

APPLICATION OF ROCKY MOUNTAIN POWER

Docket No. 20-035-04

PUBLIC HEARING

October 29, 2020

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PUBLIC HEARING DOCKET NO. 20-035-04

STATE CONTRACT #MA2908

APPLICATION OF ROCKY MOUNTAIN POWER FOR AUTHORITY TO
INCREASE ITS RETAIL ELECTRIC UTILITY SERVICE RATES IN
UTAH AND FOR APPROVAL OF ITS PROPOSED ELECTRIC SERVICE
SCHEDULES AND ELECTRIC SERVICE REGULATIONS

VIDEO CONFERENCED PUBLIC HEARING

Taken on October 29, 2020

From 9:01 a.m. to 4:30 p.m.

Reported by: Deirdre Rand, RPR, CSR, CCR

A P P E A R A N C E S

Public Service Commission:

CHAIR THAD LEVAR
COMMISSIONER DAVID CLARK
COMMISSIONER RONALD ALLEN
MELISSA PASCHAL

Rocky Mountain Power:
D. MATTHEW MOSCON
CAMERON L. SABIN
ROBERT SWANSON

Division of Public Utilities:
PATRICIA SCHMID

Office of Consumer Services:
ROBERT MOORE
ALEX WARE

Utah Association of Energy Users:
PHILLIP J. RUSSELL

Walmart:
VICKI M. BALDWIN
STEPHEN W. CHRISS

Kroger:
KURT BOEHM

Stadium:
IRION SANGER

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P R O C E E D I N G S

CHAIR LEVAR: Good morning. We're here for public service commission cost of capital hearing in Docket 20-035-04, Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service regulations.

I'm Thad LeVar. We also have Commissioner Ron Allen and Commissioner David Clark.

And with that, why don't we move to appearances. So for Rocky Mountain Power, if you'd like to make your appearance.

And I'm not hearing you, Mr. Sabin, if you're speaking. You're still muted.

Okay. Why don't we -- we'll come back to Rocky Mountain Power.

Would anyone like to make an appearance for the Division of Public Utilities?

MS. SCHMID: Yes, I would. I am Patricia E. Schmid with the Utah Attorney General's Office, appearing on behalf of the Utah Division of Public Utilities.

CHAIR LEVAR: Thank you, Ms. Schmid.

1 How about the Office of Consumer Services?

2 MR. MOORE: Yes. My name is Robert Moore,
3 with the AG's office. I'm representing the Office of
4 Consumer Services. Later on today or tomorrow I'll be
5 joined by Randall Woolridge, the OCS's witness.

6 CHAIR LEVAR: Thank you, Mr. Moore.

7 Ms. Baldwin?

8 MS. BALDWIN: Yes, this is Vicki Baldwin,
9 appearing on behalf of Walmart. And --

10 CHAIR LEVAR: We're getting some --
11 Ms. Baldwin, maybe --

12 MS. BALDWIN: -- I was just going to say, my
13 witness, Steve Chriss, will be appearing later today or
14 tomorrow.

15 CHAIR LEVAR: Okay. Thank you, Ms. Baldwin.
16 We're getting a little feedback. Maybe if you turn your
17 volume down a little bit on your speakers, that might
18 help.

19 Okay. Thank you.

20 Mr. Sabin?

21 MR. SABIN: Cameron Sabin and Matt Moscon are
22 here on behalf of Rocky Mountain Power. We have with us
23 all of the company witnesses who will be testifying
24 today, as well as in-house counsel.

25 CHAIR LEVAR: Okay. Thank you, Mr. Sabin.

1 Mr. Russell?

2 MR. RUSSELL: Phillip Russell appearing on
3 behalf of the Utah Association of Energy Users.

4 CHAIR LEVAR: Okay. Thank you. Just for
5 clarification, are you also, in this particular portion
6 of the hearing, representing the University of Utah and
7 US Mag?

8 MR. RUSSELL: Yes, I am. None of those
9 parties have any witnesses in this part of the hearing.
10 But yes, thank you for clarifying. I do represent the
11 University of Utah and US Magnesium in these
12 proceedings.

13 CHAIR LEVAR: For today you'll be
14 participating on behalf of UAE, right?

15 MR. RUSSELL: Yes.

16 CHAIR LEVAR: Okay.

17 Mr. Sanger?

18 MR. SANGER: Good morning. Irion Sanger here
19 representing Stadium. My witness, Brian Dickman, is
20 testifying in the second phase of the proceeding -- or
21 not the second phase -- in the revenue requirement
22 portion of the proceeding, so he will not be attending
23 the cost of capital part of the proceeding this morning.

24 CHAIR LEVAR: Thank you, Mr. Sanger.

25 Mr. Boehm?

1 MR. BOEHM: Good morning, your Honor. Kurt
2 Boehm appearing on behalf of the Kroger Company. And we
3 do not have a witness in this phase of the hearing.

4 CHAIR LEVAR: Thank you, Mr. Boehm.

5 There's a few other parties who are -- have
6 intervened but have not filed testimony in this portion
7 of the docket, and I'm not seeing anyone on the list.

8 If there's anyone else to make an appearance
9 who I've missed, please let me know.

10 MR. SABIN: Mr. Chairman, this is Mr. Sabin.
11 I'm not -- I've obviously made my appearance. There are
12 a number of individuals over here, including Matt
13 Moscon, my partner, who are not -- who are waiting in
14 the -- they've clicked on the Google Meet link and
15 they're waiting but are not being allowed in. I'm not
16 sure if that's something on our end or your end. I'm
17 wondering if somebody who's managing that could check
18 that.

19 CHAIR LEVAR: That should be on my end. I
20 usually get a notification when there's people waiting
21 to join, and I am not seeing any notifications of
22 individuals trying to join. I usually get a popup that
23 I just have to admit.

24 MR. SABIN: We'll try and have them do it
25 again and see if it pops up.

1 CHAIR LEVAR: Yeah, we'll wait a few moments.

2 MR. SABIN: Give us one second. We'll try
3 that.

4 CHAIR LEVAR: We have not encountered that
5 issue before in any of our other hearings; that's new to
6 me. So we may have to take a moment to --

7 MR. SABIN: Yeah, it's showing on -- it's
8 showing on their screen -- just spinning, saying,
9 "Waiting for the" -- "to be admitted."

10 MR. CLARK: Are we sure they've used the same
11 link that counsel used?

12 MR. SABIN: We're going to check the link.
13 We'll double-check that. Give us one second.

14 CHAIR LEVAR: While we're waiting for that,
15 Ms. Baldwin sent a message to the Public Service
16 Commission this morning asking about order of witnesses.

17 Ms. Baldwin, do you have a particular time
18 consideration for your witness?

19 MS. BALDWIN: No. We were just wondering
20 if -- what the order was going to be, and wondering if
21 it looked like it would be tomorrow or today or later
22 today. So, yeah, we were just wondering.

23 CHAIR LEVAR: Okay. I don't know how much
24 clarity I can give you on that. Typically, the
25 applicant's witnesses go first, followed by the state

1 agency witnesses, and then we move to the others. If
2 anyone wants to make a motion to deviate -- you know,
3 that's just the typical practice.

4 In terms of today or this afternoon or
5 tomorrow, I could -- there's no -- probably more clarity
6 on that later today, but --

7 MS. BALDWIN: Okay.

8 CHAIR LEVAR: -- I don't know that I can give
9 any additional clarity at this point.

10 MS. BALDWIN: Thank you very much.

11 CHAIR LEVAR: I wonder if a five-minute recess
12 would be appropriate to deal with connection issues.

13 I just added one of your witnesses, Mr. Sabin.

14 MR. SABIN: Yeah, I think they're adding --
15 the others are going through the link again. So maybe
16 give us just minute. And we're happy to have a recess
17 if that makes sense, but the others are joining -- going
18 back in to the same link to see if they can get back in.

19 CHAIR LEVAR: Okay. Why don't we stay on.
20 Maybe a recess won't be necessary. We'll just stay on
21 for another moment or two.

22 So we have Mr. Moscon and Mr. Hoogeveen. Is
23 anyone aware of others who are trying to get on?

24 Mr. Sabin, do you have more who are still
25 trying to get on?

1 MR. SABIN: I think we're getting there. I
2 think that's it for now. Mr. Hoogeveen is a witness,
3 and then Mr. Moscon is here. So I think we're good for
4 now. Thank you, Mr. Chairman.

5 THE REPORTER: Just a moment. This is the
6 reporter. I am noticing that we are getting feedback
7 when Mr. Sabin is talking. I don't know if he needs to
8 reduce the sound of his speakers or something, or if
9 anyone else has noticed that.

10 CHAIR LEVAR: Thank you, Ms. Rand.

11 So, again, if you're not participating, please
12 mute yourself. There's a few that are not muted right
13 now. The feedback could be coming from any one of them.
14 But yes, generally, turning your volume down helps. If
15 it doesn't help, using some kind of earphones can become
16 necessary if the volume controls don't.

17 And before we go any further, I'll just remind
18 everyone, since we're on this platform and not in
19 person, it's a little more important than usual to speak
20 slowly for the court reporter and to make sure we're not
21 interrupting each other and speaking over each other.

22 Do we have any other preliminary matters
23 before we go to Rocky Mountain Power's first witness?

24 MR. SABIN: We don't have any.

25 CHAIR LEVAR: Okay. I'm not hearing anything

1 from anyone. So, Mr. Sabin, if you want to move forward
2 with your witness.

3 MR. SABIN: Mr. Moscon will go first and
4 introduce Rocky Mountain Power's first witness.

5 Sorry. We're having technical difficulties on
6 this end. For some reason the computers are
7 disconnecting. Let us try it one more time.

8 CHAIR LEVAR: Okay. I just readmitted
9 Mr. Moscon again.

10 MR. SABIN: There we go.

11 MR. MOSCON: Okay. Can you hear me now,
12 Mr. Chairman?

13 CHAIR LEVAR: I can see and hear you clearly.
14 So we're ready for you to move forward with your first
15 witness if you are.

16 MR. MOSCON: Mr. Chairman and commissioners --

17 CHAIR LEVAR: Mr. Moscon, I think you muted
18 yourself after you started. We heard you for a moment,
19 and then we lost you. So we're not hearing you right
20 now. You're indicated as being muted.

