

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application)
of Rocky Mountain Power for) Docket No.
Authority to Increase Its Retail) 09-035-23
Electric Utility Service Rates)
in Utah and for Approval of Its)
Proposed Electric Service)
Schedules and Electric Service)
Regulations.)

TRANSCRIPT OF HEARING PROCEEDINGS

TAKEN AT: Public Service Commission
160 East 300 South, Room 403
Salt Lake City, Utah

DATE: 10 November 2009

TIME: 9:00 a.m.

REPORTED BY: Debra A. Dibble; CRS, RPR

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Ric Campbell
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1 P R O C E E D I N G S

2 CHAIRMAN BOYER: Well, good morning. We
3 apologize for the technological difficulties.

4 And we're going to do the best we can by
5 recording, and we have one interested party, Betsy
6 Wolf, will be joining us by telephone momentarily.

7 So before we go on the record, are there any
8 preliminary matters we need to address?

9 It doesn't appear so.

10 All right. Let's go on the record then.

11 Okay. Welcome everyone. This is the time
12 and place duly noticed for a hearing on return on
13 equity, capital structure, and cost of capital and so
14 on, in Docket No. 09-035-23; captioned In the matter of
15 the Application of Rocky Mountain Power for Authority
16 to Increase its Retail Electric Service Rates in Utah
17 and for Approval of its Proposed Electric Service
18 Schedules and electric Service Regulations.

19 In terms of process, we're going to do this
20 in the traditional manner, as you would in district
21 court or trial court; namely, we'll hear from Rocky
22 Mountain Power witnesses first, there will be an
23 opportunity for cross examination, questions from the
24 Commission, and then an opportunity for redirect.
25 We'll move, then, to the other parties's witnesses, and

1 follow the same format there.

2 We'll break periodically to give our able
3 court reporter a break, rest her weary hands from time
4 to time, and we do have a public witness hearing
5 scheduled for five o'clock this afternoon.

6 Just by way of information, the three
7 commissioners have read all of the testimony so far,
8 and by my count we've dealt with about four rate cases
9 in the last year, including one for Questar, and this
10 will be the third for Rocky Mountain Power. So we
11 probably don't need to go through ROE 101. We can skip
12 to ROE 201, I suppose, at this point.

13 With that, let's -- let's take appearances.
14 And let's begin with Rocky Mountain Power.

15 MS. McDOWELL: Good morning, commissioners.
16 This is Katherine McDowell, here on behalf of Rocky
17 Mountain Power.

18 MS. HOGLE: Yvonne Hogle with Rocky Mountain
19 Power.

20 CHAIRMAN BOYER: Thank you.

21 Ms. Schmid?

22 MS. SCHMID: Patricia E. Schmid, with the
23 Attorney General's Office, representing the Division of
24 Public Utilities.

25 CHAIRMAN BOYER: Thank you, Ms. Schmid.

1 Mr. Proctor.

2 MR. PROCTOR: Paul Proctor, on behalf of the
3 Utah Office of Consumer Services.

4 CHAIRMAN BOYER: Thank you, Mr. Proctor.
5 Mr. Dodge?

6 MR. DODGE: Gary Dodge, on behalf of the
7 Utah Association of Energy Users.

8 CHAIRMAN BOYER: Mr. Reeder.

9 MR. REEDER: Good morning. I'm Robert
10 Reeder, appearing for a group of industrial customers
11 who are known on this record as UIEC.

12 And I would ask to be excused from this very
13 important hearing. I've called no witnesses, and would
14 ask to be excused.

15 CHAIRMAN BOYER: Well, we'll certainly miss
16 you, Mr. Reeder, but you're excused.

17 MR. REEDER: Thank you.

18 CHAIRMAN BOYER: Join us again any other
19 time.

20 MR. REEDER: Thank you.

21 CHAIRMAN BOYER: Is it McDonald or McDougal?

22 MS. McDOWELL: McDowell. M-C-D-O-W-E-L-L.

23 CHAIRMAN BOYER: I'm sorry. I had written
24 down McDonald, and I thought, That doesn't sound right.
25 And we've seen you here before, and we're glad to have

1 you back.

2 MS. McDOWELL: It's wonderful to be back.

3 CHAIRMAN BOYER: Are there other counsel
4 that are going to participate today? Either in person
5 or on the telephone?

6 Apparently not.

7 Okay. Well, let's -- let's begin, then,
8 with company witnesses. And shall we -- shall we swear
9 all of your witnesses at the same time? Those that
10 haven't been sworn in this proceeding.

11 MS. McDOWELL: If that's your pleasure, that
12 would be fine.

13 We've also put before you a witness exhibit
14 list. And we can offer the testimony as a group now,
15 or we can do it individually with each witness.
16 Whatever'S your pleasure.

17 CHAIRMAN BOYER: Yeah, why don't we do that
18 in advance. Everyone's had an opportunity to review
19 that.

20 Are there any objections to the admission of
21 Rocky Mountain Power's testimony, which is direct,
22 rebuttal, and sur-rebuttal testimony?

23 MS. McDOWELL: Commissioner Boyer, it's just
24 the direct and rebuttal testimony.

25 CHAIRMAN BOYER: Direct and rebuttal. Okay.

1 Are there any objections to the admission of
2 that testimony into evidence?

3 MS. SCHMID: None.

4 MR. Proctor: No.

5 CHAIRMAN BOYER: Very well. We'll admit
6 that into evidence. Thank you. That's very
7 expeditious of you.

8 **(Whereupon, Exhibit Nos. BNW 1-7, BNW 1R,**
9 **and SCH 1-6 and SCH 1R-6R were received.)**

10 MS. McDOWELL: So would you like to swear
11 both of our witnesses right now? It would be
12 Mr. Williams and Dr. Hadaway.

13 CHAIRMAN BOYER: Let's do. Swear both of
14 them at this moment.

15 Would you please stand and raise your right
16 hand?

17 **(WHEREUPON, MR. WILLIAMS AND DR. HADAWAY WERE SWORN.)**

18 CHAIRMAN BOYER: You may proceed,
19 Ms. McDowell.

20 MS. McDOWELL: Thank you, Commissioner
21 Boyer. Our first witness is Bruce Williams.

22 Mr. Williams, can you please take the stand?

23 **BRUCE N. WILLIAMS,**
24 having first been duly sworn, was examined and testified
25 as follows:

1 THE WITNESS: Good morning.

2 CHAIRMAN BOYER: Good morning.

3 **DIRECT EXAMINATION**

4 **BY MS. McDOWELL:**

5 Q. Mr. Williams, can you please state your full
6 name and spell it for the record?

7 A. Bruce Williams. B-R-U-C-E, W-I-L-L-I-A-M-S.

8 Q. Mr. Williams, how are you employed?

9 A. I am the vice president and treasurer of
10 Pacificorp.

11 Q. In that capacity, have you prepared
12 testimony and exhibits for this proceeding?

13 A. Yes, I have.

14 Q. And is that your direct testimony on cost of
15 capital, Exhibits BNW 1 through 7, and your rebuttal
16 testimony, BNW -- and one exhibit, BNW 1R?

17 A. Yes. It is.

18 Q. Do you have any changes or corrections to
19 that testimony?

20 A. No, I do not.

21 Q. And if I asked you all of the questions that
22 were set forth in that testimony today, would your
23 answers be the same?

24 A. Yes, they would be.

25 Q. The Commission has previously admitted your

1 testimony into the record. Have you prepared a summary
2 of your testimony?

3 A. Yes, I have.

4 Q. Would you please provide it to the
5 Commission now?

6 A. Certainly.

7 Q. Thank you.

8 A. Good morning. Thank you for the opportunity
9 to be here with you today to discuss capital structure
10 and cost of capital.

11 Dr. Sam Hadaway will address the required
12 return on equity and I will cover capital structure
13 and cost of debt and preferred stock.

14 I will also briefly comment on Office of
15 Consumer Services' witness Lawton's claim that the
16 proposed ROE will adequately support the Company's
17 credit rating.

18 Let me begin by noting what is not in
19 dispute in this case. The Company has presented
20 evidence supporting a cost of debt of 5.98 percent, and
21 a cost of preferred stock of 5.41 percent. No party
22 has objected to these cost of capital elements.

23 Next is the issue of capital structure.

24 The company is proposing a capital structure
25 consisting of 51.0 percent common equity, 48.7 percent

1 long-term debt and 0.3 percent preferred stock. While
2 Mr. Lawton accepts this capital structure,
3 Mr. Peterson, from the Division of Public Utilities,
4 proposes to decrease the common equity in the capital
5 structure by 50 basis points to 50.5 percent.

6 The Company's capital structure was
7 determined by averaging the quarter end capital
8 structure balances during the 12 months ended
9 June 30th, 2010. Significant financing transactions
10 such as new debt issuances, scheduled maturities of
11 long-term debt, the retention of earnings and capital
12 contributions are all included in the appropriate
13 quarterly balances, and thus the proposed capital
14 structure.

15 Capital contributions have been and will
16 continue to be a significant source of capital for the
17 Company. Pacificorp has received \$865 million of cash
18 capital contributions from our parent company since the
19 acquisition in March of 2006. We expect to receive an
20 additional amount in excess of \$300 million before
21 June 30th, 2010, all while no dividends have been paid
22 to our parent company.

23 Since the acquisition, the Company has
24 retained 1.5 billion of earnings in order to maintain a
25 reasonable, single-A credit rating. The Company has

1 retired \$900 million of long-term debt, and has issued
2 3.3 billion of new debt.

3 The proposed capital structure consisting of
4 51.0 percent common equity maintains a status quo since
5 it is the same capital structure the parties stipulated
6 to in Rocky Mountain Power's most recent Utah case,
7 Docket No. 08-035-38.

8 As I noted, Mr. Peterson proposes a one-half
9 of one percent reduction in the common equity
10 component. I disagree with Mr. Peterson's adjustment
11 for several reasons:

12 First, Mr. Peterson initially selected a
13 single point in time, December 31st, 2009, as the basis
14 for his estimate of the Company's capital structure.
15 As Mr. Peterson stated in his testimony, the capital
16 structure on that date is, quote ". . . assumed to
17 represent the average for the test year," end quote.

18 His assumption is in contrast to the five
19 point average that the Company utilized. While
20 Mr. Peterson assumes his single point represents the
21 average for the test period, there is no assumption as
22 to the average capital structure employed -- employing
23 the five point average. It is the average capital
24 structure for the test period.

25 Second, Mr. Peterson utilizes a

1 significantly different and lower projection for 2009
2 net income than the Company's budget. By assuming
3 earnings at a less-than-the-budget level, Mr. Peterson
4 attempts to derive a lower equity component in the
5 capital structure. But Mr. Peterson's own analysis, as
6 corrected shortly before this hearing, shows that he
7 has underestimated the Company's equity component, even
8 using his earnings assumptions.

9 While Mr. Peterson and I may disagree about
10 the likelihood of the Company achieving its budget,
11 based upon his analysis and my own, there is no
12 disagreement that the Company's capital structure will
13 exceed at 51 percent equity component well before the
14 end of the test period in this case.

15 I want to be clear that the proposed capital
16 structure is not intended to result in an upgrade, and
17 that the Company's proposing to use the average of the
18 actual capital structures for the five quarters
19 defining the test period in this case. And the Company
20 is not proposing anything other than the actual
21 balances.

22 The proposed capital structure does not
23 increase the Company's equity component over the past
24 proceeding, nor is it intended to result in a credit
25 ratings upgrade; rather, it is solely intended to

1 retain the current ratings.

2 As I've stated in my written testimony,
3 maintaining the current ratings, it will help lower
4 borrowing costs and provide more consistent access to
5 the capital markets, especially during periods of time
6 when lower-rated borrowers may find themselves shut out
7 as we recently experienced and as demonstrated by the
8 Company's ability to issue long-term debt earlier this
9 year.

10 While Mr. Lawton accepts the Company's
11 proposed capital structure and cost of debt and
12 preferred stock as outlined in my rebuttal testimony,
13 his adoption of his recommended return on equity would
14 have serious financial consequences. I do not agree
15 with Mr. Lawton that his proposed return on equity
16 would result in financial metrics which would support
17 the Company's current bond ratings. You need only to
18 consider that the Company's credit metrics, which would
19 be lower under Mr. Lawton's reduced ROE recommendation,
20 are already not consistent with the Company's current
21 credit ratings, but rather more in line with a triple B
22 rating. Certainly further reductions to credit ratios,
23 which already fall short of rating agency targets,
24 cannot be seen as supporting current ratings.

25 Finally, I'd like to respond to questions

1 concerning adjustments the rating agencies make to
2 power purchase agreements and other items. I'm aware
3 that other parties may disagree with the
4 appropriateness and reasonableness of these
5 adjustments; however, the facts are that rating
6 agencies do make these adjustments, and they do impact
7 ratings.

8 My testimony includes an exhibit, RMP
9 BNW-1R, directly from a Standard & Poor's report on the
10 Company that shows the adjustments they make. These
11 adjustments increase debt by over \$1 billion, which is
12 nearly a 20 percent increase, and add over \$73 million
13 of additional interest expense.

14 As I stated earlier, parties can agree or
15 disagree with the appropriateness and reasonableness of
16 these adjustments, but the fact is they are real, they
17 cannot be ignored or assumed away, and have a material
18 impact on the credit rating the company receives.

19 That concludes my summary, and I'm available
20 for your questions.

21 CHAIRMAN BOYER: Anything further,
22 Ms. McDowell?

23 MS. McDOWELL: No, Commissioner. This
24 witness is available for cross-examination.

25 CHAIRMAN BOYER: Thank you. Let's go around

1 the room.

2 Let's begin in our traditional fashion with
3 the Division, then go to the office, and then
4 Mr. Dodge, with cross examination.

5 Ms. Schmid?

6 MS. SCHMID: Thank you.

7 **CROSS EXAMINATION**

8 **BY MS. SCHMID:**

9 Q. Welcome, Mr. Williams.

10 A. Thank you.

11 Q. You just, in your summary, you just spoke
12 about the PPAs and the effect upon the company.

13 You said that rating agencies -- if I can --
14 you discussed rating agencies and PPAs. If the PPAs
15 have an affect that is potentially detrimental to the
16 company, and thus to the rate payers, what is the
17 company actively doing to significantly reduce its
18 exposure over the next year or two to those changes?

19 A. Well, that's a good question. We're doing
20 several things. First, we are -- tried to get recovery
21 mechanisms in more of the states. And that would help
22 reduce the percentage that S&P applies to the present
23 value of those contracts, which reduce the amount of
24 debt imputation, and the impact then to the capital
25 structure.

1 I think also, as we're looking at adding in
2 resources, we try to compare the two on an equal basis.
3 And if it's a PPA, we do try to include some debt
4 adjustment that would result from the PPA imputation.

5 So we're trying to put the two on an even
6 playing field, as we look at new resource additions.

7 Q. In your direct testimony, you talk about the
8 Berkshire effect, and -- and how that affects
9 Pacificorp/Rocky Mountain Power.

10 Of late, there has been, in the news, talk
11 about the railroad acquisition that Berkshire Hathaway
12 is making. The lawsuit associated with that, do you
13 believe that will have any affect upon Berkshire
14 Hathaway, and then tricking down through to Pacificorp
15 and Rocky Mountain Power?

16 MS. McDOWELL: Objection. There's no
17 foundation for this question.

18 MS. SCHMID: Okay.

19 CHAIRMAN BOYER: All right. Lay a little
20 more foundation, please, Ms. Schmid.

21 MS. SCHMID: Thank you.

22 MS. McDOWELL: If possible, can you direct
23 the witness to the part of his testimony about which
24 you're questioning him?

25 MS. SCHMID: Certainly. We'll refer to page

1 nine of his testimony.

2 MS. McDOWELL: Thank you.

3 MS. SCHMID: And it would be lines --
4 particularly lines 178 through 186.

5 And I do apologize, for the lack of
6 foundation.

7 Q. (BY MS. SCHMID) Mr. Williams, do you pay
8 attention to the current business dealings of Berkshire
9 Hathaway in conjunction with your employment?

10 A. Yes. I try to follow them through the
11 newspapers and other media that reports on their
12 developments.

13 Q. Are you aware of the recently reported
14 acquisition of Burlington Northern/Santa Fe, by
15 Berkshire Hathaway?

16 A. I'm aware of a -- of an agreement by
17 Berkshire Hathaway to acquire Burlington Northern. I
18 don't believe it's completed yet.

19 Q. You are correct.

20 Do you have -- do you believe that you have
21 enough information to discuss the effect of that
22 acquisition on PacifiCorp and Rocky Mountain Power in
23 general terms?

24 A. I know what I've read in the newspapers and
25 seen on televisions. That's kind of the extent of my

1 knowledge of the acquisition.

2 Q. In that case, I'll abandon --

3 A. Okay.

4 Q. Thank you.

5 MS. SCHMID: That's all I have.

6 CHAIRMAN BOYER: Thank you, Ms. Schmid.

7 Mr. Proctor? Cross-examination?

8 MR. PROCTOR: Yes, thank you, Mr. Chairman.

9 **CROSS EXAMINATION**

10 **BY MR. PROCTOR:**

11 Q. Mr. Williams, you stated that Mr. Lawton's
12 ROE recommendations, in your judgement, would cause
13 serious financial consequences to the company. Is that
14 correct?

15 A. Yes. Through the ratings?

16 Q. Through the ratings.

17 And when you talk in terms of financial
18 consequences to the company, are you speaking about the
19 company as a whole, rather than an individual unit such
20 as Rocky Mountain Power?

21 A. Yes. I'm speaking about Pacificorp as a
22 whole. It's the one that actually issued debt in the
23 financial markets, and which is rated by the rating
24 indices.

25 Q. And, in fact, your calculations of capital

1 structure, and the similar -- and similar parts of your
2 testimony, has always been based upon a valuation of
3 the company as a whole.

4 A. Correct.

5 Q. Recently, you filed testimony in UE 210
6 before the Public Utility Commissioner Board. I
7 believe it was filed on October 29th of 2009.

8 Are you familiar with that?

9 It was filed on behalf of several companies,
10 including Pacificorp and regulators, and you, Mr. --
11 Dr. Hadaway and a gentleman Steve Storm, filed
12 testimony.

13 A. Yeah, I'm familiar with that. I believe
14 that's the settlement in the Oregon rate case.

15 Q. Are you familiar enough with it that you can
16 recall its contents, or would you like a copy?

17 A. It would help -- be helpful to have a copy
18 if you have one available.

19 MR. PROCTOR: Sure.

20 Q. (BY MR. PROCTOR) Now, it's printed in small
21 type, because we all have to sacrifice for the
22 environment.

23 A. I have my glasses. Thank you.

24 Q. If you could turn, please, to page 18.

25 And I believe it's line ten.

1 Do you see that?

2 A. Yes.

3 Q. And the line ten is entitled Response to
4 Testimony of Michael P. Gorman by Steve Storm, Sam
5 Hadaway, and Bruce Williams.

6 Who is Mr. Storm? Just so that the
7 Commission knows the context.

8 A. He was the cost of capital witness for the
9 Oregon staff.

10 Q. Okay.

11 Now, on line 16, the question on -- on 15
12 is, Does the stipulation include a stipulated ROE or
13 capital structure.

