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 WILLIAM E. AVERA

October 15, 2004

I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. William E. Avera, 3907 Red River, Austin, Texas, 78751.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am a principal in Financial Concepts and Applications, Inc. (FINCAP), a firm
5 engaged in financial, economic, and policy consulting to business and
6 government.

7 **Q. Describe your educational background, professional qualifications, and prior**
8 **experience.**

9 A. I received a B.A. degree with a major in economics from Emory University. After
10 serving in the United States Navy, I entered the doctoral program in economics at
11 the University of North Carolina at Chapel Hill. Upon receiving my Ph.D., I
12 joined the faculty at the University of North Carolina and taught finance in the
13 Graduate School of Business. I subsequently accepted a position at the University
14 of Texas at Austin where I taught courses in financial management and investment
15 analysis. I then went to work for International Paper Company in New York City
16 as Manager of Financial Education, a position in which I had responsibility for all
17 corporate education programs in finance, accounting, and economics.

18 In 1977, I joined the staff of the Public Utility Commission of Texas
19 ("PUCT") as Director of the Economic Research Division. During my tenure at
20 the PUCT, I managed a division responsible for financial analysis, cost allocation
21 and rate design, economic and financial research, and data processing systems,
22 and I testified in cases on a variety of financial and economic issues. Since

leaving the PUCT in 1979, I have been engaged as a consultant. I have participated in a wide range of assignments involving utility-related matters on behalf of utilities, industrial customers, municipalities, and regulatory commissions. I have previously testified before the Federal Energy Regulatory Commission ("FERC" or "the Commission"), as well as the Federal Communications Commission ("FCC"), the Surface Transportation Board (and its predecessor, the Interstate Commerce Commission), the Canadian Radio-Television and Telecommunications Commission, and regulatory agencies, courts, and legislative committees in 36 states.

I was appointed by the PUCT to the Synchronous Interconnection Committee to advise the Texas legislature on the costs and benefits of connecting Texas to the national electric transmission grid. In addition, I served for seven years as an outside director of Georgia System Operations Corporation, the system operator for electric cooperatives in Georgia.

I have served as Lecturer in the Finance Department at the University of Texas at Austin and taught in the evening graduate program at St. Edward's University for twenty years. In addition, I have lectured on economic and regulatory topics in programs sponsored by universities and industry groups. I have taught in hundreds of educational programs for financial analysts in programs sponsored by the Association for Investment Management and Research, the Financial Analysts Review, and local financial analysts societies. These programs have been presented in Asia, Europe, and North America, including the Financial Analysts Seminar at Northwestern University. I hold the

1 Chartered Financial Analyst (CFA®) designation and have served as Vice
2 President for Membership of the Financial Management Association. I have also
3 served on the Board of Directors of the North Carolina Society of Financial
4 Analysts. I was elected Vice Chairman of the National Association of Regulatory
5 Commissioners ("NARUC") Subcommittee on Economics and appointed to
6 NARUC's Technical Subcommittee on the National Energy Act. I have also
7 served as an officer of various other professional organizations and societies. A
8 resume containing the details of my experience and qualifications is attached as
9 Exhibit UP&L ___ (WEA-1R).

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. As a result of its resource planning process, PacifiCorp ("PacifiCorp" or "the
12 Company") identified the need for additional baseload capacity in the amount of
13 approximately 570 megawatts ("MW") in 2007 in order to meet its targeted
14 reserve margin. PacifiCorp subsequently issued a Request for Proposal ("RFP")
15 for the purpose of soliciting competitive power supply alternatives in order to
16 identify the option for new resources that best serves the needs of the Company's
17 customers. In connection with the economic evaluation of the two shortlist
18 proposals – Bidder 213 and Summit Power -- PacifiCorp incorporated an equity
19 adjustment to recognize the financial costs imposed by the direct debt obligation
20 that would be reflected on the Company's balance sheet under Bidder 213's
21 proposal.

22 My purpose here is to respond to the testimony submitted by Wayne
23 Oliver on behalf of the Division of Public Utilities and by Roger Weir on behalf

1 of the UAE Intervention Group. Mr. Oliver expresses concerns regarding the
2 support and regulatory precedent for PacifiCorp's equity adjustment, while Mr.
3 Weir argues that there is insufficient evidence to support any explicit accounting
4 for the impact that Bidder 213's proposal would have on the Company's financial
5 leverage. My testimony explains why the financial impact associated with power
6 purchase contracts must be accounted for in the economic evaluation of capacity
7 alternatives and provides support for PacifiCorp's proposal to account for these
8 impacts in the economic evaluation of the two shortlist proposals under the RFP.

