

FILED WITH
Executive Secretary
October 10, 2014
IOWA UTILITIES BOARD

SCHEDULE 8
CALCULATION OF CAPITAL ASSET PRICING MODEL COST OF EQUITY
USING SBBI 7 PERCENT RISK PREMIUM AND 0.89 UTILITY BETA

LINE			
1	Risk-free Rate	4.85%	Long-term Treasury bond yield forecast
2	Beta	0.87	See Schedule 7
3	Risk Premium	7.0%	Long-horizon SBBI risk premium
4	Beta x Risk Premium	6.1%	
5	Flotation	0.21%	
6	Model Result	11.2%	

Value Line beta for comparable companies from Value Line Investment Analyzer; 0.87 beta value from comparison of historical utility stock returns compared to historical returns on S&P 500 (see previous schedules). Treasury bond yield forecast from Value Line EIA forecast data. Value Line forecasts a yield on 10-year Treasury notes equal to 4.5 percent. The current spread between the average Aug 2014 yield on 10-year Treasury notes (2.42 percent) and 20-year Treasury bonds (2.94 percent) is 52 basis points. Adding 52 basis points to Value Line's 4.5 percent forecasted yield on 10-year Treasury notes produces a forecasted yield of 5.02 percent for 20-year Treasury bonds (see Value Line Investment Survey, Selection & Opinion, Aug. 22, 2014). EIA forecasts a yield of 4.16 percent on 10-year Treasury notes. Adding the 52 basis point spread between 10-year Treasury notes and 20-year Treasury bonds to the EIA forecast of 4.16 percent for 10-year Treasury notes produces an EIA forecast for 20-year Treasury bonds equal to 4.68 percent. The average of the forecasts is 4.85 percent (5.02 percent using Value Line data and 4.68 percent using EIA data).