14 And your answer, on line 16, was no.

15 And then there's a statement about an
16 agreed-on rate of return.

17 What rate of return was agreed to by the
18 parties?

19 A. I believe it's on page 19, line five,
20 8.08 percent.

21 Q. And on line 21 -- 20 and 21, there is a
22 comparison of the ROE that Mr. Gorman had requested --

23 I'm sorry, did I ask you who Mr. Gorman was?
24 I don't think I did.

25 A. No, I don't believe so.

1 Q. Could you tell the Commission who he is?

2 A. I believe he was the cost of capital witness
3 for one of the intervener groups.

4 Q. Okay.

5 And on line 20 and 21, there's a comparison
6 between the ROE that Mr. Gorman argued the company
7 should receive, and that which is referenced in the
8 stipulation.

9 What was the stipulated ROE in that
10 particular case?

11 A. I'm not sure I follow you.

12 Q. Well, on line 21 it states, The -- Mr.
13 Gorman argued there should be no greater than ten
14 percent in comparison with the 10.125 percent
15 referenced in the stipulation. Is that the ROE that
16 was referenced in the stipulation?

17 A. Well, no. I think back on page 18, where we
18 just looked at, the parties --

19 Q. I'm on page 18, sir. Line 20 and 21.

20 I'm sorry if I misled you.

21 A. I'm sorry, I was confused.

22 Q. My fault.

23 A. I think right above that, on line 16, the
24 parties did not agree to a return on equity --

25 Q. But --

1 A. -- for a capital structure.

2 Q. -- reference to a 10.12 percent in the
3 stipulation, was there not?

4 A. Yeah. But that was for purposes -- again,
5 if you read beginning on line 17, for calculating taxes
6 collected in rates for purposes of SB408.

7 Q. Right.

8 Now, later on, on page 19, beginning at
9 page -- or excuse me, line eleven, there's the
10 question, Is the ROE referenced in the stipulation
11 within the range of reasonable results? And your
12 answer, on line 12, is what?

13 A. I think you should pursue this question with
14 Dr. Hadaway. He is the ROE witness in this case. And
15 he's also the witness in the Oregon case, and probably
16 could best address your questions.

17 Q. Did you file testimony as we've referenced
18 here?

19 A. Yes, I did.

20 Q. What is the answer that you provided, with
21 others, I agree, on line 12 of page 19?

22 MS. McDOWELL: Your Honor, I'd object to
23 this. We have Dr. Hadaway here, and he's available to
24 answer all of these questions for Mr. Proctor.

25 CHAIRMAN BOYER: Yeah, but I think

1 Mr. Proctor has a right to hear the answer to this,
2 and -- inasmuch as Mr. Williams testified in that case
3 as well.

4 So will you please answer it?

5 THE WITNESS: Sure. As it says on line 12,
6 the answer is yes.

7 But I would like to point out that
8 Dr. Hadaway, again, is available, and can respond to
9 your ROE questions.

10 MR. PROCTOR: And I appreciate that. Thank
11 you very much.

12 Q. (BY MR. PROCTOR) Now, recently, in
13 September of 2009, in a matter before the Washington
14 Utilities and Transportation Commission; Docket No.
15 UE 090205, the Company, Pacificorp, asked that the
16 Washington Commission set rates based, in part, upon a
17 rate of return. Are you familiar with that request,
18 sir?

19 A. Somewhat.

20 Q. Are you familiar enough to be able to
21 confirm what the requested rate of return was? In
22 Washington?

23 A. Not off-hand, I don't remember what the rate
24 was.

25 Q. Did you have any involvement or knowledge of

1 preparation of testimony filed in September of 2009 by
2 Cathie A. Allen and Andrea L. Kelly?

3 A. In that Washington rate case?

4 Q. In the Washington rate case.

5 A. I'm somewhat familiar with it.

6 Q. Did you assist in preparing it?

7 A. Not directly.

8 Q. Can you testify, at this point, what the
9 requested rate of return was in that case?

10 MS. McDOWELL: I think he's just testified
11 that he doesn't recall.

12 MR. PROCTOR: Let me see if I can, perhaps,
13 refresh your recollection.

14 Q. (BY MR. PROCTOR) The testimony states --
15 and I can provide you a copy if you'd like.

16 A. That would be helpful.

17 Q. This is in larger type.

18 A. Thank you.

19 Q. And I'm looking, sir, on page eight, line
20 17.

21 Actually, line 16 is the question, and line
22 17 is the beginning of the answer.

23 A. I'm sorry, what was your question again?

24 Q. The question is, would -- at this point,
25 would this document refresh your recollection as to the

1 requested rate of return in the state of Washington?

2 A. Yes. As it states on line 17, the Company's
3 authorized rate of return will remain at 8.06 percent
4 rate of return.

5 CHAIRMAN BOYER: And, Mr. Proctor, for
6 counsel and for our information, who was testifying in
7 that?

8 MR. PROCTOR: That was testimony filed --
9 I'm sorry.

10 That was testimony filed by Cathie A.
11 Allen -- and it's C-A-T-H-I-E A-L-L-E-N -- and Andrea
12 Kelly, on behalf of Pacificorp.

13 The testimony does not have a specific date,
14 other than September 2009 for its filing, and I believe
15 you have the docket number.

16 CHAIRMAN BOYER: Thank you.

17 MR. PROCTOR: Mr. Williams, thank you very
18 much.

19 CHAIRMAN BOYER: Mr. Dodge?

20 MR. DODGE: No questions.

21 CHAIRMAN BOYER: No questions?

22 And no other counsel have identified
23 themselves.

24 Did Ms. Wolf join us?

25 CLERK: She said that she'll be delayed for

1 a while, so she'll reconnect when possible, and she'll
2 listen to the recording.

3 CHAIRMAN BOYER: Let's see if the
4 commissioners have questions of Mr. Williams.

5 Commissioner Allen?

6 COMMISSIONER ALLEN: I have one question.

7 Thank you, Mr. Chairman.

8 **EXAMINATION**

9 **BY COMMISSIONER ALLEN:**

10 Q. In your testimony and in your pleadings you
11 talk about -- or you mention the issue of rating
12 agencies, in trying to insert -- ensure that you have a
13 stable environment, I guess, with the rating agencies.

14 The most current situation, are you familiar
15 with it?

16 Are rating agencies being more or less
17 aggressive with their due diligence? Do they continue
18 to downgrade utilities, or historical have things
19 stabilized with the rating agencies, most recently?

20 A. I would say the trend recently has been they
21 are more aggressive in their -- certainly their
22 questions and their due diligence. They're more
23 aggressive, I think, with their ratings actions.

24 I don't know exactly the cause of that.
25 Some people speculate it's because of some of the

1 issues they had back with the mortgage-backed
2 securities and some of the issues they're facing with
3 that. But I think definitely they have increased their
4 due diligence and their inquiry into the Company.

5 Q. Thank you.

6 A. I'm not sure I answered the second part of
7 your question.

8 In terms of downgrade, I think there's
9 probably been a trend more downwards than upgrade in
10 the last period of time as well.

11 COMMISSIONER ALLEN: Thank you.

12 CHAIRMAN BOYER: Commissioner Campbell?

13 Ric.

14 **EXAMINATION**

15 **BY COMMISSIONER CAMPBELL:**

16 Q. We often hear the same concern, that based
17 on the ROE and so forth, it was said that there's a
18 danger of a credit downgrade. And I guess my question
19 to you is, have you ever done an analysis whether rate
20 payers are better off with a lower ROE and a credit
21 downgrade than with higher debt costs? Are they
22 better off with paying a higher ROE at a lower debt
23 cost?

24 A. Yeah. We -- we've looked at that I'd say
25 from time to time.

1 I think the events of last winter and maybe
2 the spring of this year, when the credit markets really
3 seized up, and people -- companies that were rated
4 lower than us, either weren't able to issue debt and I
5 have -- there's an exhibit in my testimony, a letter
6 from Arizona Public Service who's triple B, I believe,
7 OB minus rated, who brought a letter to their
8 Commission, the Arizona Corporate Commission, stating
9 they didn't think at that time they had access to the
10 commercial paper markets, or the long-term debt
11 markets. So I think there's a question about access in
12 the markets, and then, even those companies that were
13 able to access the markets during that time period, who
14 were lower rated than us, paid up significantly.

15 And I think I saw a quantification of that,
16 that the debt we issued in January, there was some
17 similar issuances by a company -- companies -- it's in
18 my testimony. -- that were a little bit lower rated.
19 They paid roughly 200 basis points more than what the
20 Company paid.

21 And to quantify that, that would be, you
22 know, on the billions dollars of debt that we issued,
23 that would be \$20 million a year for the next ten or
24 30 years. So it could be up to \$600 million of total
25 increased costs or life of that debt. That's just for

1 one debt issuance.

2 You know, if the Company were downgraded, I
3 would expect it would stay at that lower ratings level
4 for some period of time, so future debt issuances would
5 also be at a higher cost.

6 And then there's also the question about the
7 ability to access the short-term market. Even with our
8 ratings, we were unable to issue commercial paper in
9 October of last year, when things were kind of at their
10 worst, following the Lehman bankruptcy and the other
11 items that were going on in the credit markets. So I
12 think if -- you know, if we had been lower rated, we
13 certainly wouldn't have been able to return to the
14 commercial paper markets as quickly as we did, and then
15 also undertake the other actions that we did. The
16 benefits of the customers by restructuring some of the
17 credit arrangements supporting some of our variable
18 rate debt that reduced the cost of some of those
19 obligations, and fairly significantly.

20 So that may have been the long-winded answer
21 to your question, but I think the events of late
22 2008/early 2009 kind of crystalized the benefits of
23 the -- you know, the ratings level that we do have.

24 Q. Do you have an opinion as to what is most
25 important to a credit rating agency, whether it's the

1 ROE number, whether it's the capital structure number,
2 or whether they look at the weighted cost of capital?
3 Your overall rate of return? Is one of those three
4 more important than the other? As far as credit
5 rating?

6 A. Yeah. That -- that's a tough question. I
7 would maybe say -- you know, what they really look at
8 is the credit metrics that are provided by those
9 drivers. And they look at kind of cash flow coverage
10 of earnings, cash flow coverage of debt.

11 They do look at capital structure. So
12 that's important.

13 I think they also look at, you know, the
14 qualitative treatment by the Commissions, if they're
15 being supportive of credit quality, or, in their
16 judgement, non-supportive.

17 So I'm not sure I can pick any one of those
18 items as the single most important. I think they're
19 all important, and it's all kind of how they impact the
20 credit metrics.

21 Q. And the last question I have is, with your
22 agreement to a stipulation, I believe I heard
23 8.08 percent rate of return in Oregon. Is it your
24 expectation that your -- that your credit ratings will
25 be maintained at that level?

1 A. I think, based on that outcome in Oregon,
2 and the other outcomes in the other states as well, I
3 wanted to just kind of mention, too, in Oregon, there's
4 other parts of that stipulation as well. There was
5 also resolution on some of the power costs, and there's
6 some other components of the case as well. So I would
7 sort of caution you to not look at just that one item
8 in isolation, but kind of view the entire package of
9 the stipulation.

10 And also, I think in Oregon, the stipulation
11 produced a rate increase. I think it was on the order
12 of magnitude of five percent in terms of revenue
13 increase. So that's -- you know, that's kind of an
14 important driver as well, of the whole credit analysis,
15 credit view.

16 CHAIRMAN BOYER: I also have a couple of
17 questions, Mr. Williams; the first relating to credit
18 reporting agencies.

19 **EXAMINATION**

20 **BY CHAIRMAN BOYER:**

21 Q. In your experience, have you noticed any
22 diminution in the credibility of credit rating agencies
23 in light of the mortgage debt securities debacle?

24 Said another way, are lenders and/or the
25 financial markets as reliant upon these ratings in

1 making lending decisions as they once were?

2 A. I think, for companies like ours, in the
3 regulated utility business, I think the answer is yes.
4 That they still -- investors and lenders look at the
5 agencies with a lot of value as to the ratings that is
6 provided by the agencies for some of the other
7 segments, maybe the structured financial products, like
8 the mortgage-backed securities. Those probably are not
9 as -- or investors probably don't value those ratings
10 as much as they once did, given what's happened in that
11 market.

12 But if you look at the utilities, I think
13 the agencies have largely kind of been correct on their
14 ratings assessments and their calls. I don't think
15 they've had the issues that they had in the
16 mortgage-backed securities market. So I think the
17 answer to your question is, I think, yes, I think
18 investors still value and differentiate based on the
19 rating agency's ratings.

20 Q. Have the financial markets experienced
21 significant losses based on debtor securities issued to
22 regulated monopolies historically?

23 A. If you're referring to kind of regulated
24 utilities? I think there have been cases.

25 Certainly for the unsecured debt holders at

1 Pacific Gas and Electric, when they file for
2 bankruptcy, like in 2001 or 2002, I think those people
3 had some losses. While their secured holders came out,
4 I think, fine, the unsecured debt holders didn't fare
5 very well.

6 I think also, the other bankruptcy I can
7 think of is the Public Service of New Hampshire. That
8 was, I believe, years before. And I think also in that
9 case, the unsecured debt holders did not come out whole
10 versus their investments.

11 Q. Again, with respect to the credit rating
12 agencies, you've testified that they look at the -- at
13 the weighted cost of capital. And that's what your
14 testimony had been this morning. What other factors
15 did they look at, and do they prioritize or weigh those
16 other factors? In your opinion?

17 A. Yeah. Let me kind of just be clear, that I
18 think while they look at the weighted average cost of
19 capital, what they're really looking at is the
20 financial metrics that flow from those, and how the
21 Company's able to cover its debt, or its interest and
22 it's capital structure. So I think they're looking
23 more at the results that the weighted average cost of
24 capital produces.

25 Q. Is that rather than the raw number?

1 A. Yes. Yeah.

2 I think, in answer to your question, you
3 have to distinguish a little bit between the rating
4 indices. For example, Standard & Poor's, they look --
5 I think they put more emphasis -- they look at a
6 variety of ratios, and put more emphasis on the cash
7 flow coverage measures. What they call funds from
8 operation interest and funds for operation to debt and
9 capital structure in some of their key ratios in terms
10 of credit measures.

11 You know, they look at other kind of
12 qualitative things as well. The business risk, the
13 health of the service territory. Regulatory treatment.
14 Some of the mechanisms that are in place.

15 So there's a wide variety of things they
16 look at, but in answer to your question on financial
17 metrics, these are kind of the key ones they look at.

18 Moody's, on the other hand, has four similar
19 cash flow metrics, and then capital structure as well,
20 that they look at as their kind of key financial
21 metrics. They will also look at the qualitative
22 aspects as well.

23 So it's not -- I mean, there's -- it's kind
24 of a little bit of an art to it in there, to what they
25 do. That they assess all of those things, and then

1 come up with their -- their assessment of credit
2 rating. But certainly the financial metrics are a key
3 part of their analysis.

4 Q. And my last question relates to imputed debt
5 on PPAs. Is -- now, Standard & Poor's is -- does
6 impute more debt than a -- circumstances in the other
7 rating agencies. Is that correct?

8 A. Correct.

9 Q. Are they still holding fast to that
10 position? Have they softened at all?

11 A. No, they have not softened at all.

12 CHAIRMAN BOYER: Okay. Thank you.

13 Ms. McDowell, any redirect?

14 MS. McDOWELL: Yes, Commissioner.

15 **REDIRECT EXAMINATION**

16 **BY MS. McDOWELL:**

17 Q. Mr. Williams, you responded to some
18 questions from Commissioner Campbell on the Oregon
19 settlement, indicating that it was a comprehensive
20 settlement involving trade-offs involving various cost
21 estimates. Do you recall that testimony?

22 A. Yes.

23 Q. Are you familiar with the Washington
24 settlement, and whether or not it was a comprehensive
25 settlement or a settlement simply focused on cost of

1 capital?

2 A. No, it was also a comprehensive settlement,
3 with parties agreed-on, kind of a -- agreed outcome,
4 with give and take by all parties in that.

5 Q. You indicated that the result of the Oregon
6 stipulation was approximately five percent overall rate
7 increase. Are you familiar with the level of rate
8 increase proposed in the Washington stipulation?

9 A. Subject to check, I believe it's about four
10 percent or so.

11 Q. Do you have the testimony that Mr. Proctor
12 handed to you? The testimony of Cathie Allen and
13 Andrea Kelly?

14 A. Yes, I do.

15 Q. Can you turn to page four?

16 A. Okay.

17 Q. Line 13.

18 Do you see that testimony?

19 A. Yeah. I -- rather than the four percent I
20 thought, it's actually 5.3 percent rate increase.

21 Q. Similar to the Oregon increase you've
22 testified to?

23 A. Yes.

24 Q. With respect to the cost of capital
25 components in both stipulations, did those stipulations

1 essentially maintain or slightly increase the status
2 quo that existed in those states?

3 A. Yes. I think that's a good assessment of
4 it.

5 MS. McDOWELL: That's all I have. Thank
6 you.

7 CHAIRMAN BOYER: Thank you, Ms. McDowell.
8 Thank you, Mr. Williams.

9 MR. PROCTOR: Excuse me, Chairman.

10 CHAIRMAN BOYER: Oh, Mr. Proctor.

11 MR. PROCTOR: I think, typically, if
12 questions from the bench raise issues, parties
13 typically are entitled to re-cross raised by those
14 questions. And I think, in this case, I do have a
15 couple.

16 If I may.

17 CHAIRMAN BOYER: The question is when we cut
18 it off. Because your questions may prompt additional
19 questions.

20 Would you have any objection, Ms. McDowell,
21 to Mr. Proctor asking another question or two of
22 Mr. Williams?

23 MS. McDOWELL: Well --

24 CHAIRMAN BOYER: In the interest of having a
25 full and complete record?

1 MS. McDOWELL: When you put it that way,
2 it's hard to say no, but, you know, I know you're going
3 to look at me with exasperation if I ask for redirect,
4 so I guess I'll just wait to hear the questions.

5 CHAIRMAN BOYER: What we'll do is we'll let
6 you ask a couple of questions, and we will give you an
7 opportunity for redirect, Ms. McDowell, in fairness.

8 MS. McDOWELL: Thank you.

9 CHAIRMAN BOYER: Mr. Proctor.

10 MR. PROCTOR: Thank you, Commissioner, and
11 Ms. McDowell. I just want a clear record.

12 **REDIRECT EXAMINATION**

13 **BY MR. PROCTOR:**

14 Q. Mr. Williams, on page 19 line six of your
15 Oregon testimony.

16 A. If you'd give me a minute, I'll get there
17 with you.

18 Q. Sure. That's fine.

19 A. You said page 19?

20 Q. 19, line six.

21 And the question that I want to ask is in
22 connection with your statement that there was a
23 settlement of a number of issues.

24 On line six, you're addressing that
25 Mr. Gorman failed to challenge the overall rate of

1 return agreed to by the parties. And on line six, you
2 give one reason at first, on line five, then on line
3 six it begins, Second, and it states there that the
4 stipulated ROR reflects a decrease from what is
5 currently included in rates. Correct?

6 A. Yeah. That's what it says.

7 Q. What was the rate before?

8 I think you'll find it on the next line down
9 over on the right.

10 A. Yeah. On line seven it says the stipulated
11 ROR was 8.16 percent.

12 Q. In the last general ROR case?

13 A. Yes. That's what it says.

14 Q. And so you decreased it in this one, most
15 recently in Oregon?

16 A. Yes. And it was largely due to the
17 decreasing cost of debt, which is also reflected in the
18 current case here in Utah.