9 **Q. What are your conclusions regarding the impact of Bidder 213's proposal on**
10 **PacifiCorp's financial position?**

11 A. Current accounting standards would require the debt impact of Bidder 213's
12 proposal to be quantified and recorded as a capital lease, resulting in a direct
13 liability on PacifiCorp's balance sheet. In order for PacifiCorp to ensure its
14 ability to access forward markets, raise required capital, and take other actions to
15 benefit customers, it is essential to preserve the Company's credit standing. To
16 maintain its credit ratings and financial flexibility, the Company must offset the
17 higher financial leverage associated with the direct debt that must be recognized
18 on the Company's financial statements as a result of purchased power obligations.
19 This is accomplished by increasing the equity component of the capital structure
20 from what it would be otherwise, which results in higher capital costs. Regulators
21 and investors have recognized the financial impact and resulting costs of debt
22 obligations that arise from purchased power commitments. Considering the cost
23 of additional equity that is required to offset the direct debt related to purchased

1 power agreements, such as the Bidder 213 proposal, is consistent with sound
2 economics and the treatment afforded these obligations by the investment
3 community. An equity adjustment, such as the calculation performed by
4 PacifiCorp in its bid analysis, is required to properly evaluate power supply
5 alternatives. Otherwise, ratepayers ultimately bear the costs of increasing the
6 utility's investment risks and reducing its financial and operating flexibility. The
7 equity adjustment calculation performed by PacifiCorp, which considers the
8 incremental costs of the direct accounting debt imposed by purchased power
9 contracts that qualify as capital leases, reasonably accomplishes this adjustment.

II. FINANCIAL IMPACTS OF PURCHASED POWER

10 **Q. How do these long-term purchased power commitments impact PacifiCorp's**
11 **financial leverage?**
12 A. While purchased power resource strategies do not involve direct capital
13 investment, they nonetheless have financial implications that must be considered
14 to allow for a meaningful comparison between supply alternatives. When a utility
15 enters a contract for firm, long-term purchased power, the associated fixed cost
16 components imply additional financial risks because the fixed charges associated
17 with purchased power contracts are akin to those associated with other financial
18 obligations, such as long-term debt. Under current accounting rules, if the
19 purchased power agreement meets the tests embodied in EITF 01-8 for lease
20 accounting and the tests for a capital lease embodied in FAS 13 the transaction is
21 explicitly recorded as a debt obligation on the utility's balance sheet. The
22 accounting for capital lease obligations is not a discretionary issue.

1 Because capital lease obligations are viewed as direct debt, under this
2 treatment purchased power contracts lead directly to an increase in financial
3 leverage, with such obligations being reflected as a liability on the utility's
4 financial statements. As a result, in order to counteract the additional financial
5 risks imposed by this direct debt associated with purchased power transactions
6 that are a capital lease, the utility must add additional equity to its balance sheet in
7 order to retain the same capital structure ratios as before the agreement. Because
8 the cost of equity exceeds the cost of debt, this rebalancing of the utility's capital
9 structure to accommodate the additional financial leverage of purchased power
10 contracts imposes additional costs that must be considered in any economic
11 evaluation of alternatives.

12 **Q. Did PacifiCorp determine that the Bidder 213 proposal would meet the**
13 **accounting tests for capital lease treatment?**

14 A. Yes. As noted in the direct testimony of David Mendez, after consulting with its
15 external auditors, PricewaterhouseCoopers, PacifiCorp determined that the
16 characteristics of the Bidder 213 proposal would meet the determination tests for
17 a capital lease under current accounting guidelines. Accordingly, the Bidder 213
18 proposal would result in a direct debt obligation being recorded on PacifiCorp's
19 balance sheet in the form of a capital lease liability.

20 **Q. Have the debt implications of purchased power been recognized by the**
21 **financial community?**

22 A. Yes. In fact, accounting standards requiring the direct recognition of the debt
23 impacts of purchased power reflects investors' longstanding perception that these

1 fixed obligations diminish the utility's credit quality and financial flexibility. The
2 implications of purchased power commitments for a utility's financial risks have
3 been repeatedly cited by major bond rating agencies.

