Q. Please state your name, business address and present position with PacifiCorp (the Company).

A. My name is Bruce N. Williams. My business address is PacifiCorp, 825 NE Multnomah, Suite 1900, Portland, Oregon 97232. I was elected Treasurer by the Board of Directors in February 2000. Prior to my election as Treasurer, I served as Assistant Treasurer for several years.

Qualifications

Q. Mr. Williams, please briefly describe your education and business experience.

A. I received a Bachelor of Science degree in Business Administration with a concentration in Finance from Oregon State University in June 1980. I also received the Chartered Financial Analyst designation upon passing the examination in September 1986. I have been employed by PacifiCorp for 20 years. My business experience has included financing of PacifiCorp's electric operations and non-utility activities, investment management, and investor relations.

Q. Please describe your present duties.

A. I am responsible for the Company's treasury, pension and other investment management activities. In this proceeding, I am responsible for the preparation of the Company's embedded cost of debt and preferred equity and the testimony related to the Company's capital structure.

Purpose of Testimony

Q. What is the purpose of your testimony in this proceeding?

A. I will first present a financing overview of the Company. Next, I will discuss the planned amounts of common equity, debt, and preferred stock to be included in the Company's planned capital structure. I will then analyze the embedded cost of debt and preferred stock supporting PacifiCorp's electric operations in the state of Utah. This analysis includes the use of forward interest rates, historical relationship of security trading patterns, and known and measurable changes to the debt and preferred stock portfolios.

Q. What financial information is your analysis based on?

A. The analysis supporting the capital structure, embedded cost of debt and preferred stock calculations set forth below relies on the most recent information available from the Company's financial planning process. At the time this filing was prepared, however, the Company's most recent forecasted capital structure numbers were available only through Fiscal Year ("FY") 2007 (the twelve-month period ending March 31, 2007) and thus my testimony is based on FY 2007 financial data. As I discuss later, I have made changes to remove long-term debt that will mature and to add new long-term debt issuances necessary to fund our operations and to refinance the debt maturing through the mid-point of the test year. It is my current expectation that capital structure and cost of capital at September 30, 2007 will be in line with those at March 31, 2007. However, if there are changes that affect my analysis, specifically including changes that result from the closing of the MidAmerican Energy Holdings Company transaction, those changes will be addressed in the supplemental testimony to be filed in this proceeding.

Q. What is the overall cost of capital that PacifiCorp is proposing in this proceeding?

A. PacifiCorp is proposing an overall cost of capital of 9.05 percent. This cost includes the Return on Equity recommendation from Dr. Sam Hadaway and the following capital structure and costs:

PacifiCorp

Overall Cost of Capital

Component	Percent of Total	Percent of Cost	Weighted Average
Long Term Debt	46.2%	6.41%	2.96%
Preferred Stock	1.0%	6.54%	.07%
Common Stock Equity	52.8%	11.40%	6.02%
	100.0%		9.05%

Financing Overview

Q. How does PacifiCorp finance its electric utility operations?

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

How does PacifiCorp meet its debt and preferred equity financing requirements?

A. PacifiCorp relies on a mix of first mortgage bonds, other secured debt, tax exempt debt and preferred stock to meet its long-term debt and preferred stock financing requirements. The Company has concluded the majority of its long-term financing utilizing secured first mortgage bonds issued under the PacifiCorp Mortgage Indenture dated January 9, 1989. Exhibit UP&L___(BNW-1) shows that, as of March 31, 2007, PacifiCorp is projected to have approximately $3.3 billion of first mortgage bonds outstanding, with an average cost of 6.71 percent and average remaining maturity of 12.7 years. Presently, all of PacifiCorp's first mortgage bonds bear interest at fixed rates. Proceeds from the issuance of the first mortgage bonds (and other financing instruments) are used to finance the combined utility operations across the Company's six-state service territory.

