

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

$$k = rf + \beta (rm - rf)$$

**T-BILLS**

[rf]\* = 2.15%  
[rm - rf]† = 6.70% (geometric mean)  
[rm - rf]† = 8.50% (arithmetic mean)  
[rm-rf]†† 6.50%  
average beta = 0.82

k = 2.15% + 0.82 (6.5%/6.7%/8.60%)  
k = 2.15% + 5.35%/5.51%/7.00%  
k = 7.50%/7.66%/9.15%

**T-BONDS**

[rf]\* = 4.48%  
[rm - rf]† = 5.00% (geometric mean)  
[rm - rf]† = 6.50% (arithmetic mean)  
[rm-rf]†† 5.30%  
average beta = 0.82

k = 4.48% + 0.82 (5.0%/5.3%/6.50%)  
k = 4.48% + 4.11%/4.36%/5.32%  
k = **8.59%/8.84% /9.83%**

**k(mid-point) = 9.21%**

\*Current T-Bill & T-Bond yields, six-week average yield from Value Line Selection & Opinion (2/1/08-3/  
†Geometric and arithmetic market risk premiums from Morningstar 2007 SBBI Yearbook, p. 28.  
†† Mid-point long- and short-term market risk premium from Brealey, R., Meyers, S., Allen, F.,  
Principles of Corporate Finance, 8th Edition, McGraw-Hill, Irwin, Boston MA, 2006, pp. 149, 154, 222.  
Note: Average beta of sample group is 0.82 with and without Puget Energy.