1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp dba Rocky Mountain Power ("Company").**
3 A. My name is Bruce N. Williams. My business address is 825 NE Multnomah, Suite
4 1900, Portland, Oregon 97232. My present position is Vice President and
5 Treasurer.
6 **Qualifications**
7 **Q. Please describe your education and business experience.**
8 A. I received a Bachelor of Science degree in Business Administration with a
9 concentration in Finance from Oregon State University in 1980. I also received
10 the Chartered Financial Analyst designation upon passing the examination during
11 1986. I have been employed by the Company for 25 years. My business
12 experience has included financing of the Company's electric operations and non-
13 utility activities, responsibility for the investment management of the Company's
14 qualified and non-qualified retirement plan assets, and investor relations.
15 **Q. Please describe your present duties.**
16 A. I am responsible for the Company's treasury, credit risk management, pension
17 and other investment management activities. I am also responsible for the
18 preparation of PacifiCorp's embedded cost of debt and preferred equity and any
19 associated testimony related to capital structure for regulatory filings in all of
20 PacifiCorp's state and federal jurisdictions.
21 **Q. Please provide a summary of your testimony?**
22 A. My testimony discusses the Company's capital structure and costs of capital. It
23 supports the proposed common equity level of 51.9 percent and provides evidence

24 of why that level is appropriate and demonstrates the benefits to customers,
25 including maintaining the Company's current credit ratings which will facilitate
26 continued access to the capital markets for the Company and over the long-term a
27 more competitive cost of debt and overall cost of capital. This capital structure
28 will allow the Company to continue its capital program and invest in projects and
29 infrastructure in order to provide safe and reliable service to our customers at
30 reasonable costs.

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

32 A. Rocky Mountain Power is proposing an overall cost of capital of 8.25 percent.
33 This cost includes the return on equity recommendation of 10.5 percent from Dr.
34 Samuel C. Hadaway and the following capital structure and costs:

Overall Cost of Capital

Component	Percent of Total	% Cost	Weighted Average
Long Term Debt	47.8%	5.81%	2.78%
Preferred Stock	0.3%	5.43%	.02%
Common Stock Equity	51.9%	10.50%	5.45%
Total	100.0%		8.25%

35 **Financing Overview**

36 **Q. Please explain Rocky Mountain Power's need for and sources of new capital.**

37 A. As described in Mr. A. Richard Walje's testimony, Rocky Mountain Power is in
38 the process of completing or adding significant new investments, including
39 required pollution control equipment, transmission facilities as well as local
40 distribution facilities. These investments help system reliability, improve power
41 delivery and help to assure safe operations for the benefit of our customers.

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

43 A. Generally, the Company finances its regulated utility operations utilizing roughly
44 a 50/50 percent mix of debt and common equity capital. Immediately prior to and
45 during periods of significant capital expenditures, the Company may allow the
46 common equity component of the capital structure to increase. This provides more
47 flexibility regarding the type and timing of debt financing, better access to the
48 capital markets, a more competitive cost of debt, and over the long-run, more
49 stable credit ratings; all of which assist in financing such expenditures. In
50 addition, all else being equal, the Company will need to have a greater common
51 equity component to offset various adjustments that rating agencies make to the
52 debt component of the Company's published financial statements. I will discuss
53 these adjustments in greater detail later in this testimony.

54 **Q. What has been the Company's practice with regards to paying dividends to**
55 **MEHC?**

56 A. PacifiCorp has not paid a dividend to MEHC since being acquired in March,
57 2006. MEHC recognizes that the Company is in a period requiring significant
58 capital investments which, until recently, has far exceeded the Company's ability
59 to finance them with internally generated funds. As such, MEHC has allowed the
60 Company to retain all earnings to date totaling over $2 billion plus invested well
61 over an additional $1 billion in order to help maintain the credit ratings during this
62 period of capital spending. As I will discuss later, the maintenance of credit
63 ratings has allowed the Company to access the capital markets when other utilities
64 were denied access, provided a lower cost of debt and a lower overall cost of

65 capital.