Another important source of financing has been the tax-exempt financing associated with certain qualifying equipment at PacifiCorp's power generation plants. Under arrangements with local counties and other tax-exempt entities, PacifiCorp borrows the proceeds and guarantees the repayment of the long-term debt in order to take advantage of their tax-exempt status in financings. As of March 31, 2007, PacifiCorp's tax-exempt portfolio is projected to be $736 million in principal amount with an average cost of 5.05 percent (which includes the cost of issuance and credit enhancement).

Q. Does PacifiCorp expect to require significant new financing to meet its capital budget in the test period?

A. Yes. As stated in Mr. Walje's testimony, PacifiCorp's budgeted level of investment in the test period is approximately fifty percent higher than the Company's net operating income and over two times the depreciation rate. New financing will be required for these investments.

Capital Structure

Q. How does the Company determine the amount of common equity, debt, and preferred stock to be included in the Company's planned capital structure?

A. As a regulated utility, PacifiCorp has a duty and an obligation to provide safe, adequate and reliable service to customers in its Utah service territory while balancing cost and risk. In order to fulfill this obligation, PacifiCorp must make significant capital expenditures for plant and network maintenance, power delivery infrastructure, clean air investments and hydro relicensing activities. Through its planning process, PacifiCorp determined the amounts of new financing needed to support these activities and calculated the required equity and debt ratios required to maintain our current 'A-' credit rating for senior secured debt. These determinations are then reflected in PacifiCorp's budget.

Q. Have PacifiCorp's recent budgets reflected an expectation that PacifiCorp's capital structure will include an increase in equity?

A. Yes. PacifiCorp's FY 2006 budget reflected quarterly cash contributions of $125 million, for a total of $500 million in new equity. Similarly, PacifiCorp's FY 2007 budget includes quarterly cash contributions of $131.25 million, for a total of $525 million in new equity. This will result in an additional $650 million of new common equity in PacifiCorp on March 31, 2007. During this same period, the Company will also secure additional debt financing.

Q. Why do PacifiCorp's FY 2006 and FY 2007 budgets reflect the need for additional equity in PacifiCorp's capital structure?

A. The budgets reflect the cost increases described in this case, including investment in utility plant, power costs and OMAG, especially plant maintenance. These cost increases, coupled with the increasingly more rigorous expectations of the credit rating agencies for credit metrics and balance sheet strength, mean that additional equity will be required along with improved business results and other considerations to support PacifiCorp's current 'A-' credit rating from Standard & Poor's ("S&P") and an 'A3' from Moody's Investors Service ("Moody's") and to prevent Fitch Ratings from further downgrading PacifiCorp.

Q. How does this projected capital structure compare to comparable electric utilities?

A. The projected capital structure is consistent with the comparable group that Dr. Hadaway has selected in his estimate of Return on Equity. Both PacifiCorp and the group of comparable companies show an increasing percentage of common equity in their capital structures. The Value Line estimate of common equity ratio for the comparable group averages 51.4 percent. Exhibit UP&L___(BNW-2).

Q. Does PacifiCorp's capital structure now reflect these planned cash contributions?

A. Yes, PacifiCorp is current on all FY 2006 budgeted cash contributions. PacifiCorp's parent company, PacifiCorp Holdings, Inc. ("PHI"), made three contributions of $125 million each in 2005 and will make an additional cash infusion on March 31, 2006 or the date of the closing of the acquisition of PacifiCorp by MidAmerican Energy Holdings Co. (MEHC), whichever comes first.

Q. Please describe the changes to the Company's levels of debt financing.

A. Through the period ending March 31, 2007, the balance of the outstanding long-term debt will change through maturities, principal amortization and sinking fund requirements, and issuance of new securities. Based upon the long-term debt outstanding on November 30, 2005, I have calculated the reduction to the outstanding balances for maturities, principal amortization and sinking fund requirements, which are scheduled to occur during the period ending March 31, 2007. The total long-term debt maturities and principal amortized over this period is $316.3 million. Then I added $300 million of new long-term debt issuances necessary to fund our operations and to refinance the debt maturing through FY 2007. This level of debt is consistent with PacifiCorp's budget and is necessary to fund our ongoing operations. This level of debt financing is also consistent with, and balanced by, the projected increase in equity provided through the series of cash infusions discussed above, as well as increased retained earnings.

