

1 Q. Please state your name, business address and present position with PacifiCorp (the  
2 Company).

3 A. My name is Bruce N. Williams. My business address is PacifiCorp, 825 N.E.  
4 Multnomah, Suite 1900, Portland, Oregon 97232. I was elected Treasurer by the  
5 Board of Directors in February 2000 and report directly to the Chief Financial  
6 Officer of PacifiCorp.

7 **Qualifications**

8 Q. Please briefly describe your education and business experience.

9 A. I received a Bachelor of Science degree in Business Administration with a  
10 concentration in Finance from Oregon State University in June 1980. I also  
11 received the Chartered Financial Analyst designation upon passing the  
12 examination in September 1986. I have been employed by PacifiCorp for 15  
13 years. My business experience has included investment management, investor  
14 relations and financing of PacifiCorp's electric operations and non-utility  
15 activities.

16 Q. Please describe your present duties.

17 A. I am responsible for the Company's corporate finance, treasury, credit, investment  
18 management and property risk management activities. In this matter, I am  
19 responsible for the preparation of the Company's embedded cost of debt and  
20 preferred equity.

21 **Purpose of Testimony**

22 Q. What is the purpose of your testimony in this proceeding?

1 A. I will analyze the projected embedded cost of debt and preferred stock supporting  
2 PacifiCorp's electric operations in the State of Utah for the period ending  
3 September 30, 2000.

4 **Financing Overview**

5 Q. How does PacifiCorp finance its electric utility operations?

6 A. PacifiCorp finances the cash flow requirements of its regulated U.S. utility  
7 operations utilizing a reasonable mix of debt and equity securities designed to  
8 provide a competitive cost of capital and predictable capital market access.

9 Q. How does PacifiCorp meet its non common equity financing requirements?

10 A. PacifiCorp relies on a mix of first mortgage bonds, secured debt, tax exempt debt,  
11 unsecured debt and preferred stock to meet its long-term debt and preferred stock  
12 financing requirements. The Company has concluded the majority of its long-  
13 term financing utilizing secured first mortgage bonds issued under PacifiCorp  
14 Mortgage Indenture dated January 9, 1989. As of September 30, 2000, PacifiCorp  
15 had \$2,278.6 million of first mortgage bond outstanding, with an average cost of  
16 7.669% and an average maturity of 9.6 years (see Exhibit UP&L \_\_.1 (BNW-1)).  
17 All of PacifiCorp's first mortgage bonds bear interest at fixed rates. Proceeds  
18 from the issuance of the first mortgage bonds (and other financing instruments)  
19 are used to finance the combined utility operation and are not allocated on a  
20 divisional basis.

21 Prior to the Utah Power & Light and Pacific Power & Light merger in  
22 1989, each company had its own first mortgage indentures. Those indentures  
23 were assumed by PacifiCorp and, in addition, a new PacifiCorp indenture was

1 established at the time of the merger. In 1996, PacifiCorp's Corporate Finance  
2 Department restructured the mortgage arrangements, which lead to the  
3 extinguishment of the Pacific Power and Utah Power mortgages. This action  
4 reduced administrative requirements and associated expense and greatly  
5 simplified the Company's mortgage financing arrangements.

6 Another important source of financing has been the tax exempt financing  
7 associated with certain qualifying equipment at PacifiCorp's power generation  
8 plants. Under arrangements with the local counties and other tax-exempt entities,  
9 PacifiCorp borrows the proceeds and guarantees the repayment of their long-term  
10 debt in order to take advantage of their tax-exempt status in financings. As of  
11 September 30, 2000, PacifiCorp had \$735.7 million of such borrowings  
12 outstanding with an average maturity of 18.6 years (see Exhibit UP&L \_\_.1  
13 (BNW-1)). Because short-term tax exempt interest rates have been among the  
14 lowest cost capital available in the U.S. capital markets, the Company manages  
15 the significant majority of this debt in a variable rate mode. As of September 30,  
16 2000, PacifiCorp's tax-exempt portfolio had an average cost of 5.308% (which  
17 includes the cost of issuance and credit enhancement) and was 88.6 percent  
18 variable rate (see Exhibit UP&L \_\_.1 (BNW-1)).

