Risk Premium</b>	<b>4.48%</b>

Implied Cost of Equity

(b) BBB Utility Bond Yield 2015-2019	6.85%
Adjusted Equity Risk Premium	<u>4.48%</u>
<b>Risk Premium Cost of Equity</b>	<b>11.33%</b>

(a) Exhibit No.\_\_(AMM-9), page 3.

(b) Based on data from IHS Global Insight, U.S. Economic Outlook at 79 (May 2014); Energy Information Administration, Annual Energy Outlook 2014 (May 7, 2014); & Moody's Investors Service at [www.credittrends.com](http://www.credittrends.com).

(c) Exhibit No.\_\_(AMM-9), page 4.

AUTHORIZED RETURNS

Year	(a)	(b)	Risk Premium
	Allowed ROE	Average Utility Bond Yield	
1974	13.10%	9.27%	3.83%
1975	13.20%	9.88%	3.32%
1976	13.10%	9.17%	3.93%
1977	13.30%	8.58%	4.72%
1978	13.20%	9.22%	3.98%
1979	13.50%	10.39%	3.11%
1980	14.23%	13.15%	1.08%
1981	15.22%	15.62%	-0.40%
1982	15.78%	15.33%	0.45%
1983	15.36%	13.31%	2.05%
1984	15.32%	14.03%	1.29%
1985	15.20%	12.29%	2.91%
1986	13.93%	9.46%	4.47%
1987	12.99%	9.98%	3.01%
1988	12.79%	10.45%	2.34%
1989	12.97%	9.66%	3.31%
1990	12.70%	9.76%	2.94%
1991	12.55%	9.21%	3.34%
1992	12.09%	8.57%	3.52%
1993	11.41%	7.56%	3.85%
1994	11.34%	8.30%	3.04%
1995	11.55%	7.91%	3.64%
1996	11.39%	7.74%	3.65%
1997	11.40%	7.63%	3.77%
1998	11.66%	7.00%	4.66%
1999	10.77%	7.55%	3.22%
2000	11.43%	8.09%	3.34%
2001	11.09%	7.72%	3.37%
2002	11.16%	7.53%	3.63%
2003	10.97%	6.61%	4.36%
2004	10.75%	6.20%	4.55%
2005	10.54%	5.67%	4.87%
2006	10.36%	6.08%	4.28%
2007	10.36%	6.11%	4.25%
2008	10.46%	6.65%	3.81%
2009	10.48%	6.28%	4.20%
2010	10.34%	5.56%	4.78%
2011	10.29%	5.13%	5.16%
2012	10.17%	4.26%	5.91%
2013	10.02%	4.55%	5.47%
2014	<u>9.92%</u>	<u>4.42%</u>	<u>5.50%</u>
<b>Average</b>	12.16%	8.58%	3.57%

(a) Major Rate Case Decisions, Regulatory Focus, Regulatory Research Associates; *UtilityScope Regulatory Service*, Argus.

(b) Moody's Investors Service.

**REGRESSION RESULTS**

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.9231916
R Square	0.8522827
Adjusted R Square	0.8484951
Standard Error	0.0050778
Observations	41

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.005801789	0.005802	225.0178	8.7182E-18
Residual	39	0.001005564	2.58E-05		
Total	40	0.006807352			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.0723549	0.002566854	28.18815	1.52E-27	0.06716292	0.07754681	0.067162916	0.07754681
X Variable 1	-0.4266936	0.028445111	-15.0006	8.72E-18	-0.4842292	-0.36915797	-0.4842292	-0.36915797