

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-05-28

IDAHO POWER COMPANY

EXHIBIT NO. 5

WILLIAM E. AVERA

CAPITAL ASSET PRICING MODEL
FORWARD LOOKING

CAPITAL ASSET PRICING MODEL

Exhibit WEA-5

Page 1 of 2

FORWARD-LOOKING RISK PREMIUM - CURRENT ESTIMATE

<u>Market Rate of Return</u>		
Dividend Yield (a)	2.1%	
Growth Rate (b)	<u>11.4%</u>	
Market Return (c)		13.5%
<u>Less: Risk-Free Rate (d)</u>		
Long-term Treasury Bond Yield		<u>4.5%</u>
<u>Market Risk Premium (e)</u>		9.0%
<u>Utility Proxy Group Beta (f)</u>		<u>0.89</u>
<u>Utility Proxy Group Risk Premium (g)</u>		8.0%
<u>Plus: Risk-free Rate (d)</u>		
Long-term Treasury Bond Yield		<u>4.5%</u>
Implied Cost of Equity (h)		<u><u>12.5%</u></u>

- (a) Weighted average dividend yield for the dividend paying firms in the S&P 500 from www.valueline.com (Oct. 7, 2005).
- (b) Weighted average of IBES and Value Line growth rates for the dividend paying firms in the S&P 500 based on data from Standard & Poor's *Earnings Guide* (Sep. 2005) and www.valueline.com (Oct. 7, 2005).
- (c) (a) + (b)
- (d) Average of the daily yields on 20-year Treasury bonds for September 2005 reported by the U.S. Department of the Treasury at www.treas.gov.
- (e) (c) - (d).
- (f) The Value Line Investment Survey (Aug. 12, 2005).
- (g) (e) x (f).
- (h) (d) + (g).

CAPITAL ASSET PRICING MODEL

Exhibit WEA-5

Page 2 of 2

FORWARD-LOOKING RISK PREMIUM - RATE YEAR ESTIMATE

Market Rate of Return

Dividend Yield (a)	2.1%
Growth Rate (b)	<u>11.4%</u>
Market Return (c)	13.5%

Less: Risk-Free Rate (d)

Long-term Treasury Bond Yield	<u>5.5%</u>
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Market Risk Premium (e)

8.0%

Utility Proxy Group Beta (f)

0.89

Utility Proxy Group Risk Premium (g)

7.1%

Plus: Risk-free Rate (d)

Long-term Treasury Bond Yield	<u>5.5%</u>
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Implied Cost of Equity (h)

12.6%

- (a) Weighted average dividend yield for the dividend paying firms in the S&P 500 from www.valueline.com (Oct. 7, 2005).
- (b) Weighted average of IBES and Value Line growth rates for the dividend paying firms in the S&P 500 based on data from Standard & Poor's *Earnings Guide* (Sep. 2005) and www.valueline.com (Oct. 7, 2005).
- (c) (a) + (b)
- (d) Projected yield on 20-year Treasury bonds for 2006 based on interest rate forecasts reported by GlobalInsight, *The U.S. Economy: The 25-Year Focus* (First Quarter 2005), Energy Information Administration, *Annual Energy Outlook* (2005), and Blue Chip Financial Forecasts (Sep. 1, 2005).
- (e) (c) - (d).
- (f) The Value Line Investment Survey (Aug. 12, 2005).
- (g) (e) x (f).
- (h) (d) + (g).