

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PACIFIC POWER & LIGHT  
COMPANY,**

**Respondent.**

**DOCKETS UE-140762 and UE-140617  
(consolidated)**

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**In the Matter of the Petition of**

**PACIFIC POWER & LIGHT  
COMPANY,**

**For an Order Approving Deferral of  
Costs Related to Colstrip Outage.**

**DOCKET UE-131384 (consolidated)**

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**In the Matter of the Petition of**

**PACIFIC POWER & LIGHT  
COMPANY,**

**For an Order Approving Deferral of  
Costs Related to Declining Hydro  
Generation.**

**DOCKET UE-140094 (consolidated)**

**PACIFIC POWER & LIGHT COMPANY**

**EXHIBIT OF KURT G. STRUNK**

**Bond Yield + Risk Premium**

**November 2014**

**Pacific Power & Light**  
Bond Yield + Risk Premium

	Model Parameters			Model Results		
	Analysis	Bond Rate <sup>1</sup> 11/6/2014	Slope X	Intercept	Risk Differential (Utilities Relative to Bond Yields) <sup>2</sup>	Risk Premium Model Equity Return
	(a)	(b)	(c)	(d)	(e) = (b)*(c) + (d)	(f) = (b) + (e)
1 Authorized Returns to Risk Free Rate <sup>3</sup>		3.09%	-0.626392574	0.089006436	6.97%	10.06%
2 Authorized Returns to A Utility Bond Yield <sup>4</sup>		3.33%	-0.737919298	0.093135889	6.86%	10.19%
3 Authorized Returns to BBB Corporate Bond Yield <sup>5</sup>		4.79%	-0.612930246	0.081063763	5.17%	9.96%
<b>Average</b>						<b>10.07%</b>

Notes:

Authorized Returns are yearly averages from SNL Financial.

<sup>1</sup> Bond yields are as of 6 November 2014.

<sup>2</sup> The formula is  $y = ax + b$ , where  $y$  is a vector of authorized returns,  $a$  is the slope,  $x$  is a vector of bond yields, and  $b$  is the intercept.

<sup>3</sup> The Risk Free Rate is the annual average of 30 Year Treasury Yields, 1994-2013. 20 Year Treasury Yields are used in 2003-2005 when 30 Year Yields are not available. Source: Federal Reserve website.

<sup>4</sup> Source: The A Utility Bond Yield is provided by Bank of America Merrill Lynch Utility Bond Index, Bloomberg, L.P.

<sup>5</sup> The BBB Bond Yield is the Moody's seasoned Baa average annual returns, 1994-2013. Source: Federal Reserve website.