66 **Q. Does the Company now anticipate paying dividends to MEHC?**

67 A. Yes. The Company is balancing a number of interests, some of which are in
68 conflict with each other. For example, in order to maintain credit ratings during
69 the capital build cycle a higher common equity component is necessary at times in
70 order to provide room and flexibility in the capital structure to accommodate the
71 amount, type and timing of additional long-term debt issuance. In addition, the
72 various adjustments that rating agencies make to published financial statements
73 simply require an initial higher equity component in order to offset the impact of
74 these adjustments. As equity has a higher cost than debt, the Company intends to
75 have no more common equity than is necessary to support its credit ratings.

76 Since the MEHC acquisition, the Company has managed the capital
77 structure through the timing and amount of long-term debt issuances and capital
78 contributions while forgoing dividends and retaining earnings. However, with the
79 passage of recent legislation enacting bonus depreciation, the Company's
80 expected net cash flow during the next two years will increase significantly. This
81 will reduce the need for new borrowings and, absent the payment of dividends,
82 retention of earnings could cause the percentage of common equity to grow
83 beyond the level necessary to support the current credit ratings. Consequently,
84 dividend payments are now expected, possibly even in combination with debt
85 issuances, to keep the percentage of equity in the Company's capital structure in
86 line with the level sufficient to support the Company's credit ratings. As a result,
87 the Company anticipates initiation of dividends to MEHC to continue to manage

88 the common equity component of the capital structure, maintain the current credit

89 ratings, maintain access to the capital markets and keep the Company's overall

90 cost of capital at a prudent level.

91 **Q. Shouldn't the additional cash flow generated by the tax law changes mitigate**

92 **the need for a rate increase?**

93 A. No. The cash flow mitigates the need for some of the external financing that

94 otherwise would be required but it does not change the need for rate relief.

95 **Credit Ratings**

96 **Q. Should this regulatory commission be concerned about credit ratings and the**

97 **views expressed by rating agencies?**

98 A. Yes, regulators should be concerned about credit ratings and the views of rating

99 agencies for several reasons. First, the credit rating of a utility has a direct impact

100 on the price that a utility pays to attract the capital necessary to support its current

101 and future operating needs. Many institutional investors have fiduciary

102 responsibilities to their clients, and are typically not permitted to purchase non

103 investment grade (i.e. rated below BBB-) securities or in some cases even

104 securities rated below a single A.

105 Second, credit ratings are an estimate of the probability of default by the

106 issuer on each rated security. Lower ratings equate to higher risks and higher

107 costs of debt. However, even investment grade rated borrowers have experienced

108 recent problems accessing the capital markets or even been shut out entirely. The

109 financial crisis of 2008 and 2009 provided clear and compelling evidence of the

110 benefits of the Company's credit rating as it was able to issue new long-term debt

111 during the midst of the financial turmoil. Other lower rated utilities were simply
112 shut out of the market and could not obtain new capital regardless of how much
113 they were willing to pay. For example, Arizona Public Service Company (rated at
114 that time Baa2/BBB-) filed a letter with the Arizona Corporation Commission
115 stating that the commercial paper market was completely closed to them and, they
116 likely could not successfully issue long-term debt. See Exhibit RMP___(BNW-1).
117 Further, those issuers who could access the markets paid rates well above
118 the levels that the Company was able to achieve. For example, Nevada Power
119 (rated Baa3/BBB) issued new debt two days following PacifiCorp's 2009
120 issuance and was required by investors to pay a coupon of 7.375% for a five year
121 maturity. Subsequently, Puget Sound Energy (rated Baa2/A-) issued new seven
122 year debt at a credit spread over Treasuries of 480.3 basis points resulting in a
123 6.75 percent coupon. By comparison, the Company completed an offering of
124 $350 million of first mortgage bonds with a ten year maturity at a coupon rate of
125 5.50 percent and $650 million of thirty year first mortgage bonds with a coupon
126 of 6.00 percent. These favorable debt rates are included in the cost of debt
127 calculation in this docket.
128 Further, the Company has a near constant need for short-term liquidity as
129 well as periodic long-term debt issuances. We daily pay significant amounts to
130 suppliers whom we count on providing necessary goods and services such as fuel
131 and spare parts and inventory. Being unable to access funds can risk the
132 successful completion of necessary capital infrastructure projects and increase the
133 chance of outages and service failures.

