1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp dba Utah Power & Light Company (the Company).**
3 A. My name is Bruce N. Williams. My business address is PacifiCorp, 825 N.E.
4 Multnomah, Portland, Oregon 97232, Suite 1900. I was elected Treasurer by the
5 Board of Directors in February, 2000. Prior to my election as Treasurer, I served
6 as Assistant Treasurer for several years.
7 **Qualifications**
8 **Q. Please briefly describe your education and business experience.**
9 A. I received a Bachelor of Science degree in Business Administration with a
10 concentration in Finance from Oregon State University in June 1980. I also
11 received the Chartered Financial Analyst designation upon passing the
12 examination in September 1986. I have been employed by PacifiCorp for 19
13 years. My business experience has included financing of PacifiCorp's electric
14 operations and non-utility activities, investment management, investor relations
15 and responsibility for certain non-regulated activities.
16 **Q. Please describe your present duties.**
17 A. I am responsible for the Company's treasury, pension and other investment
18 management activities. In this matter, I am responsible for the preparation of the
19 Company's embedded cost of debt and preferred equity and the development of
20 the Company's capital structure for the future test period.
21 **Purpose of Testimony**
22 **Q. What is the purpose of your testimony?**
23 A. I will analyze the embedded cost of debt and preferred stock supporting

1 PacifiCorp's electric operations in the State of Utah as of June 30, 2004, updated
2 through the end of the test period (March 31, 2006). This analysis includes the
3 use of forward interest rates, historical relationship of security trading patterns
4 and known and measurable changes to the debt and preferred stock portfolios. I
5 will also explain the development of the Company's capital structure for the
6 future test year.

7 **Financing Overview**

8 **Q. How does PacifiCorp finance its electric utility operations?**

9 A. PacifiCorp finances the cash flow requirements of its regulated utility operations
10 utilizing a reasonable mix of debt and equity securities designed to provide a
11 competitive cost of capital and predictable capital market access.

12 **Q. How does PacifiCorp meet its non-common equity financing requirements?**

13 A. PacifiCorp relies on a mix of first mortgage bonds, secured debt, tax exempt debt,
14 unsecured debt and preferred stock to meet its long-term debt and preferred stock
15 financing requirements.

16 The Company has concluded the majority of its long-term financing
17 utilizing secured first mortgage bonds issued under the PacifiCorp Mortgage
18 Indenture dated January 9, 1989. Exhibit UP&L___(BNW-1) shows that, as of
19 March 31, 2006 PacifiCorp is projected to have approximately $3.3 billion of first
20 mortgage bonds outstanding, with an average cost of 6.913 percent and average
21 maturity of 9 years. Presently, all of PacifiCorp's first mortgage bonds bear
22 interest at fixed rates. Proceeds from the issuance of the first mortgage bonds
23 (and other financing instruments) are used to finance the combined utility

1 operation.

2 Another important source of financing has been the tax exempt financing
3 associated with certain qualifying equipment at PacifiCorp's power generation
4 plants. Under arrangements with the local counties and other tax-exempt entities,
5 PacifiCorp borrows the proceeds and guarantees the repayment of their long-term
6 debt in order to take advantage of their tax-exempt status in financings. As of
7 March 31, 2006, PacifiCorp's tax-exempt portfolio is projected to be $721 million
8 with an average cost of 4.83 percent (which includes the cost of issuance and
9 credit enhancement).

10 **Calculation Methodologies**

11 **Q. How did you determine the amount of debt and preferred stock to be**
12 **included in your calculation of the Company's embedded costs of debt and**
13 **preferred stock?**

14 A. For long-term debt, based upon those series outstanding at June 30, 2004, I made
15 a corresponding reduction to the outstanding balances for maturities, principal
16 amortization and sinking fund requirements which are scheduled to occur during
17 the period ending March 31, 2006. The total long-term debt maturities and
18 principal amortized over this period is $506 million. Then, I added in $400
19 million of new long-term debt issuances in each of fiscal year 2005 and 2006
20 consistent with our current expectations.

21 For preferred stock, I started with the balance outstanding at June 30,
22 2004, and made a reduction of $3.75 million of preferred stock to reflect the
23 sinking fund requirements of the $7.48 Series No Par Serial Preferred stock. This

1 sinking fund payment will occur on June 15, 2005.

2 **Q. How did you calculate the Company's embedded costs of long-term debt and**
3 **preferred stock?**

4 A. I calculated the embedded costs of debt and preferred stock using the
5 methodology relied upon in the Company's previous rate cases in Utah and
6 elsewhere.