4 Recently, in reviewing its evaluation of the credit implications of
5 purchased power, for example, Standard & Poor's Corporation ("S&P")
6 reaffirmed its position that such agreements are "debt-like in nature" and that the
7 increased financial risk must be considered in evaluating a utility's credit risks.[1]
8 As the rating agency explained:

> 9 [P]urchased power agreements typically result in the assumption
> 10 of fixed costs representing the portion of the purchase price that
> 11 is linked to the capacity component of the total payment. These
> 12 fixed capacity payments are similar to debt service payments
> 13 incurred by a utility that constructs debt-financed power
> 14 generation facilities. Therefore, whether a utility builds its own
> 15 generation plants, or enters into a long-term power purchase
> 16 agreement with a fixed-cost component, that utility is taking on
> 17 financial risk.[2]

18 **Q. Would these considerations apply to the capital lease impact of the Bidder**
19 **213 proposal?**

20 A. Most definitely. Because the capacity and minimum contractual payment
21 obligations under power purchase agreements would be recognized as debt on the
22 balance sheet, investors consider these commitments in evaluating PacifiCorp's
23 financial risks. Absent financial policies that recognize the explicit increase in
24 debt leverage inherent in the Bidder 213 transaction, the associated investment
25 risks would place downward pressure on PacifiCorp's creditworthiness and debt
26 ratings and the greater leverage implied by a lower common equity ratio would

---

[1] Standard & Poor's Corporation, "'Buy Versus Build': Debt Aspects of Purchased-Power Agreements," *Utilities & Perspectives*, May 12, 2003.
[2] Standard & Poor's Corporation, *RatingsDirect*, November 6, 2003.

1 increase investors' required rate of return for both debt and equity securities.[3]

2 **Q. Is it appropriate to consider these financial implications in an economic**
3 **evaluation of power supply alternatives?**

4 A. Yes. In order to conduct a meaningful economic comparison between supply
5 options, it is necessary to recognize the relative financial risks associated with
6 available alternatives. Otherwise, the analyses will not reflect the true cost of
7 entering into purchased power agreements and any comparison of the economics
8 between alternative proposals will be flawed. For example, S&P emphasized the
9 importance of reflecting the financial realities associated with purchased power
10 commitments in any economic analyses of competitive options[4] and noted that
11 "(u)tilities need to take these 'financial externalities' into account so that …
12 options are evaluated on a level playing field."[5] S&P recently confirmed that an
13 evaluation of the financial risks associated with purchased power commitments is
14 necessary "to allow for more meaningful comparisons."[6]

15 **Q. What other indications confirm the need to properly consider the financial**
16 **impacts of purchased power commitments?**

17 A. Investors are aware of the impact that purchased power can have on a utility's
18 investment risks. As S&P observed in 1993, the financial impact of purchased
19 power directly influences credit standing and financial flexibility:

---

[3] Apart from the immediate impact that the fixed obligation of purchased power costs has on the utility's financial risk, higher fixed charges also reduce ongoing financial flexibility, and the utility may face other uncertainties, such as potential replacement power costs in the event of supply disruption.
[4] Standard & Poor's Corporation, *CreditWeek*, November 1991.
[5] Standard & Poor's Corporation, *CreditWeek*, May 24, 1993.
[6] Standard & Poor's Corporation, *Utilities & Perspectives*, May 12, 2003.

> Over the past few years, several ratings have been lowered due to purchased power obligations. In other cases, S&P did not raise ratings. Still others are lower than they might otherwise be owing to purchased power liabilities.[7]

In the wake of recent turmoil in the electric power industry, bond rating agencies and investors are continuing to scrutinize debt levels. For those firms with higher leverage, this intense focus has led not only to ratings downgrades, but to reduced access to capital, increased capital costs and reduced operational flexibility such as impaired access to power markets.

Q. Have regulators recognized that it is necessary to consider the impact that purchased power contracts have on utility finances when evaluating supply options?

A. Yes. In Florida, for example, Rule 25-22.081(7), F.A.C., relating to the contents of a petition for determination of need, specifically requires utilities to address the cost impact of purchases on their capital structure:

> If the generation addition is the result of a purchased power agreement between an investor-owned utility and a nonutility generator, the petition shall include a discussion of the potential for increases or decreases in the utility's cost of capital, the effect of the seller's financing arrangements on the utility's system reliability, any competitive advantage the financing arrangements may give the seller and the seller's fuel supply adequacy.