Q. Please describe the changes to the Company's level of preferred equity financing.

A. For preferred stock, I started with the balance outstanding at November 30, 2005 and made a reduction of $3.75 million of preferred stock to reflect the sinking fund requirements of the $7.48 Series No Par Serial Preferred stock. A mandatory sinking fund payment of $3.75 million will occur on June 15, 2006.

Q. What steps has the Company taken to implement the financings set forth in its forecast?

A. The Company has obtained the approvals of the PacifiCorp Board and the necessary regulatory authorities for debt issuances included in the plan. The Company will be submitting requests in the near future for the necessary regulatory authorities for the equity issuances in FY 2007. The planned increased levels of debt and equity have also been included in presentations to rating agencies. These agencies have used this information as part of their determination of PacifiCorp's credit ratings.

Q. Is the proposed capital structure consistent with the Company's current credit rating?

A. Yes. This planned capital structure is intended to enable PacifiCorp to deliver its budgeted capital expenditures while maintaining credit ratios that support the continuance of our current 'A-' credit rating.

Q. What is the relationship between a strong credit rating and customer benefits?

A. The credit rating assigned to a utility by the credit rating agencies directly affects the price the utility pays to attract the capital necessary to support its current and future operating needs. A strong credit rating directly benefits customers by reducing immediate and future borrowing costs related to the financing needed to support regulatory operations.

During periods of capital market disruptions, higher-rated companies are more likely to have on-going, uninterrupted access to capital. This is not always the case with lower-rated companies, which during such periods may find themselves either unable to secure capital or able to secure capital only on unfavorable terms and conditions.

In addition, higher-rated companies have greater access to the long-term markets for power and fuel purchases and sales. Such access provides these companies with more alternatives when attempting to meet the current and future load requirements of their customers. Finally, a company with strong ratings will often avoid having to meet costly collateral requirements that are typically imposed on lower-rated companies when securing power or fuel in these markets.

Q. Is PacifiCorp subject to rating agency debt imputation associated with Purchased Power Agreements?

A. Yes. Rating agencies and financial analysts consider Purchased Power Agreements ("PPAs") to be debt-like and will impute debt and related interest when calculating financial ratios.

For example, S&P will adjust PacifiCorp's published results and add in debt and interest resulting from PPAs when assessing PacifiCorp's creditworthiness. They do so in order to obtain a more accurate assessment of a company's financial commitments and fixed payments. Exhibit UP&L____(BNW-3) is the May 12, 2003 publication by S&P detailing its view of the debt aspects of PPAs.

Q. How does this impact PacifiCorp?

A. During a recent ratings review, S&P evaluated our PPAs and other related long-term commitments. Following this review, S&P added approximately $520 million of additional debt and $52 million of interest expense to our debt and coverage tests due to our PPA's.

Q. What actions could the Commission take that would help reduce the impact of these PPA's and have a favorable impact on the Company's overall credit rating?

A. Approval of a power cost recovery mechanism by this Commission, in conjunction with the recent Wyoming commission approval of a mechanism and favorable action by the Company's other jurisdictions on the Company's request for a mechanism, would reduce the amount of debt imputed by credit rating agencies and would favorably impact the company's overall credit rating. S&P has indicated in recent public reports and in personal meetings with PacifiCorp that the risk factor used when determining the debt impact of PPAs will be significantly reduced if the Company has a reasonably structured power cost recovery mechanism in place in its various jurisdictions. For example, if the risk factor that S&P uses in determining PPA debt imputation for PacifiCorp was reduced from the current 50 percent to 30 percent the amount of debt imputed would be approximately $315 million,. This amount is more than $200 million less than is currently imputed. Correspondingly, the interest imputation would decline from the current $52 million to about $31 million.