21 MR. MOSCON: Is there feedback if I talk now?

22 CHAIR LEVAR: I'm not hearing feedback now,
23 no. There was some before, but I don't hear anything
24 now.

25 MR. MOSCON: Okay. Can you hear me now?

1 CHAIR LEVAR: Yes. Yes.

2 MR. MOSCON: I'm so sorry about all this.

3 We're trying to coordinate multiple parties, witnesses,
4 and attorneys in one room, but without the feedback
5 loop.

6 So, for today, just to clarify order of
7 witnesses and what we intend to do today, it is the
8 power company's understanding that today is the cost of
9 capital hearing. We intend on presenting three
10 witnesses today. The order that the company will
11 proceed in is, first, Mr. Gary Hoogeveen. Next is
12 Ms. Nikki Kobliha. Third is Ms. Ann Bulkley. That is
13 the order of witnesses that we intend to present today,
14 if that helps road map for the Commission and the
15 parties how we intend to proceed.

16 As far as preliminary matters go, I have seen
17 this morning some parties have been sending around some
18 cross exhibits, some have not. I'm wondering, for the
19 Commission, if there is a particular email address or if
20 that group email is reaching the commissioners? If we
21 need to send some cross exhibit or have a witness look
22 at something, does the Commission prefer to get those by
23 email? To have split screens used and to just view it
24 live? How would the Commission have us proceed in that
25 fashion?

1 CHAIR LEVAR: If you are able to use the
2 "share screen" function, that works well on this
3 platform, but we're always happy if parties email
4 exhibits to psc@utah.gov. Then we will distribute them
5 to all of the attorneys who have made an appearance on
6 the docket. So we have that list of attorneys. But if
7 you're comfortable using the "share screen" function,
8 that works well also.

9 MR. MOSCON: Okay.

10 That was the question I had. I didn't want to
11 speak for any of the other parties. If the Commission
12 has other matters or if it wants us to proceed, we'll go
13 at the Commission's direction.

14 CHAIR LEVAR: Okay. I think at this point you
15 can go forward with your first witness, then,
16 Mr. Moscon.

17 DIRECT EXAMINATION

18 BY MR. MOSCON:

19 Q. Okay. Again, the company's first witness is
20 going to be the company president, Mr. Gary Hoogeveen,
21 who, unlike in a typical case introduces the entire
22 case, he will today introduce the cost of capital
23 component for the case.

24 So with that, I will turn and I will ask
25 Mr. Hoogeveen, Mr. Hoogeveen, would you please, for the

1 **record, state and spell your name?**

2 A. My name is Gary -- you also have to turn that
3 down. I'll turn on my volume.

4 Apologies. My name is Gary Hoogeveen.
5 Spelled G-a-r-y, Hoogeveen spelled H-o-o-g-e-v-e-e-n.

6 **Q. And would you please identify your position**
7 **with the company?**

8 A. President and CEO of Rocky Mountain Power.

9 CHAIR LEVAR: Mr. Moscon, I'll just briefly
10 swear in Mr. Hoogeveen.

11 MR. MOSCON: Great.

12 CHAIR LEVAR: Mr. Hoogeveen, do you swear to
13 tell the truth?

14 THE WITNESS: I do.

15 CHAIR LEVAR: Okay. Thank you. Thanks for
16 being with us this morning.

17 THE WITNESS: Good morning, Chairman LeVar,
18 Commissioner Clark and Commissioner Allen. I appreciate
19 the opportunity to address you in this case.

20 Today, I'm here to support the company's
21 commitment to its customers and communities by providing
22 further details regarding our request for return
23 on equity. I will also introduce the --

24 THE REPORTER: I'm sorry. Wait. This is the
25 court reporter. You are coming -- clicking in and out.

1 I'm losing words. I don't know what's happening, but I
2 didn't hear a couple of words in that.

3 THE WITNESS: Okay.

4 I wonder if we should just take a break and
5 see if we can --

6 MR. MOSCON: Can we take that five-minute
7 recess and try a phone bridge, Mr. Chairman?

8 CHAIR LEVAR: Thank you. That's a good idea.
9 The telephone connection usually solves these problems.
10 So why don't we recess until 9:20 a.m.

11 MR. MOSCON: Thank you.

12 THE REPORTER: Thank you.

13 (Whereupon a short recess was taken.)

14 CHAIR LEVAR: Why don't we go on the record
15 and return to Mr. Moscon and Mr. Hoogeveen to continue
16 your presentation. Thank you.

17 BY MR. MOSCON:

18 **Q. All right. So, Mr. Hoogeveen, you introduced**
19 **yourself. You gave us your name.**

20 **Did you cause testimony to be filed in this**
21 **proceeding?**

22 A. I did.

23 **Q. And was that direct and rebuttal testimony?**

24 A. That's correct.

25 **Q. If I were to ask you the questions that are**

1 set forth in your testimony today, would your answers be
2 the same as they are on the testimony as you previously
3 filed it?

4 A. It would be the same.

5 MR. MOSCON: All right. I would move for the
6 admission of Mr. Hoogeveen's testimony as Rocky Mountain
7 Power's first exhibit, together with the one attachment
8 exhibit to Mr. Hoogeveen's testimony.

9 CHAIR LEVAR: Thank you, Mr. Moscon.

10 If anyone objects to that motion, please
11 unmute yourself and indicate your objection.

12 I'm not seeing or hearing any objections, so
13 the motion is granted. Thank you.

14 MR. MOSCON: Thank you.

15 BY MR. MOSCON:

16 Q. Mr. Hoogeveen, have you had an opportunity to
17 prepare a summary of your testimony?

18 A. I have.

19 Q. Would you please share that with us?

20 A. Good morning, Chairman LeVar, Commissioner
21 Clark and Commissioner Allen. I appreciate the
22 opportunity to address you in this case.

23 Today, I am here to support the company's
24 commitment to its customers and communities by providing
25 further details regarding our request for return.

1 I will also introduce the company's other
2 witnesses in this cost of capital phase proceeding.

3 THE REPORTER: I'm sorry, it's still -- I'm
4 still having words missing. I don't know if it's your
5 microphone...

6 MR. CLARK: Yeah, I can confirm I'm having the
7 same issue. It's like words are dropping out.

8 MR. MOSCON: I've got my last suggestion, and
9 that is, Mr. Hoogeveen, since I've done my part, let's
10 play musical chairs and -- it must be a speaker thing on
11 your computer. Let's just have you come speak from this
12 computer, and I'll move out of the way.

13 MR. CLARK: Because Mr. Moscon, you're
14 extremely clear.

15 MR. MOSCON: All right. Thanks again,
16 everyone, for allowing us to work through this. So I'm
17 just going to let Mr. Hoogeveen do his summary from
18 there.

19 THE WITNESS: Apologies. Should I start over?
20 Okay.

21 CHAIR LEVAR: Yeah, why don't you do that.
22 Thank you for your patience and flexibility,
23 to everyone. None of this is anyone's fault. So we'll
24 keep participating, and we'll keep moving forward.

25 Go ahead.

1 THE WITNESS: Thank you, Chairman.

2 Good morning, Chairman LeVar, Commissioner
3 Clark, and Commissioner Allen. I appreciate the
4 opportunity to address you in this case.

5 I'm going to pause. Is this okay? Are we
6 okay?

7 THE REPORTER: Yes, that's great. Thank you.

8 THE WITNESS: Okay.

9 Today, I'm here to support the company's
10 commitment to its customers and communities by providing
11 further details regarding our requested return on
12 equity. I will also introduce the company's other
13 witnesses in this cost of capital phase of this
14 proceeding.

15 Rocky Mountain Power has had the privilege of
16 providing safe, reliable, and affordable electric
17 service to customers in Utah for over a century. We
18 continually strive to remain one of the lowest cost
19 utilities in the country, and remain actively engaged in
20 finding ways to leverage our vast integrated system for
21 the benefit of customers.

22 Since the company's last rate case six years
23 ago, we have undertaken several major capital projects,
24 including new wind resources, repowering our existing
25 wind resources, and adding new transmission and

1 distribution projects.

2 In this proceeding, the company is seeking
3 approval of new rates that will allow us to recover our
4 prudently incurred investments since the last rate case,
5 and enable us to move forward to continue meeting the
6 company's desire of providing energy solutions for
7 customers.

8 However, the company recognizes that the
9 backdrop of our rate case is the COVID-19 pandemic,
10 which is not only impacting the health and safety of our
11 customers, but also impacting the economies of the
12 communities we serve.

13 To that end, the company has made a number of
14 proposals that mitigate the impacts of the company's
15 requested rate increase, most of which will be further
16 explained by Joelle Steward in the hearings next week,
17 but I will address the company's updated requested
18 return on equity, or ROE, here.

19 Before I talk about the ROE, it is first
20 important to address the health and economic impacts of
21 the COVID-19 pandemic on our Utah customers and
22 communities.

23 The company stands with its customers and
24 communities to face the challenges presented by the
25 pandemic, and is supporting them in many ways. The

1 company is working to keep the lights on, which is
2 important now more than ever, to support families that
3 stay and work from home during the pandemic, and to
4 provide electricity to essential services such as
5 hospitals.

6 Also, the company suspended residential
7 disconnections for nonpayments beginning in March, and
8 began to resume normal billing practices in late June,
9 with a provision of flexible payment plans, and waived
10 late fees to help customers through these challenging
11 times.

12 Finally, through the Rocky Mountain Power
13 Foundation, which is funded with shareholder funds, the
14 company has contributed over \$200,000 to local food
15 banks and other critical organizations in Utah,
16 specifically for COVID-19 community support.

17 The company has been monitoring the impacts of
18 COVID-19 on the economy since it filed its direct case,
19 and as a result, in rebuttal, the company updated its
20 ROE request, decreasing it from 10.2 percent to
21 9.8 percent, which is the current authorized ROE.

22 While the company continues to believe the
23 10.2 percent ROE proposed in its direct case fairly
24 reflects the company's risks, we recognize that, in
25 light of current circumstances, it is reasonable to make

1 no change to the ROE of 9.8 percent.

2 A reasonable ROE, such as 9.8 percent, and a
3 strong equity position sends an important signal to the
4 capital markets and ratings agencies as the company
5 invests in the system. An unreasonably low ROE and
6 capital structure, as proposed by certain parties in
7 this proceeding, has the potential to make the company's
8 investments in cost-effective and necessary generation,
9 transmission, and distribution investments more costly
10 for customers.

11 Further, the company has made a concerted
12 effort to proactively and aggressively control the costs
13 that it can, which is demonstrated by the fact that the
14 company last filed a general rate case in Utah in 2014.

15 During this stay-out period, the company
16 continued to invest in its power system, transform its
17 generation resource portfolio, pioneer new energy market
18 that saves customers money and reduces emissions, and
19 adhere to its core mission of providing safe, reliable,
20 and affordable service to customers.

