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 N.E. Multnomah, Suite 1900, Portland, Oregon 97232. My present position is Vice President and Treasurer.

Qualifications

Q. 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 the Company for 23 years. My business experience has included financing of the Company’s electric operations and non-utility activities, responsibility for the investment management of the Company’s qualified and non-qualified retirement plan assets, and investor relations.

Q. Please describe your present duties.

A. I am responsible for the Company’s treasury, credit risk management, pension and other investment management activities. I am also responsible for the preparation of PacifiCorp’s embedded cost of debt and preferred equity and any associated testimony related to capital structure for regulatory filings in all of PacifiCorp’s state and federal jurisdictions.

23 **Purpose of Testimony**

24 **Q. What is the purpose of your testimony?**

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

32 **Q. What time period do your analyses cover?**

33 A. The test period in this proceeding is the twelve months ending June 30, 2010. To
34 match the Company's costs with customer prices during the period, I determined
35 the capital structure and costs of long-term debt and preferred stock using an
36 average of the five quarter ending balances spanning the test period.

37 **Q. What is the overall cost of capital that you are proposing in this proceeding?**

38 A. Rocky Mountain Power is proposing an overall cost of capital of 8.54 percent.
39 This cost includes the Return on Equity recommendation from Dr. Samuel C.
40 Hadaway and the following capital structure and costs:

41 Overall Cost of Capital

Component	Percent of Total	% Cost	Weighted Average
Long Term Debt	48.7%	5.98%	2.91%
Preferred Stock	0.3%	5.41%	0.02%
Common Stock Equity	51.0%	11.00%	5.61%
Total	100.0%		8.54%

42 **Financing Overview**

43 **Q. Please explain Rocky Mountain Power's requirements to generate new**
44 **capital.**

45 A. As described in Mr. A. Richard Walje's testimony, Rocky Mountain Power is in
46 the process of completing or adding significant new generation resources as well
47 as local distribution facilities. For example, Rocky Mountain Power is proposing
48 to add over $2.1 billion in capital additions to its total rate base from the historical
49 base period level. These and future capital additions will require the Company to
50 raise funds by issuing significant amounts of new long-term debt in the capital
51 markets, retaining the earnings from the Company and obtaining new capital
52 contributions from its parent company. The retention of earnings will be made
53 available as the result of the continued freeze in payment of any dividends or
54 distributions by PacifiCorp to its parent company through the end of the test
55 period. Since the acquisition of PacifiCorp by MidAmerican Energy Holdings
56 Company ("MEHC") in March 2006, PacifiCorp has made no common stock
57 dividends or distributions to MEHC. Meanwhile, PacifiCorp has received $865
58 million in additional cash equity contributions from MEHC and $1.2 billion of
59 earnings have been retained in PacifiCorp. These actions have been critical for
60 PacifiCorp to remain well-positioned to support the additional investments that
61 has been and will continue to be made in the Company's system, including the
62 Rocky Mountain Power service territory and the state of Utah in particular.

63 **Q. How does the Company finance its electric utility operations?**

64 A. The Company finances its regulated utility operations utilizing roughly a 50/50

65 percent mix of debt and common equity capital. Immediately prior to and during
66 periods of significant capital expenditures, the Company may allow the common
67 equity component of the capital structure to increase. This provides more
68 flexibility regarding the type and timing of debt financing, better access to the
69 capital markets, a more competitive cost of debt, and over the long-run, more
70 stable credit ratings; all of which assist in financing such expenditures. In
71 addition, all else being equal, the Company will need to have a greater common
72 equity component to offset various adjustments that rating agencies make to the
73 debt component of the Company's published financial statements. I will discuss
74 these adjustments in greater detail later in this testimony.

75 **Q. How does the Company meet its debt and preferred equity financing**
76 **requirements?**

77 A. The Company relies on a mix of first mortgage bonds, other secured debt, tax-
78 exempt debt, and preferred stock to help meet its long-term financing
79 requirements. The Company has completed the majority of its long-term
80 financing utilizing secured first mortgage bonds issued under the Mortgage
81 Indenture dated January 9, 1989. Exhibit RMP___(BNW-1) shows that, over the
82 twelve months ended June 30, 2010 the Company is projected to have an average
83 of approximately $5.7 billion of first mortgage bonds outstanding, with an
84 average cost of 6.38 percent Presently, all outstanding first mortgage bonds bear
85 interest at fixed rates. Proceeds from the issuance of the first mortgage bonds (and
86 other financing instruments) are used to finance the combined utility operation.