134 The Company's creditworthiness, as reflected in its credit ratings, will
135 strongly influence its ability to attract capital in the competitive markets and the
136 resulting cost of that capital.

137 **Q. Can regulatory actions or orders affect a Company's credit ratings?**

138 A. Yes, in a very significant way. Regulated utilities such as the Company are fairly
139 unique since they unilaterally cannot set their own prices for their services. The
140 financial integrity of a regulated utility is largely a result of how the utility is
141 treated on cost recovery issues and the prices set by regulators. Rates are
142 established by regulators to permit the utility to recover prudently incurred
143 operating expenses and a reasonable opportunity to earn a fair return on the
144 capital invested. Therefore, rate decisions by utility commissions have a direct
145 and significant impact on the financial condition of utilities.

146 Rating agencies and investors have a keen understanding of the
147 importance of regulatory outcomes. For example, Standard & Poor's writes
148 "(t)he assessment of regulatory risk is perhaps the most important factor in
149 Standard & Poor's Ratings Services' analysis of U.S. regulated, investor-owned
150 utility's business risk."[1] Similarly, Moody's has stated "(f)or a regulated utility,
151 the predictability and supportiveness of the regulatory framework in which it
152 operates is a key credit consideration and the one that differentiates the industry
153 from most other corporate sectors. The most direct and obvious way that
154 regulation affects utility credit quality is through the establishment of prices or
155 rates for the electricity, gas and related services provided (revenue requirements)

[1] Standard & Poor's Ratings Direct – Assessing U.S. Utility Regulatory Environments; March 11, 2010.

156 and by determining a return on a utility's investment, or shareholder return."[2]

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

159 A. The Company is in the midst of a period of heavy capital spending and investing
160 in infrastructure in order to provide for the needs of customers. If the Company
161 does not have consistent access to the capital markets at reasonable costs these
162 borrowings and the resulting costs of building new facilities become more
163 expensive than it otherwise would be. The inability to access financial markets
164 can threaten the completion of these necessary projects which, in turn will impact
165 system reliability and customer safety. All of these resulting higher costs are
166 ultimately borne by the customers. Maintaining the current single-A credit rating
167 makes it more likely the Company will have access to the capital markets at
168 reasonable costs even during periods of financial turmoil. Such a rating will
169 allow the Company continued access to the capital markets that will enable it to
170 fulfill its capital investments for the benefit of customers.

171 In addition, higher-rated companies have greater access to the long-term
172 markets for power purchases and sales. Such access provides these companies
173 with more alternatives when attempting to meet the current and future load
174 requirements of their customers.

175 Finally, a company with strong ratings will often avoid having to meet
176 costly collateral requirements that are typically imposed on lower-rated
177 companies when securing power in these markets. In my opinion, maintaining the
178 current single A rating provides the best balance between costs and continued

[2] Moody's Investors Service Regulated Electric and Gas Utilities; August 2009.

179 access to the capital markets which is necessary to fund capital projects for the
180 benefit of customers.

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

183 A. Yes. This capital structure is intended to enable the Company to deliver its
184 required capital expenditures and result in financial metrics which will meet
185 rating agency expectations.