21 In fact, the company's cost control measures
22 have not impacted reliability, as evidenced by the key
23 reliability indices trending downwards, or favorable,
24 since 2013. Allowing the company to maintain its
25 currently authorized ROE will provide it the opportunity

1 to continue this trend to stay out of rate cases and
2 allow it to make necessary investments.

3 In summary, the company recommends that the
4 Commission approve the company's requested ROE and
5 capital structure as set forth in rebuttal testimony.

6 The company's cost of capital request is
7 supported by two other witnesses. Ms. Kobliha,
8 PacifiCorp's vice-president, chief financial officer,
9 and treasurer, provides the company's overall cost of
10 capital recommendation, including a capital structure to
11 maximize value and minimize risk. Ms. Kobliha will also
12 testify on the company's implementation of the Tax Cuts
13 and Jobs Act and pension costs in the revenue
14 requirement hearing next week in this proceeding.

15 Ms. Bulkley, senior vice president of
16 Concentric Energy Advisors, provides a comparison of the
17 company's business and financial risk compared to peer
18 utilities, recommends a cost of equity, and provides
19 supporting analyses.

20 Again, I appreciate the opportunity to appear
21 before you this morning. As supported by all the
22 company witnesses, the company's request in this case,
23 as reflected in its rebuttal testimony, are reasonable
24 and consistent with the company's core mission of
25 providing safe, reliable, and affordable service for our

1 nearly 950,000 customers in Utah, and therefore, I
2 request that the Commission approve our proposed new
3 rates and programs in this proceeding.

4 Thank you. That concludes my summary.

5 MR. MOSCON: Thank you, Mr. Hoogeveen.

6 Mr. Chairman and commissioners, Mr. Hoogeveen
7 is available for any questions or cross-examination.

8 CHAIR LEVAR: Thank you, Mr. Moscon and
9 Mr. Hoogeveen. I'll go to Ms. Schmid first.

10 Ms. Schmid, do you have any questions for
11 Mr. Hoogeveen from the Division of Public Utilities?

12 MS. SCHMID: The Division has no questions.
13 Thank you.

14 CHAIR LEVAR: Thank you.

15 Mr. Moore, do you have any questions for
16 Mr. Hoogeveen from the Office of Consumer Services?

17 MR. MOORE: No questions. Thank you.

18 CHAIR LEVAR: Okay. Thank you, Mr. Moore.

19 Ms. Baldwin, do you have any questions for
20 this witness?

21 MS. BALDWIN: No questions from Walmart.
22 Thank you.

23 CHAIR LEVAR: Okay. Thank you.

24 Mr. Russell?

25 MR. RUSSELL: No questions. Thank you.

1 CHAIR LEVAR: Okay. Thank you.

2 Mr. Sanger?

3 MR. SANGER: No questions. Thank you.

4 CHAIR LEVAR: Mr. Boehm?

5 MR. BOEHM: No questions. Thank you.

6 CHAIR LEVAR: Thank you.

7 Commissioner Clark, do you have any questions
8 for Mr. Hoogeveen?

9 MR. CLARK: I have no questions. Thank you,
10 Mr. Hoogeveen.

11 CHAIR LEVAR: Thank you.

12 Commissioner Allen, do you have any questions
13 for Mr. Hoogeveen?

14 MR. ALLEN: Thank you. I have no questions.

15 CHAIR LEVAR: Well, thank you. I don't
16 either. So thank you for your testimony this morning,
17 and thank you for your flexibility on trying to find the
18 technological solutions.

19 And we'll go back to Mr. Moscon or Mr. Sabin
20 for your next witness.

21 MR. MOSCON: Thank you, Chairman.

22 MR. SABIN: Okay. Can you hear me okay,
23 hopefully?

24 CHAIR LEVAR: Yes. There's a little
25 background noise, but I think it may have been while you

1 were moving.

2 MR. SABIN: Let's try that again.

3 Does that sound okay?

4 CHAIR LEVAR: I'd say it's pretty good.

5 There's still some background noise somewhere, but --
6 and I'm hearing myself in the background.

7 MR. SABIN: Okay. Well -- all right. I'm
8 going to slide into Mr. Moscon's chair. Maybe that will
9 solve the problem.

10 All right --

11 THE REPORTER: You probably need to mute the
12 other one.

13 Great.

14 MR. SABIN: Okay. Is that working? Yes.
15 Okay.

16 CHAIR LEVAR: At this moment, we can see and
17 hear you clearly.

18 MR. SABIN: Okay. This is so much fun.

19 All right. Mr. Chairman, our next witness for
20 the company is Nikki Kobliha.

21 DIRECT EXAMINATION

22 BY MR. SABIN:

23 Q. Ms. Kobliha, would you please state your full
24 name for the record?

25 A. Nikki Kobliha.

1 **Q. And what is your --**

2 A. I can spell it if you want.

3 **Q. Yeah, would you please spell it for the court**
4 **reporter? Thanks.**

5 A. N-i-k-k-i. Last name, K-o-b-l-i-h-a.

6 **Q. Okay. Thank you.**

7 **Would you please state your title with the**
8 **company, and just give a brief description of your**
9 **duties?**

10 CHAIR LEVAR: Mr. Sabin --

11 THE WITNESS: I'm the chief financial --

12 CHAIR LEVAR: I'm sorry, Ms. Kobliha. How
13 about if I swear you in quickly?

14 MR. SABIN: Oh. All right. Yes. Thank you.

15 CHAIR LEVAR: Thank you.

16 Ms. Kobliha, do you swear to tell the truth?

17 THE WITNESS: Yes, I do.

18 CHAIR LEVAR: Okay, thank you for -- sorry for
19 the interruption.

20 MR. SABIN: No, no, no. That was my fault.

21 BY MR. SABIN:

22 **Q. Ms. Kobliha, would you please state your title**
23 **and give a brief description of your duties?**

24 A. I am chief financial officer for PacifiCorp,
25 and I deal with all aspects of the finances of the

1 company.

2 Q. Ms. Kobliha, Have you submitted both direct
3 and rebuttal testimony in this proceeding?

4 A. Yes, I have.

5 Q. And I have that as you submitting direct
6 testimony with attached exhibits NLK-1 through NLK-6,
7 and then rebuttal testimony with exhibits NLK-1R through
8 NLK-2R. Is that correct?

9 A. Yes.

10 Q. Do you have any corrections to any of that
11 testimony you've submitted?

12 A. No, I do not.

13 Q. And if you were asked the same questions set
14 forth in that testimony, would you respond in the same
15 way today?

16 A. Yes, I would.

17 MR. SABIN: Okay. Mr. Chairman, I move for
18 the admission of Ms. Kobliha's direct and rebuttal
19 testimony, with the exhibits I referenced.

20 CHAIR LEVAR: Thank you.

21 If anyone objects to this motion, please
22 unmute yourself and indicate your objection.

23 I am not seeing or hearing any objections, so
24 the motion is granted. Thank you.

25 MR. SABIN: Thank you.

1 BY MR. SABIN:

2 Q. Ms. Kobliha, have you prepared a summary of
3 your testimony for today's hearing?

4 A. Yes, I have.

5 Q. Would you please go ahead and share that now?

6 A. Yes. Thank you.

7 Good morning, Commissioners. Thank you for
8 the opportunity to be here today to provide a summary of
9 my direct and rebuttal testimony related to the cost of
10 capital position of this case.

11 I will also be here during the revenue
12 requirement phase to discuss pension issues, so will not
13 be addressing those items today.

14 My testimony discusses the cost of debt, cost
15 of preferred stock, the company's proposed capital
16 structure, and the overall cost of capital.

17 Ms. Bulkley is testifying on the cost of
18 equity, and I used her recommendation in determining the
19 company's overall cost of capital at 7.48 percent.

20 As I discuss in my direct and rebuttal
21 testimony, I calculated the cost of debt using the
22 methodology relied on in the company's previous Utah
23 rate cases, which calculates a bond yield to maturity on
24 all currently held debt, and any debt forecast to be
25 issued during the test period, and removes the impact of

1 any debt schedules to mature.

2 The cost of debt also looks at the cost
3 associated with the company's variable-rate long-term
4 debt, which were updated in my rebuttal testimony
5 reflecting the recent decline in rates. There is no
6 disagreement among parties about the company's cost of
7 debt or cost of preferred stock.

8 As it relates to the capital structure, the
9 company generally finances its regulated utility
10 operations using a mix of debt and equity of around 48
11 and 52 percent, respectively. However, during periods
12 of significant capital expenditure, as expected now
13 through at least 2023, the company will need to maintain
14 an average common equity level in excess of 52 percent.

15 In this rate case, I am recommending an equity
16 level of 53.67 percent, which I expect will enable the
17 company to maintain its current credit rating. A solid
18 credit rating directly benefits customers by reducing
19 the immediate and future borrowing costs relating to the
20 financing needed to support continued investment and
21 infrastructure that provides safe and reliable service.

22 Lower rating equates to higher risk and a
23 higher cost of debt. My direct testimony provides
24 examples of lower-rated entities who had challenges
25 accessing the debt capital markets during the Great

1 Recession, and how those who could access the market
2 paid higher rates for their borrowing than the company
3 did at the same time.

4 The calculation of the 53.67 percent common
5 equity is based on a five-quarter average of the capital
6 balances through December 31, 2021, the end of a test
7 period in this case. This method has been accepted by
8 the Commission in the last several rate cases.

9 I believe the averaging of quarter-end
10 balances smoothes volatility in the capital structure,
11 which will fluctuate as the company issues debt or pays
12 dividends. The average provides the best view of the
13 company's capital structure over time.

14 Office of Consumer Services' witness,
15 Dr. Woolridge, is the only party who opposes the
16 company's proposed capital structure, and instead
17 recommends a hypothetical capital structure with an
18 equity component of 50 percent. I disagree with this
19 recommendation for several reasons.

20 First, a 50 percent hypothetical capital
21 structure is contrary to the five-quarter average
22 balanced approach that has been utilized in the
23 company's past rate cases.

24 Second, it does not consider the company's
25 significant capital expenditure cycle, which will

1 continue at least through 2023, and require thicker
2 equity levels in order to maintain strong credit ratings
3 and have consistent access to capital markets at a
4 reasonable cost. As explained in detail in my rebuttal
5 testimony, weakened credit metrics and increased risk of
6 credit downgrade will occur if the company is financed
7 with 50 percent equity.

8 Third, it does not consider the impact that
9 the Tax Cuts and Jobs Act has on the company's credit
10 measure, which have not been fully realized and are
11 being considered as part of this case.

