

## RISK PREMIUM - COMBINATION GROUP

HISTORICAL BOND YIELDSCurrent Equity Risk Premium

(a) Avg. Yield over Study Period	8.58%
(b) Average Utility Bond Yield - Historical	<u>4.35%</u>
Change in Bond Yield	-4.23%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4266</u>
Adjustment to Average Risk Premium	1.80%
(a) Average Risk Premium over Study Period	<u>3.57%</u>
<b>Adjusted Risk Premium</b>	<b>5.37%</b>

Implied Cost of Equity

(b) Baa Utility Bond Yield - Historical	4.92%
Adjusted Equity Risk Premium	<u>5.37%</u>
<b>Risk Premium Cost of Equity</b>	<b>10.29%</b>

(a) Exhibit AMM-3, page 3.

(b) Six-month average yield for Mar. 2015 - Aug. 2015 based on data from Moody's Investors Service, [www.moodysglobal.com](http://www.moodysglobal.com).

(c) Exhibit AMM-3, page 4.

PROJECTED BOND YIELDS

Current Equity Risk Premium

(a) Avg. Yield over Study Period	8.58%
(b) Average Utility Bond Yield 2016-20	<u>6.42%</u>
Change in Bond Yield	-2.16%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4266</u>
Adjustment to Average Risk Premium	0.92%
(a) Average Risk Premium over Study Period	<u>3.57%</u>
<b>Adjusted Risk Premium</b>	<b>4.49%</b>

Implied Cost of Equity

(b) Baa Utility Bond Yield 2016-20	6.99%
Adjusted Equity Risk Premium	<u>4.49%</u>
<b>Risk Premium Cost of Equity</b>	<b>11.48%</b>

- (a) Exhibit AMM-3, page 3.
- (b) Based on data from IHS Global Insight, The U.S. Economy: The 30-Year Focus (Second-Quarter 2015); Energy Information Administration, Annual Energy Outlook 2015 (April 2015); & Moody's Investors Service at [www.credittrends.com](http://www.credittrends.com).
- (c) Exhibit AMM-3, page 4.

IMPLIED RISK PREMIUM

Year	(a) Allowed ROE	(b) Average Utility Bond Yield	Risk Premium
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>9.91%</u>	<u>4.42%</u>	<u>5.49%</u>
<b>Average</b>	12.16%	8.58%	3.57%

*Regulatory Service , Argus.*

(b) Moody's Investors Service.

REGRESSION RESULTS

<i>Regression Statistics</i>	
Multiple R	0.92317
R Square	0.85224
Adjusted R Square	0.84845
Standard Error	0.00508
Observations	41

## ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.005798	0.005798237	224.9453642	8.76517E-18
Residual	39	0.001005	2.57762E-05		
Total	40	0.006804			

	<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	0.07234	0.00257	28.18692101	1.5191E-27	0.06715	0.07753	0.06715	0.07753
X Variable 1	-0.42656	0.02844	-14.99817869	8.76517E-18	-0.48409	-0.36904	-0.48409	-0.36904