87 Another important source of financing has been the tax-exempt financing
88 associated with certain qualifying equipment at power generation plants. Under
89 arrangements with local counties and other tax-exempt entities, the Company
90 borrows the proceeds and guarantees the repayment of the long-term debt in order
91 to take advantage of their tax-exempt status in financings. During the twelve
92 months ended June 30, 2010, the Company's tax-exempt portfolio is projected to
93 be $738 million in principal amount with an average cost of 2.87 percent (which
94 includes the cost of issuance and credit enhancement).

95 **Capital Structure**

96 **Q. How did the Company determine the capital structure proposed in this**
97 **proceeding?**

98 A. The capital structure is based on the actual capital structure at March 31, 2009,
99 and budgeted capital activity, adjusted for known and measurable changes
100 through June 30, 2010. This budgeted capital activity includes maturities of
101 certain debt that was outstanding at March 31, 2009, capital contributions and
102 retained earnings. The known and measurable changes represent revisions to
103 budgeted figures for updates to current and forecasted capital activity since the
104 budget was prepared and maintenance of higher equity levels to sustain current
105 rating levels. This is consistent with the methodology that was used in the
106 Company's most recent general rate case in Docket No. 08-035-38.
107

108 **Q. Why is Rocky Mountain Power using a five quarter average to determine the**
109 **proposed capital structure rather than an average of the beginning and**
110 **ending points as in previous cases?**
111 A. As the Company has grown, its capital expenditure programs have increased
112 significantly from historical levels which, in turn, has required new financings to
113 also be typically much larger. These larger financings are usually more efficient
114 through lower transactional costs and better received by investors who value the
115 greater liquidity that larger financings typically offer them. However, the trade-off
116 is greater volatility in the Company's capital structure, particularly at quarter-ends
117 that follow sizable financings. As such, the Company has chosen in this case to
118 use a capital structure which employs an average of the five quarter ending
119 balances over the test period to help smooth out this volatility.
120 **Q. How does this capital structure compare to the capital structure that was**
121 **stipulated to in Rocky Mountain Power's most recent rate case (Docket No.**
122 **08-035-38)?**
123 A. The two capital structures are the same with a common equity percentage of 51.0
124 percent in both.
125 **Q. How does the Company determine the amount of common equity, debt and**
126 **preferred stock to be included in its capital structure?**
127 A. As a regulated utility, PacifiCorp has a duty and an obligation to provide safe,
128 adequate and reliable service to customers in its Utah service territory while
129 prudently balancing cost and risk. Significant capital expenditures for new plant
130 investment, including new renewable resources, environmental control

131 investments on existing fossil-fired generation units and operating and
132 maintenance costs for new and existing utility plant assets are required for the
133 Company to fulfill this obligation. Through its planning process, the Company
134 determined the amounts of necessary new financing needed to support these
135 activities and to provide financial results and credit ratings that balance the cost of
136 capital with continued access to the financial markets.

137 **Q. Has the Company's capital structure demonstrated increased amounts of**
138 **equity in the last three years?**

139 A. Yes. Following the acquisition by MEHC the Company has received through
140 March 31, 2009 a total of $865 million of cash capital contributions from MEHC
141 via the Company's direct parent company, PPW Holdings, LLC and has retained
142 $1.2 billion of earnings as noted earlier in my testimony.

143 **Q. Why is there the need for additional equity in the capital structure?**

144 A. PacifiCorp's need for extensive capital expenditures was discussed during the
145 MEHC acquisition. The Company is continuing to follow through on those capital
146 expenditure requirements. The additional equity contained in the capital structure
147 is required due to the credit rating agencies' expectations for credit metrics and
148 balance sheet strength. The bottom line is that the Company cannot finance these
149 expenditures solely with new debt. Additional equity is required along with
150 improved business results and other considerations to support our current senior
151 secured 'A' credit rating from Standard & Poor's ("S&P"), 'A3' rating from
152 Moody's Investors Service ("Moody's"), and 'A-'from Fitch Ratings.

153

154 **Q. How does this proposed capital structure compare to comparable electric**
155 **utilities?**
156 A. The proposed capital structure is in-line with the comparable group that Dr.
157 Hadaway has selected in his estimate of Return on Equity. The Value Line three
158 to five year estimate of common equity ratio for the comparable group is 49.9
159 percent.
160 **Q. Please describe the changes to the amount of debt outstanding and the level**
161 **of debt financing.**
162 A. During the period ending June 30, 2010, the balance of the outstanding long-term
163 debt will change through maturities and principal amortization. Based upon the
164 long-term debt series outstanding at March 31, 2009, the reduction to the
165 outstanding balances for maturities and principal amortizations which are
166 scheduled to occur during the period totals $138 million.
167 The Company presently does not expect to issue any new long-term debt
168 prior to June 30, 2010. We do anticipate receiving further capital contributions
169 from our indirect parent company, MEHC, to help maintain a balanced capital
170 structure.
171 **Q. Is the proposed capital structure consistent with the Company's current**
172 **credit rating?**
173 A. This capital structure is intended to enable the Company to deliver its required
174 capital expenditures although the expected resulting credit ratios, while expected
175 to be stronger than historical ratios, may still be insufficient to maintain our
176 current credit rating. S&P was very clear on this point in their recent assessment