12 Fourth, it is not comparable to the capital
13 structures of the utility operating company proxy group
14 presented in Exhibit RMP AEB-11 prepared by Ms. Bulkley,
15 the mean of which is 52.73 percent, a level comparable
16 to the company's proposed 53.67 percent.

17 Dr. Woolridge instead suggests the capital
18 structure of the holding companies included in the proxy
19 group are a better comparison, to which I disagree,
20 given holding companies often have nonutility
21 investments that influence their financing practices and
22 objectives.

23 Fifth, the 50 percent hypothetical level
24 contemplates short-term debt, which the company believes
25 is inappropriate, as it double counts short-term debt as

1 financing both rate base and construction work in
2 progress. Short-term debt is not a permanent source of
3 financing in the company's rate base, and instead the
4 company seeks to match the funding source duration with
5 the long-life nature of its assets.

6 Finally, the 50 percent hypothetical equity
7 level assumes some amount of debt held at PacifiCorp's
8 parent company, Birkshire Hathaway Energy, is used to
9 finance the equity in PacifiCorp. PacifiCorp finances
10 its own operations through issuance of long-term debts
11 and cash from operations, not through regular equity
12 contributions from its parent company.

13 For those reasons, I disagree with the use of
14 a 50 percent hypothetical capital structure.

15 In conclusion, I recommend a cost of debt of
16 4.79 percent, a cost of preferred stock of 6.75 percent,
17 and an equity component of a capital structure at 53.67
18 percent, all, when combined with Ms. Bulkley's cost of
19 equity, results in an overall cost of capital of
20 7.48 percent.

21 That concludes my summary.

22 MR. SABIN: Thank you very much, Ms. Kobliha.

23 Mr. Chairman, Ms. Kobliha is now available for
24 questions or cross-examination.

25 CHAIR LEVAR: Thank you, Mr. Sabin.

1 Ms. Schmid, do you have any questions for
2 Ms. Kobliha?

3 MS. SCHMID: The Division has no questions for
4 Ms. Kobliha. Thank you.

5 CHAIR LEVAR: Ms. Schmid.

6 Mr. Moore?

7 MR. MOORE: Yes, I have some questions.

8 CROSS-EXAMINATION

9 BY MR. MOORE:

10 **Q. First, Ms. Kobliha, do you have the copy of**
11 **the exhibits that the OCS sent out this morning?**

12 A. I believe I do. I have a stack over here that
13 someone handed to me.

14 **Q. All right. Thank you.**

15 **Isn't it true that since your direct testimony**
16 **in April of 2020, PacifiCorp has issued approximately**
17 **\$1 billion worth of long-term bonds?**

18 A. The company issued that in April.

19 **Q. Sorry.**

20 **Does the company -- does this affect the**
21 **company's actual capital structure?**

22 A. Yes, it does.

23 **Q. It's true that the credit rating considers the**
24 **actual capital structure in granting credit ratings;**
25 **that's consistent with your testimony, correct?**

1 A. Yeah, the rating agencies will look at our
2 published financial statements, look at actual data or
3 whatever the latest information is that's available,
4 when they issue their rating in order to do their
5 calculation of their metrics and determine our rating.

6 **Q. What is the actual capital structure at the**
7 **time of this hearing?**

8 A. The percentage, I believe, is somewhere in the
9 51 percent. I think the point, though, with this rate
10 case is we actually are forecasting through a 2021 time
11 period, and the 2021 time period has us going up to that
12 53 percent in order to maintain our credit metrics. And
13 I have some good data in my rebuttal testimony that
14 talks about the impacts of a lower threshold that we can
15 go to, and it gets into some confidential issues if we
16 need to go there.

17 **Q. Just asking what your capital structure is**
18 **today.**

19 **Is it true that the timing of the issue of the**
20 **\$1 billion worth of bonds was influenced, to some**
21 **degree, by the low interest rate environment existing at**
22 **the present time?**

23 A. The timing of it actually was influenced by
24 what was happening with the pandemic. You know, low
25 rates, of course, are something that we're always

1 looking for. But, you know, with the concern -- if you
2 recall, back in that March time period, you know, the
3 volatile market, and not all parties being able to issue
4 debt, we opted to go to the market and issue the billion
5 dollars, which we are needing as we look at the capital
6 spend that we have for our significant wind investments
7 here for the course of this year.

8 So the timing -- I think the bigger issue
9 really was around the concern of liquidity for the
10 company.

11 **Q. In preparing for your testimony, have you**
12 **reviewed the surrebuttal testimony of Professor**
13 **Woolridge, who is testifying for the OSC in this matter?**

14 A. Yes.

15 **Q. I'm going to direct your attention to OCS**
16 **Cross Exhibit 1, which is a copy of page 11 of Professor**
17 **Woolridge's surrebuttal testimony.**

18 CHAIR LEVAR: Okay. Why don't we --

19 THE WITNESS: I have that.

20 CHAIR LEVAR: Why don't we take just a moment
21 so we can all have that in front of us.

22 Let me ask if anyone needs more time before we
23 go forward.

24 Okay, go ahead, Mr. Moore.

25 BY MR. MOORE:

1 **Q. Figure 2 shows the amount of capital raised in**
2 **debt and equity in capital markets from 2016 to 2020.**

3 Looking at this -- looking at the graphs,
4 **isn't it true that the utility industry in general has**
5 **increased their debt ratio -- or their -- maybe not the**
6 **debt ratio, but the amount of debt that they are**
7 **procuring?**

8 A. Yeah, I would agree with that qualification
9 that, you know, this doesn't tell us what the debt ratio
10 is, because, of course, some of those issuance could be
11 associated with maturities, which would have a zero
12 impact to the ratio.

13 But yes, I think all companies, not just
14 utilities, is true, trying to have the most
15 cost-effective debt that they have available, and with
16 rates low, you know, we are trying to keep costs low and
17 issue debt when it's necessary and when it will keep us
18 in a good place for our ratings.

19 **Q. This actually -- this should actually show a**
20 **downward pressure on the equity portion of the capital**
21 **securities and utilities nationwide, shouldn't it?**

22 A. I guess I don't agree with that, because the
23 point that we have in terms of what I'm doing to balance
24 my capital structure is relevant to what that could do
25 to my credit rating.

1 So as a company, I wouldn't necessarily go out
2 and increase our leverage if that was going to put
3 significant pressure on my credit ratings, which I said
4 I -- you know, I have some of that in my rebuttal
5 testimony -- which would result in a downgrade. That
6 downgrade would ultimately cause higher costs for the
7 customers.

8 **Q. Yes, but the utility market as a whole, the**
9 **graph indicates that they are purchasing more debt. So**
10 **as a utility market as a whole, would -- it would affect**
11 **the downward pressure on the equity portion of their**
12 **portfolio. Isn't that just almost axiomatic from the**
13 **graph?**

14 A. I don't agree with that, just because of --
15 new issuances aren't necessarily an increase to the
16 outstanding debt. You know, in our case, we're looking,
17 of course, at maturities. So a maturity will have the
18 opposite effect of that new issuance.

19 So I'm not willing to just say, yes, that
20 means overall the leverage of utility companies is
21 increasing.

22 **Q. Okay.**

23 On page 16 of Dr. Woolridge's testimony citing
24 Global Market Intelligence, he reports that the average
25 common-equity ratio of electric utilities in 2019 was

1 **51.15 percent, which is lower than the 53.6 percent that**
2 **PacifiCorp is requesting. Isn't that true?**

3 A. I don't have that particular page here in
4 front of me, but if that's what it says, then that's
5 what his view was.

6 I think I've talked about the use of operating
7 utility versus the holding company. So I don't know if
8 you're referencing the holding company, but my position
9 has been Ms. Bulkley's exhibit, which talks about the
10 average equity component for the utility operating
11 companies, which is the mean of the 52.73 percent.

12 **Q. I think you made a mistake there. You stated**
13 **that the proxy companies were the holding -- were the**
14 **operating companies, when in fact, the proxy companies**
15 **are the holding companies.**

16 A. Yeah, my reference to Ms. Bulkley's exhibit is
17 she actually presents the utility companies in her
18 chart, Exhibit AEB-11, and the equity component of the
19 operating companies, which the mean is the 52.73
20 percent. And Dr. Woolridge, I believe, went at the
21 equity at the holding company level.

22 **Q. And the holding company level are the proxy**
23 **companies, because in order to run the models, you need**
24 **financial information, and there are no financial**
25 **information about the electric -- you need market**

1 information -- there's no market information about the
2 operating companies, which are not sold in the market.
3 Isn't that correct?

4 A. Ms. Bulkley can provide the detail of the
5 gathering of that entire exhibit, but my understanding
6 is she does make adjustments to get us to the operating
7 holding company level. But I would defer that question
8 to her. The schedule that I look at, though, does show
9 the equity level of the operating companies, which the
10 mean is the 52.73 percent.

11 Q. And there's a -- there's a low mean in the
12 holding companies, which is the proxy group; isn't that
13 true?

14 A. The exhibit shows the low, the high, and the
15 mean. I believe the high is in the 60 percent. I'd
16 have to look that up here. I have it in my testimony.

17 Q. The mean is lower than the 53 percent of --
18 that you're requesting; isn't that correct?

19 A. I would say the mean is comparable to our
20 53.67 percent that we are requesting.

21 Q. Are you referring to the holding -- you're
22 referring to the operating companies not the holding
23 companies?

24 A. The operating companies, yes.

25 Q. All right.

1 Can I direct your attention to Cross
2 Exhibit 2, which is a copy of the S&P Global Market
3 Intelligence dated October 19, 2020, entitled Average
4 Utility Equity Ratio Declines in 2020 Amid COVID
5 Pandemic?

6 There's a table on the first page. What does
7 that table indicate the electricity average equity ratio
8 is of June 30, 2020?

9 MR. MOORE: Do we want to wait for a minute,
10 Commissioner, for everyone to get hold of the exhibit?

11 CHAIR LEVAR: Thank you, Mr. Moore.

12 Does anyone need a moment before he moves
13 forward?

14 MR. SABIN: I do, Mr. Chairman. Give me one
15 second. I'm just trying to open up his exhibit.

16 THE REPORTER: I'm sorry. This is the
17 reporter. For clarification, was that Mr. Moscon or
18 Mr. Sabin?

19 CHAIR LEVAR: It says on the screen it was
20 Mr. Moscon, but that was Mr. Sabin's voice.

21 THE REPORTER: Thank you.

22 MR. SABIN: Yeah, it was Mr. Sabin. Thank you
23 for asking.

24 Okay, go ahead.

25 BY MR. MOORE:

1 Q. Again, on that table on page No. 1, it has the
2 electric company's equity ratio at 42.5 percent. Do you
3 see that?

