

Rocky Mountain Power
Exhibit RMP__(SCH-5)
Docket No. 10-035-124
Witness: Samuel C. Hadaway

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of Samuel C. Hadaway

Risk Premium Analysis

January 2011

Rocky Mountain Power
Risk Premium Analysis

(Based on Projected Interest Rates)

| | MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1) | AUTHORIZED ELECTRIC RETURNS (2) | INDICATED RISK PREMIUM |
|---------|---|---------------------------------------|------------------------------|
| 1980 | 13.15% | 14.23% | 1.08% |
| 1981 | 15.62% | 15.22% | -0.40% |
| 1982 | 15.33% | 15.78% | 0.45% |
| 1983 | 13.31% | 15.36% | 2.05% |
| 1984 | 14.03% | 15.32% | 1.29% |
| 1985 | 12.29% | 15.20% | 2.91% |
| 1986 | 9.46% | 13.93% | 4.47% |
| 1987 | 9.98% | 12.99% | 3.01% |
| 1988 | 10.45% | 12.79% | 2.34% |
| 1989 | 9.66% | 12.97% | 3.31% |
| 1990 | 9.76% | 12.70% | 2.94% |
| 1991 | 9.21% | 12.55% | 3.34% |
| 1992 | 8.57% | 12.09% | 3.52% |
| 1993 | 7.56% | 11.41% | 3.85% |
| 1994 | 8.30% | 11.34% | 3.04% |
| 1995 | 7.91% | 11.55% | 3.64% |
| 1996 | 7.74% | 11.39% | 3.65% |
| 1997 | 7.63% | 11.40% | 3.77% |
| 1998 | 7.00% | 11.66% | 4.66% |
| 1999 | 7.55% | 10.77% | 3.22% |
| 2000 | 8.14% | 11.43% | 3.29% |
| 2001 | 7.72% | 11.09% | 3.37% |
| 2002 | 7.53% | 11.16% | 3.63% |
| 2003 | 6.61% | 10.97% | 4.36% |
| 2004 | 6.20% | 10.75% | 4.55% |
| 2005 | 5.67% | 10.54% | 4.87% |
| 2006 | 6.08% | 10.36% | 4.28% |
| 2007 | 6.11% | 10.36% | 4.25% |
| 2008 | 6.65% | 10.46% | 3.81% |
| 2009 | 6.28% | 10.48% | 4.20% |
| 2010 | 5.55% | 10.34% | 4.79% |
| AVERAGE | 8.94% | 12.21% | 3.28% |

INDICATED COST OF EQUITY

| | |
|--|---------------|
| PROJECTED SINGLE-A UTILITY BOND YIELD* | 5.58% |
| MOODY'S AVG ANNUAL YIELD DURING STUDY | 8.94% |
| INTEREST RATE DIFFERENCE | -3.36% |
| INTEREST RATE CHANGE COEFFICIENT | -41.31% |
| ADJUSTMENT TO AVG RISK PREMIUM | 1.39% |
| BASIC RISK PREMIUM | 3.28% |
| INTEREST RATE ADJUSTMENT | 1.39% |
| EQUITY RISK PREMIUM | 4.66% |
| PROJECTED SINGLE-A UTILITY BOND YIELD* | 5.58% |
| INDICATED EQUITY RETURN | 10.24% |

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*Projected single-A bond yield is 118 basis points over projected long-term Treasury bond rate of 4.4% from Exhibit RMP____(SCH-2), p. 2. The single-A spread is for 3 months ended December 2010 from Exhibit RMP____(SCH-2), p. 1.

Rocky Mountain Power
Risk Premium Analysis

(Based on Current Interest Rates)

| | MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1) | AUTHORIZED ELECTRIC RETURNS (2) | INDICATED RISK PREMIUM |
|---------|---|---------------------------------------|------------------------------|
| 1980 | 13.15% | 14.23% | 1.08% |
| 1981 | 15.62% | 15.22% | -0.40% |
| 1982 | 15.33% | 15.78% | 0.45% |
| 1983 | 13.31% | 15.36% | 2.05% |
| 1984 | 14.03% | 15.32% | 1.29% |
| 1985 | 12.29% | 15.20% | 2.91% |
| 1986 | 9.46% | 13.93% | 4.47% |
| 1987 | 9.98% | 12.99% | 3.01% |
| 1988 | 10.45% | 12.79% | 2.34% |
| 1989 | 9.66% | 12.97% | 3.31% |
| 1990 | 9.76% | 12.70% | 2.94% |
| 1991 | 9.21% | 12.55% | 3.34% |
| 1992 | 8.57% | 12.09% | 3.52% |
| 1993 | 7.56% | 11.41% | 3.85% |
| 1994 | 8.30% | 11.34% | 3.04% |
| 1995 | 7.91% | 11.55% | 3.64% |
| 1996 | 7.74% | 11.39% | 3.65% |
| 1997 | 7.63% | 11.40% | 3.77% |
| 1998 | 7.00% | 11.66% | 4.66% |
| 1999 | 7.55% | 10.77% | 3.22% |
| 2000 | 8.14% | 11.43% | 3.29% |
| 2001 | 7.72% | 11.09% | 3.37% |
| 2002 | 7.53% | 11.16% | 3.63% |
| 2003 | 6.61% | 10.97% | 4.36% |
| 2004 | 6.20% | 10.75% | 4.55% |
| 2005 | 5.67% | 10.54% | 4.87% |
| 2006 | 6.08% | 10.36% | 4.28% |
| 2007 | 6.11% | 10.36% | 4.25% |
| 2008 | 6.65% | 10.46% | 3.81% |
| 2009 | 6.28% | 10.48% | 4.20% |
| 2010 | 5.55% | 10.34% | 4.79% |
| AVERAGE | 8.94% | 12.21% | 3.28% |