186 Historically, the Company's credit ratios have been weak for the ratings
187 level and we have been able to sustain our ratings, in part through the acquisition
188 by MEHC and its parent, Berkshire Hathaway. S&P was very clear on this point
189 in their recent assessment of PacifiCorp in stating "….cash flows metrics remain
190 just adequate to support the ratings." S&P further stated "…..the Company's
191 funds for operations (FFO) to total debt has been consistently in the high teens,
192 slightly below our expected credit metrics for the rating, since it was acquired by
193 [MEHC]. Leverage has also been somewhat high for the rating at 53 percent at
194 year-end 2009. However, we expect that credit metrics will improve in the
195 coming years, producing FFO total debt in the area of 20 percent, FFO interest
196 coverage ….in the range of 4.0x – 4.5x, and leverage of about 50 percent."[3]
197 Clearly, PacifiCorp and its customers have benefited from the higher ratings the
198 Company would otherwise not likely have been awarded on a stand-alone basis.
199 Another important element supporting the Company's current ratings is the rating
200 agencies' expectations that PacifiCorp will receive supportive regulatory
201 treatment including reasonable outcomes in rate proceedings. Absent ownership

[3] Standard & Poor's Rating Direct October 7, 2010.

202 by MEHC and constructive regulatory treatment that permits a fair opportunity
203 for the Company to recover its reasonable and prudent expenses, including a
204 return on its investment comparable to other similarly situated utilities,
205 PacifiCorp's senior secured and corporate credit ratings would have likely
206 suffered at least a one rating level downgrade.

207 Maintaining the existing ratings is becoming more challenging due to the
208 additional adjustments that rating agencies are making to our published financial
209 results. I will discuss these adjustments in more detail later in this testimony.

210 **Q. Has there been any changes in the Company's credit ratings that needs**
211 **clarification?**

212 A. Yes. In March 2009, S&P upgraded PacifiCorp's senior secured debt to 'A' while
213 it downgraded PacifiCorp's short-term debt ratings to 'A-2'. Similarly, Moody's
214 revised PacifiCorp's senior secured debt to 'A2' from 'A3' in August 2009.

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

216 A. The action on the PacifiCorp's senior secured debt merely reflects a change in
217 S&P's methodology rather than a change in PacifiCorp's credit quality or
218 financial metrics. S&P changed its approach to estimating the amount of collateral
219 that would be available to senior secured debt holders in the event of a default by
220 PacifiCorp on its first mortgage bonds.

221 S&P continues to be cautious about PacifiCorp credit metrics and, as
222 noted previously, views the Company's credit metrics on a stand-alone basis as
223 just adequate to support the ratings. Indeed, in downgrading the Company's
224 short-term debt ratings, S&P cited a need to take a firmer view on linking

225 PacifiCorp short-term ratings to stand-alone credit quality. S&P sustained their
226 current 'A-'corporate credit rating based on their expectation "that management
227 will achieve cash flow metrics more consistent with an 'A' rating over the next
228 several years."[4]

229 The upgrade of the Company's senior secured debt by Moody's was part
230 of an industry-wide action in which the majority of senior secured debt ratings of
231 investment-grade regulated utilities were upgraded by one level. The action was a
232 result of Moody's analysis of the history of regulated utility defaults and was not
233 specific or unique to the Company.

234 **Q. Do S&P's recent credit reports on PacifiCorp underline S&P's expectation**
235 **that PacifiCorp improve its financial metrics in order to maintain its current**
236 **credit rating?**

237 A. Yes. S&P made several references to the need for PacifiCorp to improve its
238 stand-alone financial metrics, noting that PacifiCorp's financial risk profile
239 reflects a large capital program and the need to shore up cash flow metrics. S&P
240 also stated that "Given the recent turmoil in both the liquidity and capital markets,
241 we have taken a firmer view on the need to link the PacifiCorp short-term ratings
242 to its stand-alone quality, which supports an 'A-2' short-term rating." S&P also
243 reiterated its credit view that "supportive rate case outcomes remain key to
244 maintaining and improving upon the company's financial performance." Exhibits
245 RMP___(BNW-2) and RMP___(BNW-3) are the October 7, 2010 and April 30,
246 2010 S&P Ratings Direct publications.