In past decisions, the Florida Public Service Commission ("FPSC") has acknowledged that an equity adjustment is appropriate to address the capital structure impact associated with purchase alternatives. For example, in connection with Florida Power Corporation's petition for approval to construct the Hines Unit 2 power plant, the FPSC recognized an adjustment for the indirect debt equivalent

[7] Standard & Poor's Corporation, *CreditWeek*, May 24, 1993.

1 of purchased power options, noting in Order No. PSC-01-0029-FOF-EI (January
2 5, 2001) that:

3 We find that for long-term debt, we should allow some
4 consideration of imputed debt. Imputed debt is an actual
5 consideration by bond rating agencies. We note that we have
6 allowed limited consideration of imputed debt in past cases.

7 Similarly, in Docket No. 990249-EG, Standard Offer Contract for Florida
8 Power & Light Company ("FPL"), the FPSC concluded that "(w)e find it is
9 appropriate to include an equity adjustment when determining FPL's proposed
10 standard offer contract payments."[8] While the Commission chose not to address
11 the broader policy issue of who should bear the incremental cost of additional
12 equity to compensate for purchased power contracts, the FPSC recognized that:

13 Buying power increases the utility's fixed charges, which, in
14 turn, can reduce financial flexibility. Standard & Poor's (S&P)
15 notes that, "regardless of whether a utility buys or builds, adding
16 capacity means incurring risk." … In including this equity
17 adjustment, FPL is reflecting the cost, in the form of less
18 financial flexibility, that is imposed on electric utilities with
19 purchased power contracts.[9]

20 More recently, in a memorandum regarding a proposed standard offer
21 contract for FPL, the FPSC's Division of Economic Regulation concluded "staff
22 believes it is appropriate for FPL to make an equity adjustment as proposed in the
23 determination of capacity payments in its Standard Offer Contract."[10]

24 **Q. Have regulators also addressed the issue of direct debt, such as that**
25 **associated with the Bidder 213 proposal?**

26 A. Yes. For example, in a 2002 generic proceeding to examine ratemaking

---

[8] Florida Public Service Commission, *Order No. PSC-99-1713-TRF-EG*, September 2, 1999.
[9] *Id.*
[10] *Memorandum*, Docket No. 031093-EQ, Feb. 5, 2004.

1 mechanisms associated with long-term purchased power contracts, the Public
2 Service Commission of Wisconsin ("WPSC") concluded that the utility must be
3 compensated for the adverse impact on its capitalization associated with capital
4 lease obligations arising from purchased power transactions.[11]

5 **Q. Please describe the method PacifiCorp used to account for the greater**
6 **financial leverage associated with direct debt in its economic evaluation of**
7 **the Bidder 213 proposal.**

8 A. Under the method that PacifiCorp used to quantify the financial costs associated
9 with the Bidder 213 option, the first step involves a determination of the total
10 amount of additional equity needed to offset the direct debt of the purchased
11 power transaction and maintain the pre-agreement capital structure. Additional
12 equity would also be required under the Summit Power option, and PacifiCorp
13 deducted this balance to compute the incremental equity issuance that would be
14 associated with rebalancing the capital structure under the Bidder 213 transaction.

15 But for the direct debt added to the Company's balance sheet, PacifiCorp
16 would issue new securities in the same proportion as its existing capitalization,
17 and the overall cost would be equal to its weighted cost of capital ("WACC").
18 Accordingly, PacifiCorp quantified the additional cost associated with the
19 incremental equity as the difference between the after-tax cost of equity and the
20 WACC. PacifiCorp then applied this cost difference to the incremental equity
21 required by the Bidder 213 proposal to calculate the incremental cost imposed by
22 the direct debt associated with this transaction.

[11] Public Service Commission of Wisconsin, *Final Decision*, Dockets 05-EI-131, 6680-DR-107 (July 17, 2002).

1 **Q. Do you believe this is a conservative mechanism for purposes of quantifying**
2 **the financial impact of direct debt in PacifiCorp's economic evaluation of**
3 **purchased power alternatives?**

4 A. Yes. The methodology employed by PacifiCorp represents a conservative
5 approach to determining the incremental cost impact associated with rebalancing
6 the Company's capital structure to offset direct debt attributable to purchased
7 power transactions. Indeed, because PacifiCorp's method considered only the
8 incremental equity associated with the Bidder 213 proposal and did not
9 incorporate the impact of additional income taxes related to the equity
10 adjustment,[12] this mechanism actually understates the financial costs of purchased
11 power, which benefits the Bidder 213 option. Had PacifiCorp considered the pre-
12 tax cost of the total equity infusion required to offset the capital lease associated
13 with Bidder 213's proposed transaction, the financial cost associated with this
14 option would have been considerably higher.