Q. What would be the effect of a power cost recovery mechanism for PacifiCorp?

A. With a power cost recovery mechanism in place, PacifiCorp would not be required to issue as much equity to offset the imputed debt impacts of PPAs. This would not only help PacifiCorp to maintain its credit rating under its current supply portfolio, but would also facilitate the development of the independent energy market by making PPAs less costly for customers.

When PacifiCorp acquires resources through its RFP process, debt imputation is a factor associated with the evaluation of energy options. Because debt is imputed for PPAs, the Company must also infuse a commensurate level of equity to balance its ratios to maintain its credit rating. A lower risk factor associated with PacifiCorp's portfolio of PPAs will help to make purchased power more attractive relative to other options considered in the RFP process.

Q. Has net power cost exposure been recognized and addressed by other regulatory Commissions in the Western United States?

A. Yes. In fact, the majority of investor owned electric utilities located in the Western U.S. currently have some form of a power cost recovery mechanism. In the recently settled PacifiCorp Wyoming General Rate Case (Docket No. 20000-230-ER-05), a PCAM mechanism was approved on February 10, 2006.

Financing Cost Calculation

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

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

Q. Please explain the cost of debt calculation.

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

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

A. The embedded cost of preferred stock was calculated by first determining the cost of money for each issue. This is the result of dividing the annual dividend rate by the per share net proceeds for each series of preferred stock. The cost associated with each series was then multiplied by the stated value or principal amount outstanding for each issue to yield the annualized cost for each issue. The sum of annualized costs for each issue produces the total annual cost for the entire preferred stock portfolio. I then divided the total annual cost by the total amount of preferred stock outstanding to produce the weighted average cost of all issues. This is the Company's embedded cost of preferred stock.

Q. A portion of the securities in the Company's debt portfolio bears variable rates. What is the basis for the projected interest rates used by the Company?

A. The majority of the Company's variable rate debt is in the form of tax-exempt debt. Exhibit UP&L____(BNW-4) shows that these securities had been trading at approximately 87 percent of the 30-day LIBOR (London Inter Bank Offer Rate) for the period December 1999 through November 2005. Therefore, the Company has applied a factor of 87 percent to the forward 30-day LIBOR Rate for March 31, 2007 and added the respective credit enhancement and remarketing fees for each floating rate tax-exempt bond. Credit enhancement and remarketing fees are included in the interest component because these are costs which contribute directly to the interest rate on the securities.

Q. Regarding the $300 million of new long-term debt issuances mentioned above, how did you determine the interest rate for this new long-term debt?

A. I projected that this debt would be issued at the Company's estimated November 2005 credit spreads over the forward twenty-year Treasury rates as of March 31, 2007. Finally, I added in the effect of issuance costs.

This reflects the Company's best estimate of the cost of new debt, assuming the Company's senior secured long-term debt ratings remain unchanged. Currently the Company's senior secured long-term debt is rated 'A-' and 'A3' by S&P and Moody's respectively.

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

A. The Company's estimated November 2005 credit spread for twenty-year notes was 1.10 percent. The forward twenty-year Treasury rate for March 31, 2007 is 4.84 percent. Issuance costs for this type of note add approximately 9 basis points (*i.e.*, 0.09 percent) to the all-in cost. Therefore the projected cost of replacement debt is (1.10 + 4.84 +.09) = 6.03 percent.

Q. How does this compare to the cost of the debt that is maturing through March 31, 2007?

A. That debt has an average cost of 6.47 percent.

Embedded Cost of Long-Term Debt

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

A. Exhibit UP&L___(BNW-1) shows the embedded cost of long-term debt at March 31, 2007 at 6.41 percent.

Embedded Cost of Preferred Stock

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

A. Exhibit UP&L____(BNW-5) shows the embedded cost of preferred stock at March 31, 2007 at 6.54 percent.

Q. Does this conclude your testimony?

A. Yes