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

A. My name is Bruce N. Williams. My business address is 825 NE Multnomah Street, Suite 1900, Portland, Oregon 97232. My present position is Vice President and Treasurer.

Qualifications

Q. Please 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 1980. I also received the Chartered Financial Analyst designation upon passing the examination during 1986. I have been employed by the Company for 26 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 the Company'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.

Summary of Testimony

Q. Please provide a summary of your testimony.

A. My testimony discusses the Company's capital structure and costs of capital. It supports the proposed common equity level of 52.1 percent and provides evidence of why that level is appropriate and benefits customers. Those benefits include maintaining the Company's current credit ratings, which will facilitate continued access to the capital markets for the Company, and providing over the long-term a more competitive cost of debt and overall cost of capital. This capital structure is necessary to enable the Company to continue to invest in infrastructure in order to provide safe and reliable service to our customers at reasonable costs.

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

A. Rocky Mountain Power is proposing an overall cost of capital of 7.91 percent. This cost includes the return on equity recommendation of 10.20 percent from Dr. Samuel C. Hadaway and the following capital structure and costs:

Overall Cost of Capital

Component	Percent of Total	Cost	Weighted Average
Long Term Debt	47.6%	5.41%	2.58%
Preferred Stock	0.3%	5.43%	0.02%
Common Stock Equity	52.1%	10.20%	5.31%
Total	100.0%		7.91%

Financing Overview

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

A. Rocky Mountain Power is in the process of adding significant new plant investments over multiple years. These investments include required pollution control equipment, generation upgrades, transmission facilities and other capital investments to properly maintain the existing infrastructure. These investments help system reliability, improve power delivery and help to assure safe operations for the benefit of customers.

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

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

Q. Does the Company anticipate it will continue to pay dividends to MidAmerican Energy Holdings Company ("MEHC")?

A. Yes. The proposed capital structure in the present case includes the impact of additional dividends expected to be paid to MEHC before the end of the test period.

During 2011, the Company initiated the payment of dividends to MEHC as a result of the temporary cash benefits and boost to credit metrics resulting from the passage of legislation enacting and extending bonus depreciation. The

Company expects a similar but smaller benefit from bonus depreciation during 2012. This temporary improvement in credit metrics allowed PacifiCorp to moderate the level of equity that otherwise would have been necessary to sustain the Company's credit rating during these periods, and enabled dividends to be paid in 2011 and 2012. In addition, the temporary cash benefits from bonus depreciation have reduced, but not eliminated, the need for new borrowings.

Q. Please explain why dividends were not paid to MEHC in the past.

A. Since the acquisition in 2006 by MEHC, the Company has managed the capital structure through the timing and amount of long-term debt issuances and capital contributions while forgoing any common dividend distributions for nearly five years. MEHC recognizes that the Company is in a period requiring significant capital investment which, until recently, has far exceeded the Company's ability to finance with internally generated funds. As such, MEHC allowed the Company to retain earnings totaling over $2 billion and even increased its investment in the Company by more than $1 billion in order to enable the Company to finance capital investment and help maintain the credit ratings during this period of capital spending. As I will discuss later, the maintenance of credit ratings has allowed the Company to access the capital markets when other utilities were denied access, provided a lower cost of debt and a lower overall cost of capital.

Q. Shouldn't the additional cash flow generated by the tax law changes mitigate the need for a rate increase?

A. It will, but only to a limited extent. Bonus depreciation provides a temporary cash flow benefit to the Company in the form of accelerated tax benefits, but this cash benefit does not translate one-for-one into a reduction in revenue requirements. Income tax expense, a component of revenue requirements, generally is unchanged as a result of bonus depreciation, as the current income tax benefits received from bonus depreciation generally are fully offset by additional deferred income tax expenses. Customers receive benefits from bonus depreciation in the form of increased deferred income tax liabilities, which reduces rate base, and from a lower equity level carried in the Company's capital structure than would otherwise be the case without the benefits of bonus depreciation. This capital structure with a lower equity level still produces financial results that meet the rating agencies' expectations due to the improved cash flow metrics resulting from bonus depreciation.