19 MR. PROCTOR: Thank you. That's all I have.

20 CHAIRMAN BOYER: Ms. McDowell.

21 MS. McDOWELL: Thank you, Commissioner
22 Boyer.

23 **REBUTTAL EXAMINATION**

24 **BY MS. McDOWELL:**

25 Q. The testimony that you were referencing here

1 talks about a notional or implied ROE of
2 10.125 percent. Do you see that?

3 Line 21.

4 A. Yes, I do. Yeah, I believe line 21 shows
5 that number.

6 Q. Mr. Williams, is that a higher result than
7 what was implied in the previous stipulation in Oregon,
8 UE 179?

9 A. Yes, it is an increase over the previous
10 implied ROE in Oregon.

11 MS. McDOWELL: Okay. That's all I have.
12 Thank you.

13 CHAIRMAN BOYER: Thank you, Ms. McDowell.
14 You may step down, Mr. Williams.

15 MR. PROCTOR: Mr. Chairman, just one
16 request. If you could ask Mr. Williams to provide the
17 testimony that I provided to him to Mr. Hadaway,
18 because I think we're going to need it.

19 THE WITNESS: I'll do that.

20 CHAIRMAN BOYER: Thank you.

21 Ms. McDowell?

22 MS. McDOWELL: We call Samuel Hadaway.

23 CHAIRMAN BOYER: Welcome, Dr. Hadaway.

24 THE WITNESS: Thank you, Mr. Chairman.

25 **SAMUEL C. HADAWAY,**

1 having first been duly sworn, was examined and testified
2 as follows:

3 **DIRECT EXAMINATION**

4 **BY MS. McDOWELL:**

5 Q. Good morning, Dr. Hadaway.

6 A. Good morning, Ms. McDowell.

7 Q. Could you please state your full name and
8 spell it for the record?

9 A. Samuel C. Hadaway. S-A-M-U-E-L, middle
10 initial C, H-A-D-A-W-A-Y.

11 Q. Dr. Hadaway, how are you employed?

12 A. I'm an owner and a principal in FINANCO
13 Inc., in Austin, Texas.

14 Q. In that capacity, have you prepared
15 testimony for this proceeding?

16 A. Yes, I have.

17 Q. And is that your direct testimony,
18 Exhibits SCH 1 through 6, and your rebuttal testimony,
19 with Exhibits SCH 1R through 6R?

20 A. Yes, that's right.

21 Q. Do you have any changes or corrections to
22 that testimony?

23 A. No.

24 Q. And if I were to ask you the same questions
25 that are set forth in your testimony today, would your

1 answers be the same?

2 A. Yes, they would.

3 Q. And that testimony has been previously
4 admitted into the record.

5 Have you prepared a summary of that
6 testimony, Dr. Hadaway?

7 A. Yes, I have.

8 Q. Can you please provide that summary to the
9 Commission?

10 A. All right.

11 Ms. McDowell, I think we also have some
12 PowerPoint slides with a few of the numbers summarized.
13 So if we might go ahead and distribute those, it would
14 probably expedite things.

15 MR. PROCTOR: Mr. Chairman, may I ask
16 whether or not these PowerPoint slides appear within
17 his testimony?

18 MS. McDOWELL: These are just a
19 demonstrative aid to -- mostly with the numbers that he
20 will be speaking to in his summary, just to allow the
21 Commission and the parties to follow along the summary
22 more carefully.

23 CHAIRMAN BOYER: These were prepared by you,
24 Mr. Hadaway?

25 THE WITNESS: Yes.

1 MR. PROCTOR: They would be for
2 demonstrative purposes only, not as evidence?

3 MS. McDOWELL: That is correct.

4 MR. PROCTOR: Thank you.

5 THE WITNESS: Maybe they will also help with
6 the ROE 101 part B.

7 Good morning, Mr. Chairman, Commissioners.
8 Thank you for the opportunity to be here again. My
9 testimony covers the requested rate of return on
10 equity.

11 As you well know, ROE is often one of the
12 more controversial issues in a rate case. This is
13 caused by at least two factors: First, the
14 rate-of-return dollars are usually large. When the
15 rate of return is applied to the Company's total
16 investment in rate base, the effect on the revenue
17 requirement can be very substantial. For this reason
18 alone, ROE usually gets a lot of attention.

19 ROE is also controversial because it's
20 subjective. There's not a book or a publication we can
21 look in that tells us what ROE is.

22 For this reason, ROE has to be estimated
23 based on market conditions and investor's
24 rate-of-return requirements.

25 To estimate ROE, most economists rely on two

1 kinds of information. We use financial models, the
2 results from those models, and we use capital market
3 data.

4 While there's not a single source to tell us
5 the answer, things like utility stock prices, dividend
6 yields, and expected growth rates that go into those
7 models can help us.

8 When stock prices are volatile, as they've
9 been for the past year, and dividend yields are high,
10 this means utility investors are concerned about risks
11 and are requiring a higher rate of return. Market
12 interest rates and interest rate spreads are also
13 important, but during periods of significant market
14 turbulence, like we've seen recently, the cost of more
15 risky equity capital sometimes does not move in
16 lockstep with interest rates. And I'll provide some
17 data to try to demonstrate that point as we go along.

18 With respect to the financial models, there
19 are many types, but most regulators rely on the
20 discounted cash flow model.

21 If you look at the first slide. And what
22 I've done is three-pages that have slides, and on each
23 page I've put two panels. So I'll refer to them as
24 panel one, panel two.

25 But the familiar constant gross DCF model

1 comes down to the dividend yield plus the expected
2 growth rate. So we argue about typically what the
3 growth rate is.

4 The dividend yield calculation is typically
5 a straight-forward calculation. It's not difficult to
6 do.

7 And when we have a company like Rocky
8 Mountain Power, Pacificorp, that don't have -- if we
9 have a company that does not have publicly traded
10 stock, then we use a comparable group. In this case,
11 Mr. Peterson picks a slightly different group than
12 mine, but we both agree that that did not substantially
13 affect our results. And Mr. Lawton and I used the same
14 comparable group, so that's, I think, not a
15 controversial issue.

16 I do think Mr. Peterson correctly points out
17 that the main difference between our ROE estimates in
18 this case is the growth rates that we used in our
19 analysis. And I'm sure you'll hear more about that
20 before we're finished here today.

21 In my direct and rebuttal testimony, I
22 presented the results from three alternative DCF models
23 and from two risk premium models. Although interest
24 rates have declined in the risk premium models, equity
25 prices for utilities remain relatively low compared to

1 other stocks in the market, and dividend yields
2 remained very high compared to other stocks.

3 In the DCF model, these factors indicate
4 that ROE is currently higher, not lower, than it was
5 one year ago.

6 I discussed these results on page three of
7 my rebuttal testimony. The DCF models I presented in
8 my supplemental testimony and Docket 08-035-38 in
9 November of 2008 indicated an ROE range of ten seven to
10 eleven two.

11 That's in panel two on the first slide there
12 that you have before you.

13 In the updated DCF analysis that I provided
14 with my rebuttal testimony in October, the DCF range
15 was 11.0 to 11.5.

16 These comparisons show that the cost of
17 equity has increased, even as interest rates on
18 investment grade utility debt have declined.

19 Continuing market volatility and increased
20 risk aversion for utilities have led to higher investor
21 return requirements.

22 We'll see a little later on, that these
23 statements depend on the period from which we start.

24 And what I'm saying here, very clearly, is
25 relative to when we filed the supplemental testimony

1 and when we did the case a year ago, turbulence in the
2 markets have -- turbulence in the markets has continued
3 to affect equity cost in a way that has made them go
4 up.

5 If we might, I'd like to spend just a minute
6 looking at the results of my updated DCF model so that
7 you'll be able to see all the parts. I present that
8 model in Exhibit SCH 5R.

9 So if you have a copy of my rebuttal
10 testimony available, I think this is the way I did it a
11 couple of years ago when I was here, and it seemed to
12 help everybody see exactly where I was coming from.

13 It's under a tab in the file version that
14 says Exhibit RMP, and then in parenthesis, SCH 5R.

15 Are you with me on that?

16 CHAIRMAN BOYER: We're with you.

17 THE WITNESS: Thank you.

18 If we look at the first page, this is the
19 summary of the DCF results. And what I would like to
20 do, to sort of short-circuit the ROE 101 just a little
21 bit, is ask you to look just at that first column of
22 numbers. That is the traditional constant growth DCF
23 model based on Analyst's and Value Line growth rate
24 estimates. It does not have any gross domestic product
25 growth in it, which we discussed when I was here

1 before, and we'll probably discuss some more today.
2 But if you wish to see a model that's not affected by
3 gross domestic product, then that column of numbers
4 there is the one that I would point to. It produces
5 the ROE result that I noted of 11.0 to 11.4 percent.

6 If we could, flip over to the second page of
7 this exhibit. You can see how the growth rates are
8 developed, and how the dividend yield and growth rate
9 end up making the ROE what it is.

10 In the first three columns, I calculate the
11 dividend yield. And this, again, is based on the most
12 recent data I had in September when I was preparing the
13 testimony. It was filed in October. But you see the
14 footnote down there at the bottom, that shows you what
15 the dates were for the data that I used.

16 At that time, the dividend yield, at the
17 bottom of column three, average was about 5.2, and the
18 median was 5.3 percent.

19 Then, if you look at Value Line, Zacks,
20 Thomson, which is also sometimes called IBES, I-B-E-S,
21 in columns four, five, and six, the average of those in
22 column seven is a growth rate of 5.83 percent.

23 In my initial testimony, that was filed back
24 in June, that number was a little higher. It was six
25 percent. For the Analysts' growth rates, the dividend

1 yield was also a little bit higher at that time. And
2 that's why these DCF results are a bit lower than they
3 were in June, but not lower than they were in 2008.

4 The result there is 11.0 -- I'm sorry, 11.0
5 to 11.4 percent.

6 With these data in mind, I need to digress
7 just a little bit and respond directly to three of
8 Mr. Lawton's claims on behalf of the Committee.

9 First, on page three of his direct testimony
10 he says that RMP failed to consider the risk reduction
11 impacts of its requested ECAM. And that with an ECAM,
12 ROE should reflect the lower end of the reasonable
13 range. Mr. Lawton's statement in this regard is simply
14 wrong.

15 In my rebuttal exhibit, SCH 2R, which is
16 just before the one I just asked you to look at, I list
17 the recovery mechanisms that are already in place for
18 the comparable companies that Mr. Lawton and I use --
19 because he adopted my group -- to estimate ROE.

20 So the second page of the handout, if you
21 just want to short-circuit it a little bit, on the
22 second slide, I just list the statement that is
23 summarized based on that exhibit, SCH 2R. All of the
24 companies in the comparable group already have purchase
25 power and fuel cost recovery mechanisms in place;

1 therefore, any risk reduction that an ECAM may cause is
2 already reflected in Mr. Lawton's and in my ROE
3 analysis.

4 If RMP's requested ECAM is approved, RMP's
5 fuel and purchased power cost recovery mechanism will
6 simply be the same as the comparable companies that we
7 had.

8 I cover two additional points concerning
9 Mr. Lawton's DCF analysis on pages 18 and 19 of my
10 rebuttal.

11 On page four of his testimony, he says, and
12 I quote, that the Analysts' growth rates that I used in
13 my DCF analysis were overstated, outdated, and fail to
14 take into account declining expectations. As noted
15 above, the decline in Analysts' growth rates between my
16 direct and rebuttal testimony was 20 basis points.
17 This difference hardly accounts for the difference
18 between Mr. Lawton's ten percent ROE and, based on
19 Analysts' estimates, my ROE range of eleven zero to
20 eleven four. There are other things that are involved.

21 Also, Mr. Lawton failed to provide any
22 support for his suggestion that equity investor
23 expectations have actually declined. Again, it may
24 depend on the period that the two of us look at, but
25 since 2008, one year ago, they certainly have not

1 declined.

2 As I have noted previously, in the current
3 market environment of government intervention in the
4 debt markets, a decline in debt costs and spreads does
5 not mean that equity investor requirements are moving
6 in that same direction.

7 On page five of his testimony, Mr. Lawton
8 also says that my dividend yields are overstated by
9 about 50 basis points. The way he gets this 50 basis
10 points is quite interesting.

11 In his Exhibit OCS 1.4, on page two, he
12 calculates five different dividend yields based on five
13 different stock price time periods, ranging from one
14 day in September to up to 52 weeks over the past year.

15 When he does his DCF analysis, however, he
16 selects the six-week period from all of these five
17 alternatives that produces the lowest possible dividend
18 yield. This is not an even-handed approach, and his
19 comments about my data being outdated and inconsistent
20 should be ignored.

21 There are several specific data points that
22 support this conclusion.

23 With respect to utility stock prices and
24 dividend yields, I presented a graph on page nine of my
25 rebuttal testimony that shows the month-by-month values

1 for the Dow Jones utility average. A year ago, at the
2 end of November 2008, that index was at a level of 382.
3 As of last Friday, November 6th, 2009, the index closed
4 at just under 370.

5 If you look on the second slide, what I call
6 panel four, I've listed those numbers so that you'll
7 have them. And they're directly from the graph and
8 from the newspaper as of just this last week. Utility
9 stock prices have not improved relative to a year ago,
10 and Mr. Lawton's remarks about declining dividend
11 yields and improving trends is simply wrong.

12 Utility stock prices remain depressed, and
13 dividend yields remain high. These factors show that
14 even as interest rates have dropped, the cost of equity
15 capital for utilities has not come down.

16 Utility investors continue to be concerned
17 about market volatility and uncertainty in the market.

18 I'd like to conclude my discussion with two
19 additional brief comparisons of Mr. Lawton's data.

20 On page 15 of my rebuttal, I provided a
21 summary table of Mr. Lawton's ROE results. In that
22 table, I showed that but for his exclusion, the high
23 end of his risk premium analysis and his inclusion of
24 very low ROE results from the so-called empirical
25 capital asset pricing model, Mr. Lawton's own analysis

1 would have produced an average REO of 10.4 percent, not
2 the 10.0 that he recommends.

3 This is on the third slide of what I call
4 panel five. That's the panel at the top of the third
5 slide. This table also appears in my rebuttal
6 testimony.

7 His traditional DCF results are shown in the
8 first row of that summary table. His average ROE from
9 this model is five -- is 10.53 percent. Almost exactly
10 the same as Mr. Peterson's recommended ROE.

11 While I continue to disagree with
12 Mr. Lawton's dividend yield and growth rate
13 calculations, if the Commission relies on the
14 traditional DCF model, and even with Mr. Lawton's
15 inputs, you can see there that panel five shows his
16 range to be 10.4 to 10.6 percent.

17 On page two of my rebuttal Exhibit SCH 3R, I
18 demonstrated a second point about Mr. Lawton's DCF
19 analysis. And this deals with his dividend yield
20 calculations.

21 In that exhibit, I show that Mr. Lawton's
22 DCF results would have increased further if he had used
23 a more representative time period for his dividend
24 yield calculation in his calculations.

25 Again, with his growth rates, but with stock

1 prices for the most recent three months, his DCF model
2 indicates an ROE range of 10.6 to 10.7. That's the
3 last panel on this third slide in my hand-outs there.

4 These results show that Mr. Lawton's efforts
5 to support an unreasonably low ROE are extreme, and
6 that his own analysis supports a higher cost of equity
7 for RMP.

8 With respect to Mr. Peterson, portions of
9 his DCF analysis also support an ROE that is higher
10 than he recommends. In fact, his approach to dividend
11 yields is straight forward, and the result of his
12 traditional DCF modeling based on Analyst's earnings,
13 growth estimates was 10.9 percent.

14 The 10.9 percent does not include his
15 earnings dividend weighting scheme that he did, which
16 you have used in some cases as the low end of the DCF
17 range.

18 Thank you. I'll try to answer any questions
19 that you may have.

20 CHAIRMAN BOYER: Thank you, Dr. Hadaway.

21 Ms. Schmid, questions for Dr. Hadaway?

22 MS. SCHMID: Yes. Thank you.

23 **CROSS EXAMINATION**

24 **BY MS. SCHMID:**

25 Q. Good morning.

1 A. Good morning, Ms. Schmid.

2 Q. In your direct testimony at lines 513 to
3 541, you talk about how, prior to the recent financial
4 crisis, the greatest concern of utilities was
5 transition to more open market conditions.

6 A. I think around the general capital markets
7 of the whole country, yes.

8 Q. How has the recent financial crisis affected
9 this transition to open access?

10 A. I'm most familiar with the complete
11 deregulation within the intrastate reliability counsel
12 in Texas, because that's where I'm from.

13 Q. Okay.

14 A. And it appears that, in that area, the
15 effects of deregulation have marched right on without
16 much effect here.

17 The cost of capital is debated and the
18 delivery-only cases is up somewhat. The Commission has
19 allowed a somewhat higher return this year than they
20 did last year. But other than that, the process is
21 continuing.

22 MS. SCHMID: Thank you.

23 CHAIRMAN BOYER: Mr. Proctor? Questions to
24 Dr. Hadaway?

25 MR. PROCTOR: Yes, thank you.

CROSS EXAMINATION

BY MR. PROCTOR:

Q. On page ten of your rebuttal testimony, sir? You've utilized a table, table three to the authorized equity returns?

A. Yes, I have that.

Q. Am I correct that that represents what commissions have actually awarded -- or I shouldn't say awarded -- have found to be the just and reasonable ROE?

A. I don't know the language that might be used, but these are the data that are reported for all major utility rate cases by the regulatory research associates group. But I think your words are probably okay, I just don't know that that appears in the RRA publication.

Q. These would be the result of orders from Public Service Commissions or Utility Commissions. Correct?

A. Yes.

Q. All right.

Now, on the reports from the second quarter of 2009 -- and you have the average return as 10.52 percent? Is that correct?

A. Yes, sir.

1 Q. Would that have included the settlement from
2 Pacificorp Utah, of 10.61, that was entered, I believe,
3 the last general rate case in which you participated?

4 A. Yes. That's right.

5 Q. Does it include Pacificorp's Wyoming ROE?

6 A. I don't have the RRA publication up here
7 with me, but we could find out.

8 Q. Well --

9 A. They usually list the cases. Depends on the
10 dates.

11 Q. Now, this is what I have. It's a -- yeah.
12 Let me just --

13 MR. PROCTOR: Pardon me, Mr. Chairman. And
14 I've circled that there.

15 CHAIRMAN BOYER: I don't know that
16 Ms. McDowell knows where you are.

17 MR. PROCTOR: I don't have another copy.
18 I'm sorry.

19 I'm sorry. It was my fault. I should have
20 handed it to her first.

21 CHAIRMAN BOYER: Why don't you approach the
22 witness.

23 MR. PROCTOR: Absolutely. I apologize.

24 MS. SCHMID: Paul?

25 MR. PROCTOR: Oh. I have another copy.

1 I'm sorry. Okay.

2 THE WITNESS: I'm sorry. Do you want me to
3 respond about Wyoming?

4 Q. (BY MR. PROCTOR) Is Wyoming in that
5 particular --

6 A. Yes. And the ROE is not listed there.

7 Q. Do you know what the ROE was implied or
8 stated by the Wyoming Commission in that rate case?

9 A. As I recall -- and this is subject to check,
10 because there are a lot of initial cases -- but I think
11 the ROE was just left where it had been previously.

