



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LEGAL OPERATIONS AGENCY

April 25, 2014

USAF Utility Law Field Support Center
139 Barnes Drive
Tyndall AFB FL 32403

Gary Widerburg, Commission Secretary
Utah Public Service Commission
Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111

Re: Docket No. 13-035-184

Attention: Gary Widerburg, Commission Secretary,

Re: Expert Testimony of Michael P. Gorman representing the Federal Executive Agencies

Enclosed please find an original and 12 copies of the redlined errata pages 2 and 12 to Michael P. German's direct testimony and Exhibit FEA_(MPG-17), page 1 for filing this date in Docket 13-035-184. Mr. Michael P. Gorman, is a consultant at Brubaker and Associates, and represents the FEA. I have also sent a copy of this document electronically to psc@utah.gov.

Thank you for your assistance with this matter. If you have questions regarding these documents, please contact me at 850-283-6348 or by email at Thomas.Jemigan@US.AF.MIL.

Sincerely ,

THOMAS A. JERNIGAN, Capt, USAF
Counsel for Federal Executive Agencies

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

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

17 **Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

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

20 **SUMMARY**

21 **Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.**

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

24 My recommended return on equity of 9.40% would result in an overall
25 cost of capital of +.14141% as developed on my Exhibit FEA_(MPG-1).

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

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

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

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

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

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

Rocky Mountain Power

Standard & Poor's Credit Metrics

Thousands of Dollars

Description	Retail	S&P Benchmark ^{1,2}		Reference
	Cost of Service	<u>Significant</u>	<u>Aggressive</u>	
	(1)	(2)	(3)	(4)
Rate Base (UT)	\$ 6,029,328,450			Exhibit RMP_(SRM-3), Page 1.5
2 Weighted Common Return	4.85%			Page 2, Line 3, Col. 3.
3 Pre-Tax Rate of Return	10.39%			Page 2, Line 4, Col. 4.
4 Income to Common	\$ 292,446,547			Line 1 x Line 2.
5 EBIT	\$ 626,356,660			Line 1 x Line 3.
6 Depreciation & Amortization	\$ 285,276,629			Exhibit RMP_(SRM-3), Page 1.5
7 Imputed Amortization	\$ 11,285,298			Page 4, Line 13, Col 1.
8 Deferred Income Taxes & ITC	\$ 59,383,452			Exhibit RMP_(SRM-3), Page 1.5
9 Funds from Operations (FFO)	\$ 648,391,927			Sum of Line 4 and Lines 6 through 8.
10 Imputed Interest Expense	\$ 8,044,866			Page 4, Line 14, Col 1.
11 EBITDA	\$ 930,963,454			Sum of Lines 5 through 7 and Line 10.
12 Total Debt Ratio	49.3%	45% - 50%	50% - 60%	Page 3, Line 4, Col. 2 & 3.
13 Debt to EBITDA	3.2x	3.0x - 4.0x	4.0x - 5.0x	(Line 1 x Line 12) / Line 11.
14 FFO to Total Debt	22%	20% - 30%	20% - 20%	Line 9 / (Line 1 x Line 12).

Sources:

¹ Standard & Poor's: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009.

² S&P RatingsDirect: "U.S. Regulated Utilities, Strongest To Weakest," July 30, 2013.

Note:

Based on the July 2013 S&P report, PacifiCorp has an "Excellent" business profile and a "Significant" financial profile.

CERTIFICATE OF SERVICE

I hereby certify that on this 25th day of April, 2014, the true copy of the foregoing document was sent via e-mail to the following:

William C. Moench

William Poole
Dennis Miller
Division of Public Utilities
Heber Wells Building, 4th Floor
160 East 300 South, 4th Floor
Salt Lake City, UT 84111
power@utah.gov
dennismiller@utah.gov
chriskparker@utah.gov

Chris Parker
David L. Tylor
Yvonne R. Fogle
Sally Bell

Rocky Mountain Power
201 South Main Street, Suite 2300
Salt Lake City, UT 84111
mark.moench@pacifi.com
cristine.taylor@pacifi.com
cristine.hogie@pacifi.com
Jarry Bell@pacifi.com

Patricia Schmid
Justin Jetter
Assistant Attorneys General
Heber Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84111
pschmid@utah.gov
jjetter@utah.gov

William J. Evans
Vicki M. Baldwin
Parsons Behle & Latimer
One Utah Center
201 South Main Street, Suite 1800
Post Office Box 45898
Salt Lake City, UT 84145-0898
BEvans@parsonsbehle.com
VBaldwin@parsonsbehle.com

Michele Beck
Cheryl Murray
Dan Girdle
Bela Vasquez
Committee of Consumer Services
Heber Wells Building, 4th Floor
160 East 300 South, 2nd Floor
Salt Lake City, UT 84111
mbeck@utah.gov
cmurray@utah.gov
dgirdle@utah.gov
bvastag@utah.gov

Brent Coleman
Assistant Attorney General
Utah Office of Consumer Services
160 East 300 South, Fifth Floor
P.O. Box 140857
Salt Lake City, Utah 84114-0857
brentcoleman@utah.gov

Robert Millsap
Renewable Energy Advisors
PO Box 100036
Sandy, UT 84090
bobmillsap@renewable-energy-advisors.com

Gary Dodge
Hatch James & Dodge
10 West Broadway, Suite 400
Salt Lake City, UT 84101
gdodge@hatchjames.com

Jeremy R. Cook
Parsons Kinghorn Harri., P.C.
111 East Broadway, 11th Floor
Salt Lake City, Utah 84111
jrc@jkhla.com

Peter J. Mattheis
Eric J. Lacey
Brickfield Burchette, Rills & Stone, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
pjm@bbrslaw.com
clacey@bbrslaw.com

Derek Nelson
Sierra Club
85 Second Street, Second floor
San Francisco, CA 94105
(+15) 977-5595 Voice
(415) 977-5739 Facsimile
derek.nelson@sierraclub.org

Respectfully,
i-

W;VVt/

Karen White, GS-14, USAF
Utility Law Field Support Center
139 Barnes Ave., Suite 1
Tyndall AFB, FL 32403
(850)283-6348
Karen.White.13@US.AF.MIL