Introduction and Summary of Rebuttal Testimony

Q. Are you the same Bruce N. Williams that previously provided direct testimony in the proceeding on behalf of Rocky Mountain Power ("the Company" or "RMP")?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is:

- to provide an updated overall cost of capital that reflects recent financing activity and results in a reduced overall cost of capital in this case; to respond to comments concerning capital structure made by Division of Public Utilities ("DPU") witness Mr. Charles E. Peterson; and
- to comment on the pro forma ratio analysis used by The Federal Executive Agencies ("FEA") witness Mr. Michael Gorman and Office of Consumer Services ("OCS") witness Mr. Daniel Lawton to support their respective return on equity recommendations.

Company witness Dr. Samuel C. Hadaway will address return on equity issues raised by Messrs. Peterson, Lawton and Gorman.

Q. Please summarize your rebuttal testimony.

A. Based on recent financing activity explained in this testimony, I am sponsoring changes to the capital structure and cost of debt that result in a decrease to the requested rate relief in this case of approximately $3.5 million. Additionally, I make several points in response to Mr. Peterson's comments on the Company's capital structure, supporting the Company's efforts to properly manage its capital structure at the minimum levels necessary to maintain its ratings and in line with industry standards. Finally, I comment that Mr. Gorman's and Mr. Lawton's discussions concerning financial integrity and their credit metric analyses use outdated metrics and cannot be relied upon. They are not consistent with Standard & Poor's current criteria for the electric utility industry.

Review of DPU, FEA and OCS Recommendations

Q. Do any of these witnesses propose any adjustments to the Company's capital structure or cost of debt or preferred stock?

A. No party proposes any changes to the Company's capital structure. FEA and OCS witnesses accept the Company's cost of long-term debt and preferred stock. Mr. Peterson accepts the Company's filed cost of long-term debt, subject to adjustment for recent financing activities that I discuss below.

Recent Financing Activities

Q. Please discuss the recent financing activity that the Company has completed.

A. During March 2014, the Company issued new long-term debt - $425 million of 3.60% first mortgage bonds. A portion of the proceeds were used to more permanently refinance the preferred stock that the Company redeemed and retired during 2013, and I have included the redemption premium and expenses in the cost of this new debt. The Company was able to negotiate a lower underwriting fee than the standard rate for debt of this maturity, saving customers approximately $127,500. Including all estimated transaction costs and the preferred redemption related expenses, this debt has an all-in cost of 3.759% as shown in Exhibit RMP___(BNW-1R) page 2, line 16.

To properly reflect this financing, I have removed the pro-forma financing that was in the Company's proposed cost of long-term debt and included this new issuance. Mr. Peterson discusses this debt issuance in his direct testimony and accurately captures the updated cost of debt. As the amount of debt issued was slightly larger than the amount of the pro forma issuance ($375 million), I have also adjusted the capital structure to reflect the additional debt. This has the result of reducing the common equity component of the Company's capital structure.

I have also updated the projected cost for the March 2015 pro forma debt issuance. As I discussed in my direct testimony (lines 455 through 461), the Company plans to issue $300 million of new long-term debt during March 2015. Using the current forward rate and an updated credit spread for this projected issuance, the expected cost for this series has declined to 4.630% as compared to 5.119% in my direct testimony. As shown in Exhibit RMP___(BNW-1R), the updated cost of long-term debt is 5.200%.

Company's Overall Cost of Capital

Q. Are you proposing a new overall cost of capital in this proceeding?

A. Yes. The Company has updated both the cost of long-term debt and capital structure for the items discussed above. The table below shows the Company's updated overall cost of capital in this proceeding.

Table 1

UPDATED OVERALL COST OF CAPITAL			
Component	Percent of Total	Cost	Weighted Average
Long-Term Debt	48.55%	5.20%	2.53%
Preferred Stock	0.02%	6.75%	0.00%
Common Equity Stock	51.43%	10.00%	5.14%
Total	100.00%		7.67%

The updated overall cost of capital is 7.67%, a reduction of five basis points (0.05%) from the Company's direct testimony. This reduction in the overall cost of capital is estimated to reduce the revenue requirement in this case by approximately $3.5 million, and Mr. Steven R. McDougal provides the final revenue requirement calculation with all of the rebuttal adjustments.

Reply to DPU Capital Structure Discussion

Q. Please respond to Mr. Peterson's comments about the Company's capital structure.

A. While Mr. Peterson is not proposing any adjustments to the Company's capital structure, he does express a view that the Company has too much common equity and should seek to reduce that component in the future. Failing such a reduction, he recommends that the Commission consider the use of a hypothetical capital structure (presumably one with less equity than the Company's actual capital structure.)