12 Q. Which was 10.25 percent?

13 A. Is my -- as I recall, yes.

14 Q. Okay. Thank you.

15 May the Commission assume, then, that you
16 believe that what other Commissions have authorized, in
17 other states, would be an appropriate piece of evidence
18 for them to consider?

19 A. I think if the Commission looks at the
20 28-year period that I use these data for, or the
21 45-year period for all of the cases that are there,
22 Mr. Proctor's statement is correct.

23 If we look at an individual case, which I
24 suspect we will, then we have to look at the
25 circumstances for that case. But I use these data to

1 try to develop the risk premium analysis, and to see
2 generally, over a long-period of time, what Commissions
3 have provided as ROE.

4 But it is indeed true, just like the Oregon
5 case, will probably be listed here, like the Wyoming
6 case was, with no ROE assigned. It just depends how
7 the cases are reported.

8 Q. Well, but in the Oregon case, which is just
9 one case, I would agree. There is an implied ROE for
10 the purpose of -- in Oregon, a particular tax statute,
11 is there not?

12 A. Yes. That's my understanding. I discussed
13 this, and then I heard Mr. Williams' testimony about
14 this. I discussed this with him yesterday.

15 Q. And that was 10.125 percent ROE?

16 A. Yes.

17 Q. Do you know if there is an implied ROE in
18 the Washington resolution of that rate case? In which
19 you also participated?

20 A. Right.

21 Again, the ROE is -- understand, and
22 Washington was left without change, which was
23 10.2 percent. But depending on how you review the cost
24 of debt, which is also changed, then the ROE can be
25 different than that. It's sort of in the eye of the

1 beholder in Washington.

2 Q. Correct.

3 Has there been a general trend in the
4 last -- in the two most recent quarters, reported in
5 the regulatory focus for reduced ROEs?

6 A. They've been pretty stable. About ten and a
7 half percent.

8 Q. Let's just turn for a moment, then, to the
9 Oregon case. And you heard Mr. Williams testify about
10 the joint testimony that you and he and Mr. Storm have
11 filed. Correct?

12 You were here during that testimony?

13 A. Yeah. Our names are listed there, because
14 one of the commissioners, in Oregon, said that he might
15 have questions about certain parts of the joint
16 stipulation testimony, and so my name was included to
17 answer questions about ROE if it came up. It did not.

18 Mr. Williams was listed to answer questions
19 about capital structure, if that came up.

20 Q. Well, did you not adopt this testimony as
21 your own?

22 A. I did, at the request of the parties, to be
23 available to answer those questions if they came up,
24 but they did not.

25 Q. Did you assist in preparing it?

1 A. I saw a draft of it, yes.

2 Q. Did you make any corrections? Additions?

3 A. No.

4 Q. So you do not consider this joint testimony
5 to be your own product?

6 A. I do, in the sense that I was asked if I
7 would be willing to answer questions if they should
8 come up during the Commission's hearing on the
9 stipulation, and that my name needed to be added to
10 this document so that they would know that I was going
11 to be there for that purpose.

12 And I read what it said, and I certainly
13 don't disagree with anything that it says.

14 Q. Well, do you -- you don't disagree, but do
15 you agree with it?

16 A. I don't agree that the -- that the implied
17 ROE is a market cost of equity, but this testimony
18 doesn't say that. It just says that it's used for
19 purposes of calculating the tax issue that Mr. Williams
20 mentioned this morning, but it certainly doesn't say
21 that it comes from my DCF range or anything else like
22 that.

23 Q. Well, it does, however, state -- and I could
24 call your attention to page 19, beginning at line
25 eleven. That testimony does state that the 10.125

1 implied rate is within the range of reasonable results,
2 does it not?

3 A. It does say that. In the context of this
4 settlement, I agree with that.

5 Q. Well, it says that about five times, doesn't
6 it?

7 A. It does.

8 MR. PROCTOR: Thank you very much, doctor.

9 CHAIRMAN BOYER: Thank you, Mr. Proctor.

10 Mr. Dodge, have you questions for
11 Mr. Hadaway?

12 MR. DODGE: I do. Thank you, Mr. Chairman.

13 **CROSS EXAMINATION**

14 **BY MR. DODGE:**

15 Q. Dr. Hadaway, you've referenced the fact that
16 the companies you utilized all have one version or
17 another of an energy cost adjustment mechanism. But
18 all things being equal, would you agree that the
19 adoption of an energy cost adjustment mechanism should
20 reduce the risk of a utility?

21 A. It depends on the circumstances, and how
22 energy costs have been treated prior to the adoption of
23 an ECAM. But generally, the rating agencies view the
24 presence of ECAMs as a risk-reducing mechanism.

25 So the answer to your question is yes, but

1 it could have other caveats that have to be applied.

2 MR. DODGE: Thank you. No further
3 questions.

4 CHAIRMAN BOYER: Let's turn now to the
5 commissioners.

6 Commissioner Allen, do you have questions
7 for Mr. Hadaway?

8 COMMISSIONER ALLEN: One question,
9 Mr. Chair. And it kinds of relates to what I asked
10 Mr. Williams.

11 **EXAMINATION**

12 **BY COMMISSIONER ALLEN:**

13 Q. When we deal with weeks and spreadsheets
14 that are sometimes months old, I like to get the take
15 on what's happening with the current markets. And I
16 understand that could change by January and be totally
17 different, but nonetheless, in terms of refreshing my
18 understanding, the way I understand the situation in
19 the last few days, the Federal Reserve has indicated a
20 determination to keep interest rates low. The G20 has
21 indicated their intent to have government intervention
22 and stimulus continue as current -- as currently
23 planned.

24 And if that all holds out, does that change
25 any of your analysis of that change of risk premium

1 analysis, or what's your take on recent developments
2 and the most recent data we have?

3 A. Well, we all hope that the economy is
4 improving. And based on the overall economy, it does
5 appear to be. But unemployment, as you probably well
6 know, is now over ten percent. 10.3 percent, the last
7 report.

8 So the Federal Reserve system and worldwide
9 similar systems are continuing to try to maintain this
10 beginning of growth in the world economy and in the
11 U.S. economy, And there is a hope that that will
12 continue.

13 What this is -- the way they have to do
14 this, of course, is to push down some of the interest
15 rates that they can. The Federal Funds Rate is the one
16 that we hear most often about in the U.S., but there's
17 similar rates in other countries. And we know that
18 there's a very strong policy issue about keeping
19 mortgage rates in the U.S. down.

20 We can probably borrow money on a 30-year
21 basis for maybe under five percent now. Some people,
22 that's first-time borrowers and things like that.

23 So those kinds of interest rates that get
24 blended in with others, and when there aren't
25 mortgage-backed securities for Texas Teacher Retirement

1 Systems to invest its money in, those monies then flow
2 into the higher quality debt, like single A rated
3 utility bonds, and that pushes those interest rates
4 down too.

5 So I think we see, and I stated in my direct
6 testimony and in my rebuttal testimony, fully
7 acknowledge that high quality interest rates or
8 interest rates for high quality debt have certainly
9 come down. They've come down from the peaks they
10 reached in November of -- December of 2008, and they've
11 come down fairly steadily. But if we look at the
12 market for utility equities, then that market hasn't
13 improved.

14 Utilities -- there was a thing in USA Today
15 that I picked up in the Denver airport when I was
16 coming in yesterday, and it shows all the different
17 sectors of the stock market. The only one that has
18 performed worse than utilities, year to date and
19 through the third quarter, has been the financial
20 group. It still continues to be, you know, sort of
21 hammered. So that's where I think the Fed's, you know,
22 efforts are going more. But those things, for
23 whatever, reason are not flowing through to utility
24 stock prices. Dividend yields remain just as high.
25 They're higher than they were in October of 2008.

1 Right now they're higher.

2 So depending on how you view the
3 controversial issue of interest rates, my DCF model,
4 based on Analysts' growth rates, none of the GDP
5 issues, at all, shows that -- we asked for 11 percent
6 when we did that. The DCF models were showing eleven
7 and a half to 12. But we were seeing a downward trend
8 in interest rates, so we didn't ask for eleven and a
9 half or 12. Some companies have. But all of these
10 things factor in, and we just are at a difficult time
11 about changing things very much.

12 But this Company's cost of equity has not
13 gone down since it settled its case last year.

14 COMMISSIONER ALLEN: Okay. Thank you.

15 CHAIRMAN BOYER: Okay. Commissioner
16 Campbell has no questions.

17 **EXAMINATION**

18 **BY CHAIRMAN BOYER:**

19 Q. Dr. Hadaway, I know you're not the Company's
20 capital structure witness, but if, as you've just
21 testified, the cost of equity is increasing and the
22 cost of debt is decreasing, why wouldn't a prudent
23 manager look more to debt through financing than
24 equity?

25 A. Well, the company has balanced that. They

1 don't know the exact number but, as I recall, it's
2 about a billion dollars of debt that they issued back
3 in February when they got the five and a half and six
4 percent rates, which is better than anybody else did.
5 And it was because they were viewed as a -- as a very
6 good place for debt investors to put their money.
7 You're getting the benefits of low interest rates on
8 their debt, but you're producing metrics, because of
9 their lower-end rates of return and their lack of cash
10 flow coverage of interest in debt as Mr. Williams was
11 talking about.

12 If you read that S&P report -- it's his
13 exhibit in his rebuttal testimony. -- it not only talks
14 about those imputed debt things, but it talks about
15 where the metrics are and where they need to be if the
16 company is going to stay a single A rated company, and
17 their expectations that regulators will support the
18 construction programs that are required to meet the
19 load, and those metrics will improve.

20 Q. So your position is that 800 some odd
21 million dollars of equity infused by the parent and the
22 additional three hundred and change in the future, is
23 balanced out by the bond sale of December/January?

24 A. It is to some extent. It depends on the
25 size of the Company's construction program. What it

1 really has to do.

2 But this company is spending a lot of money
3 each year, over a billion dollars each year in new
4 construction, And those things require the Company to
5 go to market. And it causes its parent to have to make
6 decisions about infusing additional equity and how to
7 do that.

8 CHAIRMAN BOYER: Okay. Thank you,
9 Mr. Hadaway.

10 Any redirect? Ms. McDowell?

11 MS. McDOWELL: Yes, Chairman Boyer.

12 **REDIRECT EXAMINATION**

13 **BY MS. McDOWELL:**

14 Q. Dr. Hadaway, Mr. Proctor asked you several
15 questions about this testimony in Oregon in UE 210. Do
16 you have that testimony?

17 A. Yes, I do.

18 Q. On the first page it lists the witnesses who
19 sponsored that testimony, and I counted ten different
20 witnesses. Does that sound about right?

21 A. Yes. That looks right.

22 Q. So it was a panel presentation of testimony,
23 correct?

24 A. Yes.

25 Q. Now, you indicated in the -- in response to

1 a question from Mr. Proctor, that you don't agree that
2 the implied ROE is the market cost of capital, but you
3 do agree that, in the context of the settlement, the
4 overall results is reasonable. Can you explain those
5 statements?

6 A. Sure.

7 In -- in the Oregon case -- and I don't know
8 how much this has already been discussed here, but
9 there was some resolution of their power cost
10 requirements, and there were some -- many other things.
11 But in my mind, just from an outsider looking at the
12 case, five percent rate increase is viewed favorably
13 relative to a zero percent rate increase or a negative
14 rate reduction. So it's just the tone of the whole
15 thing.

16 I actually didn't end up going to Oregon and
17 actual appearing, and my activity with respect to the
18 settlement was from afar, just by e-mails. So I don't
19 know all of the details of -- of what all went into it,
20 but the company was pleased to be able to -- they
21 improved their ROE from implied 10.0 to 11.12, but
22 other things beyond that were obviously much more
23 important, particularly a five percent rate increase.

24 Q. Dr. Hadaway, you've talked a fair amount
25 about the comparison of market conditions from 2008,

1 the last rate case that RMP was involved in, to the
2 present. Can you comment on how investor expectations,
3 in your opinion, have changed or been affected by the
4 market volatility that has occurred between those two
5 cases?

6 A. Well, what we saw was that, after the Lehman
7 Brothers failure in September 2008, was almost a
8 melt-down in our financial markets; in October, and
9 November, and even to the end of December. Treasury
10 bond rates went down. The corporate rates went way up.
11 And that was because nobody wanted to hold the
12 corporate debt. Only the very best issuers were able
13 to issue at all. As Mr. Williams told you, companies
14 out here, Arizona Public Service, were completely shut
15 out for a period of time. And even high quality
16 companies were shut out of the commercial paper market.
17 It just didn't work.

18 Then, as we went forward in January, things
19 actually started to improve a little bit, but then
20 there was -- it was like a sinking spell, and the stock
21 market actually hit its lows in March of 2009.

22 Since that time, most equities, like
23 Caterpillar Tractor, and John Deere, and people like
24 that, have done extremely well. The S&P index, for all
25 stocks, is up like 30 percent or something since its

1 lows in March.

2 The utility stocks, for whatever reason --
3 and I don't know the reason for this -- have not
4 enjoyed that sort of a change. As I said, they are the
5 second worst performing group for the first three
6 quarters of 2009, and for the third quarter of 2009.

7 And that's in yesterday's USA Today
8 newspaper. It was right after the money section.

9 So it's like the market became disturbed,
10 and as the economy began to improve, in the spring,
11 that the cyclical-type stocks have enjoyed quite an
12 increase, and they did even like yesterday. Dow Jones
13 average was up like 200 points. The industrial
14 average. But utilities remain -- on that graph that
15 you can see on page nine of my rebuttal testimony --
16 still below where they were in November and December of
17 last year.

18 Q. Dr. Hadaway, I wanted to ask you a question,
19 one final question about the exhibit that you testified
20 to with respect to power cost adjustment mechanisms.

21 I believe that is SCH 2R.

22 A. Yes. I have that.

23 Q. Just so I understand this, your testimony is
24 that every member --

25 MR. PROCTOR: Excuse me, Mr. Chairman, but

1 this is beyond the scope of cross, as I understand it,
2 and counsel's understanding of it is just simply
3 repeating what the testimony was. I don't -- I don't
4 believe it's appropriate.

5 MS. McDOWELL: I'm sorry, I was just laying
6 the foundation for the redirect that I had in response
7 to Mr. Dodge's question.

8 CHAIRMAN BOYER: Ask your question and we'll
9 see where this goes.

10 MS. McDOWELL: All right.

11 Q. (BY MS. McDOWELL) What I -- my question
12 was, in response to Mr. Dodge's question, you indicated
13 that all things equal, a power cost adjustment
14 mechanism lowers risk. Is that a fair summary of that?

15 A. It lowers the Company's operating risk, yes.

16 Q. So can you -- the current situation is that
17 the company does not have such a mechanism. Correct?

18 A. Yes.

19 Q. And that -- and all of the other companies
20 in the comparable group do have them?

21 A. That's right.

22 Q. So would you please comment to the Company's
23 risk relative to the other members of their comparable
24 company group with respect to power costs?

25 A. There are so many factors that affect the

1 Company's risk.

2 One factor, like an ECAM or a power cost
3 adjustment mechanism, does sometimes get pointed to by
4 the rating agencies, and it does certainly get debated
5 in regulatory processes like this one, but there are
6 many, many, many other things that effect the overall
7 risk that a company has, and I don't think it's really
8 appropriate to focus on that one issue.

9 I have not asked for an enhanced ROE, and
10 Pacificorp or Rocky Mountain Power states where they
11 don't have ECAM type mechanisms, we've asked for the
12 same ROE in each place. But everyone knows what
13 happened in the western energy crisis, and everyone
14 knows what happened in the various states depending on
15 the way those cost recovery things happened, and we
16 know the risk that that imposes on the companies.
17 Different jurisdictions were different.

18 Now, in Wyoming we have a mechanism, but in
19 Wyoming we didn't have anything. In the energy crisis,
20 the company was hurt very, very badly. It's all --
21 part of it is in the eye of the beholder, because
22 there's so many other risks that might affect ROE, that
23 it's sometimes unfortunate that we get so narrowly
24 focused. But if we were just talking about the effect
25 of the ECAM, and we're talking about using other

1 companies to estimate Pacificorp's ROE, what's in
2 Exhibit SCH R2 shows you that those companies have
3 ECAMs around the country. Or E-cams, as they're called
4 here.

5 MS. McDOWELL: That's all I have. Thank
6 you.

7 CHAIRMAN BOYER: Thank you, Dr. Hadaway.
8 You may step down.

9 Ms. McDowell, that completes your case, does
10 it not?

11 MS. McDOWELL: That's correct.

12 CHAIRMAN BOYER: Okay. Let's take a recess,
13 then, until five minutes until the hour? So 12 or 13
14 minutes to.

15 (Whereupon, a break was taken.)

16 ADMINISTRATIVE LAW JUDGE: Okay. Let's go
17 back on the record, and turn now to the Division of
18 Public Utilities.

19 MS. SCHMID: Thank you. The Division would
20 like to call Mr. Charles Peterson as its witness.

21 CHAIRMAN BOYER: Has Mr. Peterson been sworn
22 in in this proceeding?

23 MS. SCHMID: No.

24 CHAIRMAN BOYER: Please raise your right
25 hand.

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CHARLES E. PETERSON,

having first been duly sworn, was examined and testified as follows:

CHAIRMAN BOYER: Thank you. Please be seated.

Ms. Schmid?

DIRECT EXAMINATION

BY MS. SCHMID:

Q. Good morning.

A. Good morning.

Q. Could you please state your name and business address for the record.

A. My name is Charles E. Peterson.
P-E-T-E-R-S-O-N.

My business address is Heber Wells Building;
160 East 300 South, Salt Lake City, Utah.

Q. By whom are you employed, and in what capacity?

A. I'm employed as a technical consultant in the Division of Public Utilities.

Q. Have you participated in this docket, particularly with regard to rate of return issues, for the Division?

A. Yes.

Q. Did you file direct testimony marked for

1 identification as DPU Exhibit 1, with accompanying
2 Exhibits 1.1 through 1.7(b)?

3 And I'd like to note that Exhibit 1.3(a) was
4 provided in both confidential and redacted form as
5 appropriate.

6 Did you cause that to be filed?

7 A. Yes.

8 Did you just say through 1.7 on the
9 exhibits?

10 Q. That should have been 1.17B.

11 A. Yes, I did.

12 Q. Do you have any corrections to that
13 pre-filed testimony?

14 A. No.

15 Q. Did you file sur-rebuttal testimony which
16 has been marked for identification as DPU No. 1.0 SR,
17 which was also provided in confidential and redacted
18 form?

19 A. Yes, I did.

20 Q. Do you have any corrections to that
21 pre-filed testimony?

22 A. Yes, I do.

23 Q. Could you please walk us through them?

24 A. Yes.

25 And I believe some of these numbers may be

1 considered confidential, so I don't know if that's a
2 problem.

3 Q. To the extent that they are, if you could
4 identify the line, and then perhaps I could provide, by
5 some other means, or if any --

6 MS. SCHMID: Has everyone here signed the
7 confidentiality agreement?

8 CHAIRMAN BOYER: I would hazard to venture a
9 guess on that.

10 And we're going to make a recording of this,
11 which will be posted to the internet, so let's just be
12 careful on that.