Credit Ratings

Q. Why should this Commission be concerned about credit ratings and the views expressed by rating agencies?

A. This Commission should be concerned about credit ratings and the views of rating agencies for several reasons. First, the credit rating of a utility has a direct impact on the price that a utility pays to attract the capital necessary to support its current and future operating needs. Many institutional investors have fiduciary responsibilities to their clients, and are typically not permitted to purchase non investment grade (i.e. rated below BBB-) securities or in some cases even securities rated below a single A.

Second, credit ratings are an estimate of the probability of default by the issuer on each rated security. Lower ratings equate to higher risks and higher costs of debt. However, even investment grade rated borrowers have experienced recent problems accessing the capital markets or been shut out entirely. The financial crisis of 2008 and 2009 provided clear and compelling evidence of the benefits of the Company's credit rating as it was able to issue new long-term debt during the midst of the financial turmoil. Other lower rated utilities were simply shut out of the market and could not obtain new capital regardless of how much they were willing to pay.

Q. Please provide the Commission with examples where poor credit ratings hurt a utility's flexibility in the credit markets.

A. Arizona Public Service Company (rated at that time Baa2/BBB-) filed a letter with the Arizona Corporation Commission during October 2008 stating that the commercial paper market was completely closed to it, and it likely could not successfully issue long-term debt. See Exhibit RMP___(BNW-1).

Further, those issuers who could access the markets paid rates well above the levels that the Company was able to achieve. For example, Nevada Power (rated Baa3/BBB) issued new debt two days following PacifiCorp's January 2009 issuance and was required by investors to pay a coupon of 7.375 percent for a five year maturity. Subsequently, Puget Sound Energy (rated Baa2/A-) issued new seven year debt at a credit spread over Treasuries of 480.3 basis points resulting in a 6.75 percent coupon.

Q. How do these coupon rates compare to PacifiCorp during that period and more recently?

A. The Company completed in January 2009 an offering of $350 million of first mortgage bonds with a 10-year maturity at a coupon rate of 5.50 percent and $650 million of 30-year first mortgage bonds with a coupon of 6.00 percent. The Company was able to achieve both a longer maturity and lower cost than either of those other utilities.

During January, 2012 the Company completed an issuance of $650 million of first mortgage bonds. This offering consisted of $350 million with a 10-year maturity and a coupon interest rate of 2.95 percent and $300 million with a 30-year maturity and a coupon rate of 4.10 percent. These rates are among the lowest ever achieved by borrowers. The coupon rate on the 10-year maturity is tied for the lowest utility rate on record (for any ratings level) and the sixth lowest coupon rate for any industry and any credit rating. The 30-year coupon rate of 4.10 percent is the third lowest coupon achieved by any issuer in any industry and credit rating. In fact, the Company achieved a lower credit spread and coupon relative to higher rated utility issuers Duke Energy Carolina and Florida Power & Light Company. These favorable debt rates are included in the cost of debt calculation in this docket and help to keep rates reasonable for customers.

Further, the Company has a near constant need for short-term liquidity as well as periodic long-term debt issuances. We pay on a daily basis significant amounts to suppliers whom we count on providing necessary goods and services such as fuel, spare parts and inventory. Being unable to access funds can jeopardize the successful completion of necessary capital infrastructure projects and would increase the chance of outages and service failures over the long-term.

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

Q. Can regulatory actions or orders affect a company's credit rating?

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

Rating agencies and investors have a keen understanding of the importance of regulatory outcomes. For example, Standard & Poor's ("S&P") writes:

> (t)he assessment of regulatory risk is perhaps the most important factor in Standard & Poor's Ratings Services' analysis of a U.S. regulated, investor-owned utility's business risk.[1]

Similarly, Moody's has stated:

> [f]or a regulated utility, the predictability and supportiveness of the regulatory framework in which it operates is a key credit consideration and the one that differentiates the industry from most other corporate sectors. The most direct and obvious way that regulation affects utility credit quality is through the establishment of prices or rates for the electricity, gas and related services provided (revenue requirements) and by determining a return on a utility's investment, or shareholder return.[2]

[1] Standard & Poor's Ratings Direct – Assessing U.S. Utility Regulatory Environments; March 11, 2010.
[2] Moody's Investors Service Regulated Electric and Gas Utilities; August 2009.

