

- 1 **Q. Please identify the impact on customers' bills by increasing the equity risk premium**  
2 **from 4.15% awarded in the utility's last rate proceeding up to the proposed 4.75%**  
3 **in this proceeding.**  
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5 A. An increase in the equity risk premium from the 4.15%<sup>1</sup> to the proposed 4.75% results in  
6 a *pro forma* increase to customers in 2008 of approximately 0.7%.<sup>2</sup>  
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<sup>1</sup> In Order No. P.U. 19(2003), the Board approved a rate of return on equity for ratemaking purposes of 9.75% based upon an equity risk premium of 4.15%.

<sup>2</sup> 4.75 percent minus 4.15 percent equals 0.6 percent. 0.6 percent times \$364,854,000 (2008 average book equity) equals \$2,189,124. \$2,189,124 divided by 0.655 (1 – tax rate) equals \$3,342,174. \$3,342,174 divided by \$478,535,000 (2008 revenue at existing rates) equals 0.7 percent. The final impact on customer bills would also include changes in MTA. The estimated change in MTA is an increase of approximately \$83,220 (\$3,342,174 times 2.49%).