[4] Standard & Poor's Rating Direct April 30, 2010.

247 **Q. Do other rating agencies share S&P's view concerning the need for**
248 **supportive rate case outcomes?**
249 A. Yes. Fitch stated "The current ratings and stable outlook assume [PacifiCorp]
250 continues to benefit from parent company support and reasonable outcomes in
251 pending and future rate proceedings to recover anticipated, significant capital
252 investment".[5] Likewise Moody's lists "Supportive regulatory environment" as
253 one of the ratings drivers. Moody's also states "The stable outlook incorporates
254 Moody's expectation that PacifiCorp will continue to receive reasonable
255 regulatory treatment for the recovery of its higher capital expenditures…."
256 Further as to what could change the rating-down; Moody's writes "…..if there
257 were to be adverse regulatory rulings on current and future rate cases such that we
258 would anticipate a sustained deterioration in financial metrics…."[6]

259 **Capital Structure**

260 **Q. How did the Company determine the capital structure proposed in this case?**
261 A. The test period in this proceeding is the 12 months ending June 30, 2012. To
262 appropriately match the Company's costs with customer prices during the period,
263 the capital structure is based on the actual capital structure at September 30, 2010
264 and forecasted capital activity, including known and measurable changes, through
265 June 30, 2012. The Company has averaged the five quarter end capital structures
266 measured beginning at June 30, 2011 and concluding with June 30, 2012. The
267 budgeted capital activity includes known maturities of certain debt issues that
268 were outstanding at September 30, 2010, planned issuances of long-term debt and

[5] Fitch Ratings – October 1, 2010.
[6] Moody's Investor Service August 6, 2010.

269 the expected payment of dividends. The known and measurable changes represent

270 actual and forecasted capital activity since September 30, 2010.

271 **Q. Why is Rocky Mountain Power using an average of five quarter ends to**

272 **determine the proposed capital structure rather than simply an average of**

273 **the beginning and ending points as in previous cases?**

274 A. As the Company has grown, its capital expenditure program has increased

275 significantly from historical levels which, in turn, has required new financings to

276 also be much larger. These larger financings are usually more efficient due to

277 lower transactional costs, and better received by investors who value the greater

278 liquidity that larger financings typically offer. However, the trade-off is greater

279 volatility in the Company's capital structure ratios, particularly at quarter-end

280 following sizable financings. As such, the Company is proposing in this case to

281 use a capital structure that employs an average of the five quarter ending balances

282 spanning the test period to help smooth out this volatility. This is also the same

283 methodology the Company used in its most recent rate case. (Docket No. 09-035-

284 23)

285 **Q. How does this capital structure compare to the Company's current capital**

286 **structure and what was filed in the Company's most recent rate cases.**

287 A. The capital structures are compared in the table below.

Rocky Mountain Power Comparison of Utah? Capital Structures				
	Docket No. 08-035-38	**Docket No. 09-035-23**	**December 31, 2010[7]**	**2011 General Rate Case**
Long-Term Debt	**47.7%**	**48.7%**	**46.5%**	**47.8%**
Preferred Stock	**0.4%**	**0.3%**	**0.3%**	**0.3%**
Common Equity	**51.9%**	**51.0%**	**53.2%**	**51.9%**
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**

[7] Preliminary as the Company has not yet published its year end financial statements.

288 The proposed capital structure in this Docket has a lower common equity
289 component than the Company's actual December 31, 2010 capital structure and is
290 in line with the capital structure in recent dockets. As discussed earlier, absent the
291 expected dividends, the Company's common equity component would continue to
292 increase.

293 **Q. How does the proposed cost of capital compare to the cost of capital that was**
294 **determined in the Company's most recent rate case?**

295 A. The Commission determined an overall rate of return in the Company's most
296 recent rate case of 8.34 percent. The Company's proposed cost of capital in this
297 case is lower at 8.25 percent.

