Q. Please state your name, business address and present position with Rocky Mountain Power (the "Company"), a division of PacifiCorp.

A. My name is Bruce N. Williams. My business address is 825 NE Multnomah St., Suite 1900, Portland, Oregon 97232. I am Vice President and Treasurer of PacifiCorp.

Qualifications

Q. Briefly describe your educational and professional background.

A. I received a Bachelor of Science degree in Business Administration with a concentration in Finance from Oregon State University in 1980. I also received the Chartered Financial Analyst designation upon passing the examination in September 1986. I have been employed by the Company for 24 years. My business experience has included financing of the Company's electric operations, investment management, and investor relations.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide information responsive to one of the issues raised in the Commission's June 18, 2009 Procedural Order in this docket. I will explain why the absence of a fuel and purchased power adjustment mechanism such as the Company's proposed Energy Cost Adjustment Mechanism ("ECAM"), increases the risks to earnings and cash flow caused by volatility in net power costs. This volatility can adversely impact the Company's access to capital and liquidity, to the detriment of the Company and its customers.

Q. Please explain what Rocky Mountain Power's capital needs are.

A. The Company is in a major capital build cycle to address increasing load growth not only in Utah, but in all of the Company's service territory, albeit at a slower rate in the near term due to the economic downturn. The Company is adding significant new generation, transmission and local distribution facilities as well as renewable resources. The Company's capital budget far exceeds cash from operations. For example, during 2008 the Company spent approximately $2.1 billion on capital expenditures and plant acquisitions while it only generated about $1 billion of net cash from operating activities. The Company will need continued access to additional capital in order to fund its capital program. Credit ratings have been and will continue to be important for the Company's ability to access these capital markets on reasonable terms.

Q. What factors do rating agencies use when determining credit ratings?

A. Rating agencies use a variety of criteria and factors including both quantitative and qualitative measures when assessing credit quality. For regulated utilities, such as the Company, a significant qualitative factor is the regulatory environment in the states in which the utility operates. One ratemaking tool that is frequently identified is purchased power and fuel adjustment mechanisms; specifically, the absence or existence of them. Credit agencies have given the rejection of fuel adjustment mechanisms significant attention, noting that rejections of such mechanisms are key ratings drivers. In November 2008, for example, FitchRatings indicated that it expected the New Mexico Public Regulation Commission to authorize a purchase power and fuel adjustment clause in Public Service Company of New Mexico's pending general rate case. However, it also noted that the less-likely scenario in which the Commission rejected the continuation of a purchase power and fuel adjustment clause, would result in greater operating cash flow and earnings volatility and deteriorating credit quality.

Q. Have the rating agencies commented on the lack of fuel and purchased power adjustment mechanism in Utah when discussing PacifiCorp's ratings?

A. Yes. Rating agencies have specifically considered the absence of fuel and purchased power adjustment mechanisms in several of the states in PacifiCorp's service territory. In a S&P April 1, 2009 report, for example, analysts noted "the absence of fuel and purchased power adjusters in Utah, Washington and Idaho is material for the Company" and that absence was listed as one of the weaknesses under the "Major Rating Factors." Conversely, under "strengths," the approval of a power cost adjuster in Wyoming was identified as one of the factors that "ha[s] improved the Company's exposure to fluctuations in natural gas and purchased power costs". Similarly, in a FitchRatings report from August 31, 2006, the adoption of a fuel-adjustment mechanism in Wyoming was listed as a constructive event in Fitch's Rating Outlook Rationale.

Q. Even without a fuel and purchased power adjustment mechanism in Utah, PacifiCorp still has investment grade ratings; doesn't that indicate that there is no need for an ECAM?

A. No. As detailed in the other witnesses' testimony in this docket, the Company's net power costs are exposed to substantial volatility. This volatility could result in significant under recovery of costs, for example nearly $400 million during 2007 and 2008 as Mr. Gregory N. Duvall testifies. This under recovery has contributed to what is generally seen by rating agencies as “weak” cash flow metrics. The rating agencies are clear that their expectation is for improved cash flow metrics in order for PacifiCorp just to maintain existing ratings.

Q. Are there other benefits as well?

Yes. The proposed ECAM should help moderate the amount of imputed debt and interest expense adjustments related to power purchase agreements that S&P makes to the Company’s published financial results when determining their adjusted credit metrics. In addition, the Company may be able to reduce the amount of back-up credit lines it needs to ensure it can continue to fund itself in the event of unforeseen market conditions. It is quite likely that in order to extend or replace these arrangements, the pricing may increase 10 times from the levels the Company and the Company’s customers are paying today. These back-up credit lines protect the Company from defaulting if it is unable to roll over maturing commercial paper with new notes because of shrinkage in the overall commercial paper market, or the Company’s inability to access the commercial paper market because of company-specific events, such as substantial under recovery of net power costs.

In addition to easing refinancing risk, these back-up lines give investors more confidence to make long-term investments (including first mortgage bonds) which helps maintain access to the capital markets during more challenging market conditions such as 2008 and 2009.

The cost of these back-up credit lines has increased dramatically at the same time availability is shrinking. The Company negotiated multi-year credit lines with various banks during 2006 and 2007 at pricing levels that could not be achieved today. There are also fewer banks now participating in this market due to bank mergers and consolidations as well as their own financial predicaments.

Q. Why would a fuel and purchased power adjustment mechanism have a positive effect on a utility's credit ratings?

A. As Mr. Duvall and the other witnesses have testified, significant variations in net power costs relate to factors outside of the Company's control. Having the right type of fuel and purchased power adjustment mechanism would go a long way in controlling the risk of volatility in net power costs, earnings and resulting cash flow. Although current market volatility cannot be attributed to an energy crisis, a S&P October 14, 2004 report noted that while "the severe market distortions of the California crisis have faded, [ ] fuel and purchased power adjustment mechanisms continue to play a significant role in the financial well being of western electric utilities."

Q. Does this conclude your supplemental testimony?

A. Yes.