13 THE WITNESS: Okay.

14 CHAIRMAN BOYER: The confidential data.

15 THE WITNESS: Okay.

16 If you go to page eleven of my sur-rebuttal
17 testimony, and beginning with line 212, it says the
18 balance was, and then there's a confidential or
19 potentially confidential number.

20 MS. SCHMID: And I have provided those
21 numbers to Rocky Mountain's counsel, as well as noted
22 that these changes have been made to other counsel
23 present. And we could file a copy of this corrected
24 with the Commission.

25 THE WITNESS: I guess it's fair to indicate

1 that the corrected number is a little bit less than
2 half the original number.

3 MS. SCHMID: Yeah. Perhaps not.

4 CHAIRMAN BOYER: Perhaps during the lunch
5 break you could provide us with those numbers.

6 MS. SCHMID: Yes. Yes.

7 MS. McDOWELL: Commissioner, we will have
8 some cross-examination on confidential materials, so
9 maybe if we go to a confidential section during my
10 cross-examination, we could begin by having
11 Mr. Peterson put these -- this information into the
12 record.

13 CHAIRMAN BOYER: That's a good solution.
14 Thank you, Ms. McDowell.

15 Q. (BY MS. SCHMID) And so do you also have a
16 change on line 214?

17 A. Yes. The number there would also change.

18 Q. And then changes on 218 and 219?

19 A. Yes. I do not believe these would be
20 considered confidential, but I would change those to
21 read, starting with 218, its actual amounts results in
22 a capital structure of 50.8, or to four decimal places,
23 50.75 percent common equity; 0.3 preferred stock; and
24 48.9 for -- or percent debt.

25 Q. And so is the actual change number with

1 regard to the preferred stock, in parens, going out
2 four decimal places, 0.32?

3 A. Yes. 0.32 would be four more decimal
4 places, and 48.94 for the debt.

5 Q. Thank you.

6 A. And those are the corrections.

7 Q. If you were asked the same questions today
8 as set forth in your pre-filed testimony and as
9 corrected, would your answers today be the same as
10 those presented? In the testimony?

11 A. Yes.

12 MS. SCHMID: The DPU would like to move the
13 admission of DPU Exhibit 1.1, with Exhibits 1.1 through
14 1.17(b), and also the admission of DPU Exhibit
15 No. 1.0SR.

16 And the Division will under -- will provide
17 the Commission with copies -- hard copies of the
18 changes as well, and the parties. The counsel for the
19 parties.

20 CHAIRMAN BOYER: What about DPU-1.0? The
21 direct testimony.

22 MS. SCHMID: Sorry, and DPU 1.0. Thank you
23 very much.

24 CHAIRMAN BOYER: Are there objections to the
25 admission of the -- of this testimony into the record?

1 MS. McDOWELL: No objection.

2 CHAIRMAN BOYER: Mr. Dodge?

3 MR. DODGE: No objections.

4 CHAIRMAN BOYER: Very well, they are
5 admitted into evidence.

6 **(Whereupon, Exhibit Nos. DPU 1.1 through**
7 **1.17(b) and 1.0 SR were received.)**

8 MS. SCHMID: Thank you.

9 Q. (BY MS. SCHMID) Mr. Peterson, do you have a
10 brief summary?

11 A. I do.

12 Q. Please proceed.

13 A. Thank you, Commissioners, for the
14 opportunity to briefly emphasize the important points
15 from my testimony in this case.

16 In my direct testimony, I asserted a
17 mid-point cost of equity for Pacificorp of
18 10.50 percent. That is surrounded by what I consider
19 to be a reasonable range of approximately 10.1 to
20 10.8 percent.

21 In arriving at this conclusion, I considered
22 a number of options in the discounted cash flow model
23 and the capital asset pricing model. I also developed
24 a risk premium model based upon Value Line financial
25 strength ratings which I use as a check on other

1 models.

2 In developing the DCF models, I applied
3 earnings-only forecast growth rates, dividend-only
4 forecast growth rates, and the 75-25 percent weighted
5 average of forecast earnings, and dividend growth rates
6 that the Commission used in the 2002 Questar Gas
7 General rate case.

8 I support this weighting as a reasonable
9 compromise between the arguments for earnings-only
10 growth rates and dividend or other growth rates.

11 In the single stage or one-step DCF models,
12 the range was from 10.5 percent to 10.9 percent.

13 I estimated a number of two-stage DCF models
14 which gave a range between 9.6 and 10.7 percent.

15 I have -- I gave more weight to the
16 two-stage models than I have in previous years because,
17 upon further reflection, I am more comfortable with the
18 forecasts that I'm using than I have been in the past.

19 The historical results models gave a result
20 in the 9.4 percent range, or less, which I consider to
21 be unreasonably low in this case.

22 I've applied several variations of the CAPM
23 model, but I have concluded that little or no weight
24 should be given them because the results appear
25 unreasonable to me. Using 20-year bonds as the

1 risk-free rate, the CAPM models averaged about
2 8.3 percent.

3 My risk premium model had a range of 8.8 to
4 10.2 percent, and averaged about nine and a half
5 percent.

6 Given these data and ranges, I concluded
7 that a reasonable point estimate is 10.5 percent.

8 With the exception of equity capital
9 structure, I have no particular argument with the
10 Company's proposed cost of debt and preferred stock and
11 the capital structure generally. The Company prepared
12 a forecast of earnings and MEHC capital contributions
13 for the test year in order to estimate an average
14 capital structure.

15 Evidence to date suggests that the earnings
16 forecast was optimistic, which, if corrected, should
17 reduce the equity capital structure to about
18 50.5 percent from the Company's suggested 51 percent.

19 The other elements of the capital structure
20 would adjust accordingly.

21 The primary differences between Company
22 witness Dr. Hadaway and I are; one, his use of a
23 historical weighted average gross domestic product
24 growth rate resulting in higher DCF model numbers and
25 his reliance on historical authorized returns in other

1 jurisdictions. His other risk premium models should
2 likely be adjusted downward as well.

3 In my testimony, I argued against the GDP
4 growth rate, and I believe that if authorized returns
5 have relevance, they show that the recent awards are
6 approximately in the ten and the quarter to the ten and
7 a half range.

8 In sum, I believe my 10.5 percent cost of
9 equity recommendation is fair and reasonable, and is
10 supported by substantial evidence. My overall cost of
11 capital estimate of 8.26 percent is also fair and
12 reasonable and supported by substantial evidence.

13 Thank you.

14 Q. One question, just to clarify.

15 What was the percent of common equity that
16 you mentioned, and did it reflect the change that you
17 just made to the testimony?

18 A. The percent of common equity that I'm
19 recommending is 50.5 percent. The Company had
20 previously requested 51.0 percent.

21 MS. SCHMID: Thank you.

22 Mr. Peterson is now available for
23 questioning.

24 CHAIRMAN BOYER: Okay. Thank you,
25 Ms. Schmid.

1 Ms. McDowell, cross examination?

2 MS. McDOWELL: Thank you, Chairman Boyer.

3 **CROSS EXAMINATION**

4 **BY MS. McDOWELL:**

5 Q. So, Mr. Peterson, I'm going to begin by
6 asking you some questions about your recommended
7 capital structure in this case. I think you just
8 clarified that your recommendation is 50.5 percent.
9 Correct?

10 A. Yes.

11 Q. And the Company's recommendation, the
12 proposal, is 51 percent. Correct?

13 A. Yes.

14 Q. So do you have your Exhibit 1.3(a) in front
15 of you? And I believe it's a confidential exhibit.

16 A. Yes. We made it a confidential exhibit.

17 I have it.

18 Q. So I'm going to ask you some questions about
19 this exhibit, and I'm going to offer a related exhibit,
20 which will also be confidential. But I don't believe
21 that my questions are going to be confidential, and I
22 don't believe that they call for confidential
23 information, but if you're unsure, then let's take a
24 break and we'll talk with the Chairman about ways to
25 proceed from here.

1 And when I do handle -- hand out the
2 confidential cross-examination exhibit, then that will
3 need to be sealed in the record, as appropriate.

4 And just to be clear, to be clear here, the
5 reason that we're into confidential information is
6 because we're talking about earnings forecasts.

7 So, Mr. Peterson, do you have DPU Exhibit
8 1.3(a) in front of you?

9 A. Yes.

10 Q. Do you see column one of that exhibit? The
11 label 2008?

12 A. Yes.

13 Q. And does that set forth the Company's most
14 recent actual capital structure for 2008?

15 A. It sets forth the capital structure for
16 December 31st, 2008, based upon the Company's 10-K
17 form.

18 Q. And what was the common equity in
19 Pacificorp's capital structure as of that time?

20 A. 5 billion 946 million.

21 Q. And what is that on a percentage basis?

22 A. A percentage basis? Of the capital
23 structure?

24 Q. Yes.

25 A. It's 51.46 percent.

1 Q. And that's almost a full percentage point
2 higher than what you're recommending in this case.

3 Correct?

4 A. Yes.

5 Q. Now, the second column of this exhibit, this
6 is your support -- supports your exhibit that supports
7 your recommendation of the 50.5 percent capital
8 structure in this case? Is that correct?

9 A. Yes.

10 Q. Now, I'm going to hand you a cross exhibit,
11 RMP Cross Exhibit 1, which works off of this exhibit.
12 And it is a confidential exhibit.

13 **(Whereupon, Exhibit No. RMP CROSS 1**
14 **was marked for identification.)**

15 Q. (BY MS. McDOWELL) So, Mr. Peterson, I've
16 just handed you confidential RMP Cross 1. Do you have
17 that in front of you?

18 A. Yes, I do.

19 Q. Now, it's true, isn't it, that the company
20 has never included capital leases as debt in the debt
21 as a part of its regulatory capital structure?

22 A. I don't know that.

23 Q. Would you please accept that, subject to
24 check?

25 A. I guess.

1 Q. So -- and would you accept, also subject to
2 check, that the number in your estimated test-year
3 average for long-term debt includes capital leases?

4 A. I would be surprised if it didn't.

5 Q. So, what I've handed to you as confidential
6 DPU Exhibit 1.3(a), is an exhibit that removes the
7 capital debt component. Do you see that in the third
8 column over? 59.4 million?

9 A. I see what -- I see the 59.4 million, yes.

10 Q. And do you see that if you then move over,
11 it -- to the fourth column, that lowers the debt
12 component in the capital structure by removing capital
13 leases? Correct?

14 A. Yes.

15 Q. And that in turn increases the common equity
16 in the capital structure to 51.24 percent. Do you see
17 that?

18 A. Yes.

19 Q. And that's a number that exceeds your
20 50.5 percent number, doesn't it?

21 A. Yes.

22 Q. And it, in fact, exceeds the Company's
23 51 percent capital structure proposal for its common
24 equity, doesn't it?

25 A. Yes.

1 Q. So basically taking your -- your estimate
2 and removing the capital leases from the debt structure
3 produces a capital structure with a common equity
4 component in excess of what the Company is proposing in
5 this case.

6 A. Well, if you remove capital leases in about
7 \$60 million, that would be in effect, yes.

8 Q. Now, Mr. Peterson, I want to hand you
9 another exhibit. This one has been marked as Cross
10 Exhibit RMP 2.

11 **(Whereupon, Exhibit No. RMP Cross 2**
12 **was marked for identification.)**

13 Q. (BY MS. McDOWELL) Now, Mr. Peterson, before
14 I ask you a question about the cross examination
15 exhibit I've just handed out, I wanted to ask you a
16 general question. And that is, wouldn't you agree,
17 that your 50.5 percent capital structure is
18 insufficient to maintain the Company's Standard &
19 Poor's rating, or at least to satisfy their metrics?

20 A. I would not agree with that.

21 Q. So, can you turn to Cross Exhibit No. 2,
22 please?

23 And I want to direct your attention to page
24 6, lines 112 to 122.

25 Mr. Peterson, do you recognize this

1 testimony?

2 A. Well, it's been a while, but it looks like
3 it's my testimony from a couple of rate cases ago.

4 Q. From the Company's 2006 rate case?

5 A. Yes.

6 Q. Does that sound right?

7 And testimony in support of a stipulation in
8 that case, supporting a 52 percent capital structure?
9 Does that sound right?

10 A. Yes.

11 Q. So I wanted to ask you to take a look at the
12 testimony on lines one -- beginning on line 112. And
13 there the question posed to you was, Did the Division
14 consider the capital structure effects on the Company's
15 debt ratings?

16 And can you read the response that follows,
17 beginning on line 113?

18 A. You want me to read the whole response?

19 Q. Please.

20 A. Okay.

21 Answer: Yes. Standard & Poor's published
22 criteria indicated that, among other factors, a company
23 with Pacificorp's risk profile needs to be an equity
24 common and preferred percentage of 50 percent or higher
25 to maintain the Pacificorp's current bond rating.

1 Because Standard & Poor's includes
2 short-term debt and heads an amount for purchased power
3 agreements to the debt side of the equation, the result
4 is the regulatory capital structure needs to be higher
5 than the 50 percent in order to satisfy this particular
6 rating agency criteria.

7 The Division estimates that the 52 percent
8 common equity along with one percent preferred stock
9 puts the company close to the minimum capital structure
10 required by the Standard & Poor's criteria; therefore,
11 the Company's efforts to date to increase its equity
12 capital are reasonable in light of this rating agency
13 criteria.

14 Q. So, Mr. Peterson, in this testimony you
15 indicated that a total of 53 percent common equity was
16 close to the minimum required by Standard & Poor's.
17 Isn't that correct?

18 A. No, that's not quite correct. I said
19 52 percent common equity plus one percent preferred.

20 Q. But that combination would be close to the
21 minimum required by Standard & Poor's, correct?

22 A. That's what I said, yes.

23 Q. Now, there's nothing that's happened, since
24 the time you filed this testimony in 2006, that would
25 have caused Standard & Poor's to lessen their ratings

1 criterion, is there?

2 A. Not that I'm aware of.

3 Q. If anything, hasn't the intervening credit
4 crisis heightened Standard & Poor's' standards with
5 respect to meeting its rating criteria?

6 A. Well, I guess that's debatable. The
7 Standard & Poor's has raised its -- has raised the
8 Company's debt rating in recent months, so obviously
9 they're not terribly concerned about it.

10 Q. Well, the Company has consistently raised
11 its common equity percentage in the capital structure
12 over the past several years, hasn't it?

13 A. No, I think this was a high-water mark, in
14 2006.

15 Q. Well, let me turn your attention to page 17
16 of your direct testimony. Lines 356.

17 A. Excuse me, what was that page again?

18 Q. Page 17.

19 A. Okay.

20 And which line number?

21 Q. Line 356. Actually, it's the sentence
22 beginning at line 352.

23 A. Okay. We have a problem. Where we have
24 different line numbers.

25 Q. I'm on -- the sentence beginning, However,

1 given the Company's capital expenditure levels?

2 A. Okay. Okay.

3 Q. And its intent not to pay dividends?

4 A. I see that.

5 Q. Do you have that?

6 A. Yes, I see that.

7 Q. Then it goes on to say, Allowing the Company
8 to increase its equity capital percentage to
9 approximately the levels it has been at during the last
10 couple of years is reasonable.

11 Do you see that?

12 A. Yes.

13 Q. So if you begin with the 52 percent number
14 we just looked at for 2006, do you recall that the
15 common equity percentage set in the 2007 rate case
16 order was approximately 50.4 percent? Does that sound
17 right?

18 A. That sounds about right.

19 Q. And in the stipulation that was approved
20 last year, there was a 51 percent common equity
21 component. Does that sound right to you?

22 A. Yes.

23 Q. So would you accept, subject to check, that
24 the average of those three numbers is a number in
25 excess of 51 percent?

1 A. Subject to check, yes.

2 Q. Again, higher than what you recommend in
3 this case, and also higher than what the Company's
4 proposed in this case?

5 A. Meaning the average of those three or
6 four years?

7 Q. Three numbers, yes.

8 A. Yes.

9 Q. So I want to ask you some questions about
10 the corrections that you made in your sur-rebuttal
11 testimony. That's on pages 11 and 12 of your
12 sur-rebuttal.

13 A. Sure.

14 MS. McDOWELL: So, Chairman Boyer, at this
15 point I'm going to be asking some questions about the
16 specific numbers that Mr. Peterson has testified have
17 changed since the time of the sur-rebuttal.

18 CHAIRMAN BOYER: Is there a way you could
19 word your questions by pointing out those numbers, and
20 then getting him to agree with them or disagree with
21 them without actually disclosing those numbers?

22 Otherwise, we're going to have to stop the
23 digital recording.

24 MS. McDOWELL: I think that there is
25 about -- there are about five minutes of questions that

1 we'll get into projected earnings and projected capital
2 structure levels that are likely to implicate
3 confidential information. So I'm sorry to -- I don't
4 think it's possible to do this line of questioning.

5 CHAIRMAN BOYER: Okay. Well, let's -- let's
6 deal with those in the audience today.

7 I believe everybody on the right side of --
8 of my right side of the room has signed, or is covered
9 by the confidentiality requirements, as I see them.

10 And on your side of the room? They're all
11 your folks, right? And Mr. Dodge is representing a
12 party.

13 So I think that everyone here can hear the
14 evidence.

15 Now I'm going to have to take a
16 couple-of-minute recess and get someone to turn this
17 off, because I've never used this device. The digital
18 recording device. So we'll just take a two-minute
19 recess. You can just stay in place.

20 MS. McDOWELL: Thank you. I appreciate your
21 accommodation.

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1 CHAIRMAN BOYER: Thank you.

2 Okay. Back to you, Ms. McDowell. We're
3 back recording.

4 MS. McDOWELL: Thank you, Chairman Boyer.

5 Q. (BY MS. McDOWELL) I want to ask you about
6 your direct testimony at page 33, beginning on line
7 724.

8 Do you have that? Actually, it begins on
9 line 723. Do you have that testimony?

10 A. Yes. What is the --

11 Q. It begins with the word However.

12 A. Okay. That's line 722 on my copy, but I can
13 find it.

14 Q. Okay. So -- so, in any event, the sentence
15 that I'm -- wanted to ask you about, it
16 states, "However, the company is consistently -- just
17 to lay the foundation, you're talking about whether
18 Pacificorp is typical of the comparable companies in
19 your group, and you state, "However, the company is
20 consistently average or below average in return on
21 equity and return on assets and in revenues for fixed
22 assets."

23 Do you see that?

24 A. Yes.

25 Q. And skipping down to lines 731, you -- to

1 line 731, you make another comparison about Pacificorp,
2 or Rocky Mountain Power, as opposed to -- or compared
3 to the companies in the comparable group.

4 And there you state that the Company's
5 operating income, as a percentage of revenues, is
6 favorable compared to the other companies, which
7 suggests relatively good cost control performance by
8 the company.

9 Do you see that?

10 A. Yes.

11 Q. Now, you provide an explanation or an
12 opinion as to the possible cause of statements or the
13 Company's performance with respect to or relative to
14 the companies in the comparable group, beginning on
15 line 725. Do you see that?

16 A. Or 725 on my copy, and it begins, "Part of
17 the reason."

18 Q. I'm sorry our page numbers are off.

19 A. Just a moment.

20 Oh, okay. When you had me down on line 730,
21 I thought we were going to continue. But you
22 back-tracked on me.

23 "Part of the reason," yes, I see that.

