

**The Peoples Gas Light & Coke Company**

Cost of Equity  
as of October 31, 2013

**Market Models (DCF, RP & CAPM)**

<b>Discounted Cash Flow (DCF)</b>	$D_1/P_0$	+	$g$	+	$lev.$	=	$k$
Delivery Group	4.00%	+	5.25%	+	0.46%	=	9.71%

<b>Risk Premium (RP)</b>	$I$	+	$RP$	=	$k$
Delivery Group	5.25%	+	6.25%	=	11.50%

<b>Capital Asset Pricing Model (CAPM)</b>	$Rf$	+	$\beta$	x (	$Rm-Rf$	) =	$k$
Delivery Group	4.25%	+	0.75	x (	7.16%	) =	9.62%

**Book Value Method**

<b>Comparable Earnings (CE)</b>	<b>Historical</b>	<b>Forecast</b>	<b>Average</b>
Comparable Earnings Group	10.0%	10.6%	10.30%

- References
- (1) PGL Ex. 3.6 page 1
  - (2) PGL Ex. 3.8 page 1
  - (3) PGL Ex. 3.9 page 1
  - (4) A-rated public utility bond yield comprised of a 4.25% risk-free rate of return (PGL Ex. 3.12 page 2) and a yield spread of 1.00% (PGL Ex. 3.10 page 3)
  - (5) PGL Ex. 3.11 page 1
  - (6) PGL Ex. 3.12 page 2
  - (7) PGL Ex. 3.9 page 1
  - (8) PGL Ex. 3.12 page 2
  - (9) PGL Ex. 3.13 page 2