

## ELECTRIC UTILITY RISK PREMIUM

Exhibit WEA-7

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### CURRENT BOND YIELD

#### Current Equity Risk Premium

(a) Avg. Yield over Study Period	8.91%
(b) Oct. 2012 Average Utility Bond Yield	<u>4.04%</u>
Change in Bond Yield	-4.87%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4114</u>
Adjustment to Average Risk Premium	2.00%
(a) Average Risk Premium over Study Period	<u>3.41%</u>
<b>Adjusted Risk Premium</b>	<b>5.41%</b>

#### Implied Cost of Equity

(b) Oct. 2012 BBB Utility Bond Yield	4.54%
Adjusted Equity Risk Premium	<u>5.41%</u>
<b>Risk Premium Cost of Equity</b>	<b>9.95%</b>

(a) Exhibit WEA-7, page 3.

(b) Moody's Investors Service, [www.creditrends.com](http://www.creditrends.com).

(c) Exhibit WEA-7, page 4.

PROJECTED BOND YIELDCurrent Equity Risk Premium

(a) Avg. Yield over Study Period	8.91%
(b) Projected Average Utility Bond Yield	<u>6.60%</u>
Change in Bond Yield	-2.31%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4114</u>
Adjustment to Average Risk Premium	0.95%
(a) Average Risk Premium over Study Period	<u>3.41%</u>
<b>Adjusted Risk Premium</b>	<b>4.36%</b>

Implied Cost of Equity

(b) Projected BBB Utility Bond Yield	7.24%
Adjusted Equity Risk Premium	<u>4.36%</u>
<b>Risk Premium Cost of Equity</b>	<b>11.60%</b>

(a) Exhibit WEA-7, page 3.

(b) Based on data from IHS Global Insight, U.S. Economic Outlook at 19 (May 2012); Energy Information Administration, Annual Energy Outlook 2012 (Jun. 25, 2012); & Moody's Investors Service at [www.credittrends.com](http://www.credittrends.com).

(c) Exhibit WEA-7, page 4.

AUTHORIZED RETURNS

Year	(a)	(b)	Risk Premium
	Allowed ROE	Average Utility Bond Yield	
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	<u>10.22%</u>	<u>5.13%</u>	<u>5.09%</u>
<b>Average</b>	12.32%	8.91%	3.41%

(a) Major Rate Case Decisions, Regulatory Focus, Regulatory Research Associates; *UtilityScope Regulatory Service*, Argus.

(b) Moody's Investors Service.

REGRESSION RESULTS

## SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.9062018
R Square	0.8212016
Adjusted R Square	0.816235
Standard Error	0.005182
Observations	38

## ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.004439957	0.00444	165.3441	5.054E-15
Residual	36	0.000966702	2.69E-05		
Total	37	0.005406659			

	<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	0.0707625	0.00297293	23.80226	1.28E-23	0.06473308	0.07679183	0.064733085	0.07679183
X Variable 1	-0.411449	0.031997942	-12.8586	5.05E-15	-0.47634415	-0.34655465	-0.47634415	-0.34655465