298 **Q. What type of debt and preferred equity securities does the Company employ**
299 **in meeting its financing requirements?**

300 A. The Company relies on a mix of first mortgage bonds, other secured debt, tax-
301 exempt debt, and preferred stock to help meet its long-term financing
302 requirements. These securities employ various maturities in order to provide
303 flexibility and mitigate refinancing risks. The Company has completed the
304 majority of its long-term financing utilizing secured first mortgage bonds issued
305 under the Mortgage Indenture dated January 9, 1989. Exhibit RMP___(BNW-4)
306 shows that, over the 12 months ended June 30, 2012, the Company is projected to
307 have an average of approximately $5.9 billion of first mortgage bonds
308 outstanding, with an average cost of 6.23 percent. Presently, all outstanding first
309 mortgage bonds bear interest at fixed rates. Proceeds from the issuance of the first
310 mortgage bonds (and other financing instruments) are used to finance the

311 combined utility operation.

312 Another important source of financing has been the tax-exempt financing
313 associated with certain qualifying equipment at power generation plants. Under
314 arrangements with local counties and other tax-exempt entities, these entities
315 issue securities, the Company borrows the proceeds of these issuances from the
316 respective entities and pledges its credit quality to repay the debt in order to take
317 advantage of the tax-exempt status of the financings. These bonds are primarily in
318 a variable rate mode and are re-marketed, some as often as weekly. In addition to
319 tax-exempt status, these securities take advantage of current very low short-term
320 interest rates. On the other hand, the variable rate structure of this type of
321 financing exposes the Company to re-marketing and interest rate risks as well as
322 dislocations in the short-term credit markets. Hence, the Company is careful as to
323 the total amount of this variable rate financing that it maintains in its capital
324 structure.

325 During the 12 months ended June 30, 2012, PacifiCorp's tax-exempt
326 portfolio is projected to be $738 million in principal amount with an average cost
327 of 2.46 percent (which includes the cost of issuance and credit enhancement).

328 **Q. How does the Company determine the amount of common equity, debt and**
329 **preferred stock to be included in its capital structure?**

330 A. As a regulated public utility, the Company has a duty and an obligation to provide
331 safe, adequate and reliable service to customers in its Utah service territory while
332 prudently balancing cost and risk. In order for Rocky Mountain Power to fulfill its
333 service obligation, the Company is making significant capital expenditures for

334 new plant investment, including transmission and environmental control
335 investments on existing fossil-fired generation units. Each of these capital
336 investments also has associated operating and maintenance costs. Through its
337 planning process, the Company determined the amount of necessary new
338 financing needed to support these activities and to provide financial results and
339 credit ratings that balance the cost of capital with continued access to the financial
340 markets.

341 **Q. Please describe the changes to the amount of outstanding long-term debt.**

342 A. During the 12 months ending June 30, 2012, the balance of the outstanding long-
343 term debt will change through maturities and principal amortization totaling
344 $592.7 million.

345 In addition, the Company presently expects to issue new long-term debt in
346 the amount of $400 million with all-in cost of 5.65 percent and $600 million with
347 an all in cost of 5.82 percent before the end of the test period. These expected
348 issuances are included in the proposed capital structure and their expected costs
349 are included in the cost of debt calculation.

350 **Purchase Power Agreements**

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

353 A. Yes. Rating agencies and financial analysts consider Purchase Power Agreements
354 ("PPAs") to be debt-like and will impute debt and related interest when
355 calculating financial ratios. For example, S&P will adjust the Company's
356 published financial results and impute debt balances and interest expense resulting

357 from PPAs when assessing creditworthiness. They do so in order to obtain a more
358 accurate assessment of a company's financial commitments and fixed payments.
359 Exhibit RMP___(BNW-5) is the May 7, 2007, publication by S&P detailing its
360 view of the debt aspects of PPAs.