177 of PacifiCorp in stating " the…. utility's credit metrics are more consistent on a
178 stand-alone basis with a 'BBB' category rating." Clearly, PacifiCorp and our
179 customers have benefited from the higher ratings than the Company would likely
180 be awarded on a stand-alone basis due to the ownership by MEHC and its parent,
181 Berkshire Hathaway. Another important element supporting the Company's
182 current ratings is the rating agencies' expectations that PacifiCorp will receive
183 supportive regulatory treatment including reasonable outcomes in rate
184 proceedings. Absent ownership by MEHC and constructive regulatory treatment,
185 PacifiCorp's credit ratings would likely suffer at least a one rating level
186 downgrade.

187 Maintaining the existing ratings is becoming more challenging due to the
188 additional amount of adjustments that rating agencies are making to our published
189 financial results. I will discuss these adjustments in more detail later in this
190 testimony.

191 **Q. How does maintenance of the Company's current credit rating benefit**
192 **customers?**

193 A. The credit rating of a utility has a direct impact on the price that a utility pays to
194 attract the capital necessary to support its current and future operating needs. A
195 solid credit rating directly benefits customers by reducing immediate and future
196 borrowing costs related to the financing needed to support regulatory operations.

197 **Q. Are there other benefits?**

198 A. Yes. During periods of capital market disruptions, higher-rated companies are
199 more likely to have on-going, uninterrupted access to capital and access at lower

200 costs. This is not always the case with lower-rated companies, which during such
201 periods find themselves either unable to secure capital or able to secure capital
202 only on unfavorable terms and conditions. I will discuss how PacifiCorp's current
203 ratings have assisted it recently in accessing the market for new long-term debt at
204 attractive levels later in my testimony.

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

211 **Q. Did Standard & Poor's ("S&P") recently change the Company's credit**
212 **ratings?**

213 A. Yes. S&P upgraded PacifiCorp's senior secured debt to "A" while it downgraded
214 PacifiCorp's short-term debt ratings to "A-2".

215 **Q. Please explain these rating changes.**

216 A. The action on the senior secured debt reflects a change in S&P's methodology
217 rather than a change in PacifiCorp's credit quality or financial metrics. S&P
218 changed its approach to estimating the amount of collateral that would be
219 available to senior secured debt holders in the event of a default by PacifiCorp on
220 its first mortgage bonds. S&P continues to be cautious about PacifiCorp credit
221 metrics and, as noted previously, views the Company's credit metrics as more
222 consistent with a "BBB" rating. S&P sustained their current "A-"corporate credit

223 rating based on their expectation "that management will achieve cash flow
224 metrics more consistent with an 'A' rating over the next several years."
225 Indeed, in downgrading the Company's short-term debt ratings, S&P cited
226 a need to take a firmer view on linking PacifiCorp short-term ratings to stand-
227 alone credit quality.
228 **Q. Does this rating action change the Company's need to add equity to its capital**
229 **structure and improve its financial metrics?**
230 A. No. Due to the extensive capital expenditure program, without continued
231 improvement in financial metrics along with supportive rate case outcomes, the
232 ratings direction is likely to be lower rather than higher for PacifiCorp.
233 **Impacts of Economic Crisis on PacifiCorp**
234 **Q. How has the recent liquidity or credit crisis impacted PacifiCorp?**
235 A. Very significantly. Although the Company has been able to continue to fund its
236 working capital and long-term needs, it has been anything but "business as usual."
237 For example, at times during October 2008 the Company was unable to find
238 investors for its commercial paper. Fortunately, the Company had previously
239 arranged multi-year, committed revolving credit agreements and was able to
240 borrow under those facilities in order to provide liquidity and daily cash needs
241 normally met by the commercial paper markets. However, even these credit
242 facilities were impacted by the credit crisis as the banks themselves were
243 struggling to deal with the market conditions. The bankruptcy of Lehman
244 Brothers, Inc. during September 2008 resulted in these agreements being
245 effectively reduced by over $100 million.