Q. How does maintenance of the Company's current credit ratings benefit customers?

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

Q. Are there other identifiable advantages to a favorable rating?

A. Yes. Higher-rated companies have greater access to the long-term markets for power purchases and sales. Such access provides these companies with more alternatives when attempting to meet the current and future load requirements of their customers. Additionally, 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 in these markets.

In my opinion, maintaining the current single-A rating provides the best balance between costs and continued access to the capital markets which is necessary to fund capital projects for the benefit of customers.

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

A. Yes. This capital structure is intended to enable the Company to deliver its required capital expenditures and achieve financial metrics which will meet rating agency expectations. S&P has stated very clearly its expectations for PacifiCorp:

> The stable outlook incorporates our anticipation that PacifiCorp will … [achieve] adjusted FFO to debt in the area of 20%, FFO interest coverage of at least 4.5x and adjusted debt to total capitalization of around 50%. We view these cash flow levels as merely adequate to maintain the ratings….[3]

Q. Do the Company's credit ratings benefit because of MEHC and its parent Berkshire Hathaway?

A. Yes. Although ring fenced, historically the Company's credit ratios have been weak for the ratings levels and we have been able to sustain our ratings, in part through the acquisition by MEHC and its parent, Berkshire Hathaway. S&P was very clear on this point in its recent assessment of PacifiCorp in stating:

> MEHC has demonstrated a willingness to support the utility's capital program, providing PacifiCorp with $1.1 billion equity contribution since 2006. This has allowed the company to grow without straining borrowings.

S&P further stated:

> … regulatory lag continues to allow only modest improvement in the company's financial profile: Its return on equity remains under authorized levels and although leverage has improved since MidAmerican Energy Holdings Co. acquired the utility in 2006, cash flow metrics remain just adequate to support the rating ….[4]

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[3] Standard & Poor's Ratings Direct; October 3, 2011.
[4] Standard & Poor's Ratings Direct; July 29, 2011.

Clearly, Rocky Mountain Power and its customers have benefited from the higher ratings the Company would otherwise not likely have been awarded on a stand-alone basis. Another important element supporting the Company's current ratings is the rating agencies' expectations that Rocky Mountain Power will receive supportive regulatory treatment including reasonable outcomes in rate proceedings, including applications to recover the full cost of large scale capital projects. Absent ownership by MEHC and supportive regulatory treatment that permits a fair opportunity for the Company to recover its reasonable and prudent costs, including a return on its investment comparable to other similarly situated utilities, PacifiCorp's senior secured and corporate credit ratings would have likely suffered at least a one rating level downgrade.

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

A. Yes. S&P has been cautious about PacifiCorp credit metrics and, as noted previously, views the Company's credit metrics on a stand-alone basis as just adequate to support the ratings. S&P has made several references to the need for PacifiCorp to improve its stand-alone financial metrics, noting that PacifiCorp's financial risk profile reflects a large capital program and the need to shore up cash flow metrics. S&P also stated that, "[g]iven the recent turmoil in both the liquidity and capital markets, we have taken a firmer view on the need to link the PacifiCorp short-term ratings to its stand-alone quality, which supports an 'A-2' short-term rating." S&P also reiterated its credit view that, "supportive rate case outcomes remain key to maintaining and improving upon the company's financial performance."[5] See the S&P Ratings Direct publications in Exhibits RMP___(BNW-2) from October 3, 2011, RMP___(BNW-3) from July 29, 2011, RMP___(BNW-4) from April 28, 2011, RMP___(BNW-5) from October 7, 2010 and RMP___(BNW-6) from April 30, 2010.

Q. Do other rating agencies share S&P's view concerning the need for supportive rate case outcomes?

A. Yes. Fitch stated, "The current ratings and Stable Outlook assume [PacifiCorp] continues to benefit from parent company support and reasonable outcomes in pending and future rate proceedings to recover anticipated, significant capital investment."[6] Further, Fitch stated:

> Given the size of its planned capital investment, timely recovery of capital and related operating and maintenance costs is crucial for PPW's creditworthiness. Therefore, currently unanticipated adverse developments in PPW's six regulatory jurisdictions, leading to greater regulatory lag or lower recoveries, and resulting weaker coverage ratios compared with Fitch's projections could lead to future deterioration in PPW's creditworthiness and lower credit ratings.[7]

Likewise, Moody's lists "Reasonably supportive regulatory environment" as one of the ratings drivers. Moody's also states:

> The stable outlook incorporates Moody's expectation that PacifiCorp will continue to receive reasonable regulatory treatment for the recovery of its higher capital expenditures…."