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

362 A. During a recent ratings review, S&P evaluated the Company's PPAs and other
363 related long-term commitments. Approximately $396 million of additional debt
364 and $26 million of related interest expense were added to the Company's debt and
365 coverage tests solely as a result of PPAs. There were also other adjustments made
366 by S&P that resulted in a total of approximately $1 billion of debt and $78 million
367 of interest being imputed into PacifiCorp's credit ratios.[8]

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

371 A. Negatively. By including the imputed debt resulting from PPAs and these other
372 adjustments, the Company's capital structure has a lower equity component as a
373 corollary to the higher debt component, lower coverage ratios and reduced
374 financial flexibility than what might otherwise appear to be the case from a
375 review of the book value capital structure. For example, if one were to add the
376 total $1 billion amount of debt adjustments that Standard & Poor's makes to the
377 Company's capital structure in this case, the resulting common equity percentage
378 would decline from 51.9 percent to 48.4 percent. The 48.4 percent equity ratio
379 falls below S&P's published expectations for PacifiCorp.

[8] Standard & Poor's Rating Direct October 7, 2010.

	Book Values/Ratios	Rating Agency Adjustments	Adjusted Book Values/Ratios
Long-Term Debt	$6,629/47.8%	$1,000	$ 7,629/51.3%
Preferred Stock	$41 / 0.3 %	0	$41 /0.3 %
Common Equity	$7,210 / 51.9%	0	$ 7846/ 48.4%
Totals	$13,879/ 100.0%	$1,000	$ 14,879/ 100.0%

380 **Financing Cost Calculations**

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

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

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

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

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

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

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

411 A. The Company's variable rate long-term debt in this case is in the form of tax-
412 exempt debt. Exhibit RMP___(BNW-6) shows that, on average, these securities
413 had been trading at approximately 93 percent of the 30-day London Inter Bank
414 Offer Rate ("LIBOR") for the period January 2000 through September, 2010.
415 Therefore, the Company has applied a factor of 93 percent to the forward 30-day
416 LIBOR rates at each quarter-end spanning the test period and then added the
417 respective credit enhancement and remarketing fees for each floating rate tax-
418 exempt bond. Credit enhancement and remarketing fees are included in the
419 interest component because these are costs which contribute directly to the
420 interest rate on the securities and are charged to interest expense. This method is

421 consistent with the Company's past practices when determining the cost of debt in
422 previous Utah general rate cases as well as the other states that regulate
423 PacifiCorp.

424 **Q. Regarding the new long-term debt issuances mentioned above, how did you**
425 **determine the interest rate for this new long-term debt?**

426 A. I projected that this new long-term debt would be issued at the Company's
427 estimated recent credit spread over the projected long-term Treasury rates as of
428 May, 2011 and January, 2012. Further, I added in the effect of issuance costs to
429 the debt offering. This reflects our best estimate of the costs of new debt,
430 assuming the Company's senior secured long-term debt ratings remain
431 unchanged.

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

433 A. The Company's current estimated credit spread for 30-year debt is 1.025 percent.
434 The recent forward long-term Treasury rate for May 2011 and January 2012 is
435 approximately 4.56 percent and 4.73 percent respectively. Issuance costs for this
436 type of debt add approximately six basis points (i.e. 0.06 percent) to the all-in
437 cost. Therefore the projected cost of the new long-term debt is as follows:

	May 2011 Issuance	January 2012 Issuance
Forward Treasury Rate	4.56 percent	4.73 percent
Credit Spread	1.025 percent	1.025 percent
Issuance Costs	0.06 percent	0.06 percent
All-in Cost	5.65 percent	5.82 percent

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

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

440 A. The cost of long-term debt is 5.81 percent for the period ending June 30, 2012, as

441 shown in Exhibit RMP___(BNW-4).

442 **Embedded Cost of Preferred Stock**

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

444 A. Exhibit RMP___(BNW-7) shows the embedded cost of preferred stock for the

445 period ending June 30, 2012, to be 5.43 percent.

446 **Q. Does this conclude your direct testimony?**

447 A. Yes.