BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	
PACIFICORP for a Certificate of	)	
Convenience and Necessity Authorizing	)	Docket No. 04-035-30
Construction of the Lake Side	)	
Power Project	)	

REBUTTAL TESTIMONY OF BRUCE N. WILLIAMS

October 15, 2004

Q. Please state your name.

A. My name is Bruce N. Williams.

Q. Did you previously offer testimony in this proceeding?

A. Yes. I submitted pre-filed direct testimony on May 28, 2004.

Purpose and Summary of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to specific comments made by other witnesses regarding the treatment of power purchase agreements ("PPAs") as debt-like obligations and the costs that result. Mr. Roger Weir has submitted testimony that appears to confuse the application of "direct debt" and "inferred debt". Mr. Oliver has also submitted testimony that uses the terms interchangeably. I wish to respond to that and clarify the differences between "direct debt" and "inferred debt". Finally, I will explain the calculation used by the Company to evaluate the cost of the additional debt associated with capital lease accounting of Bid 213 for evaluation purposes.

Q. What is the difference between "direct debt" and "inferred debt"?

A. The Company uses the term "direct debt" to refer to debt that would be recorded in the financial statements including on the balance sheet. Such "direct debt" could result from obligations for borrowed money such as first mortgage bonds or could result from capital lease obligations. Mr. Mendez addresses the accounting treatment of Bid 213 as a capital lease and the resulting requirement to record the contract as debt on balance sheet. This would result in "direct debt" and not "inferred debt".

Q. What is "inferred debt"?

A. The term "inferred debt" is used to describe PPAs that are not treated as capital lease obligations. As Dr. Avera and others have testified, rating agencies and other members of the financial community view PPAs as debt-like and will impute or infer debt on the purchaser's financial statements. These adjustments will then be used for ratio calculations and ratings purposes. I have had discussions with Standard & Poor's and can confirm that they would view a non-capital lease PPA as debt like and impute debt onto PacifiCorp's financial statements. Further, they would use a risk factor of 50% in determining the amount of "inferred debt" that would result from such an arrangement. However, as stated above, Bid 213 was determined to be a capital lease by PacifiCorp's accounting department, and confirmed by PricewaterhouseCoopers, and therefore, for purposes of the Company's analysis to determine cost impacts, the focus was on direct debt.

Q. How much debt would have resulted from bid 213?

A. Based on an analysis of that bid as a capital lease, bid 213 would have resulted in additional debt of $490 million. That amount would have been an approximate 13% increase in the amount of long-term debt for PacifiCorp. Such an increase would have been certainly noticed by rating agencies, lenders and other members of the financial community and required additional equity injected into the business in order to offset such a dramatic change in debt levels. Absent this additional equity it is likely the Company would be downgraded by the rating agencies. This would result in higher financing costs, less access to the markets for power transactions, potential needs to post cash collateral as margin under existing power transactions and moving closer to non-investment grade ratings which would have even more severe consequences.

Q. How did the Company calculate the cost of the additional debt for evaluation purposes?

A. The amount of additional debt that would be recognized on Company's balance sheet was $490 million. In order to maintain the Company's debt/equity ratio, $506 million of equity would need to be infused. Given that the Company knew it would have to infuse approximately $168 million in equity if the Summit bid was pursued, bid 213 was only assigned $338 million ($506m less $168m) of incremental equity associated with the bid. PacifiCorp calculated the cost associated with this incremental equity infusion by amortizing the $338 million over 35 years, with an interest rate conservatively equal to the after-tax cost of equity less the after tax weighted average cost of capital, 3.2% (10.7% - 7.5%). The present value of the 35 years of interest expense, discounted at the after-tax weighted average cost of capital is $90 million. Therefore, the present value revenue requirement associated with the $490 million in capital lease debt, is $90 million, or rather, $.92/KW-mo.

Q. Does this complete your testimony?

A. Yes.