Further as to what could cause the rating to be lowered, Moody's writes:

> … if there were to be adverse regulatory rulings on current and future rate cases such that we would anticipate a

[5] Standard & Poor's Ratings Direct; April 30, 2011.
[6] Fitch Ratings; September 29, 2011.
[7] Fitch Ratings; January 6, 2011.

sustained deterioration in financial metrics...[8]

Capital Structure

Q. How did the Company determine the capital structure proposed in this case?

A. The test period in this proceeding is the 12 months ending May 31, 2013. To appropriately match the Company's costs with customer prices during the period, the capital structure is based on the actual capital structure at December 31, 2011, and forecasted capital activity, including known and measurable changes, through March 31, 2013. The Company has averaged the five quarter-end capital structures measured beginning at March 31, 2012, and concluding with March 31, 2013. The capital activity includes known maturities of certain debt issues that were outstanding at December 31, 2011, subsequent issuances of long-term debt and any capital contributions received or dividends paid. The known and measurable changes represent actual and forecasted capital activity since December 31, 2011.

Q. Why is the Company measuring capital structure through March 31, 2013 and not May 31, 2013?

A. As the Company is using an average of five calendar year quarter ends to determine the proposed capital structure consistent with FERC reporting, it needed to select the end of a quarter as the end of the period. Therefore, the period ending March 31, 2013 was utilized as it is the nearest quarter end that is within the test period (12 months ending May 31, 2013).

[8] Moody's Investor Service; May 9, 2011.

Q. Why is Rocky Mountain Power using an average of five quarter ends to determine the proposed capital structure rather than simply an average of the beginning and ending points as in cases prior to the 2011 general rate case?

A. As the Company has grown, its capital expenditure program has increased significantly from historical levels which, in turn, have required new financings to also be much larger. These larger financings are usually more efficient due to lower transactional costs, and better received by investors who value the greater liquidity that larger financings typically offer. However, the trade-off is greater volatility in the Company's capital structure ratios, particularly at quarter-end following sizable financings. As such, the Company is proposing in this case to use a capital structure that employs an average of the five quarter-end balances to help smooth out this volatility. This is also the same methodology the Company used in Docket No. 10-035-124 (the 2011 general rate case), which was approved by the Commission.

Q. How does the Company's proposed capital structure compare to what the parties stipulated to in the Company's 2011 general rate case?

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

Rocky Mountain Power Comparison of Capital Structures		
	2011 General Rate Case	**2012 General Rate Case**
Long-Term Debt	**47.8%**	**47.6%**
Preferred Stock	**0.3%**	**0.3%**
Common Equity	**51.9%**	**52.1%**
Totals	**100.0%**	**100.0%**

The proposed capital structure in the present case has a slightly higher common equity component than the Company's capital structure stipulated to in the 2011 general rate case which the Commission accepted as part of the settlement of that case. This growth in equity, albeit slight, is necessary to help compensate for the decline in the Company's cash flow metrics that begin in 2013 when the effects of bonus depreciation expire. I should note that the proposed overall cost of capital at 7.91 percent is lower than the 7.94 percent in the 2011 stipulation.

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

A. The Company relies on a mix of first mortgage bonds, other secured debt, tax-exempt debt, and preferred stock to help meet its long-term financing requirements. These securities employ various maturities in order to provide flexibility and mitigate refinancing risks. The Company has completed the majority of its long-term financing utilizing secured first mortgage bonds issued under the Mortgage Indenture dated January 9, 1989. Exhibit RMP___(BNW-7) shows that, over the 12 months ended March 31, 2013, the Company is projected to have an average of approximately $6.2 billion of first mortgage bonds outstanding, with an average cost of 5.79 percent. Presently, all outstanding 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 operation.

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

During the 12 months ended March 31, 2013, PacifiCorp's tax-exempt portfolio is projected to be $738 million in principal amount with an average cost of 2.21 percent (which includes the cost of issuance and credit enhancement).

