

1 **Q. Please state your name, business address and present position with Rocky**  
2 **Mountain Power (the Company), a division of PacifiCorp.**

3 A. My name is Bruce N. Williams. My business address is 825 NE Multnomah,  
4 Suite 1900, Portland, Oregon 97232. I am the Vice President and Treasurer of  
5 PacifiCorp.

6 **Qualifications**

7 **Q. Please briefly 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 June 1980. I also  
10 received the Chartered Financial Analyst designation upon passing the  
11 examination in September 1986. I have been employed by the Company for 23  
12 years. My business experience has included financing of the Company's electric  
13 operations and non-utility activities, investment management, and investor  
14 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. In this proceeding, I am responsible  
18 for the preparation of Rocky Mountain Power's embedded cost of debt and  
19 preferred equity and the testimony related to capital structure.

20 **Purpose of Testimony**

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

22 A. I will first present a financing overview of the Company. Next, I will discuss the  
23 planned amounts of common equity, debt, and preferred stock to be included in

24 the Company's planned capital structure. I will then analyze the embedded cost  
25 of debt and preferred stock supporting Rocky Mountain Power's electric  
26 operations in the state of Utah for the test period. This analysis includes the use  
27 of forward interest rates, historical relationship of security trading patterns, and  
28 known and measurable changes to the debt and preferred stock portfolios.

29 **Q. What time period does your analysis cover?**

30 A. The test period in this proceeding is the twelve months ending June 30, 2009.  
31 The capital structure and costs of debt and preferred applied in this case are the  
32 average of those measures at the beginning and ending points of the test period.  
33 The determination of the embedded cost of debt and preferred stock was  
34 conducted using the Company's actual costs at June 30, 2008 adjusted for  
35 changes through the test period as I later detail in this filing.

36 **Q. Please explain Rocky Mountain Power's requirements to generate new  
37 capital?**

38 A. To address the load growth challenges outlined in Mr. Walje's testimony, the  
39 Company is adding significant new generation, transmission and local distribution  
40 facilities as well as environmental resources. This new investment will require the  
41 Company to raise approximately \$2.6 billion of new long-term debt in the capital  
42 markets over the next three years while also receiving new capital contributions  
43 from its parent company and retaining all earnings during this period.

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

45 A. Rocky Mountain Power is proposing an overall cost of capital of 8.58 percent.  
46 This cost includes the Return on Equity recommendation from Dr. Hadaway and

47 the following capital structure and costs:

48 **Rocky Mountain Power**

49 Overall Cost of Capital

50		Percent of	%	Weighted
51	<u>Component</u>	<u>Total</u>	<u>Cost</u>	<u>Average</u>
52	Long Term Debt	47.7%	6.24%	2.98%
53	Preferred Stock	0.4%	5.41%	0.02%
54	Common Stock Equity	<u>51.9%</u>	10.75%	<u>5.58%</u>
55	Total	100.0%		8.58%

56 **Q. How does this capital structure compare to the Company's actual capital**  
57 **structure at June 30, 2008?**

58 A. The actual capital structure at June 30, 2008 is approximately 52.4 percent  
59 common equity, the same percentage of preferred stock and 47.2 percent long-  
60 term debt.

61 **Financing Overview**

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

63 A. The Company finances the cash flow requirements of its regulated utility  
64 operations utilizing a reasonable mix of debt and equity designed to provide a  
65 competitive cost of capital and predictable capital market access.

66 **Q. How does the Company meet its debt and preferred equity financing**  
67 **requirements?**

68 A. The Company relies on a mix of first mortgage bonds, other secured debt, tax  
69 exempt debt, unsecured debt and preferred stock to meet its long-term debt and

70 preferred stock financing requirements.

71 The Company has concluded the majority of its long-term financing  
72 utilizing secured first mortgage bonds issued under the Mortgage Indenture dated  
73 January 9, 1989. Exhibit RMP\_\_\_(BNW-1) shows that, as of June 30, 2009 the  
74 Company is projected to have approximately \$5.0 billion of first mortgage bonds  
75 outstanding, with an average cost of 6.58 percent and average remaining maturity  
76 of 21 years. Presently, all outstanding first mortgage bonds bear interest at fixed  
77 rates. Proceeds from the issuance of the first mortgage bonds (and other financing  
78 instruments) are used to finance the combined utility operation and are not  
79 allocated on a divisional basis.

80 Another important source of financing has been the tax-exempt financing  
81 associated with certain qualifying equipment at power generation plants. Under  
82 arrangements with local counties and other tax-exempt entities, the Company  
83 borrows the proceeds and guarantees the repayment of the long-term debt in order  
84 to take advantage of their tax-exempt status in financings. As of June 30, 2009 the  
85 Company's tax-exempt portfolio is projected to be \$738 million in principal  
86 amount with an average cost of 4.02 percent (which includes the cost of issuance  
87 and credit enhancement).