III. RESPONSE TO WITNESSES

15 **Q. Does Mr. Weir argue that the investment community does not consider the**
16 **financial impacts of purchased power or that the debt impact will not impair**
17 **the credit quality and financial position of the utility?**

18 A. No. In fact, he recognizes that the debt impact associated with purchased power
19 is a topic that has been "extensively discussed,"[13] No party claims that this debt
20 impact should be ignored. Rebalancing the capital structure to accommodate the

---

[12] PacifiCorp calculated the equity adjustment for the Bidder 213 proposal based on the after-tax cost of equity, which ignores the additional income taxes that would be associated with the equity required to rebalance the capital structure.

[13] Weir Direct at 10.

1 direct debt that would be added to PacifiCorp's balance sheet under the Bidder 213 proposal has a known and measurable cost that should be factored into contract pricing. Indeed, Mr. Weir recommended that "the debt imputation issue should be carefully analyzed and a meaningful approach adopted."[14]

Q. Does either witness disagree directly with how PacifiCorp adjusted for the debt impact of purchased power?

A. No. Mr. Weir's only observation was that the issue of how best to incorporate the debt impact has not been resolved "to UAE's understanding or satisfaction."[15] Mr. Oliver granted that the debt impact associated with purchased power "can have an impact on a utility's resource selection decisions"[16] and acknowledged that PacifiCorp had made a "best efforts to incorporate a methodology consistent with the approach discussed by the credit rating agencies."[17] Nevertheless, he concluded that the issue requires "further study."[18] Thus, while both witnesses apparently see the need for additional research, neither takes issue with the reality of the direct debt balance sheet obligation or with the specifics of the approach proposed by PacifiCorp to quantify the related costs.

Q. Is Mr. Weir correct to suggest that the debt impact of purchased power costs is somehow "hypothetical" (p. 11)?

A. No. There is nothing at all "hypothetical" about the financial impact of long-term obligations under purchased power contracts. As documented earlier, the financial community, investors, and regulators have all recognized the debt impact

[14] Weir Direct at 10-11.
[15] Weir Direct at 10.
[16] Oliver Direct at 27.
[17] *Id.*
[18] *Id.*

1 associated with such agreements and it is incorporated in the evaluation of a
2 utility's financial position. Under the tests mandated by the Financial Accounting
3 Standards Board, PacifiCorp, in consultation with its external auditors,
4 determined that the Bidder 213 proposal would result in a capital lease obligation
5 that would be recorded as a long-term liability on the Company's balance sheet,
6 serving to directly increase financial leverage and investment risks. Even for
7 those transactions that do not give rise to an explicit accounting liability, it is
8 nonetheless recognized that such commitments impact the utility's finances, with
9 rating agencies such as S&P making well-documented adjustments to account for
10 the off-balance sheet debt equivalent of purchased power contracts.

11 **Q. Is it necessary for the financial costs associated with purchased power**
12 **contracts to be certified by accountants before they can be considered in an**
13 **economic evaluation of purchased power options?**

14 A. No. Mr. Weir insists that any quantification of the financial impacts of purchased
15 power contracts be based on "actual, verifiable" costs,[19] But the argument that the
16 debt impacts of purchased power must be subject to precise quantification and
17 audit before they can be considered is a straw man. In fact, there are a host of key
18 inputs employed by regulators in establishing rates for utility service that can
19 never be determined with precision. Consider the cost of equity capital, for
20 example, which is entirely unobservable and can only be estimated or inferred
21 indirectly from available data.

22 Moreover, while the focus of accountants is an accurate portrayal
23 of historical financial results and information, the methodology,
24 inputs, and results used in an economic analysis of future power

[19] Weir Direct at 11.

1 supply options is inherently forward-looking. As a result, it is
2 simply unreasonable to suggest that PacifiCorp's external
3 auditors would somehow be in a position to render a formal
4 opinion or certification on any aspect of every proposed power
5 purchase agreement – including its treatment as a capital lease –
6 before the transaction is finalized.