246 At the times when the commercial paper market was available, rates were
247 significantly higher than just a few months earlier. During November 2008, the
248 Company's commercial paper rates were at an average spread of approximately
249 250 basis points (2.50 percent) higher than issuances through the middle of July
250 2008. While recent short-term funding for the Company has modestly improved
251 from these harsh conditions, the Company was largely limited to overnight
252 commercial paper issuances rather than a range of maturities of up to 270 days as
253 in prior markets.
254 Similar to the commercial paper market, the market for tax-exempt debt
255 was also "frozen" for a period of time. As I discussed earlier in this testimony, the
256 Company has over $700 million of typically low-cost tax exempt financing
257 outstanding. A portion of this debt is variable rate and re-prices through periodic
258 remarketings. However, this market also was shaken by the credit crisis resulting
259 in extremely high resets of interest rates or failed remarketings when there was
260 insufficient investor demand. PacifiCorp chose to acquire approximately $216
261 million of these obligations to avoid paying rates that were unimaginable just a
262 few months earlier. The Company subsequently completed the remarketing of
263 these bonds following an improvement in their credit enhancements including the
264 addition of letters of credit for the benefit of investors. Other utilities have found
265 this market was totally closed to them and delayed or cancelled previously
266 scheduled tax-exempt bond offerings. Fortunately, PacifiCorp enjoys the benefits
267 of sound credit ratings and was able to lessen the impact on customers by
268 temporarily acquiring the bonds, arranging for these letters of credit despite

269 extremely difficult conditions for the banks themselves and then remarketing the
270 bonds.

271 **Q. Was PacifiCorp able to issue new long-term debt during this period?**

272 A. Yes. In early January 2009, the Company issued $350 million of first mortgage
273 bonds with a ten year maturity at a coupon rate of 5.50 percent and $650 million
274 of thirty year first mortgage bonds with a coupon of 6.00 percent.

275 **Q. What are your observations about this long-term debt issuance?**

276 A. First, the issuance demonstrated the importance of PacifiCorp's solid investment
277 grade credit ratings during a period of time in which the markets have been
278 extremely volatile. Many lower rated issuers have not been able to access the debt
279 markets or have found the terms and conditions prohibitive. The Company's
280 sound investment grade rating has allowed it continued access to the credit
281 markets, although at credit spreads higher than historical levels.

282 Second, as noted in Dr. Hadaway's testimony, recent increases in credit
283 spreads have impacted the Company's cost of equity and debt. While the
284 Company's credit spread on its recent long term debt issuance of 3.10 percent
285 above similar maturity treasury securities is better than the range seen in issuances
286 by other utilities during that time period, it is still among the highest credit
287 spreads the Company has experienced.

288 **Q. How do the terms of PacifiCorp's debt issuance compare to other recent**
289 **utility debt issuances?**

290 A. PacifiCorp was able to issue debt at interest rates below rates that other borrowers
291 have achieved. For example, Nevada Power (rated Baa3/BBB) issued new debt

292 two days following PacifiCorp and was required by investors to pay a coupon of
293 7.375% for a five-year maturity. More recently, Puget Sound Energy (rated
294 Baa2/A-) issued new seven year debt at a credit spread over Treasuries of 480.3
295 basis points resulting in a coupon 6.75 percent. In addition, lower rated borrowers
296 were shut out entirely from the market. For example, Arizona Public Service
297 Company (rated Baa2/BBB-) filed a letter with the Arizona Corporation
298 Commission explaining that the commercial paper market was completely closed
299 to them and, they likely could not successfully issue long-term debt. (See Exhibit
300 RMP (BNW-2).

301 **Q. What do you conclude from this comparison?**

302 A. This recent period of market volatility has underscored the critical importance to
303 utilities of maintaining solid credit ratings. Lower-rated utilities paid dearly for
304 their more tenuous credit positions because they could not access capital or could
305 do so only at very high prices. This confirms the importance of PacifiCorp's
306 ongoing plan to maintain a balanced capital structure. It also highlights
307 PacifiCorp's need for supportive and constructive treatment from its regulatory
308 commissions.

309 **Purchase Power Agreements**

310 **Q. Is the Company subject to rating agency debt imputation associated with**
311 **Purchase Power Agreements?**

312 A. Yes. Rating agencies and financial analysts consider Purchase Power Agreements
313 ("PPAs") to be debt-like and will impute debt and related interest when
314 calculating financial ratios. For example, S&P will adjust the Company's

315 published financial results and impute debt balances and interest expense resulting
316 from PPAs when assessing creditworthiness. They do so in order to obtain a more
317 accurate assessment of a company's financial commitments and fixed payments.
318 Exhibit RMP (BNW-3) is the May 7, 2007 publication by S&P detailing its view
319 of the debt aspects of PPAs.