4 A. Yes, I do.

5 Q. I'm going to ask you a hypothetical
6 question -- oh, hold on.

7 I would move to admit the article OCS Cross
8 Exhibit No. 2.

9 CHAIR LEVAR: If anyone objects to that
10 motion, please unmute yourself and indicate your
11 objection.

12 I'm not seeing or hearing any objection, so
13 the motion is granted.

14 BY MR. MOORE:

15 Q. Ms. Kobliha, I'm going to ask you a
16 hypothetical question. It should be easily answered.

17 Assume a hypothetical commission that has a
18 predisposition to set capital structure and ROE at the
19 industry average. Also assume as a hypothetical an
20 industry average capital structure of 50 percent equity
21 and an average ROE of 9.5 percent.

22 Are you with me?

23 A. Sure.

24 Q. Under this hypothetical, utility requests and
25 equity percentage is higher than the industry average.

1 If the commission agrees to grant them a higher than 50
2 percent equity capital structure on the condition that
3 the higher capital structure does not increase the
4 revenue climate, the utility would have to accept a
5 lower ROE below 9.5. Isn't that correct?

6 A. The -- I guess your question appears to be
7 asking the balance of the ROE associated with your level
8 of equity or debt in the capital structure, and as a
9 company leverages their position, taking on more debt,
10 then their return should increase.

11 So I'm unclear what you're asking me to say,
12 because, of course, there's lots of other factors to
13 consider, just dynamics that don't necessarily make the
14 hypothetical a straightforward issue.

15 Q. Well, all things being equal, wouldn't you say
16 that to keep a hypothetical revenue requirement common
17 when the cost of -- when the equity percentage increase,
18 the ROE has to decrease? That's how mathematically they
19 work so you can keep the revenue requirement constant;
20 isn't that correct?

21 A. You cut out a little bit there. I'm sorry.

22 Q. I'm sorry. Let me try again.

23 Can you hear me now?

24 A. Yes.

25 Q. Okay.

1 To keep the revenue requirement constant, if a
2 utility wants a higher-than-average capital structure,
3 more equity, they'd have to set a lower-than-average
4 ROE. If it's at .5, then it would have to be below 0.5.
5 Isn't that true?

6 A. I would say in this case, when Ms. Bulkley
7 established the ROE for the company, she considered our
8 53.67 percent along with the mean that we have for the
9 operating companies of the proxy group. So all those
10 dynamics have been considered in the establishment of
11 both those numbers in the case of the company.

12 Q. Well, I'm asking a very simple question. And
13 I think the Commission is aware of this, I think
14 everybody is aware of this. There's a relationship
15 between the ROE, the revenue requirement, and the
16 capital structure, such that if the capital structure
17 goes up and the revenue requirement stays the same, the
18 ROE has to go down.

19 Wouldn't you believe that that is generally a
20 correct statement?

21 A. The company and Ms. Bulkley considered all of
22 that when establishing the 53.67 and then her,
23 ultimately, 10.2, which has been changed to the 9.8 out
24 of, you know, consideration to keep it flat from what
25 we're currently in rates today.

1 Q. You're not answering my question. It's a
2 hypothetical question. I'm going to ask it one more
3 time.

4 To keep a revenue requirement equal, and you
5 have a higher-than-average equity ratio, the ROE would
6 have to go down.

7 Do you understand that question?

8 A. I understand the math behind your question --

9 Q. Okay.

10 A. -- and I'm saying that the company has
11 considered all of those factors when establishing its
12 revenue requirement at the 53.67 and the 9.8/10.2 that
13 was originally submitted in our case.

14 Q. You're not going to answer my question, then?

15 A. I guess I'm providing the position that the
16 company has considered all of those components when
17 establishing this capital structure and, ultimately,
18 cost of capital.

19 Q. I don't want to ask you what the company
20 considered. I'm asking you a hypothetical about the
21 mathematical relationship with the -- cost of -- the
22 rate of equity, the cost of ROE, and the revenue
23 requirement.

24 I'm not going to keep going onto this. You're
25 just not going to answer the question, are you?

1 A. I believe I've answered the question, yes.

2 **Q. All right. Let's move on.**

3 CHAIR LEVAR: I'm going to interject,
4 Mr. Moore. I think her answer of, "I understand the
5 math," was pretty close to an affirmative answer to your
6 hypothetical.

7 MR. MOORE: All right. Thank you very much,
8 Commissioner.

9 BY MR. MOORE:

10 **Q. Thank you, Ms. Kobliha.**

11 Ms. Kobliha, I want to turn your attention --
12 testimony on the pension and relating costs, but I don't
13 want to discuss the portion of your testimony -- I only
14 want to discuss the portion of your testimony that
15 overlaps the capital structure, and that is the interest
16 rates you use and the return on the stock in the pension
17 portfolio. The remainder of your testimony will wait
18 until the revenue requirement.

19 Not getting into how or why, but isn't it true
20 that the interest rate and projected interest rates are
21 important components of your analysis related to the
22 pension?

23 A. In terms of the return in our plan? Is that
24 your question?

25 **Q. Yes.**

1 A. Yeah, we, the company, does an assessment
2 based on the investments that it has made in the trust
3 that we have established for our pension, and estimates
4 using -- you know, with feedback from our consultants,
5 what we believe the long-term rate of return will be on
6 the pension plan.

7 **Q. Right.**

8 **And you also project interest rates that will**
9 **exist in 2021; isn't that correct?**

10 A. Our interest rate that we established for the
11 pension has more of a long-term view; it's not
12 indicative of next year or the year after. If you look
13 at our history, there's years, of course, where the
14 markets returned 20 percent, when we had projected seven
15 percent, or where it's returned negative 20 percent and
16 we've projected the same thing.

17 So it's not really a projecting next year,
18 it's more of a long-term position.

19 **Q. And you projected low interest rates; isn't**
20 **that correct?**

21 A. Low interest rates -- again, we looked at the
22 mix of our investments that we have in the trust, and
23 said, here is what we think our -- the return will be,
24 the fund manager alpha that we'll achieve in order to
25 come up with the return for those assets.

1 I don't know if I would say it was declining.
2 It was using that mix of data, and investments, and
3 market information at the time, under advice from our
4 consultants.

5 Q. Isn't it -- did you base your conclusion about
6 the interest rates at the time the rates will be in
7 effect, which will be the 2021 test year?

8 A. So are we talking still about the pension
9 plan?

10 Q. We're talking about the pension plan. I'll
11 talk about your return on investments later. But I want
12 to talk about your interest rates.

13 You used an interest rate for the discounted
14 rate; isn't that true?

15 A. For our pension plan, the expected return on
16 assets --

17 Q. No --

18 A. -- we used that long-term --

19 Q. -- to determine if you're going to have a
20 pension loss.

21 A. Yeah, so if we're talking about settlement
22 loss --

23 Q. Settlement loss. Thank you.

24 A. -- which -- yeah -- which is sort of the other
25 piece of the testimony, then yeah, there's several

1 factors that we did, and we actually have a discount
2 rate -- as you noted, there's a table in my testimony
3 that shows the 2021 discount rate, and we actually held
4 it flat.

5 **Q. That's correct.**

6 A. So the discount rate assumption was three a
7 quarter for the year-end measurement that we received
8 last year, and we forecasted it would stay at three and
9 a quarter, just because we didn't know what was going to
10 happen.

11 **Q. Okay. So you used the interest rate**
12 **environment as it exists today?**

13 A. Yeah, we held it flat. Correct.

14 **Q. Okay.**

15 **Now we'll go into the -- what is the long-term**
16 **projected growth of the assets in your professional**
17 **portfolio? Do you know?**

18 A. In the pension -- I don't have it off the top
19 of my head. I believe it's six and a half or six and
20 three-quarters, but I -- that would be subject to check.
21 I would want to refresh. I didn't come prepped to give
22 all the details on pension today. Apologies.

23 **Q. Okay. Let me direct you to Cross Exhibit OCS**
24 **No. 10.**

25 A. Okay. I'm there.

1 **Q. All right.**

2 MR. MOORE: Does everybody else need more
3 time?

4 CHAIR LEVAR: I'm not hearing anyone else need
5 any more time, so go ahead, Mr. Moore.

6 BY MR. MOORE:

7 **Q. This is a response to information that must be**
8 **filed with a rate case pursuant to Rule 746-700-20.**

9 On the second page of the exhibit it shows
10 **expected long-term growth rate at seven percent; isn't**
11 **that right?**

12 A. You said on the first page that it shows the
13 2018 and 2019 expected long-term rate of return -- those
14 are both seven percent?

15 **Q. Yes.**

16 A. Is that your question?

17 Correct.

18 **Q. All right.**

19 Seven percent growth rate is significantly
20 **lower than a 12.12 percent long-term growth rate; isn't**
21 **that true?**

22 A. A 12.12 percent expected long-term rate of
23 return?

24 **Q. Yeah. That's much higher than a seven**
25 **percent.**

1 A. Yes, six and seven is lower than 12.

2 Q. Okay.

3 A. I agree with that math.

4 Q. Thank you.

5 Isn't it true, Ms. Kobliha, that a central
6 point of your capital structure testimony is that
7 PacifiCorp needs a high equity ratio, 53.6 percent, in
8 order to maintain the company's high credit rating of A
9 according to S&P, and A3 according to Moody's? Did I
10 get those numbers correct?

11 A. Yes, those are the Moody's and S&P ratings.

12 Q. Now, it's also true that the rating agents
13 look at a host of factors in addition to capital
14 structure in making the determination regarding credit
15 ratings?

16 A. I have a paragraph in my testimony that
17 discusses the key indicators that Moody's and S&P look
18 to of which the cash flow -- you have CFOs, FFO to debt,
19 I can define all that ratio. You know, in excess of 20
20 percent is one of the key measures that they look to,
21 along with things such as, you know, regulatory support
22 and continuing to finance the company at the level that
23 currently exists.

24 So I do have all that in the testimony, if you
25 want to look to it.

1 **Q. That's right.**

2 The credit agency, as you say, consider the
3 regulatory environment in making their determinations,
4 correct? I believe you just said that.

5 A. Yep. There's a paragraph in there that says
6 that it considers regulatory support.

7 **Q. Isn't it true that credit agencies consider**
8 **current planned capital expenditures in making the**
9 **determination of a credit rating?**

10 A. The typical look is they're looking at our
11 actual position at a point in time. So the -- I'll use
12 Moody's. And I'm only talking of Moody's, because
13 Moody's is the lower rated of our two entities. So I'd
14 like to stick to that -- or the lower ratings. So I'll
15 stick to that.