7 Indeed, not only is the financial impact known, it is also measurable and
8 PacifiCorp has proposed a conservative method to calculate the resulting financial
9 cost. Failure to incorporate this cost would effectively allow the power supplier
10 to shift an uncompensated cost and a risk to utility customers that ultimately
11 purchase the energy.

12 **Q. Is the evaluation of the debt or debt equivalent impact of purchased power**
13 **an "emerging issue"?**

14 A. While the explicit balance sheet adjustment for the debt or debt equivalent of
15 purchased power contracts under EITF 01-8 is a relatively new development
16 related to the modification of financial accounting standards, the investment
17 community has long understood the financial cost imposed by the fixed payments
18 under purchased power contracts. As Mr. Oliver correctly notes, the financial
19 impacts of purchased power have been recognized by industry participants and
20 the investment community since the 1990s, including S&P, which documented
21 and published its quantitative approach to calculating the debt impact implied by
22 long-term contractual payments.

23 Moreover, investors' focus on the impact of purchased power obligation
24 on a utility's financial risks and flexibility has intensified. More than was the case
25 in past years, new purchased power obligations are recognized by the financial
26 and accounting community as debt or debt equivalents. That debt has a cost or a

1 negative impact on the financial position of the purchaser. Thus, while I would
2 grant that investors' focus on the debt equivalent of purchased power transactions
3 has increased markedly in recent years, the real costs imposed by these
4 obligations are not new or uncertain.

5 **Q. Is it correct to conclude that there are no precedents for quantifying the**
6 **financial costs imposed by the debt or debt equivalent of purchased power?**

7 A. No. Mr. Oliver quoted from the FPSC's 1999 Order, which concluded that "[w]e
8 find it appropriate to include an equity adjustment when determining FPL's
9 proposed standard offer contract payments."[20] Mr. Oliver's review of this FPSC
10 decision confirms what I concluded earlier; namely, that the FPSC has previously
11 recognized that it is reasonable to consider the financial impact that purchased
12 power. While the FPSC elected to defer the issue of who should ultimately bear
13 these additional costs, they nonetheless determined that purchased power
14 contracts imply higher debt leverage, and that the costs of rebalancing the capital
15 structure to accommodate this debt should be considered in determining payments
16 for purchased power. Similarly, the WPSC also concluded that utilities must be
17 compensated for the financial impacts associated with capital lease obligations
18 arising from purchased power contracts, such as those associated with Bidder 213.

19 **Q. Does the fact that an approach for incorporating the financial costs of**
20 **purchased power has not yet been established to UAE's satisfaction mean**
21 **such costs should be ignored, as Mr. Weir implies?**

22 A. No. This argument is a red herring that runs counter to the entire process
23 underlying the economic evaluation of alternative power supply options. Rather

[20] Oliver Direct at 26.

1 than representing a "landmine", as Mr. Weir claims, the direct debt associated
2 with the Bidder 213 proposal is an economic reality and the associated costs of
3 rebalancing PacifiCorp's capital structure to accommodate the greater financial
4 risks of capital lease obligations must be considered in the evaluation. The point
5 of this exercise is to develop the most accurate economic comparison of the two
6 shortlist proposals to ensure that ratepayers benefit from the least-cost supply
7 option. Ignoring the very real financial costs that are imposed because of the
8 direct debt arising from Bidder 213's offer would only bias the results, to the
9 ultimate detriment of ratepayers.

10 **Q. Is there any reason to ignore the financial realities of purchased power until**
11 **some future time?**

12 A. No. There is no reason to postpone or delay incorporation of the direct debt
13 impact of the Bidder 213 proposal. The related financial costs are clearly
14 considered by investors and can be readily quantified. Delaying consideration of
15 the financial costs of purchased power would only result in less transparency.
16 Investors recognize that the costs associated with the debt equivalent of purchased
17 power obligations are very real, because of the higher debt leverage and attendant
18 financial risks that they impose on a utility. If these additional costs are not
19 reflected in economic analyses of supply alternatives, ratepayers ultimately bear
20 the costs of increasing the utility's investment risks and reducing its financial
21 flexibility. Moreover, as I noted earlier, regulators in other jurisdictions have
22 approved procedures to quantify and recognize the costs associated with the

1 financial impact of purchased power and the investment community has also

2 clearly acknowledged that such costs can be quantified.

3 **Q. Does this conclude your rebuttal testimony in this case?**

4 A. Yes, it does.