19 PacifiCorp has a portion of its regulated utility capitalization as preferred  
20 stock or subordinated debt to take advantage of their "lower than equity" cost and  
21 the equity credit typically afforded these securities by the credit rating agencies.  
22 To the extent the credit rating agencies provide less equity credit for preferred  
23 stock and subordinated debt in the future PacifiCorp would expect to refinance

1 these obligations over time maintaining a relatively balanced portfolio of  
2 investment-grade debt and equity. As of September 30, 2000, PacifiCorp had  
3 \$744.3 million of preferred stock and subordinated debt outstanding (see Exhibit  
4 UP&L \_\_.2 (BNW-2)).

5 **Calculation Methodologies**

6 Q. How did you determine the amount of debt and preferred stock to be included in  
7 your calculation of the Company's embedded costs of debt and preferred stock?

8 A. For both debt and preferred stock I used the rates and amounts outstanding at  
9 September 30, 2000.

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

12 A. The embedded costs of debt and preferred stock were calculated using the  
13 methodology relied upon in the Company's previous rate cases.

14 Q. Please explain the cost of debt calculation.

15 A. I calculated the cost of debt by issue, based on each debt series' interest rate and  
16 net proceeds at the issuance date, to produce a bond yield to maturity for each  
17 series of debt. It should be noted that in the event a bond was issued to refinance  
18 a higher cost bond, the pre-tax premium and unamortized costs, if any, associated  
19 with the refinancing were subtracted from the net proceeds of the bonds that were  
20 issued. The bond yield was then multiplied by the principal amount outstanding  
21 of each debt issue resulting in an annualized cost of each debt issue. Aggregating  
22 the annual cost of each debt issue produces the total annualized cost of debt  
23 which, when divided by the total principal amount of debt outstanding produces

1 the weighted average cost for all debt issues and is the Company's embedded cost  
2 of long-term debt.

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

4 A. The embedded cost of preferred stock was calculated by first determining the cost  
5 of money for each issue. This is the result of dividing the annual dividend rate by  
6 the per share net proceeds for each series of preferred stock. The cost associated  
7 with each series was then multiplied by the stated value or principal amount  
8 outstanding for each issue to yield the annualized cost for each issue. The sum of  
9 annualized costs for each issue produces the total annual cost for the entire  
10 preferred stock portfolio. I then divided the total annual cost by the total amount  
11 of preferred stock outstanding to produce the weighted average cost of all issues.

12 Q. Exhibit UP&L \_\_.2 (BNW-2) includes references to QUIDS and QUIPS. Please  
13 briefly describe QUIDS and QUIPS.

14 A. QUIDS (Quarterly Income Debt Securities) and QUIPS (Quarterly Income  
15 Preferred Securities) are acronyms for direct or indirect subordinated debt  
16 securities sold typically to individual investors. Because of their subordination  
17 and interest deferral provisions, the credit rating agencies assign some equity  
18 credit for purposes of assessing balance sheet strength. For issuers, the after-tax  
19 cost is attractive because, as a debt security, the interest is tax deductible.

20 Q. The footnotes in Exhibit UP&L \_\_.2 (BNW-2) describe that the QUIDS and  
21 QUIPS amounts represented in the calculation are after-tax numbers. These  
22 securities appear to be debt equivalents. Why do these securities get reflected in  
23 the Company's embedded cost of preferred stock?

1 A. Fundamentally these securities are debt. Therefore, I calculated their embedded  
2 costs in the same manner used for each series of debt described above. The  
3 Company believes that these QUIDS and QUIPS are similar to preferred stock for  
4 regulatory accounting purposes, given the equity credit they receive from the  
5 major credit rating agencies. While *Standard & Poor's* has revised their view of  
6 the equity credit of these types of securities to more debt-like than they did  
7 previously, the agency still recognizes the equity-like features. Therefore, I have  
8 chosen to reflect their cost as part of the Company's embedded cost of preferred  
9 stock. For your reference, the Company has previously received approval to  
10 utilize QUIPS securities from the Public Service Commission of Utah on May 17,  
11 1996 (Docket No. 96-2035-03) and April 25, 1997 (Docket No. 97-2035-03).

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

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

14 A. Exhibit UP&L \_\_.1 (BNW-1), shows the embedded cost of long-term debt at  
15 September 30, 2000 at 7.092%.

16 **Embedded Cost of Preferred Stock**

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

18 A. Exhibit UP&L \_\_.2 (BNW-2), shows the embedded cost of preferred stock at  
19 September 30, 2000 at 6.055%.

20 Q. Does this conclude your testimony?

21 A. Yes.