7 **Q. Please explain the cost of debt calculation.**

8 I calculated the cost of debt by issue, based on each debt series' interest rate and
9 net proceeds at the issuance date, to produce a bond yield to maturity for each
10 series of debt. It should be noted that in the event a bond was issued to refinance
11 a higher cost bond, the pre-tax premium and unamortized costs, if any, associated
12 with the refinancing were subtracted from the net proceeds of the bonds that were
13 issued. The bond yield was then multiplied by the principal amount outstanding
14 of each debt issue resulting in an annualized cost of each debt issue. Aggregating
15 the annual cost of each debt issue produces the total annualized cost of debt
16 which, when divided by the total principal amount of debt outstanding, produces
17 the weighted average cost for all debt issues and is the Company's embedded cost
18 of long-term debt.

19 **Q. How did you calculate the embedded cost of preferred stock?**

20 A. The embedded cost of preferred stock was calculated by first determining the cost
21 of money for each issue. This is the result of dividing the annual dividend rate by
22 the per share net proceeds for each series of preferred stock. The cost associated
23 with each series was then multiplied by the stated value or principal amount

1 outstanding for each issue to yield the annualized cost for each issue. The sum of
2 annualized costs for each issue produces the total annual cost for the entire
3 preferred stock portfolio. I then divided the total annual cost by the total amount
4 of preferred stock outstanding to produce the weighted average cost of all issues.
5 This is the Company's embedded cost of preferred stock.

6 **Q. Upon review of the Company's debt portfolio, a portion of those securities**
7 **bear variable rates. What is the basis for the projected interest rates**
8 **provided by the Company.**

9 A. The majority of the Company's variable rate debt is in the form of tax-exempt
10 debt. Exhibit UP&L___(BNW-2) shows that these securities had been trading at
11 approximately 85 percent of the 30-day LIBOR (London Inter Bank Offer Rate)
12 for the period July 1998 through June 2004. Therefore, the Company has applied
13 a factor of 85 percent to the forward 30-day LIBOR Rate and added the respective
14 credit enhancement and remarketing fees for each floating rate tax-exempt bond.
15 Credit enhancement and remarketing fees are included in the interest component
16 because these are costs which contribute directly to the interest rate on the
17 securities.

18 **Q. Regarding the $800 million of new long-term debt issuances mentioned**
19 **above, how did you determine the interest rate for this new long-term debt?**

20 A. I assumed $400 million would be issued at the Company's estimated July 1, 2004,
21 credit spreads over the projected ten-year Treasury rates as of March 31, 2005 and
22 March 31, 2006. Finally, I added in the effect of issuance costs. This reflects the
23 Company's best estimate of the cost of new debt, assuming the Company's senior

1 secured long-term debt ratings remain unchanged. Currently the Company's
2 senior secured long-term debt is rated A and A3 by Standard & Poor's and
3 Moody's respectively and has a negative outlook by each agency.

4 **Q. What is the resulting estimated interest rate for this new long-term debt?**

5 A. The Company's estimated June 30, 2004 credit spread for ten-year notes was .80
6 percent. The forward ten-year Treasury rate for March 31, 2005 is 5.12 percent.
7 Issuance costs for this type of note add approximately 10 basis points (i.e., .10
8 percent) to the all-in cost. Therefore the projected cost of replacement debt is
9 (.80% +5.12%+0.10%) = 6.02 percent. Similarly, the forward ten-year Treasury
10 rate for March 31, 2006 is 5.50 percent. The projected cost of this debt is
11 (.80%+5.50%+.10%) 6.40 percent.

12 **Q. How does this compare to the cost of the debt that is maturing through**
13 **March 31, 2006?**

14 A. The $506 million of maturing debt has an average cost of 7.255 percent.

15 **Embedded Cost of Long-Term Debt**

16 **Q. What is the Company's embedded cost of long-term debt?**

17 A. Exhibit UP&L___(BNW-1) shows the embedded cost of long-term debt at March
18 31, 2006 at 6.54 percent.

19 **Embedded Cost of Preferred Stock**

20 **Q. What is the Company's embedded cost of preferred stock?**

21 A. Exhibit UP&L___(BNW-3) shows the embedded cost of preferred stock at March
22 31, 2006 at 6.635 percent.

1 **Capital Structure**

2 **Q. What capital structure is PacifiCorp using in the test period?**

3 A. PacifiCorp is using the projected average capital structure of the electric utility for
4 the test year ending March 2006. In other words the Company is using the
5 average of the projected capital structures at March 31, 2005 and March 31, 2006,
6 resulting in 51.0 percent long term debt, 1.2 percent preferred equity and 47.8
7 percent common equity. Exhibit UP&L___(BNW-4) shows how this capital
8 structure is derived.

9 **Q. What is the source of the long term debt, preferred equity, and common**
10 **equity projections used in the calculation described in Exhibit UP&L**
11 **___(BNW-4)?**

12 A. The long term debt and equity amounts for both the twelve months ended March
13 31, 2005 (Fiscal Year 2005) and the twelve months ended March 31, 2006 (Fiscal
14 Year 2006) were projected using the procedures that I have previously explained.

15 **Q. Does this conclude your testimony?**

16 A. Yes.