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

A. As a regulated public utility, the Company has a duty and an obligation to provide safe, adequate and reliable service to customers in its Utah service territory while prudently balancing cost and risk. In order for Rocky Mountain Power to fulfill its service obligation, the Company is making significant capital expenditures for new plant investment, including transmission and environmental control investments on existing fossil-fired generation units. Each of these capital investments also has associated operating and maintenance costs. Through its planning process, the Company determined the amount of new financing necessary to support these activities and to provide financial results and credit ratings that balance the cost of capital with continued access to the financial markets.

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

A. Approximately $27 million of long-term debt with an average cost of 8.99 percent will mature between December 31, 2011, and March 31, 2013. As such, I have removed this debt in the determination of the proposed capital structure and the cost of debt from those periods in which it will no longer be outstanding.

As I discussed earlier, the Company recently completed the issuance of new long-term debt in the amount of $650 million with an average cost of 3.56 percent. These issuances are included in the proposed capital structure and the cost is included in the cost of debt calculation. In addition, the Company presently expects to issue $400 million of new long term debt before March 31, 2013. This expected issuance is included in the proposed capital structure and its expected cost of 4.38 percent is also included in the cost of debt calculation.

Purchase Power Agreements

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

A. Yes. Rating agencies and financial analysts consider Purchase Power Agreements (“PPAs”) to be debt-like and will impute debt and related interest when calculating financial ratios. For example, S&P will adjust the Company’s published financial results and impute debt balances and interest expense resulting from PPAs when assessing creditworthiness. It does so in order to obtain a more accurate assessment of a company's financial commitments and fixed payments. Exhibit RMP___(BNW-8) is a publication by S&P detailing its view of the debt aspects of PPAs.

Q. How does this impact the Company?

A. During a recent ratings review, S&P evaluated the Company's PPAs and other related long-term commitments. Approximately $355 million of additional debt and $21 million of related interest expense were added to the Company's debt and coverage tests solely as a result of PPAs. There were also other adjustments made by S&P that resulted in a total of approximately $897 million of debt and $75 million of interest being imputed into PacifiCorp's credit ratios.

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

A. Negatively. By including the imputed debt resulting from PPAs and these other adjustments, the Company's capital structure has a lower equity component as a corollary to the higher debt component, lower coverage ratios and reduced financial flexibility than what might otherwise appear to be the case from a review of the book value capital structure. For example, if one were to add the approximately $900 million of debt adjustments that Standard & Poor's makes to the Company's capital structure in this case, the resulting common equity percentage would decline from 52.1 percent to 49.2 percent. The 49.2 percent equity ratio falls below S&P's published expectations for PacifiCorp.

	Book Values/Ratios	Rating Agency Adjustments	Adjusted Book Values/Ratios
Long-Term Debt	$6,889 / 47.6%	$897	$ 7,786 / 50.7%
Preferred Stock	$41 / 0.3 %	($21)	$20 / 0.1 %
Common Equity	$7,554 / 52.1%	0	$ 7,554 / 49.2%
Totals	$14,483 / 100.0%	$876	$ 15,359 / 100.0%

Financing Cost Calculations

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 other jurisdictions.

Q. Please explain the cost of long-term 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. Each 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. I begin by dividing the annual dividend per share by the per share net proceeds for each series of preferred stock. The resulting cost rate associated with each series was then multiplied by the total par or stated value 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 for all issues. The result 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 Company's variable rate long-term debt in this case is in the form of tax-exempt debt. Exhibit RMP___(BNW-9) shows that, on average, these securities had been trading at approximately 92 percent of the 30-day London Inter Bank Offer Rate (LIBOR) for the period January 2000 through December 2011. Therefore, the Company has applied a factor of 92 percent to the forward 30-day LIBOR rates at each future quarter-end spanning the test period and then 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 and are charged to interest expense. This method is consistent with the Company's past practices when determining the cost of debt in previous Utah general rate cases as well as the other states that regulate the

Company.

Embedded Cost of Long-Term Debt

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

A. The cost of long-term debt is 5.41 percent for the period ending March 31, 2013, as shown in Exhibit RMP___(BNW-7).

Embedded Cost of Preferred Stock

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

A. Exhibit RMP___(BNW-10) shows the embedded cost of preferred stock for the period ending March 31, 2013, to be 5.43 percent.

Q. Does this conclude your direct testimony?

A. Yes.