

APPENDIX 5 EX POST RISK PREMIUM APPROACH

Source

Stock price and yield information is obtained from Standard & Poor's Security Price publication. Standard & Poor's derives the stock dividend yield by dividing the aggregate cash dividends (based on the latest known annual rate) by the aggregate market value of the stocks in the group. The bond price information is obtained by calculating the present value of a bond due in thirty years with a \$4.00 coupon and a yield to maturity of a particular year's indicated Moody's A-rated utility bond yield. The values shown in the schedules are the January values of the respective indices.

Calculation of Stock and Bond Returns

Sample calculation of "Stock Return" column:

$$\text{Stock Return (2012)} = \left[\frac{\text{Stock Price (2013)} - \text{Stock Price (2012)} + \text{Dividend (2012)}}{\text{Stock Price (2012)}} \right]$$

where $\text{Dividend (2012)} = \text{Stock Price (2012)} \times \text{Stock Div. Yield (2012)}$

Sample calculation of "Bond Return" column:

$$\text{Bond Return (2012)} = \left[\frac{\text{Bond Price (2013)} - \text{Bond Price (2012)} + \text{Interest (2012)}}{\text{Bond Price (2012)}} \right]$$

where $\text{Interest} = \$4.00$.