INDICATED COST OF EQUITY

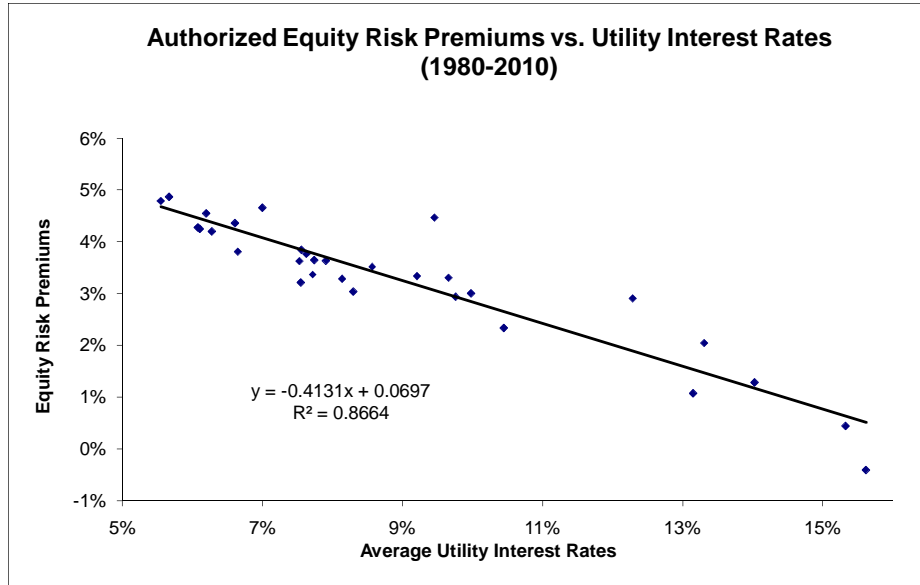
| | |
|---------------------------------------|---------------|
| CURRENT SINGLE-A UTILITY BOND YIELD* | 5.34% |
| MOODY'S AVG ANNUAL YIELD DURING STUDY | 8.94% |
| INTEREST RATE DIFFERENCE | -3.60% |
| INTEREST RATE CHANGE COEFFICIENT | -41.31% |
| ADJUSTMENT TO AVG RISK PREMIUM | 1.49% |
| BASIC RISK PREMIUM | 3.28% |
| INTEREST RATE ADJUSTMENT | 1.49% |
| EQUITY RISK PREMIUM | 4.76% |
| CURRENT SINGLE-A UTILITY BOND YIELD* | 5.34% |
| INDICATED EQUITY RETURN | 10.10% |

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*Current single-A utility bond yield is three month average of Moody's Single-A Public Utility Bond Yield Average through December 2010 from Exhibit RMP____(SCH-2), p. 1.

Rocky Mountain Power
 Risk Premium Analysis
 Regression Analysis & Interest Rate Change Coefficient



SUMMARY OUTPUT

| <i>Regression Statistics</i> | |
|------------------------------|-------------|
| Multiple R | 0.930796942 |
| R Square | 0.866382947 |
| Adjusted R Square | 0.861775462 |
| Standard Error | 0.004709335 |
| Observations | 31 |

ANOVA

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-------------|-------------|-------------|-----------------------|
| Regression | 1 | 0.00417028 | 0.00417028 | 188.0381651 | 3.31898E-14 |
| Residual | 29 | 0.000643157 | 2.21778E-05 | | |
| Total | 30 | 0.004813437 | | | |

| | <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 | 0.069671148 | 0.00282187 | 24.68970458 | 5.07645E-21 | 0.063899775 | 0.075442521 | 0.063899775 | 0.075442521 |
| X Variable 1 | -0.413068255 | 0.030123041 | -13.71270087 | 3.31898E-14 | -0.474676791 | -0.351459719 | -0.474676791 | -0.351459719 |