16 But yeah, they consider our financials at a
17 point in time, and then they're looking at what does our
18 projection look like for capital expenditure, which we
19 disclosed in our 10-K, with -- the primary factor there
20 is them calculating our CFO-to-debt ratio, and as long
21 as it's on, you know, a -- for a period of time, in
22 excess of the amount that they see, which that -- we
23 didn't call confidential, 20 percent, then that is a key
24 driver for them to not downgrade the company.

25 **Q. Isn't it true that at present -- isn't it true**

1 that at present, your credit agencies consider the
2 regulatory environment in Utah, PacifiCorp's current
3 planned capital expenditure, and the current equity
4 ratio at 51.79 percent, and has given PacifiCorp
5 superior credit ratings for the past three years?

6 A. The issue there is the past versus the future.
7 So if you look on my rebuttal testimony, page 7, I do
8 some calculations that show if we use our 51.76
9 percent -- or it actually is calc'd on a 51.6 percent
10 equity level -- that are -- the FFO-to-debt, which is
11 the important metric, will decline below the threshold
12 that Moody's has indicated. Again, we start to get a
13 little bit into some confidential items.

14 So in order for --

15 Q. I don't want you to say any confidential
16 stuff.

17 A. Yeah, I'm trying not to.

18 So in order to, you know, negate that impact,
19 then, you know, an improvement or a favorable regulatory
20 support, which would support a return on equity and
21 funding of a company operation on a reasonable basis,
22 would help boost that calculation.

23 That's sort of where the regulatory support
24 comes into play, is its impact that it would have on the
25 metrics that I refer to for Moody's.

1 Q. But it's true, isn't it, that you have a
2 superior credit rating, and that the credit rating
3 agencies have looked at your regulatory environment and
4 your capital expenditures, and given you that high
5 credit rating? And isn't it also true that that high
6 credit rating makes -- is a determination from the
7 credit rating agencies that Rocky Mountain Power is less
8 risky than a company or utility or group of utilities
9 with a lower credit rating?

10 A. Our historical ratings have been, as you know,
11 the A3 from Moody's and the A1 from S&P, and it doesn't
12 fully reflect what we're seeing here in the future with
13 this significant growth cycle, which is why we're
14 requesting the thicker equity in order to shore up and
15 maintain that strong credit metric calculation, which is
16 weakened in this time period because of the capital
17 spend and because of the impact of tax reform.

18 Q. As a general statement -- and this should be
19 easy again -- a high credit rating means you're less
20 risky than a company with a lower credit rating, or a
21 group of companies with a lower credit rating,
22 correct?

23 A. The credit rating is associated with the
24 position of your debt. So the risk on the default, or
25 debt, is less risky for a higher-rated company than the

1 lower-rated company.

2 MR. MOORE: Thank you very much. I have no
3 further questions.

4 CHAIR LEVAR: Thank you, Mr. Moore.
5 I'll go to Ms. Baldwin next. Do you have any
6 questions for Ms. Kobliha?

7 MS. BALDWIN: I have no questions on behalf of
8 Walmart.

9 CHAIR LEVAR: Okay. Thank you.
10 Mr. Russell, do you have any questions?

11 MR. RUSSELL: No questions for this witness in
12 this stage of the proceedings. Thank you.

13 CHAIR LEVAR: Okay. Thank you.
14 Mr. Sanger?

15 MR. SANGER: No witness -- no questions, your
16 Honor.

17 CHAIR LEVAR: Thank you.
18 Mr. Boehm?

19 MR. BOEHM: No questions, your Honor.

20 CHAIR LEVAR: Commissioner Allen, do you have
21 any questions for Ms. Kobliha?

22 Oh, wait. Sorry. I'm a little premature.
23 Let me go back to Mr. Sabin for any redirect.

24 MR. SABIN: Thank you, Mr. Chairman. I have
25 just a couple of questions.

REDIRECT EXAMINATION

BY MR. SABIN:

Q. Ms. Kobliha, could you turn back to OCS Cross Exhibit No. 2, that S&P Global Market Intelligence document that you had?

A. Yes.

Q. Could you look at the second full paragraph on page 1, where the -- it starts with the capital structure data. Would you just read that paragraph -- or the first couple of lines of that paragraph into the record?

A. Yes, I will.

"The capital structure data contained in this analysis is derived from an October 2nd study of utility parent company financials."

Q. Okay. And so you made a distinction with Mr. Moore when he was asking you questions about your capital -- proposed capital structure versus Mr. Woolridge's proposed capital structure.

Could you please explain for the Commission the figures that we're looking at in this S&P Global Market Intelligence -- what is the significant of the fact that the study is based on utility parent company financials rather than operating company financials?

A. Yes, great distinction. As I've noted, the

1 comparable capital structure that we've been looking at
2 for our proxy group is at the operating company level
3 versus the parent company level. And there's actually
4 some quotes in my rebuttal testimony that refer to, at
5 the parent company level, those entities could have
6 nonutility investments, you know, nonregulated entities
7 or some other arm of their company, which will influence
8 their overall financing decisions, and ultimately could
9 be reflected in a capital structure that is lower than
10 what would be for an operating utility company, which
11 is, of course, PacifiCorp in this case, and the several
12 that we note in that proxy group we display in
13 Ms. Bulkley's exhibit.

14 **Q. So, for example, if an operating -- if a**
15 **holding company or a parent corporation has business**
16 **entities, subsidiaries, or affiliates that are not**
17 **utility in nature, what impact do you -- are you**
18 **suggesting that that somehow impacts the accuracy of**
19 **that comparison?**

20 A. Yes, I believe that the parent company level,
21 the holding company level, could grab in other factors
22 that aren't comparable to the operating utility
23 companies.

24 **Q. Okay. And the data that you and Ms. Bulkley**
25 **reviewed for purposes of calculating your capital**

1 structure, or your proposed capital structure, did it
2 only include operating companies that were utility
3 companies, and excluded all other nonutility-like
4 relationships?

5 A. Yeah, the comparison I referred to makes
6 adjustments to get to the operating utility company
7 level, so that it is comparable to PacifiCorp.

8 Q. Okay.

9 Would you now read the second line of that
10 second paragraph in OCS Cross Exhibit 2?

11 A. The one starting, "We note"?

12 Q. Yes.

13 A. "We note that the overall equity ratio decline
14 is consistent with the general slippage in parent
15 company financial measures that are detailed in the
16 October 2nd study."

17 Q. So the equity ratio decline they're reflecting
18 in this document, do you have an understanding of --
19 that it is related to the slippage in parent company
20 financials or operating company financials?

21 A. As it says here, parent company financials.

22 Q. Now if I could have you look at the second
23 page of this document, under the chart that is -- the
24 chart is called "Utilities with largest equity ratio
25 decreases and increases." There's a paragraph right

1 below that, that starts with "Regarding." Do you see
2 that?

3 A. Yes.

4 Q. Could you read that paragraph, please, into
5 the record?

6 A. "Regarding those companies that posted the
7 largest declines in their common-equity ratios, OGE
8 Energy Corp. recorded an impairment charge in the second
9 quarter related to its investment in Enable Midstream
10 Partners LP. OGE holds a 25.5% limited partner interest
11 and a 50% general partner interest in Enable Midstream
12 Partners."

13 Do you want me to keep going?

14 Q. Let's just stop there for a minute.

15 A. Okay.

16 Q. I'm going to seize on the -- on this question
17 of impairment charges. Do you have an understanding of
18 what impairment charges are?

19 A. Yes.

20 Q. Could you please explain for the Commission
21 what this is -- paragraph is referring to when it's
22 discussing impairment charges incurred by these -- some
23 of these entities during the second quarter?

24 A. Sure. An impairment charge is typically if a
25 company has an investment or an asset on its financial

1 statement and it has lost value, the accounting rules
2 require assessment of that, and it looks like they took
3 a hit to their income statement, a loss on their income
4 statement, for this investment in this partnership.

5 Q. So if those impairment charges -- because
6 there are impairment charges that are included in the
7 figures that are reported in this S&P Global Market
8 Intelligence report, what impact would that have had or
9 could that have had on the numbers that Mr. Moore was
10 asking you about, these equity ratios?

11 A. The impairment charge ultimately makes its way
12 to the common equity. You know, as I referred to the
13 company's equity of the 53.67 percent, it ultimately
14 hits that component of the balance sheet and would
15 reduce it or drag it down. So that could be, you know,
16 a factor, or should be a factor in the math that would
17 cause their -- the capital structure to decline, the
18 equity component to decline.

19 Q. Do you see anything in this document that
20 would reflect the equity ratios of these entities
21 without the impairment -- with the impairment charges
22 removed or factored out of the analysis?

23 A. It does not appear to make any adjustments.

24 Q. Okay. Without those adjustments, is the
25 equity ratio figure -- are the equity ratio figures --

1 could you compare them on an apples-to-apples basis with
2 anything you or Ms. Bulkley has done in this matter?

3 A. No, because it does, as we've said, a couple
4 things. It's grabbing that parent company level, which
5 includes investments, as we note, that are not operating
6 utility company related. So it would be challenging for
7 us to compare that to PacifiCorp.

8 Q. Okay.

9 I want to move on to just another topic
10 briefly. Mr. Moore asked you about the debt equity
11 structure you've proposed, and at one point he asked you
12 about the impact that the debt and equity ratio could
13 have on your credit ratings with the credit ratings
14 agencies.

15 I would just ask you if you could explain, if
16 your debt and equity ratio ends up being too low -- as
17 you look forward into what the company is going to be
18 doing in the coming years, in the test period and out
19 into 2021 and 2022, if it's too low, what is the impact
20 or what could be the impact of that on your business
21 operations going forward?

22 A. Yeah. Ultimately, if it's too low and the
23 company is unable to meet the metrics as outlined by the
24 rating agencies, that would -- it's very possible that
25 we could see a downgrade in our ratings from, you know,

1 Moody's and S&P. Like I said, I'll focus on Moody's,
2 since it's already the lower-rated -- lower rating for
3 the company.

4 It just ultimately causes costs to go up. The
5 best position -- you want a strong utility with high
6 ratings, because when we go out into the market and
7 purchase a billion dollars in bonds, like we did here in
8 April, we obviously want it to be the least cost debt
9 that we can procure, and if we have a lower rating,
10 those costs are going to go up.