24 Q. So can you explain there your testimony?

25 I'm trying to reconcile these two comparison

1 points that you make.

2 A. Well, yes.

3 Looking at the financial data, and comparing
4 Pacificorp with the comparable or proxy companies that
5 I use. And I think this is -- yes, it says on
6 Exhibits 1.17, A and B.

7 I wanted a sense of how the company fit with
8 these comparable companies in terms of these
9 measurements.

10 And in some measurements, the company turned
11 out to be -- to be better than average. To compare
12 favorably with them.

13 And I highlighted the operating income as a
14 percentage of revenues.

15 The other items that we men -- that we
16 discussed earlier, such as return on equity, and return
17 on total assets, and sales to fixed asset ratios were
18 below average compared to these companies.

19 Fixed -- the sales or revenues to fixed
20 assets were particularly low. And so you have a
21 company that has a mixture of good and bad features
22 with it, with respect to these financial ratios and
23 analyses.

24 So the conclusion I came to, overall, is --
25 is that the company is about average, all over, with

1 respect to these financial ratios, with the comparable
2 companies that I selected.

3 And while the conclusion was -- is that it
4 was reasonable to use these comparable companies.

5 Q. So I wanted to ask you specifically about
6 your testimony from lines 725 -- or my copy, to 729,
7 where you indicate that part of the reason for the
8 below-level ranking for revenues for fixed asset may be
9 due to the Company's wide geographic area that services
10 low population base? Do you see that?

11 A. Yes.

12 Q. And then you conclude that this requires
13 Pacificorp to invest in plant and service in this large
14 region without the population density that other
15 utilities have. Do you see that?

16 A. Yes. That's what I wrote.

17 Q. Did you offer that as an explanation for the
18 Company's consistently below average return on equity
19 results?

20 A. Well, specifically I think the -- looking up
21 on line -- what's line 724 with me, part of the reason
22 for the below-average ranking for revenues for fixed
23 asset, then that was the explanation for that
24 measurement, or my suggested possible explanation. I
25 wasn't commenting here particularly on return on equity

1 and assets.

2 Q. So, I want to just briefly hand you your
3 2008 testimony, page 27, lines 592.

4 And I just have one copy, so I'll show it to
5 your counsel before I show it to you.

6 So, Mr. Peterson, I've just handed you your
7 testimony from -- your direct testimony from Pacificorp
8 2008 rate case. And I've asked you to take a look at
9 page 27, lines 592 to 606 of that testimony.

10 Do you have that?

11 A. Yes.

12 Q. And you provided almost identical testimony
13 in the 2008 case on this point to the testimony we just
14 went through. Isn't that correct?

15 A. Yes. Some things don't change.

16 Q. So Pacificorp's relatively poor earnings
17 performance and relatively good cost control
18 performance compared to your proxy group is not a new
19 issue, is it?

20 A. No.

21 Q. So, Mr. Peterson, I want to read you a
22 definition of business risk that was stated by this
23 Commission in a previous case, Docket 97-049-08, and
24 ask you whether you agree with it.

25 And the quote is as follows.

1 Defining business risk.

2 "Business risk arises from the operational
3 environment of the firm, so all operational aspects of
4 demand and supply are relevant to it. It is the
5 possibility that actual returns will deviate from
6 expected returns."

7 Do you agree with this definition of
8 business risk?

9 A. Yes.

10 Q. So turning back to your testimony at page
11 33.

12 A. Okay.

13 Q. This is your testimony in this case.

14 Isn't this testimony that we just discussed
15 fairly summarized as describing a business risk that
16 the company faces applying the definition we just
17 discussed?

18 A. That would be a fair representation,
19 although some of the -- well, what was discussed here
20 on this page, that would be primarily business risk
21 type of items.

22 MS. McDOWELL: So that's all the questions I
23 have.

24 I'd like to offer our Cross Exhibits 1
25 through 3.

1 CHAIRMAN BOYER: Are there objections to the
2 admission of Rocky Mountain Power Cross Exhibits 1
3 through 3?

4 MS. SCHMID: None.

5 CHAIRMAN BOYER: Then they are admitted.

6 MS. McDOWELL: I'd just note also that both
7 Cross Exhibits 1 and 3 consist -- 1 is confidential,
8 and 3 is partially confidential.

9 CHAIRMAN BOYER: Thank you.

10 **(Whereupon, Exhibit Nos. RMP Cross 1 through**
11 **3 were received.)**

12 CHAIRMAN BOYER: Very well. Let's turn now
13 to Mr. Proctor. Have you questions?

14 MR. PROCTOR: Yes, thank you, Mr. Chairman.

15 **CROSS EXAMINATION**

16 **BY MR. PROCTOR:**

17 Q. Mr. Peterson, in your rebuttal testimony, on
18 page ten line 179, you made the comment; "However, if
19 Dr. Hadaway believes that authorized rates of return in
20 other jurisdictions are valid estimators of cost of
21 equity, then perhaps Dr. Hadaway will now agree to give
22 weight to Pacificorp's own recent cost of capital
23 settlements in Oregon and Washington."

24 And there you cite, in a footnote, the two
25 cases that we discussed early this morning.

1 Mr. Peterson, were you present during
2 Dr. Hadaway and Mr. Williams' testimony pertaining to
3 those two cases and the settlements of them?

4 A. Yes.

5 Q. If that's the case, then I want you to make
6 certain assumptions that come from that testimony.

7 And first of all, in the state of
8 Washington, the rate of return that's been requested of
9 the Commission is 8.06. That the return on equity is
10 10.2. And I want you to assume that that comes from a
11 fully litigated case wherein the Commission determined
12 10.2 percent as the return on equity for reporting and
13 accounting purposes.

14 And I want you to also assume that that rate
15 effective date will be February the 2nd, 2010.

16 And in Oregon --

17 MS. McDOWELL: Your Honor, I'm going to
18 object to this question. It's already gone on, I
19 think, too long, and it includes way too many
20 assumptions to be a proper question.

21 MR. PROCTOR: This witness is an expert, and
22 I'm certainly entitled to ask him certain assumptions
23 with regard to making an opinion.

24 CHAIRMAN BOYER: But Ms. McDowell does make
25 a point. Can you separate the two and deal with the

1 Washington debut, the Wyoming case, whichever you want?

2 MR. PROCTOR: The question relates to both,
3 but I can certainly ask that question as it relates to
4 both.

5 CHAIRMAN BOYER: Thank you.

6 Q. (BY MR. PROCTOR) With respect to
7 Washington, Mr. Peterson, what weight should this
8 Commission give to that resolution of the rate of
9 return and return on equity?

10 A. You're asking me to advise the Commission
11 what weight they should give on it?

12 Q. I'm asking you to provide an opinion as to
13 what weight they should give.

14 A. Very little.

15 Q. Would that also be true of the rate of
16 return of 8.08 in Oregon, and implied ROE of 10.125,
17 and a rate effective date of January the 1st, 2010?

18 A. While they may take notice of that, they
19 should still understand that the problems that were
20 discussed earlier still pertain. And that without a
21 full explanation as to what the Commission decided,
22 it's hard to see what give and take may have resulted
23 from those decisions.

24 Also, there could be somewhat unique local
25 jurisdictional events or issues that may be not

1 appreciated. However, the Commission could take notice
2 of it, and give it what weight it feels it deserves.

3 Q. Did you take into account, in your
4 calculations, any local jurisdictional events?

5 A. In my calculations, I did, in the sense that
6 the Commission has, in the past, supported, more
7 strongly, DCF models than alternative models. And that
8 is a consideration that's a local jurisdictional issue.

9 I do not necessarily disagree with what the
10 Commission has done in the past, although I've
11 mentioned in my testimony that I think more
12 consideration should be given to other models,
13 particularly CAPM, when appropriate.

14 Q. But you applied those models, whatever they
15 were, to the Company as a whole, did you not?

16 A. Yes, I did.

17 Q. So when you were suggesting that Dr. Hadaway
18 should perhaps now agree to give weight to Pacificcorp's
19 own recent cost of capital settlements in Oregon and
20 Washington, what rate were you speaking of for
21 Dr. Hadaway to give?

22 A. The comment in the sur-rebuttal testimony
23 goes back to Dr. Hadaway's use of jurisdictional
24 information. And so I was merely suggesting, for
25 Mr. Hadaway, that he may perhaps want to give weight to

1 it, since he gives weight to it in his other -- excuse
2 me. I'm -- just got a charliehorse in my leg.

3 Q. Has the wheel come off?

4 A. No, the wheel hasn't come off, so the
5 commissioner didn't switch chairs on me.

6 As I mentioned earlier, one of the
7 criticisms we've had ongoing -- or that I have had
8 ongoing with Dr. Hadaway, is his use of jurisdictional
9 information as representing a -- some sort of market
10 indicator of what the cost equity would be. And so his
11 -- given the -- which I disagree with.

12 So given the fact that there have been
13 recent cases for his own client, where they've settled
14 in the low ten percent range, then perhaps Dr. Hadaway
15 should give some weight to it. I'm not going to
16 suggest what it is, but it's a -- to me, it's an
17 indication of the flaw in using jurisdictional results
18 in a rate case.

19 Q. But yet you're selecting a model to apply to
20 the Company as a whole that you believe comes from a
21 local jurisdictional event.

22 A. Well, I'm giving weight to a model that's
23 been based on local jurisdictional decisions. And, you
24 know, that is what it is. But it does not -- but the
25 model itself does not resolve -- or is not tainted, so

1 to speak, with these non-market factors.

2 Q. You also, in your testimony, have suggested
3 that there is a range between 10.1 and 10.8 of a return
4 on equity.

5 You have selected 10.5 as -- as your number,
6 but the range that you, yourself, have cited, covers
7 the results in both Washington and Oregon, does it not?

8 A. Yes, it does.

9 MR. PROCTOR: Thank you, Mr. Peterson.

10 CHAIRMAN BOYER: Thank you, Mr. Proctor.

11 Mr. Dodge, have you questions for
12 Mr. Peterson?

13 MR. DODGE: No questions.

14 CHAIRMAN BOYER: Very well. We'll turn now
15 to the commissioners.

16 Commissioner Allen?

17 And I have none either.

18 Ms. Schmid, any redirect?

19 MS. SCHMID: Yes, I do have some redirect.

20 And a portion of the redirect deals with the
21 confidential exhibits and questions pertaining to
22 confidential numbers, so I'd request that we cease the
23 digital recording, if it's -- pleases you.

24 CHAIRMAN BOYER: Okay. Let's hope our
25 colleagues are listening in and can disable the

1 recording device. We'll wait for a moment and see if
2 they're listening in.

3 MS. SCHMID: While we're waiting, I do have
4 one question that does not pertain to confidential
5 information, and I --

6 CHAIRMAN BOYER: Let's proceed. We can go
7 off the record and you can proceed with that question
8 while we're adjusting the recording devices.

9 **CROSS EXAMINATION**

10 **BY MS. SCHMID:**

11 Q. Mr. Peterson, you were asked questions
12 regarding decisions in other jurisdictions, and you
13 were asked to assume that a case was fully litigated.

14 In your opinion, does it matter whether a
15 case is fully litigated or settled? As to the
16 validity or the bearings of the numbers that come out
17 of such a case?

18 A. Well, a letter -- a fully litigated case --

19 CHAIRMAN BOYER: Is your mic on, Mr. --

20 THE WITNESS: I'm sorry, it isn't.

21 In a fully litigated case, presumably the
22 Commission, or other body, has weighed the evidence and
23 come up with an appropriate result. However, in a
24 negotiated case, the parties themselves weigh the
25 evidence and come up with what they think is an

1 appropriate result.

2 So while it may be tempting to make a
3 distinction between a fully litigated case and a
4 negotiated case, as an outside observer it would be
5 difficult to genuinely say that a negotiated case and a
6 litigated case are necessarily qualitatively different
7 in their outcomes.

8 That's about all I can say about that.

9 Q. Thank you.

10 MS. SCHMID: And now I'd like to go to the
11 confidential materials if I may.

12 CHAIRMAN BOYER: Would you disable the
13 recording devices, please?

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1 CHAIRMAN BOYER: Okay. We're all here but
2 Mr. Dodge. He's probably on his way.

3 Let's go back on the record.

4 And now is the time in the proceeding where
5 we'll hear from the Office of Consumer Services.

6 Mr. Proctor?

7 MR. PROCTOR: Thank you, Mr. Chairman. I
8 believe that Mr. Lawton needs to be sworn.

9 **DANIEL J. LAWTON,**

10 having first been duly sworn, was examined and testified
11 as follows:

12 MS. SCHMID: You may proceed.

13 **DIRECT EXAMINATION**

14 **BY MR. PROCTOR:**

15 Q. Mr. Lawton, you are Daniel J. Lawton, and
16 the person who filed pre-filed written testimony in
17 this matter. Is that correct?

18 A. Yes, I am.

19 Q. By whom are you employed?

20 A. I am self-employed. I have a law firm in
21 Austin, Texas.

22 Q. The testimony that you filed, there has been
23 filed, was -- is marked as OCS 1D ROR Lawton,
24 consisting of 36 pages, and --

25 Oh. Mr. Lawton, I believe your mic may not

1 be on.

2 A. My light is. It's on now.

3 Q. Thank you.

4 And also, ten exhibits, marked Exhibit
5 OCS 1.1 through 1.10.

6 And in addition, OCS -- or sur-rebuttal
7 testimony marked OCS 1SR ROR Lawton, consisting of
8 eight pages.

9 Do you have any corrections that you wish to
10 make to any of the testimony or the exhibits?

11 A. None that I'm aware of.

12 Q. And if the same questions were asked of you
13 today, would your answers remain the same?

14 A. Yes, they would.

15 MR. PROCTOR: The office would move to admit
16 the testimony of Mr. Lawton as marked.

17 CHAIRMAN BOYER: Are there any objections to
18 the admission of Mr. Lawton's testimony?

19 MS. SCHMID: None.

20 CHAIRMAN BOYER: Okay. Very well. They are
21 admitted into evidence.

22 **(Whereupon, Exhibit Nos. OCS 1D ROR LAWTON**
23 **and OCS 1.1 through 1.10 were received.)**

24 Q. (BY MR. PROCTOR) Mr. Lawton, do you have a
25 brief summary of your testimony that you've filed in

1 this matter?

2 A. Yes, I do.

3 Q. Would you provide that to the Commission,
4 please?

5 A. Sure.

6 Good afternoon, Commissioners; Mr. Chairman,
7 and Commissioners.

8 My name is Dan Lawton, and I provided
9 testimony on behalf of the committee in this case, on
10 the topic of rate of return that we've been hearing
11 about most of the morning. I won't talk about Rate of
12 Return 101. You've indicated you've read all of the
13 testimony, and all of the details certainly, or
14 certainly more than you need, probably, are in the
15 written testimony.

16 My -- I just want to hit some of the high
17 points here, and -- in my summary, and make a few brief
18 comment on the important issues that I see, in trying
19 to provide you guidance in making your important
20 decision.

21 Now, in this case, the Company's asked for
22 an 8.54 percent overall rate of return to be earned on
23 a rate base that's \$4.6 billion. Just multiply those
24 two, and we see that revenue requirements is a
25 substantial part of return.

1 And embodied in the Company's rate of
2 return, or -- of 8.54, is an 11 percent request for
3 profit for the shareholders.

4 Now, as I discussed in detail in the
5 testimony I mentioned, that's already been filed and
6 you've read, I recommend a ten percent return on equity
7 in this case. And there are a number of reasons why I
8 do, and why I believe it's appropriate.

9 But before getting to that, as you're aware,
10 the overall return -- and I point it out, and an
11 applied rate base is a significant component. And when
12 you make your decision on return on equity in this
13 case, every 50 basis points is worth about \$19 million
14 of revenue requirements to consumers. And that impact,
15 the decision you make in this case is not only this
16 case, but future cases.

17 As I point out in my testimony -- I'm going
18 to talk about it in a moment -- the Company is going to
19 embark on what is often characterized as single-issue
20 rate making. The legislature of Utah has provided the
21 Company an opportunity to include major plant
22 investments as single issues that -- and I think those
23 cases, according to Mr. Walje, those cases will be
24 forthcoming. And the return you set in this case will
25 dictate the revenue requirement customers have to pay

1 in those future cases when single-issue rate making
2 comes before you.

3 It hasn't been before you yet, but it's
4 expected.

5 Now, the difference between the witnesses in
6 this case, or at least between Mr. Hadaway -- or
7 Dr. Hadaway and myself, we all use the same models to
8 estimate cost of equity. And we're pretty close in
9 time periods and measuring cost of equity. The
10 difference is some judgement involved on the imports of
11 the models, but basically the models are the same.

12 And moreover, I've adopted and recommended
13 adoption of the Company's proposed capital structure in
14 this case, and the cost rates for debt and preferred
15 stock.

16 The only difference between Dr. Hadaway and
17 myself in this case is that I recommend a ten percent
18 return on equity, and Dr. Hadaway recommends an 11
19 percent.

20 Now, one other consideration that's
21 important, and I heard it discussed this morning, and
22 that is current capital market conditions. What are
23 they?

24 We've recently gone through this turmoil.
25 We all experienced it ourselves, in our own retirement

1 programs and investments. Current capital market
2 conditions have substantially improved and overcome
3 many of the problems that we saw in the marketplace
4 back in September '08 through at least December '08.

5 And I've got an exhibit in my direct
6 testimony. It's CCS 1.2, and it shows the trends in
7 interest rates.

8 And as you can see, the interest rates, for
9 example triple A bonds, triple B bonds, are at or below
10 the levels that -- that were in the market prior to the
11 economic turmoil taking place.

12 What does that mean? That means that many
13 of the government programs, not only in the United
14 States but -- the Federal Reserve, but around the world
15 have had an impact and continue to have an impact. And
16 you'll see that current interest rates are even lower
17 than the those I presented in my testimony.

18 Now, Dr. Hadaway and I had differences in
19 inputs. And you'll see, at page -- I think it's
20 page -- I wrote it down. Page 19, line 490 of my
21 direct testimony. I cal -- we both calculate the DCF.
22 I calculated the dividend yields for the DCF.

23 And I indicated at that time, based on six
24 weeks of evidence -- of data, that the dividend yield
25 is 5.1 percent for the comparable group. We both used

1 the same comparable group, so there's no difference
2 there.

3 And I pointed out that Dr. Hadaway's
4 dividend yields of 5.5 and 5.6 percent in his direct
5 testimony were 50 basis points too high, and should not
6 be relied upon. They were out of date.

7 Well, what do we have in a sur-rebuttal
8 testimony? Dr. Had -- and what did he say this
9 morning? He's at 5.2 percent for his dividend yield.

10 So what I said in September, when I wrote
11 this testimony, has turned out to be correct. And
12 Dr. Hadaway has agreed this morning.

13 Same thing with growth rates. If you look
14 at the growth rate recommendation I made in my direct
15 testimony back in September, I recommended a -- a
16 growth rate of 5.7 to 5.8 percent. You can see page
17 21, line 50 for that.

