

Exhibit SGH-12

**PUGET SOUND ENERGY**  
**CAPM COST OF EQUITY CAPITAL**  
**ELECTRIC UTILITIES**

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

**T-BONDS**

$$\begin{aligned} [rf]^* &= 4.20\% \\ [rm - rf]^\dagger &= 3.9\% \text{ (geometric mean)} \\ [rm - rf]^\dagger &= 5.6\% \text{ (arithmetic mean)} \\ [rm - rf]^{\dagger\dagger} &= 5.30\% \\ \text{average beta} &= 0.73 \end{aligned}$$

$$\begin{aligned} k &= 4.20\% + 0.73 (3.90\%/5.30\%/5.6\%) \\ k &= 4.20\% + 2.84\%/3.85\%/4.29\% \\ k &= \mathbf{7.04\%/8.05\%/8.49\%} \end{aligned}$$

$$k(\text{average}) = \mathbf{7.79\%}$$

\*Current T-Bond yields, six-week average yield from Value Line Selection & Opinion (9/409-10/  
†Geometric and arithmetic market risk premiums from Morningstar 2009 Risk Premia Over Time  
†† Mid-point long- and short-term market risk premium from Brealey, R., Meyers, S., Allen, F., P