

11 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

12 A I am appearing on behalf of the Federal Executive Agencies (“FEA”). The FEA
13 represents numerous federal customers within the area serviced by Rocky
14 Mountain Power (“RMP” or “Company”). These entities include, but are not
15 limited to, military installations, post offices and federal buildings. Mainly, Hill
16 Air Force Base represents a significant customer to the Company.

17 Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

18 A My testimony will address the Company’s overall rate of return including return
19 on equity, embedded debt cost and capital structure.

20 **SUMMARY**

21 Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.

22 A I recommend the Public Service Commission of Utah (the “Commission” or
23 “PSCU”) award RMP a return on common equity of 9.40%.

24 My recommended return on equity of 9.40% would result in an overall
25 cost of capital of ~~7.74~~7.41% as developed on my Exhibit FEA___(MPG-1).

26 My recommended return on equity and the Company’s proposed capital
27 structure will provide RMP with an opportunity to realize cash flow financial
28 coverages and balance sheet strength that conservatively support RMP’s
29 current investment grade bond rating. Consequently, my recommended return
30 on equity represents fair compensation for RMP’s investment risk, and it will
31 preserve the Company’s financial integrity and credit standing.

228 S&P's corporate credit rating for RMP of "A-." The proxy group's corporate
229 credit rating from Moody's of "A3" is identical to RMP's corporate credit rating
230 from Moody's of "A3."

231 The proxy group has an average common equity ratio of 46.6% (including
232 short-term debt) from SNL Financial ("SNL") and 49.0% (excluding short-term
233 debt) from *The Value Line Investment Survey* ("Value Line") in 2013. The proxy
234 group's common equity ratio is lower and more reasonable than RMP's 51.6%
235 common equity ratio. RMP's inflated common equity ratio indicates that the
236 proxy group has less financial risk than RMP.

237 I also compared RMP's business risk to the business risk of the proxy
238 group based on S&P's ranking methodology. RMP has an S&P business risk
239 profile of "Excellent," which is identical to the S&P business risk profile of the
240 proxy group.⁵ The S&P business risk profile score indicates that RMP's
241 business risk is comparable to that of the proxy group.

242 I believe that my proxy group reasonably approximates the investment
243 risk of RMP, and can be used to estimate a fair return on equity for RMP.

⁵S&P ranks the business risk of a utility company as part of its corporate credit rating review. S&P considers total investment risk in assigning bond ratings to issuers, including utility companies. In analyzing total investment risk, S&P considers both the business risk and the financial risk of a corporate entity, including a utility company. S&P's business risk profile score is based on a six-notch credit rating starting with "Vulnerable" (highest risk) to "Excellent" (lowest risk). The business risk of most utility companies falls within the lowest risk category, "Excellent," or the category one notch lower (more risk), "Strong." *Standard & Poor's RatingsDirect: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded,"* May 27, 2009.