11 My direct testimony actually does cite some
12 examples where, in a time period that the company was in
13 the market -- the Great Recession, great example -- that
14 we were able to issue debt, and actually issue it
15 cheaper than other lower-rated entities at that point in
16 time, so that we can continue to fund our operations,
17 you know, that -- maintaining that reliable and safe
18 power for -- safety for the company and customers.

19 **Q. Okay. And you used the quote -- in response**
20 **to one of Mr. Moore's questions, you talked about -- and**
21 **this is your phrase. It was -- you used the word that**
22 **you'll be in a "significant growth cycle," in your**
23 **estimate.**

24 **Could you please describe what you mean by a**
25 **"significant growth cycle," and what that has to do with**

1 **your capital -- proposed capital structure?**

2 A. Yeah, the significant growth cycle is
3 referring to the capital expenditures that we're
4 having -- that we've had since about the 2019 period.

5 If you look at our past capital expenditures
6 from about the 2013 time period, or when we were last in
7 a case, our capital -- our annual capital expenditures
8 were only about a billion dollars. I say "only," only
9 because it is significant now, here in 2019, 2020, 2021,
10 and through the future.

11 So that added capital expense means that we'll
12 be going to the debt market more regularly in order to
13 continue to fund that growth, which is why the -- those
14 ratings are so important to us. We want to make sure
15 that we are higher rated, that we can continue to access
16 the market and get the cheapest debt possible.

17 **Q. Okay.**

18 **And then finally, your anticipated increase in**
19 **capital spend, is that -- are you going through a period**
20 **that you would describe as an average capital spend, a**
21 **higher-than-normal capital spend, or a lower-than-normal**
22 **capital spend?**

23 A. Looking at our past number of years, I would
24 say we are in a higher growth cycle than what we would
25 typically see, because of the, you know, transformation

1 of our system for the renewables. You know, the
2 repowering project, the new wind, the associated
3 transmission. And all of that you can see depicted also
4 in the IRP that's been issued here in the last couple of
5 years, with the additional capital build cycle that
6 we're expecting to occur.

7 MR. SABIN: Okay. Thank you, Ms. Kobliha.

8 I don't have any further questions,
9 Mr. Chairman.

10 CHAIR LEVAR: Thanks, Mr. Sabin.

11 I'll go back to Mr. Moore now. Mr. Moore, do
12 you have any recross?

13 MR. MOORE: Just real quickly.

14 RECROSS-EXAMINATION

15 BY MR. MOORE:

16 Q. I have to apologize, Ms. Kobliha, I don't
17 remember your testimony. You mentioned apples-to-apples
18 comparison. I asked you before, is it an
19 apples-to-apples comparison to use the holding companies
20 to determine your ROE and the operating companies to
21 determine your capital structure, and I believe you
22 pushed that question off to Ms. Bulkley. Is that
23 correct?

24 A. I think when it comes to the relationship of
25 the capital structure and how that translates into

1 establishing the risks, Ms. Bulkley has more detail and
2 could address that.

3 My point is as I look at the capital structure
4 and its comparison, the comparable entities, from my
5 perspective, really are the operating companies. And
6 then, like I said, she'll be able to make the further
7 connections with the ROE itself.

8 MR. MOORE: All right. Thank you.

9 I have no further questions.

10 CHAIR LEVAR: Thank you, Mr. Moore.

11 If any of the other attorneys in this hearing
12 have any recross questions, please indicate to me that
13 you do.

14 I'm not seeing any, so I'll go to Commissioner
15 Allen. Do you have any questions for Ms. Kobliha?

16 MR. ALLEN: No questions. Thank you.

17 CHAIR LEVAR: Thank you.

18 Commissioner Clark?

19 MR. CLARK: I have no questions. Thank you
20 very much.

21 CHAIR LEVAR: Okay. Thank you.

22 And I do not either. So thank you for your
23 testimony Ms. Kobliha.

24 THE WITNESS: Thank you.

25 CHAIR LEVAR: Mr. Sabin or Mr. Moscon, you can

1 call your next witness.

2 MR. SABIN: Mr. Chairman, I'm going to let
3 Mr. Moscon slide back into his seat, and he'll call
4 Ms. Bulkley.

5 MR. MOSCON: Thank you. As you may have
6 deduced by now, we have one computer that, for whatever
7 reason, seems to be synced up to the proceeding, and so
8 we're playing a little bit of musical chairs here. So I
9 appreciate the patience of the Commission and the
10 parties.

11 DIRECT EXAMINATION

12 BY MR. MOSCON:

13 Q. As indicated, our next witness is Ms. Ann
14 Bulkley. I see that she's there. So I will turn and
15 ask Ms. Bulkley to please, for the record, state your
16 name and spell the last name for the court reporter, if
17 you could.

18 A. Sure. My name is Ann Bulkley. The last name
19 is spelled B-u-l-k-l-e-y.

20 Q. Okay. And Ms. Bulkley, have you previously
21 testified before this Commission?

22 A. No, I have not.

23 CHAIR LEVAR: Excuse me, Mr. Moscon. Sorry.
24 Why don't I swear in the witness briefly?

25 MR. MOSCON: Sure. Thank you.

1 CHAIR LEVAR: Thank you.

2 Ms. Bulkley, do you swear to tell the truth?

3 THE WITNESS: I do.

4 CHAIR LEVAR: Okay. Thank you.

5 Sorry for the interruption.

6 MR. MOSCON: No, and I -- in fact, I
7 appreciate that, and I apologize you have to keep
8 reminding me. Thank you.

9 BY MR. MOSCON:

10 **Q. Ms. Bulkley, because you have not testified,**
11 **before we get to a summary, could you please just**
12 **briefly identify for the Commission a little bit of your**
13 **background and your experience generally in this field?**

14 A. Sure. My educational background is an
15 undergraduate degree in economics and finance, and a
16 graduate degree in economics from Boston University.

17 I've spent about 25 years in consulting to the
18 utilities industry, and about -- probably 15 of those
19 years related to the development of the cost of capital.
20 And I have testified on this topic approximately 50
21 times.

22 **Q. Okay.**

23 **Now, Ms. Bulkley, you prepared testimony to be**
24 **filed in this proceeding; is that correct?**

25 A. Yes, that's correct.

1 Q. That was both direct and rebuttal?

2 A. Yes.

3 Q. Are you aware of any corrections that would
4 need to be made to your testimony, as you sit here?

5 A. No, I'm not.

6 Q. If I were to ask you the same questions as
7 contained in that, would your answers be the same as
8 contained in your testimony?

9 A. Yes, they would.

10 Q. Okay.

11 And with your testimony, you had some
12 attachments and exhibits that -- in your direct, it was
13 AEB-1 through AEB-11, and in your rebuttal we had AEB-1R
14 through AEB-11R. Do you agree that reflects the exhibit
15 that were attached to your testimony?

16 A. Yes, I believe that's correct.

17 MR. MOSCON: Mr. Chairman, I would move for
18 the admission of the direct and rebuttal testimony of
19 Ms. Bulkley, together with the exhibits annexed thereto.

20 CHAIR LEVAR: If anyone objects to that
21 motion, please unmute yourself and indicate your
22 objection.

23 I am not seeing or hearing any objections, so
24 the motion is granted. Thank you.

25 MR. MOSCON: Thank you.

1 BY MR. MOSCON:

2 Q. Now, Ms. Bulkley, I know that the testimony
3 that you prepared is somewhat complicated, and so I'm
4 going to ask you to prepare a -- or to give a summary of
5 your testimony to the Commission, and invite you, if you
6 need to refer to any specific charts or diagrams, to do
7 so, if that's of use to you. But I'll -- please share a
8 summary of your testimony, if you have one.

9 A. I do, yes. And I'll see if I can work this to
10 include a presentation as well. Just one moment.

11 Let's see. Sorry for the delay.

12 Hopefully, that's -- can folks see that
13 presentation screen yet?

14 CHAIR LEVAR: I can see it. I don't know if
15 everyone can --

16 MR. CLARK: This is Commissioner Clark. I can
17 see it.

18 THE WITNESS: Just to make sure that the
19 correct thing is showing, because I can't see the screen
20 that's being presented -- so what I am intending to
21 present -- at least this first slide says DT, which is
22 intending to represent "direct testimony," Figure 2:
23 S&P 500 Index - Daily Price Change - January through
24 March 2020.

25 BY MR. MOSCON:

1 **Q. Yeah, I'll represent that it is up and that's**
2 **what we're seeing.**

3 A. Okay. Excellent. That's helpful. Thank you.

4 Mr. Chairman and commissioners, thank you for
5 the opportunity to provide you with a summary of my
6 direct and rebuttal testimonies in this proceeding.

7 My testimony addresses the appropriate return
8 on equity and capital structure for Rocky Mountain
9 Power. In my direct and rebuttal testimonies, I
10 consider many factors in the development of the range of
11 returns and my recommendation for the appropriate ROE
12 for Rocky Mountain Power. Those factors include:
13 Current and expected market conditions, credit and
14 equity analyst expectations, the appropriate comparison
15 and proxy group to be used in the analytical models used
16 to develop cost estimates, multiple ROE estimation
17 models, and business risk factors that are unique to
18 Rocky Mountain Power in this jurisdiction as compared
19 with the proxy companies.

20 My testimony discusses the importance of
21 considering all of these factors, and in particular, the
22 results of multiple ROE estimation models. Market
23 conditions affect the assumptions used in the ROE
24 estimation models. In some market conditions, certain
25 models performed well, while in others, different models

1 may be more robust. Therefore, as I have discussed in
2 my testimony, it's important to review the results of a
3 number of models to develop the range of the cost of
4 equity.

5 As noted in my testimony, one factor that's
6 important to consider is capital market conditions, and
7 to understand the impact of changes in these conditions
8 on the industrial required return on equity.

9 Consideration of these factors is consistent with the
10 Commission's views in the recent DEU general rate case.

11 My direct and rebuttal testimonies provide an
12 overview of current capital market conditions, and how
13 those conditions have changed from the time my direct
14 and rebuttal testimonies were prepared. In addition, my
15 rebuttal testimony provides some context for how current
16 market conditions differ from the conditions when the
17 company's last case was decided in 2014.

18 The analyses presented in Attachment 1 to
19 Mr. Coleman's surrebuttal testimony, which was prepared
20 by Duff & Phelps, supports the issues that I've
21 addressed in my direct and rebuttal testimony with
22 respect to recent market conditions.

23 Figure 2 of my direct testimony -- which I'm
24 showing currently -- demonstrates the volatility that
25 occurred in the market in February and March, and which

1 was embedded in the data that was relied upon in the
2 model that I used in my direct testimony. Furthermore,
3 this chart also demonstrates how abruptly the market can
4 change, without warning, and the risk that this creates
5 for equity investors.