## 88 **Planned Capital Structure**

89 **Q. How did you determine the amount of common equity, debt, and preferred**  
90 **stock to be included in Rocky Mountain Power's planned capital structure?**

91 A. As a regulated utility, Rocky Mountain Power has a duty and an obligation to  
92 provide safe, adequate and reliable service to customers while balancing cost and

93 risk. Significant capital expenditures for new generation, transmission and  
94 distribution plant investment, operating and maintenance costs for new and  
95 existing utility plant assets and clean air investments are required for Rocky  
96 Mountain Power to fulfill this obligation. Through its planning process, the  
97 Company determined the amounts of necessary new financing including capital  
98 contributions needed to support these activities and calculated the required equity  
99 and debt ratios required to maintain our current 'A-' credit rating for senior  
100 secured debt.

101 **Q. Has the Company previously received capital contributions and does it**  
102 **expect future contributions as well?**

103 A. Yes. Following the acquisition by MidAmerican Energy Holdings Company  
104 (MEHC) on March 21, 2006, the Company has received a total of \$615 million of  
105 cash capital contributions from MEHC via its direct parent company, PPW  
106 Holdings, LLC. Similarly, the Company's planning includes additional cash  
107 equity contributions of \$150 million before the end of the test period.

108 **Q. Why is there the need for additional amounts of equity?**

109 A. The cost increases in this case, coupled with the credit rating agencies  
110 expectations for credit metrics and balance sheet strength, mean that additional  
111 equity will be required along with improved business results and other  
112 considerations to support our current 'A-' credit rating from Standard & Poor's  
113 Ratings Service ("S&P"), 'A3' rating from Moody's Investors Service  
114 ("Moody's"), and 'A-' from Fitch Ratings. The Company cannot finance itself  
115 solely with debt. It is employing a mix of both new debt and equity to help

116 maintain a balanced capital structure.

117 **Q. Please describe the changes to the Company's levels of debt financing.**

118 A. Over the period ending June 30, 2009, the balance of the outstanding long-term  
119 debt will change through maturities, principal amortization and sinking fund  
120 requirements, and issuance of new securities. Based upon the long-term debt  
121 series outstanding at June 30, 2008, I have calculated the reduction to the  
122 outstanding balances for maturities, principal amortization and sinking fund  
123 requirements, which are scheduled to occur during the period ending June 30,  
124 2009. The total long-term debt maturities and principal amortized over this  
125 period is \$212.4 million. Then I added \$1.0 billion of long-term debt issuances  
126 necessary to fund our operations and to refinance the debt maturing through the  
127 test period. This new debt financing is balanced by the projected increase in  
128 equity provided through the cash contributions from our parent company, as  
129 discussed above, as well as increased retained earnings.

130 **Q. How does this projected capital structure compare to comparable electric**  
131 **utilities?**

132 A. The projected capital structure is in-line with the comparable group that Dr.  
133 Samuel C. Hadaway has selected in his estimate of Return on Equity. Both the  
134 Company and the group of comparable companies show a similar percentage of  
135 common equity in their capital structures.

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

138 A. Yes. This capital structure is intended to enable the Company to deliver its

139 required capital expenditures while achieving credit ratios that support the  
140 continuance of our current 'A-' credit rating.

141 **Q. How does maintenance of a strong credit rating benefit customers?**

142 A. The credit rating given to a utility has a direct impact on the price that utility pays  
143 to attract the capital necessary to support its current and future operating needs. A  
144 strong credit rating directly benefits customers by reducing immediate and future  
145 borrowing costs related to the financing needed to support regulatory operations.

146 **Q. Are there other benefits?**

147 A. Yes. During periods of capital market disruptions, higher-rated companies are  
148 more likely to have ongoing, uninterrupted access to capital. This is not always  
149 the case with lower-rated companies, which during such periods find themselves  
150 either unable to secure capital or able to attract capital only on unfavorable terms  
151 and conditions. In addition, higher-rated companies have greater access to the  
152 long-term markets for power purchases and sales. Such access provides these  
153 companies with more alternatives when attempting to meet the current and future  
154 load requirements of their customers. Finally, a company with strong ratings will  
155 often avoid having to meet costly collateral requirements that are typically  
156 imposed on lower-rated companies when securing power in these markets.

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

159 A. Yes. Rating agencies and financial analysts consider Purchase Power Agreements  
160 (PPAs) to be debt-like and will impute debt and related interest when calculating  
161 financial ratios. For example, S&P will adjust the Company's published financial

162 results and add in debt and interest resulting from PPAs when assessing  
163 creditworthiness. They do so in order to obtain a more accurate assessment of a  
164 company's financial commitments and fixed payments. Exhibit RMP\_\_\_(BNW-  
165 2) is the May 12, 2003 publication by S&P detailing its view of the debt aspects  
166 of PPAs which was refined in the March 30, 2007 publication (Exhibit  
167 RMP\_\_\_(BNW-3).