I would like to share several observations. First, the Company seeks to have only the minimum amount of common equity that, along with reasonably supportive regulatory outcomes, will support the current credit ratings. In fact, as

PacifiCorp's financial metrics have improved, it has been able to gradually reduce the equity component in its capital structure without jeopardizing its credit rating and access to capital. The Company's updated capital structure now includes a common equity component of 51.43% which is lower than the 52.10% common equity level in the Company's most recent Utah general rate case (Docket 11-035-200.) Much like Mr. Peterson, the Company would like to continue lowering the common equity component but that will be heavily influenced by the resulting credit metrics which are driven by rate case outcomes, operating cash flows and investment needs.

Second, as I noted in my direct testimony, the Company continues to have significant amounts of adjustments made by rating agencies to its financial results. These have the effect of increasing the Company's debt load and leverage thereby reducing the common equity component when financial analysts and rating agencies do their credit analysis. Perhaps I didn't make this point clearly enough in direct testimony but these adjustments are one reason why the Company requires a higher equity component than Mr. Peterson's peer group. As shown in my direct testimony (lines 414 through 426), the Company's capital structure including these adjustments contains approximately 48 percent common equity – right in line with Mr. Peterson's desired range of 48 to 50 percent.[1]

Finally, the Company's capital structure is in line with the utility industry. It is my understanding that of the 42 electric utility rate cases in which a capital structure determination was ordered during 2013, approximately one-half had a

[1] DPU Exhibit 1.0 Peterson Direct testimony lines 189 through 191.

common equity component greater than what the Company is proposing. These cases include the following companies:

- Kansas City Power & Light
- KCP&L Greater Missouri Op.
- Virginia Electric and Power
- Duke Energy Ohio
- Duke Energy Progress
- Maui Electric
- Northern States Power—Minnesota
- Duke Energy Carolinas
- South Carolina Electric & Gas
- Westar Energy
- Northern States Power—Wisconsin
- UNS Electric

Further, of the eight electric utility cases decided during the first quarter of 2014, the average common equity component was 51.08 percent. The Company's proposed capitalization in this case is in line with the electric utility industry.

Credit Metric Analysis

Q. Please comment on Mr. Gorman's discussion concerning financial integrity and his credit metric analysis.

A. While I found it interesting, the analysis unfortunately uses outdated metrics and cannot be relied upon. Mr. Gorman's modeling and analyses are not consistent with Standard & Poor's current criteria for the electric utility industry. During November

2013, Standard & Poor's announced new criteria for analyzing regulated utilities and published their Key Ratios.[2] Mr. Gorman's analysis does not utilize S&P's current methodology – for example S&P has changed their definition of Funds from Operations ("FFO") and Mr. Gorman calculates FFO under the old definition. In addition to this fatal flaw, there are two other issues that also make his analysis irrelevant. The first is the failure to use the current target ranges for the ratios.[3] Finally, Mr. Gorman's analysis fails to include the full amount of the adjustments that S&P makes when analyzing PacifiCorp's results. His model includes only $271 million of debt adjustments[4] whereas Standard & Poor's actually includes $563 million of adjustments.[5] For all of these reasons Mr. Gorman's analysis should not be relied upon and any conclusion that his proposed return on equity will produce financial results that support the Company's current credit ratings is speculative.

Q. Have you also reviewed the financial integrity portion of Mr. Lawton's testimony?

A. Yes, and I found it suffered the same fatal flaws as Mr. Gorman's analysis. Mr. Lawton has also not utilized the current Standard & Poor's methodology, target ranges for ratios or debt adjustments. Mr. Lawton's analysis cannot be relied upon and certainly provides no evidence that his recommended return on equity would support the Company's current bond rating.

Q. Does this conclude your rebuttal testimony?

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[2] Standard & Poor's – Key Credit Factors For The Regulated Utilities Industry, November 19, 2013. Standard & Poor's Corporate Methodology: Ratios and Adjustments, November 19, 2013. These reports are included as Exhibit RMP___(BNW-2R) and Exhibit RMP___(BNW-3R).

[3] See "Identifying the benchmark table" page 35 of Exhibit RMP___(BNW-4R) Standard & Poor's Corporate Methodology, November 19, 2013.

[4] Gorman Direct Testimony, lines 844 – 848.

[5] See Exhibit RMP___(BNW -5R).

A. Yes.