18 I pointed out Dr. Hadaway's growth rate in
19 excess of six percent was too high. Ought not be
20 relied upon.

21 Well, Dr. Hadaway's sur-rebuttal came down
22 to 6.8 percent -- or 5.8 percent. Just at the top of
23 my range.

24 So it -- again, what I was saying back in
25 September has turned out to be quite correct.

1 Now, another important factor, and --
2 that -- that I recommend that you consider -- we talked
3 about it a moment ago -- is the single-issue rate
4 making. The Company's less risky. Why? Because it
5 will be allowed to file cases on an expedited basis,
6 and recover costs associated with major investments
7 without having to file a major rate case. That assists
8 the Company in avoiding regulatory lag.

9 The Commission will be required to use
10 factors that are determined, many of which in this
11 case, to set the revenue requirements in the future.

12 By eliminating regulatory lag and addressing
13 one of the major problems we've seen in case after
14 case, the Company complains, We have high growth, we
15 need a lot of investment, we need to get the rates in
16 place. Well, this single-issue rate making that
17 Mr. Walje talks about in his testimony will certainly
18 address that.

19 Also, an ECAM mechanism. The Company has
20 proposed an ECAM mechanism, and I believe that -- that
21 such will be coming before you. But it's addressed in
22 this testimony because it reduces risk of the company.
23 All you need to do is to look at Mr. Williams' evidence
24 that he put in this morning.

25 In his rebuttal testimony, his last rebuttal

1 exhibit, is an S&P report on what should the rating of
2 this company be. Pacificorp specifically.

3 The points they -- S&P brings up is ECAM --
4 they're less risky because they have ECAMs in certain
5 states, and then they point to Utah and Washington,
6 where they don't have a purchased power adjustment
7 clause and said, Those cause risk. So by im -- putting
8 in an ECAM, the Company's risk, as seen by the rating
9 agencies -- these are the people that are talking, it's
10 the Company's own evidence -- Company's own risk goes
11 down.

12 And I ask that when you go through all of
13 the evidence, and you vet it and consider all of these
14 factors, that I hope you -- you can come up with a
15 conclusion that -- that some return on equity close to
16 ten percent is appropriate.

17 I thank you for your time.

18 CHAIRMAN BOYER: Thank you, Mr. Lawton.

19 Ms. McDowell, cross-examination?

20 MS. McDOWELL: Thank you.

21 **CROSS EXAMINATION**

22 **BY MS. McDOWELL:**

23 Q. Good afternoon, Mr. Lawton?

24 A. Good afternoon, Ms. McDowell.

25 Q. So do you have your direct testimony in

1 front of you?

2 A. I do.

3 Q. I'd like to ask you a couple of preliminary
4 questions about your testimony.

5 Can you turn to page ten, please?

6 A. I'm there.

7 Q. And do you see the question at line 248?

8 A. I do.

9 Q. And it asks, What principal methodology do
10 you employ in your cost of capital analyses?

11 A. Yes.

12 Q. And then you indicate that the DCF model,
13 the discounted cash flow model is your principal
14 methodology. Do you see that?

15 A. Yes.

16 Q. In your opinion, is the DCF model the best
17 analytical technique for measuring a utility's cost of
18 capital?

19 A. In my opinion, yes. But that doesn't mean
20 in my opinion that others should be ignored.

21 Q. Can you turn to -- well, let me just turn
22 a -- pass out a cross-examination exhibit for a moment.

23 A. Sure.

24 **(Whereupon, Exhibit No. RMP Cross 4 (ROR)**
25 **was marked for identification.)**

1 Q. (BY MS. McDOWELL) So, Mr. Lawton, I handed
2 you what I've marked as RMP Cross Exhibit 4. Do you
3 see that?

4 A. I have it, ma'am.

5 Q. And can you identify that document?

6 A. This appears to be the testimony filed
7 January 8th, 2009, on behalf of the Committee of
8 Consumer Services, in Docket No. 08-035-38.

9 Q. So that was Pacificorp's last rate case?

10 A. Yes. Rocky Mountain Power's last case.

11 Q. Right. Rocky Mountain Power's last rate
12 case. And that testimony was filed in January of 2009?

13 A. That's correct.

14 Q. And is it fair to say that the data on which
15 you relied in filing this testimony was drawn from the
16 period immediately preceding January 2009, say December
17 of 2008?

18 A. Or prior to that.

19 Q. But generally about that time period?

20 A. It would depend on which data you're talking
21 about.

22 Q. So sometime perhaps between September or
23 December 2008?

24 A. Again, I don't know what date --

25 If you get specific, I'll look at it.

1 Q. Fair enough. Fair enough.

2 So I wanted to ask you a question about a
3 statement you made in your summary.

4 There you indicated that current market
5 conditions have substantially improved since the time
6 period of September through December 2008. Do you
7 recall that testimony?

8 A. That is correct.

9 Q. And I wanted to test that hypothesis with
10 you by comparing your testimony in the 2008 rate case
11 that was drawn, at least in part from that period, and
12 your testimony in this case.

13 A. Sure.

14 Q. So can you please turn to page -- well, let
15 me just back up a moment and ask you about dividend
16 yields.

17 Now, you would agree that those are a key
18 input into your principal methodology, your DCF method?

19 A. Absolutely.

20 Q. And again, just backing up for a moment, if
21 stock prices are low, generally that will drive
22 dividends higher. Is that correct?

23 A. That is correct.

24 Q. And other things being equal, the higher the
25 dividend goes, the higher the DCF results will be?

1 A. Assuming the same growth rates and impacts,
2 yes.

3 Q. All things equal, that's the direction it
4 will go.

5 A. Yes.

6 Q. If you can turn to page 12 of RMP Cross 4,
7 and that's where you talk about the dividend yield in
8 that testimony.

9 A. Yes.

10 Q. And I believe it's line 356.

11 A. I'm there.

12 Q. Do you see that?

13 A. Yes.

14 Q. And there you indicate that your dividend
15 yield was a range of between 4.62 and 4.66. Do you see
16 that?

17 A. Yes.

18 Q. So can you turn, now, to your testimony in
19 this case, page 19?

20 A. I'm there.

21 Q. And can you look at page -- or excuse me,
22 line 490?

23 A. I'm there.

24 Q. And do you see your dividend yields stated
25 for this case?

1 A. Yes.

2 Q. 4.95 to 5.1 percent? Do you see that?

3 A. Yes.

4 Q. So the difference, or the increase in
5 dividend yield in this case over the 2008 case is
6 between 33 and 44 basis points, correct?

7 A. The change in the numbers reported, that's
8 the mathematical difference. But what you haven't
9 pointed out is -- we can address it, is the dividend
10 yield calculation is different in both cases because of
11 the economic crisis.

12 Q. But the basic data, and your yield, shows
13 that your yield in this case is approximately between
14 33 and 44 basis points higher than the 2008 case.

15 A. That's -- that's absolutely correct.

16 Q. Okay.

17 So then can you turn back to RMP Cross 4.

18 So that's your 2008 testimony, and turn to
19 table one, please?

20 That's on page 16.

21 A. I'm there.

22 Q. Line 460, the table that appears there.

23 A. Yes.

24 Q. Now, do you see that you, at line 461,
25 summarize your DCF results in the 2008 case? And do

1 you see that's between 9.8 and 10.2 percent?

2 A. I do.

3 Q. So there's a mid-point of 10.0 from your DCF
4 model?

5 A. Yes. I see that.

6 Q. So now can you turn to the equivalent table
7 in your 2009 testimony, which is table three on page
8 23?

9 A. I am there.

10 Q. Line 594.

11 And your DCF results in this case are
12 between -- as listed on line 594, between 10.2 percent
13 and 10.6 percent. Do you see that?

14 A. If you're looking in the comparable group
15 column, yes. That would be it.

16 Q. And I was actually just looking at your
17 summary statement at line 594.

18 A. It's correct.

19 Q. Range of estimates 10.2 to 10.6, with a
20 mid-point of about ten -- or cost of equity of about
21 10.4 percent. Do you see that?

22 A. Yes.

23 Q. So, again, that's about 40 -- that's
24 40 basis points higher than the 2008 case. Correct?

25 A. Than the reported mid-point, yes.

1 Q. Right.

2 So according to the results of your
3 principal methodology, DCF, the cost of capital, has
4 increased, since the end of 2008 to this case, a
5 40-basis point increase.

6 A. There's a 40-basis-points difference, yes.

7 Q. And that 40-basis-point difference is
8 precisely the increase that Dr. Hadaway has recommended
9 from the current ROE now in place for Rocky Mountain
10 Power of 10.6, and the 11.0 percent recommendation he
11 makes. Correct?

12 A. Mathematically, that's -- that's his number.
13 But, of course, you're -- by extrapolating from this,
14 you're taking it out of context.

15 Q. Now, Mr. Lawton, the 10.6 number, it's
16 actually, I believe, 10.608 percent to be precise, is a
17 result of a stipulation in this -- in the 2008 case.
18 Correct?

19 A. I don't think the -- I haven't rounded it
20 out to the third digit, but I've been going with
21 10.6 percent.

22 Q. And that amount is the result of a
23 stipulation, correct?

24 A. It's my understanding it was a stipulation
25 on the last case.

1 Q. And do you also understand that that
2 stipulation was approved sometime in the spring, April,
3 with effective dates in May?

4 A. I -- I don't -- I did not follow, nor do I
5 recall the -- the date the Commission approved their
6 stipulation, or the effective date.

7 Q. So do you understand that the cost of
8 capital stipulation in that case was a separate
9 stipulation, not a stipulation that was part of a
10 larger revenue requirement stipulation?

11 A. I -- I thought that the revenue requirement
12 was stipulated in the last case.

13 Q. Why --

14 A. Not just --

15 Q. My question was, do you understand that the
16 cost of capital settlement itself was a separate
17 stipulation?

18 A. No, I --

19 Q. You don't?

20 A. I -- I was asked to look at the stipulation,
21 as I recall, in the last case, because I was preparing
22 testimony, as I recall.

23 Q. And your client -- just to be clear, your
24 client, the Office, was a party to that stipulation,
25 correct?

1 A. Well, I think so. I was hired in the last
2 case, and they represented to me they were a party, and
3 so I -- I did work. I think I reviewed the -- some
4 documents, but I don't recall that it was a separate
5 stipulation or a document separate and apart from all
6 revenue requirement issues, or all issues in the case,
7 as you represent here.

8 Q. So, Mr. Lawton, your recommendation in the
9 2008 case was ten percent. Correct?

10 A. The --

11 Q. Your ROE recommendation?

12 A. If we're going by your Cross Exhibit No. 4,
13 yes.

14 Q. That was your recommendation in your direct
15 testimony. Correct?

16 A. I believe so.

17 Q. And you didn't file any sur-rebuttal
18 testimony in that case?

19 A. I probably stipulated, or I didn't -- or
20 didn't have time to file. I don't recall.

21 Q. So I wanted to ask you about some of the
22 complaints that you have made about Dr. Hadaway's DCF
23 analysis, both pertaining to his growth rate and his
24 dividend yield.

25 A. Yes.

1 Q. So I believe you have testimony at page five
2 of your direct testimony, line 115, that summarizes
3 your concerns about Dr. Hadaway's DCF analysis.

4 A. That's incorrect.

5 Q. And --

6 MR. PROCTOR: I'm sorry, what was the
7 answer?

8 THE WITNESS: I think it was -- the answer
9 to her question was that is incorrect.

10 MS. McDOWELL: That is incorrect.

11 Q. (BY MS. McDOWELL) I said that you had
12 testimony on -- I thought you said that is correct.

13 I said this is -- on page five, this is
14 testimony that summarizes concerns that you have about
15 Dr. Hadaway's constant growth DCF method.

16 A. That is correct, but your question was, at
17 page -- line 115, that summarizes your critique of --
18 or -- or complaints about Dr. Hadaway's DCF. That
19 question would be incorrect.

20 Q. All right. So -- so, just as far as it
21 goes, you're simply referring to the constant growth
22 DCF, your concerns about the constant growth DCF method
23 in this Q and A. Is that right?

24 A. Yes. I was talking about his constant
25 growth DCF on line 115, to which you referred, that is

1 discussing growth rates.

2 Q. And I'm sorry, I meant to say the answer
3 beginning on line 115. So sorry if that question was
4 confused.

5 So basically from 115 to line 121.

6 And there you talk both about growth rates
7 and dividend yields. Correct?

8 A. No.

9 Q. On line 120? You express a concern about
10 the dividend yield estimates. Do you see that?

11 A. Yes. Yes.

12 Q. So this is really not a major point, but
13 just trying to lay the foundation that these are the
14 two major issues you've raised about the constant
15 growth DCF method. Correct?

16 A. That is correct.

17 Q. Thank you.

18 So I want to hand you another cross
19 examination exhibit. This one would be Cross
20 Examination Exhibit 5.

21 A. Okay.

22 **(Whereupon, Exhibit No. RMP Cross 5**
23 **was marked for identification.)**

24 Q. (BY MS. McDOWELL) So I've just handed you
25 what I marked as Cross Examination Exhibit No. 5.

1 And I just wanted to follow up on both your
2 testimony that we just referenced on page five line
3 115, and also your comment in the summary about
4 Dr. Hadaway's analyst growth rates.

5 MR. PROCTOR: Excuse me, Mr. Chairman, but I
6 have to object to questions at this point in respect to
7 Cross Exhibit 5.

8 One, there's no foundation that's been laid
9 for the source of the information, particularly in
10 respect to the last box and the middle box, and
11 certain -- and there's a reference to Lawton direct
12 testimony, and -- but there's been no foundation as to
13 where within his direct testimony that particular table
14 appears.

15 So there's just an absence of a foundation
16 we can direct -- that we can understand.

17 Furthermore, to includes two unidentified
18 boxes that aren't from this witness, apparently, as
19 a -- is just inappropriate for this particular exhibit.

20 If you want to have a separate exhibit,
21 that's another thing.

22 CHAIRMAN BOYER: Mr. Proctor raises a valid
23 point.

24 Ms. McDowell, could you give us a little
25 foundation as to who created this?

1 MS. McDOWELL: I intended to.

2 CHAIRMAN BOYER: Thank you.

3 Q. (BY MS. McDOWELL) And my first question
4 was, have you compared Dr. Hadaway's growth rates in
5 his rebuttal testimony with the growth rates that you
6 provided in your direct testimony?

7 A. I don't understand -- could you repeat that,
8 please?

9 Q. Have you compared the growth rates from the
10 Analyst's growth rates, have you compared those from
11 Dr. Hadaway's rebuttal testimony to those you used in
12 your direct testimony?

13 A. Yes, I have. And that's what I talked about
14 to the commissioners in my opening statement.

15 Q. Correct.

16 So, turning to Cross Examination Exhibit 5,
17 the first box purports to list the growth rates from
18 your direct testimony.

19 And can you tell us what exhibit number the
20 growth rates, from your direct testimony, would be
21 listed on?

22 A. Yes. For box number one, that's entitled
23 Lawton direct testimony, you would go to Exhibit OCS
24 1.5, page one of three, and the -- as well as the
25 average are included on that page.

1 And they -- looking at the averages at the
2 bottom spot-checking them, they look like they were
3 taken from my exhibit correctly.

4 Q. Thank you.

5 So, now, if you'd look at Dr. Hadaway's
6 growth rates in his rebuttal testimony, they're derived
7 from, and SCH 5R, page two of five. Do you have that
8 exhibit?

9 A. I may.

10 Q. Would it be helpful if I handed you a copy?

11 A. That would be fine too.

12 Thank you.

13 MR. PROCTOR: Do you have a copy for me?

14 MS. McDOWELL: It's in Dr. Hadaway's
15 testimony. Rebuttal testimony.

16 MR. PROCTOR: And which exhibit is it?

17 MS. McDOWELL: SCH 5R page two of five.

18 THE WITNESS: The growth rates on Cross
19 Exhibit RMP 5, in the middle box representing
20 Dr. Hadaway's rebuttal testimony, appear to match his
21 Exhibit RMP SCH 5R, page two of five.

22 MS. McDOWELL: Thank you.

23 Q. (BY MS. McDOWELL) So it's true, Mr. Lawton,
24 isn't it, that Dr. Hadaway and you both relied on the
25 same sources for Analysts' growth rate forecasts; Value

1 Line, Zacks, and Thomson? Is that correct?

2 A. That -- that is correct.

3 Q. And --

4 A. But I do rely on an additional growth rate
5 that I don't think Dr. Hadaway employed in this case.
6 I think he has in others, but not in this case.

7 Q. Based on the growth rates that are listed
8 here, as a result of Dr. Hadaway's updates,
9 Dr. Hadaway's growth rates are now basically the same
10 or lower than yours, correct?

11 A. About the same as the 5.88 that I presented
12 and the 5.83 that he has here.

13 Q. His are slightly lower?

14 A. Right. Five basis points.

15 Q. Certainly your comment that the growth rates
16 are overstated is no longer the case, given the
17 rebuttal updates, correct?

18 A. No. I think that's incorrect. Incorrect.

19 Q. Okay. Let's go back.

20 A. I wanted to make sure you heard that one.

21 Q. Thank you.

22 Let's go back to page five of your testimony
23 there.

24 A. Okay.

25 Q. In there you indicated that, on line 117,

1 that Mr. Hadaway -- or excuse me, Dr. Hadaway's
2 forecast estimates are overstated.

3 A. Yes, ma'am.

4 Q. By about 20 points. That's -- as a result
5 of the rebuttal updates, that testimony is no longer
6 accurate.

7 A. No, that would be incorrect.

8 Q. That the rebuttal -- this testimony does not
9 apply to the rebuttal testimony updates that
10 Dr. Hadaway's filed. Correct?

11 A. That's correct.

12 Q. Thank you.

13 The other issue you raised on page five --
14 and this is the comment on lines 120 and 121 -- was
15 with respect to stock prices and dividend yields.

16 I'm sorry, if you -- shall I speak up?

17 A. A little bit. Yes. Page five of which
18 document? The direct?

19 Q. Yes. Back to your direct testimony, page
20 five. This time, lines 120 to 121.

21 A. I am there.

22 Q. Now, there you complain about the dividend
23 yields being overstated. Do you see that?

24 A. Yes.

25 Q. Now, I wanted to direct your attention to

1 page 18, where you discuss how those dividend yields
2 were calculated. How your dividend yields were
3 calculated.

4 A. Okay.

5 I'm there.

6 Q. And on lines 479 to 483, do you see that?
7 That you indicate that you calculated them using --
8 looking at five different stock price periods?

9 A. Yes.

10 Q. And you indicate that you did that because
11 of substantial volatility in the market. Is that
12 correct?

13 A. Yes.

14 Q. That's at line 479?

15 A. Yes.

16 Q. So can you turn back to RMP Cross 4, which
17 is your 2008 testimony?

18 A. Yes.

19 Q. And can you go to line 12 -- or excuse me,
20 page 12 of that testimony?

21 A. I'm there.

22 Q. Now, beginning on line 343, you talk about
23 how you calculate the dividend yield in the 2008 case.

24 A. Yes.

25 Q. Do you see that?

1 And again, you refer to substantial
2 volatility in the market. So that portion of the
3 testimony is similar to the testimony in this case.
4 Correct?

5 A. Similar, but when I was doing this analysis,
6 obviously we were in the midst of the worst market
7 turmoil since the Depression.