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

169 A. During a recent ratings review, S&P evaluated our PPAs and other related long-  
170 term commitments. The impact of PPAs was approximately \$450 million of  
171 additional debt and related interest expense being added to our debt and coverage  
172 tests.

173 **Q. How would the inclusion of this PPA related debt affect the Company's**  
174 **capital structure?**

175 A. By including the \$450 million imputed debt resulting from PPAs, the Company's  
176 capital structure would have a lower equity component as a corollary to the higher  
177 debt component.

#### 178 **Financing Cost Calculations**

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

181 A. I calculated the embedded costs of debt and preferred stock using the  
182 methodology relied upon in the Company's previous Utah rate cases.

183 **Q. Please explain the cost of debt calculation.**

184 A. I calculated the cost of debt by issue, based on each debt series' interest rate and



185 net proceeds at the issuance date, to produce a bond yield to maturity for each  
186 series of debt. It should be noted that in the event a bond was issued to refinance  
187 a higher cost bond, the pre-tax premium and unamortized costs, if any, associated  
188 with the refinancing were subtracted from the net proceeds of the bonds that were  
189 issued. The bond yield was then multiplied by the principal amount outstanding  
190 of each debt issue, resulting in an annualized cost of each debt issue. Aggregating  
191 the annual cost of each debt issue produces the total annualized cost of debt.  
192 Dividing the total annualized cost of debt by the total principal amount of debt  
193 outstanding produces the weighted average cost for all debt issues. This is the  
194 Company's embedded cost of long-term debt.

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

196 A. The embedded cost of preferred stock was calculated by first determining the cost  
197 of money for each issue. This is the result of dividing the annual dividend rate by  
198 the per share net proceeds for each series of preferred stock. The cost associated  
199 with each series was then multiplied by the total par or stated value outstanding  
200 for each issue to yield the annualized cost for each issue. The sum of annualized  
201 costs for each issue produces the total annual cost for the entire preferred stock  
202 portfolio. I then divided the total annual cost by the total amount of preferred  
203 stock outstanding to produce the weighted average cost of all issues. This is the  
204 Company's embedded cost of preferred stock.

205

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

209 A. The majority of the Company's variable rate debt is in the form of tax-exempt  
210 debt. Exhibit RMP\_\_\_\_(BNW-4) shows that these securities on average had been  
211 trading at approximately 82 percent of the 30-day LIBOR (London Inter Bank  
212 Offer Rate) for the period January 2000 through June 2008. Therefore, the  
213 Company has applied a factor of 82 percent to the forward 30-day LIBOR Rate at  
214 June 30, 2009 and then added the respective credit enhancement and remarketing  
215 fees for each floating rate tax-exempt bond. Credit enhancement and remarketing  
216 fees are included in the interest component because these are costs which  
217 contribute directly to the interest rate on the securities.

218 **Q. Regarding the \$1.0 billion of new long-term debt issuances mentioned above,**  
219 **how did you determine the interest rate for this new long-term debt?**

220 A. I projected that this new long-term debt would be issued at the Company's  
221 estimated recent credit spread over the projected long-term Treasury rates as of  
222 June 30, 2009. Further, I added in the effect of issuance costs to the debt offering.  
223 This reflects our best estimate of the costs of new debt, assuming the Company's  
224 senior secured long-term debt ratings remain unchanged. Currently the  
225 Company's senior secured long-term debt is rated 'A-' and 'A3' by Standard &  
226 Poor's and Moody's respectively.

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

228 A. The Company's current estimated credit spread for thirty-year debt is 1.85

229           percent. The forward long-term Treasury rate for June, 2009 is 4.65 percent.  
230           Issuance costs for this type of debt add approximately 8 basis points (*i.e.*, 0.08  
231           percent) to the all-in cost. Therefore the projected cost of replacement debt is as  
232           follows:

Forward Treasury Rate	4.65%
Credit Spread	1.85%
Issuance Costs	0.08%
All-in Cost	6.58%

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

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

235    A.     The cost of long-term debt is 6.24 percent, which is the weighted average of the  
236           costs at June 30, 2008 and June 30, 2009 as shown in Exhibit RMP\_\_\_(BNW-1).

237    **Embedded Cost of Preferred Stock**

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

239    A.     Exhibit RMP\_\_\_(BNW-5) shows the embedded cost of preferred stock at June  
240           30, 2008 and also June 30, 2009 at 5.41 percent.

241    **Q.     Does this conclude your testimony?**

242    A.     Yes.