320 **Q. How does this impact the Company?**

321 A. During a recent ratings review, S&P evaluated the Company's PPAs and other
322 related long-term commitments. Approximately $425 million of additional debt
323 and related interest expense of $27 million were added to the Company's debt and
324 coverage tests solely as a result of PPAs. There were also other adjustments made
325 by Standard & Poor's that resulted in a total of approximately $1 billion of debt
326 and $73 million of interest being imputed into PacifiCorp's credit ratios.

327 **Q. How would the inclusion of this PPA related debt and these other**
328 **adjustments affect the Company's capital structure as S&P reviews your**
329 **credit metrics?**

330 A. By including the imputed debt resulting from PPAs and these other adjustments,
331 the Company's capital structure would have a lower equity component as a
332 corollary to the higher debt component resulting in additional pressure on the
333 credit ratings. For example, if one were to add the total $1 billion amount of debt
334 adjustments that Standard & Poor's makes to the Company's capital structure in
335 this docket the resulting common equity percentage would decline from 51.0
336 percent to 47.2 percent.

337

338 **Financing Cost Calculations**

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

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

344 **Q. Please explain the cost of long-term debt calculation.**

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

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

357 A. The embedded cost of preferred stock was calculated by first determining the cost
358 of money for each issue. This is the result of dividing the annual dividend rate by
359 the per share net proceeds for each series of preferred stock. The cost associated
360 with each series was then multiplied by the total par or stated value outstanding

361 for each issue to yield the annualized cost for each issue. The sum of annualized
362 costs for each issue produces the total annual cost for the entire preferred stock
363 portfolio. I then divided the total annual cost by the total amount of preferred
364 stock outstanding to produce the weighted average cost for all issues. This is the
365 Company's embedded cost of preferred stock.

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

369 A. The Company's variable rate long-term debt in this docket is in the form of tax-
370 exempt debt. Exhibit RMP (BNW-4) shows that these securities on average had
371 been trading at approximately 86 percent of the 30-day LIBOR (London Inter
372 Bank Offer Rate) for the period January 2000 through March 2009. Therefore, the
373 Company has applied a factor of 86 percent to the forward 30-day LIBOR Rates
374 during the test period and then added the respective credit enhancement and
375 remarketing fees for each floating rate tax-exempt bond. Credit enhancement and
376 remarketing fees are included in the interest component because these are costs
377 which contribute directly to the interest rate on the securities and are charged to
378 interest expense. This method is consistent with the Company's past practices
379 when determining the cost of debt in previous Utah general rate cases as well as
380 the other states that regulate PacifiCorp.

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

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

383 A. The cost of long-term debt is 5.98 percent during the period ending June 30, 2010

384 as shown in Exhibit RMP (BNW-1).

385 **Embedded Cost of Preferred Stock**

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

387 A. Exhibit RMP (BNW-5) shows the embedded cost of preferred stock during the

388 period ending June 30, 2010 to be 5.41 percent.

389 **Fulfillment of MEHC Commitment**

390 **Q. Did PacifiCorp and MEHC make certain commitments concerning cost of**

391 **incremental long-term debt?**

392 A Yes. During the regulatory approval process related to the acquisition of the

393 Company, MEHC stated that the incremental cost of long-term debt would be

394 reduced as a result of the acquisition by MEHC, due to the association with

395 Berkshire Hathaway. In Docket 05-035-34, MEHC and Rocky Mountain Power

396 made a formal commitment (General Commitment 37) that over the five years

397 following the closing of the transaction, they would demonstrate that incremental

398 long-term debt issuances would be at a spread ten basis points below its similarly

399 rated peers.

400 **Q. Has the Company issued any long-term debt that has not been previously**

401 **assessed as to whether it satisfied General Commitment 37?**

402 A. Yes. On July 14, 2008, the Company issued $800 million of new long-term debt.

403 More recently, the Company completed an issuance in January 2009 consisting of

404 $1 billion of long-term debt.

405

406 **Q. Have you assessed whether the MEHC commitment was fulfilled with respect**
407 **to this long-term debt issuance?**
408 A. Yes. Based on separate studies by banks knowledgeable about the Company's
409 debt issuances, market conditions and long-term debt issuances by other market
410 participants, the Company's issuances of long-term debt not only met, but
411 exceeded, the promised level of savings. Confidential Exhibit No. RMP (BNW-6)
412 and Confidential Exhibit No. RMP (BNW-7) demonstrate that each of these
413 respective issuances of long-term debt fulfilled the requirements of General
414 Commitment 37.
415 **Q. Does this conclude your direct testimony?**
416 A. Yes.