8 Q. So in this case, you -- in the 2008 case,
9 you employed a 52-week high and low average --

10 A. Right.

11 Q. -- is that correct?

12 A. Because of that market turmoil.

13 Q. Now, in this particular case, of your five
14 stock prices that you reviewed, you chose the six-week
15 stock price, correct?

16 A. Right. In which in ordinary times and all
17 my testimony I typically employ the six-week stock
18 price.

19 Q. And that was the highest of all the five
20 periods you sampled. Right?

21 A. By "highest," what do you mean?

22 Q. The stock prices were the highest in that
23 particular sample of the five that you looked at.

24 A. They may have been. Let me just check.

25 Q. Okay.

1 And while you're checking, can you check
2 also on the results of the 52-week average?

3 MR. PROCTOR: Excuse me, counsel.

4 Mr. Chairman, if Mr. Lawton could be given
5 an opportunity to look at the first document first; and
6 also, I would appreciate it if he'd tell us where he's
7 looking, and then we can go to the second question.

8 THE WITNESS: I am looking at my exhibit
9 OCS -- I've got to flip -- 1.5, page two. And I'm
10 looking at columns O, and R, and S.

11 And in answer to your question, the highest
12 stock price would be column O, which is the six-week --
13 woops, excuse me. The highest stock price would be R,
14 the 52-week average, I think.

15 That's the median, excuse me. Do you want
16 me to look at the average?

17 MS. McDOWELL: Average, please.

18 THE WITNESS: The highest stock price would
19 be column O, which is the six-week average.

20 Q. (BY MS. McDOWELL) And the lowest stock
21 price is the 52-week average, correct?

22 A. Right. The difference between them is 3546
23 versus 3451.

24 Q. Almost a dollar?

25 A. Almost a dollar.

1 But as it turns out, the yield was
2 5.1 percent, which is what Dr. Hadaway proposes today.
3 So I was right on.

4 Q. Can you turn to page 28 of your testimony,
5 please?

6 A. Page what?

7 Q. 28, of your direct testimony, please.

8 A. I'm there.

9 Q. Now, I wanted to ask you about your risk
10 premium range.

11 Here you indicate that the range is from
12 9.52 to 10.39. Do you see that?

13 A. Yes.

14 Q. With a mid-point of 9.99 -- excuse me, 9.96.
15 Do you see that?

16 A. Yes. That's what it says.

17 Q. So I just wanted to go back through your
18 testimony about -- and see where you drew those
19 numbers.

20 On page 24, line 634, you go through your
21 basic risk premium analysis and indicate that it
22 produced an estimate of 10.39. Do you see that?

23 A. Yes. That's an update of Dr. Hadaway's risk
24 premium analysis, as pointed out there. That turns out
25 10.39.

1 Q. And then, turning to page 24, line 641, you
2 describe an alternative risk premium.

3 And on line 641, you indicate that that's --
4 that that produces a result of 9.52. Do you see that?

5 A. Yes.

6 Q. And then, if you turn the page to page 25,
7 line 643, you report another risk premium result of
8 11.32 percent. Do you see that?

9 A. I do.

10 Q. But that result does not appear in your
11 range -- your risk premium range in your table on --
12 table four on page 28, does it?

13 A. That's correct.

14 Q. And nowhere in this testimony do you explain
15 why you excluded that number of 11.32 percent, do you?

16 A. Yes, I believe I do.

17 I think I point out that the geometric mean
18 of calculating the risk premium is -- is more
19 appropriate.

20 Q. Can you show me where that testimony is?

21 A. Hold on a second. I don't see it here.

22 I usually have it in my testimony, but I
23 don't see it here. But that's why.

24 Q. Well, I am curious about that, because
25 Dr. Hadaway's rebuttal testimony, at page 15, lines

1 262, indicates that had you included that 11.32 number,
2 that would have produced a mid-point of your risk
3 premium analysis of 10.4 instead of 9.96. Do you
4 recall that testimony?

5 A. No. What page are you on? I have his
6 rebuttal here.

7 Q. It's page 15, line 262.

8 A. I see it.

9 Q. And there, if you include the risk -- your
10 third risk premium result of 11.32 percent, it produces
11 a mid-point in your risk premium analysis of
12 10.4 percent, correct?

13 A. That's what the math works out to be.
14 Wouldn't change the results.

15 Q. But even in your sur-rebuttal, after
16 Dr. Hadaway pointed out that you omitted one of your
17 risk premium results, the high end result without
18 explanation, you never provided any explanation for
19 that in your sur-rebuttal either, do you?

20 A. No. I didn't address the issue. I didn't
21 address everything Dr. Hadaway said in his testimony.

22 MS. McDOWELL: That's all I have. Thank
23 you.

24 I'd like to, before I close, offer both
25 Cross Exhibits RMP 4 and 5.

1 CHAIRMAN BOYER: Any objection to the
2 admission of RMP Cross Exhibits 4 and 5.

3 MR. PROCTOR: Not as to 4.

4 As to 5, the block on the far right of the
5 page was not referred to in any way. No foundation was
6 laid for it.

7 And I would agree to the admission of
8 Exhibit 5, but only if that last box is stricken.

9 CHAIRMAN BOYER: You did not refer to it,
10 Ms. McDowell.

11 MS. McDOWELL: We referred to it indirectly
12 by talking about the averages that are produced. The
13 differences in the averages are explained by the third
14 box, which is just illustrative, and just explains how
15 the differences in the averages, which Dr. Lawton
16 testified to, was produced.

17 CHAIRMAN BOYER: Did Mr. Lawton prepare this
18 exhibit? Or --

19 MS. McDOWELL: No. This was a cross
20 examination exhibit, but it is drawn from the S -- as
21 he testified.

22 CHAIRMAN BOYER: I don't think the record is
23 clear as to what the mathematical calculations include.

24 MS. McDOWELL: The --

25 CHAIRMAN BOYER: The third box.

1 MS. McDOWELL: Well, the question that I
2 asked him is did you -- did he compare the growth
3 rates, and we went through that and compared the growth
4 rates. And the results of the comparison we simplified
5 by looking at the averages, but the numbers behind the
6 averages that lead up to that are just explained by the
7 third box.

8 It's not a major point, the third box was
9 just a helpful box that shows if you compare them,
10 where the differences are that produce the differences
11 in the average.

12 MR. PROCTOR: Mr. Chairman, it's not helpful
13 if there was no explanation for it.

14 It was not referred to in the course of the
15 examination. The only thing that was discussed, as far
16 as the comparison of the two, was Lawton direct, the
17 last row, and Dr. Hadaway's rebuttal, the last row.

18 With the striking of that last box, in its
19 entirety, we would have no objection to the admission
20 of Cross Exhibit 5.

21 MS. McDOWELL: It's not a major point.

22 CHAIRMAN BOYER: No, I can see that.

23 MS. McDOWELL: We're willing to -- I mean,
24 we put that in there to be helpful and to be completely
25 transparent. If people want less transparency, people

1 can do their own calculations. We were doing it to
2 avoid an objection like this.

3 CHAIRMAN BOYER: I'm going to sustain
4 Mr. Proctor's objection here. We'll strike the last
5 box. We can do the math ourselves.

6 MS. McDOWELL: That's fine. Thank you.

7 **(Whereupon, Exhibit Nos. RMP CROSS 4 and 5**
8 **were received.)**

9 CHAIRMAN BOYER: And we do want to make sure
10 that Mr. Lawton makes his plane -- is it Dr. or Mr.?

11 THE WITNESS: No, Mr. But thank you to
12 Ms. McDowell.

13 MS. McDOWELL: I'm sorry.

14 CHAIRMAN BOYER: Well, you have a juris
15 doctor.

16 THE WITNESS: I do. There we go.

17 CHAIRMAN BOYER: Thank you for that,
18 Ms. McDowell.

19 Ms. Schmid, do you have questions for
20 Mr. Lawton?

21 MS. SCHMID: None.

22 CHAIRMAN BOYER: Mr. Dodge?

23 MR. DODGE: No questions.

24 CHAIRMAN BOYER: Turn to the commissioners.
25 Commissioner Allen?

1 Commissioner Campbell?

2 COMMISSIONER CAMPBELL: Just one.

3 **EXAMINATION**

4 **BY COMMISSIONER CAMPBELL:**

5 Q. Would you once again clarify for us the
6 difference between the Geometric mean verses the
7 arithmetic mean, and why one is used verses another?

8 A. Sure. Absolutely.

9 In finance, typically -- and some sciences,
10 you use the Geometric mean because it measures what
11 we're measuring. For example, on risk premium, we're
12 looking at returns from 1926 through 2008. And what
13 the geometric measures -- mean measures is the return
14 you would have to have over that time period to end up
15 at a -- at the level you ended up with, rather than
16 the -- the arithmetic average.

17 And the geometric mean is calculated by
18 multiplying -- it's a sequence of multiplications. For
19 example, the numbers two, four on an average -- two and
20 four, averaged, math -- an arithmetic is two plus four
21 divided by two, or three. On a geometric mean, it's
22 two times four to the one-half power.

23 And what -- what this measures is the return
24 you would need to have, each and every year over that
25 time period, to end up where you ended up.

1 So when you look at Ibbotson and Sinkfeld,
2 historical data, finance data, you would look at the
3 returns from 1926 through 2008, and it -- it's a better
4 measure, I believe, mathematically, of -- of what the
5 average is over that time period.

6 I hope that's helpful.

7 CHAIRMAN BOYER: Okay. I have no questions.

8 Mr. Proctor, any redirect?

9 MR. PROCTOR: Yes, thank you.

10 **REDIRECT EXAMINATION**

11 **BY MR. PROCTOR:**

12 Q. Mr. Lawton, you were referred to your
13 testimony filed in the most -- in the last case, 2008
14 case, on page 12 at line 356, for a reference to the
15 average dividend yield and in comparison with what you
16 have provided in this case. That's at page 19, line
17 490 of your direct testimony here.

18 What explains the difference, the actually
19 slight increase between the dividend yield you
20 calculated in -- early this year, and that which was
21 found in your testimony in this case?

22 A. The difference is the method of calculation
23 involving the time period covered.

24 In the early part of 2009, we were relying
25 upon data from 2008. This was in the midst of the

1 financial crisis.

2 And, as I stated in my testimony to
3 Ms. McDowell earlier, I typically use a six-week
4 average. Generally I find that captures the -- the
5 appropriate yield.

6 In this market turmoil, I couldn't use the
7 six-week average. I looked back and I used the 52-week
8 high and low, trying to ameliorate what's happening in
9 the marketplace and come up with a representative
10 dividend yield. So I used the 52-week period. Stated
11 so in my testimony, and it came out to roughly
12 4.6 percent.

13 In this case, I used the six-week average,
14 and the six-week average came out to 5.1 percent.

15 It's the typical calculation I do in every
16 case, wherever I'm testifying. And there's no -- but I
17 did look at -- I did look at the spot yield; 52-week,
18 eight, and 12 weeks, and I lined them up in my exhibit.
19 Showed them to everybody, and I came up with
20 5.1 percent, using the standard six-week dividend
21 yield.

22 And as it turned on us, Dr. Hadaway in his
23 sur-rebuttal, recalculates it, updates it, and he comes
24 out 5.2 percent. We're basically on top of each other
25 on that issue. It's really a non-issue in this case.

1 Q. Now, counsel was also critical of you in
2 using a six-week stock price, because, as the question
3 was phrased, it's the highest, as compared to the
4 52-week, columns O, S, R, as you recall?

5 A. Yes.

6 Q. Is that a valid criticism?

7 A. No. That's the mathematical result. The
8 prices were highest.

9 Whether the highest or the lowest -- I
10 typically use six weeks, whether the highest or the
11 lowest. If I don't, I have to explain it. And that's
12 what you have in my prior testimony, explaining why I
13 used the 52-week average.

14 Q. Now, on page -- it was also pointed out that
15 on page 16 at line 460, in a table, regarding your DCF
16 calculation in the earlier general rate case, differed
17 and was slightly lower than the -- in this case, on
18 page 23 at line 594, the table there. Can you explain
19 the difference of those DCF calculations?

20 A. Yes. Could I have your first, cite again,
21 to exhibit -- the cross examination Exhibit 4?

22 Q. Yeah. That was page 16, line 460. It's
23 table one, summary of comparable group DCF analyses.

24 A. Yes. I'm there.

25 Okay. The differences are, and when I did

1 this in January, whatever the dividend yield was, and
2 the growth rates were, produced a range from
3 9.8 percent to 10.2 percent. And I said the mid-point
4 is 10.

5 I also used other analyses in this
6 testimony.

7 In this case, the dividend yield and the
8 growth rates produce a -- a range of 10.2 to 10.6,
9 roughly 10.4 percent. That's what the DCF produces.
10 Other cost of capital measures, such as risk premium
11 are lower.

12 Q. Now, counsel also asked you about
13 Dr. Hadaway merely taking the current ROE in the state
14 of Utah, 10.6.

15 A. Yes.

16 Q. Adding the difference that you had in
17 between your table on page 16 of your earlier
18 testimony, and then the table on page 23 of this one,
19 four, adding them together and coming up with 11. You
20 stated that was out of context. Why?

21 A. Well, you don't calculate -- and nobody in
22 this room, not -- not an expert witness here, nor a
23 Commission I know of in the country, would take a
24 settlement from one proceeding and the difference --
25 which is 10.6 in this case, and the differences in rate

1 of returns between a couple of different cases, and
2 come up with 40 or 50 basis points, then add the two
3 together and say you're getting to a reasoned rate of
4 return.

5 As I stated at the beginning of my testimony
6 to you this morning, rate of return is a very important
7 topic in terms of revenue requirements, costs recovered
8 by the company from their shareholders, as well as
9 consumer rates. We -- grasping at different returns,
10 or differences through time, is not how you set rate of
11 return.

12 You look at the Company's risks today, the
13 capital markets today, and you evaluate all of those
14 factors, as well as sifting through the evidence, to
15 come up with a reasoned return within the range
16 presented to you, not by grasping at settlements and
17 other calculations. That -- nobody would do that.

18 Q. Mr. Lawton, you were also asked a question
19 about your statement -- and it's on page five, line 117
20 of your testimony in this case. -- that Dr. Hadaway's
21 dividend yields were over stated.

22 And there was a comparison given with
23 Dr. Hadaway's rebuttal testimony.

24 Does Dr. Hadaway's rebuttal cure your
25 concern for overstating the dividend yields?

1 A. Generally the dividend yield were right in
2 line, so, yes, it does -- it does cure that aspect
3 of -- of my complaint in my direct testimony, but it --
4 it doesn't cure my concerns about his overall
5 testimony, which are -- which has not been corrected.

6 And I believe, if you look at his updates
7 and point out my sur-rebuttal, that his returns should
8 be closer to ten, or ten and a half percent, not as
9 requested eleven.

10 Q. And you've also commented on your direct --
11 in your direct testimony that Dr. Hadaway's growth
12 rates were overstated. Does Dr. Hadaway's rebuttal
13 cure those concerns?

14 A. Yes, to the extent they come down to the
15 high end of my proposed growth rates, using Analyst's
16 forecasts. But as I pointed out to Ms. McDowell
17 earlier in my testimony, in cross examination, that I
18 employed yet another growth rate that Dr. Hadaway
19 didn't do in this case. And that growth rate is
20 somewhat lower, giving me a lower range than
21 Dr. Hadaway employs.

22 Dr. Hadaway's updated analysis certainly is
23 consistent with my direct testimony for forecast of
24 growth rates from Value Line, Zacks, and Thomsons,
25 which is this schedule here, Cross Exhibit 5, but he --

1 I used an internal growth rate as well, which is a bit
2 lower, and -- and should be considered in the range of
3 growth rates.

4 Q. And what do you mean by an "internal growth
5 rate?"

6 A. An internal growth rate is basically if a
7 company earns money, it puts some money out as
8 dividends for shareholders, and the remainder of the
9 money goes back into the company as an investment into
10 the company. You can't pay out all of your money in
11 dividends or at some point in the future you won't
12 exist. You have to reinvest into your company. And
13 this Company does transmission and generation and all
14 sorts of things. And you can see my retention growth
15 rate on my Exhibit 1.5, page one of three, is in the
16 range of four seventy-five to five forty-four percent.

17 MR. PROCTOR: Mr. Lawton, thank you very
18 much.

19 THE WITNESS: You're welcome.

20 CHAIRMAN BOYER: Thank you, Mr. Lawton. You
21 may step down and be excused to catch your plane.

22 THE WITNESS: Well thank you, commissioners,
23 and appreciate your time.

24 MS. SCHMID: Chair Boyer, I have one
25 comment. If I may.

1 CHAIRMAN BOYER: Please.

2 MR. PROCTOR: I'm sorry, what?

3 MS. SCHMID: I have one comment, if I may.

4 I have passed out a packet that contains the
5 corrected sheets of Mr. Peterson's sur-rebuttal
6 testimony. We can either move to have this admitted as
7 an additional exhibit, or people can pluck the pages
8 out and insert them in, whichever you would prefer.

9 CHAIRMAN BOYER: I don't really have a
10 preference. So why don't we move their admission into
11 the record, and then we'll --

12 MS. SCHMID: Thank you.

13 The Division would then request that a
14 corrected copy of the sur-rebuttal testimony of
15 Mr. Charles E. Peterson be admitted, and I believe that
16 would be DPU-1.0 SR, and then I would need also to
17 prepare a redacted copy, because that was not done, and
18 turn that in.

19 CHAIRMAN BOYER: Okay. Thank you. Are
20 there any objections to placing the corrected
21 sur-rebuttal testimony of Mr. Peterson into the record?

22 Okay. Then we will do that.

23 **(Whereupon, Exhibit No. DPU 1.0 SR**
24 **was received.)**

25 CHAIRMAN BOYER: So that the record is

1 clear, I'm not sure that I was clear on RMP Cross
2 Exhibit 5. We did admit that into evidence. We'll be
3 striking the third box. So the record is clear on
4 that.

5 Do you have other witnesses, Mr. Proctor?

6 MR. PROCTOR: No, I do not. Thank you.

7 CHAIRMAN BOYER: Is there anything further?

8 Well, let me first thank you all for the
9 professional way in which you conducted yourselves
10 today.

11 We will take this matter under advisement,
12 and our anticipation is that we will include our order
13 on these issues in the -- in the order on revenue
14 requiring a future date.

15 So thank you all. Safe travels.

16 MS. McDOWELL: Thank you.

17 MR. PROCTOR: Mr. Chairman, we have a public
18 witness.

19 CHAIRMAN BOYER: We can't conclude yet
20 because there is a public comment period scheduled at
21 five o'clock. I'm interested to see what lay witnesses
22 have to add to this expert testimony that we've already
23 had, so we'll reconvene at five o'clock. Thank you.

24 (Whereupon, the hearing
25 was adjourned at 2:44 p.m.)

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STATE OF UTAH)
) ss
COUNTY OF SALT LAKE)

THIS IS TO CERTIFY that the foregoing proceeding in the foregoing cause named, was taken before me, DEBRA A. DIBBLE, a Certified Shorthand Reporter and Notary Public in and for the State of Utah, residing at Woodland, Utah.

That the testimony of said proceeding was reported by me in Stenotype, and thereafter caused by me to be transcribed into typewriting, and that a full, true and correct transcription of said testimony so taken and transcribed is set forth in the foregoing annexed transcript.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of _____, 2009.

Debra A. Dibble, C.S.R., R.P.R.