6 Hopefully you've seen the picture change on
7 the presentation.

8 **Q. We have.**

9 **A. Excellent.**

10 Figure 3 in my direct testimony shows that the
11 Chicago Board Options Exchange mixed index, which is a
12 measure of the market's expectations with respect to
13 volatility and is often referred to as the fear index,
14 surpassed the level that was seen in 2008 and 2009's
15 financial market collapse.

16 Again, it's noteworthy that this spike
17 occurred without warning, after the VIX had maintained a
18 relatively moderate level for a period of years.

19 Figure 4, which I'll show briefly, from my
20 direct testimony, and also Figure 5 in my direct
21 testimony, summarize changes in the market sentiment
22 with respect to economic policy uncertainty and equity
23 market volatility. In each case, these indices were
24 either at all-time highs or remarkably high levels.

25 Finally, from my direct testimony, Figure 6

1 shows the yield on the ten-year Treasury bond. While
2 the fed has already been managing the ten-year Treasury
3 bond yield in response to international commerce
4 concerns -- which were sort of noted throughout this
5 chart -- during the period from late February to late
6 March, the yield on the ten-year Treasury demonstrated
7 significant volatility, which is shown in red in this
8 chart.

9 Each of these indicators demonstrates that
10 market conditions have been unstable, and that the risks
11 to holding equity have been higher than in periods prior
12 to the pandemic.

13 At the time that I prepared my rebuttal
14 testimony, I updated some of the market conditions
15 charts.

16 Looking at Figure 4 from my rebuttal
17 testimony, which hopefully you're seeing, demonstrates
18 how -- the changes in the VIX over time, and
19 demonstrates that in 2014, the VIX was at an average of
20 about 15 to 19 -- this is at the time of the company's
21 last rate decision -- where the historical average for
22 the VIX is typically about 20.

23 The VIX in the current period was 80 in March,
24 and at the time of my rebuttal testimony, was in the 30
25 to 40 range when that testimony was prepared, which was

1 following unprecedented intervention in the markets by
2 the Federal Reserve and the U.S. Treasury.

3 The relevance of these conditions appears not
4 to be disputed by Mr. Coleman. In his surrebuttal
5 testimony, Mr. Coleman references a Duff & Phelps report
6 which recognizes the importance of all of these same
7 indicators.

8 Credit rating agencies have also weighed in on
9 the utilities industry and its performance over current
10 market conditions. In April 2020, S&P downgraded its
11 outlook for the industry as a whole. S&P noted that
12 prior to the COVID-19 outbreak, 25 percent of utilities
13 had negative outlooks or ratings that were on credit
14 watch, with negative implications. Furthermore, S&P
15 noted that many utilities with a stable outlook had
16 minimal financial cushion at the current rating level,
17 and S&P expected the pandemic to weaken the industry's
18 FFO-to-debt ratios.

19 Dr. Woolridge notes that utilities accessed
20 the capital markets in the pandemic, including both debt
21 and equity markets. While Dr. Woolridge notes that
22 utilities took advantage of low-cost debt, which is
23 undoubtedly brought about through the unprecedented
24 federal intervention that occurred in March, he
25 neglected to mention that the equity markets were not

1 nearly as beneficial.

2 As is shown on the current chart that I'm
3 presenting, this chart compares the S&P Utilities Index
4 to the S&P 500. The S&P Utilities Index experienced the
5 same market correction in February and March that the
6 overall markets saw, but has not rebounded as the
7 overall market has. In fact, the S&P Utilities Index is
8 down 16 percent for the year as of September.

9 In my direct and rebuttal testimony, as I
10 mentioned earlier, I relied on many ROE estimation
11 models: The DCF, the CAPM, the bond yield risk premium,
12 and an expected earnings model.

13 Figure 1 in my testimony, which I'm showing
14 now, summarizes the results of those models. As shown
15 in the figure, the range of results was about eight and
16 a half percent, to a high of about 12.3, and within that
17 range I concluded that the appropriate range for the
18 cost of equity would be 9.75 to 10 and a quarter
19 percent. Within that range, I selected 10.2 percent as
20 a reasonable return for Rocky Mountain Power.

21 In my rebuttal testimony, I updated those
22 results. The higher end of the range of the DCF
23 increased. The most significant increases that we saw
24 were in the CAPM, due to the fact that the betas for the
25 proxy groups -- companies were -- had increased

1 significantly due to the volatility experienced in the
2 market and that I showed in a couple -- the slide prior.
3 This slide here.

4 The reasons why these results change is an
5 important consideration. Beta is a measure of the
6 relative volatility of the individual stock as compared
7 to the overall market. This increase in beta estimates,
8 which was provided and confirmed by multiple sources,
9 indicate that utility stocks began to trade more like
10 the overall market in current market conditions than
11 they had in recent history. This data is quantitative
12 support of the viewpoints of equity analysts and
13 utility -- of the viewpoint of equity analysts that
14 utilities are not behaving as traditional safe haven
15 investments in the current market conditions, but rather
16 have been subject to volatility and have underperformed
17 relative to the broader market.

18 This is a point on which Dr. Woolridge and I
19 agree. Dr. Woolridge also notes in his current market
20 conditions discussion that utilities have not been safe
21 haven investments in this market.

22 The range of results from updating my
23 analytical models and rebuttal was between 8.54 percent
24 and 12.92 percent, and within that range I concluded it
25 was not necessary to change either the range or the

1 point estimate determined from my direct testimony.

2 The company, nevertheless, elected to reduce
3 its requested ROE in its rebuttal testimony to
4 9.8 percent, which is at the lower end of the range that
5 I've established.

6 In response to Dr. Woolridge's testimony, it
7 is remarkable that he protests so strongly the use of
8 earnings growth rates in the DCF model, when he states
9 in both his direct and surrebuttal testimonies that his
10 recommended ROE is based primarily on the models that he
11 developed using earnings growth rates as the assumptions
12 in the DCF model, and that he's relied almost
13 exclusively on his DCF model.

14 Likewise, it's notable that, while
15 Dr. Woolridge devotes pages in his surrebuttal testimony
16 to his concerns regarding projected interest rates, in
17 his own CAPM analysis he relies on a normalized interest
18 rate that is higher than the short-term projected yield
19 on the 30-year Treasury bond that I've used in my CAPM.

20 Furthermore, the projected interest rates that
21 I've relied on are within the normalized risk-free rate
22 range established by the Duff & Phelps report provided
23 in Mr. Coleman's surrebuttal testimony.

24 Finally, it's important to note that
25 Dr. Woolridge doesn't even rely on his CAPM analysis.

1 Reviewing the totality of the case, the
2 Commission will see that the witnesses in this
3 proceeding have relied on different models with
4 differing assumptions, to develop ranges of ROEs and
5 final point estimates.

6 Reviewing the rebuttal and surrebuttal
7 testimony is evidence that each of the witnesses firmly
8 believes the ROE modeling that they have performed is
9 reasonable. Benchmarking the results of that modeling
10 against recently authorized returns from other
11 jurisdictions can provide a broader framework for the
12 Commission to consider as it determines what a just and
13 reasonable ROE is for Rocky Mountain Power, given recent
14 and current market conditions.

15 Figure 2 from my rebuttal testimony provides
16 recently authorized ROE data through August 31, 2020,
17 for vertically integrated electric utility companies.

18 As is shown on this scatter plot, the
19 company's requested ROE of 9.8 percent is well within
20 the range of the recently authorized ROEs since 2018,
21 including the first eight months of 2020.

22 Mr. Coleman and Dr. Woolridge's
23 recommendations are also provided on this chart, and as
24 you can see, the recommendations offered by these
25 witnesses are at the very low end of the returns that

1 were authorized at the time my rebuttal testimony was
2 prepared.

3 Mr. Coleman provided what he considered to be
4 updated information on recently authorized ROEs in
5 Attachment 6 to his surrebuttal testimony. While the
6 data that is presented there represents the broad range
7 of information that's available from S&P rate case
8 databases, the data cannot be relied upon in the format
9 provided by Mr. Coleman, because the averages don't
10 reflect Commission determinations of the ROE in
11 base-rate proceedings. Instead, that data included
12 multiyear formula rate adjustments, penalties for
13 management performance -- and penalties for management
14 performance that can't be included in a review of trends
15 of capital costs.

16 Mr. Coleman's summary includes in his averages
17 authorized ROEs for limited-issue rider cases. It's
18 common practice to remove these data points from
19 analysis of authorized ROEs conducted in a base-rate
20 case, because limited-issue riders are not comprehensive
21 cases and they don't consider the same level of review
22 of models and proxy groups that are considered in
23 base-rate proceedings. Therefore, the averages that
24 Mr. Coleman relied on that include these data should be
25 disregarded.

1 Mr. Coleman's data also includes a data point
2 for Central Maine Power, which suggests that the ROE
3 that was determined was eight and a quarter percent.
4 This was not the base ROE determination for that case.
5 Rather, in that proceeding, the company was authorized a
6 nine and a quarter percent return, and was issued a
7 penalty of a hundred basis points that was applied for
8 18 months for management performance related issues. As
9 a result, it is not appropriate to use this data point
10 in any of the averages, as Mr. Coleman has done.

11 Mr. Coleman's data also includes an 8.2
12 percent ROE for Green Mountain Power. In the decision
13 in that case, the commission specifically indicated that
14 the adjustments to the ROE down to 8.2 percent was based
15 upon an agreed-upon formula and a multiyear rate plan.
16 The commission did not make an independent determination
17 of the ROE, based on market data, in that case.
18 Therefore, this data point should also not be considered
19 in the analysis of trends of market-determined ROEs,
20 much the same way that the Illinois cases are typically
21 removed from a review of ROEs because of the use of a
22 formula to set ROEs in that jurisdiction.

23 Finally, Mr. Coleman's analysis of vertically
24 integrated utility ROEs include settlements. While
25 settlement data sometimes will specify ROE, it does not

1 reflect Commission's views of the market-required ROE,
2 given that settlements incorporate negotiations between
3 the parties on all aspects of the case and there are
4 tradeoffs that are made as part of those settlements.

5 Correcting for all of these issues in
6 Mr. Coleman's schedule, I conclude that the average
7 authorized ROE for vertically integrated electric
8 utilities in 2020 would be 9.66 percent, and the maximum
9 was 10. The company's request of 9.8 falls within that
10 range.

11 Considering settlements, the intervening
12 witnesses in this case suggest that the company should
13 be requesting a lower ROE based on the fact that there
14 was a settlement in Washington -- its Washington
15 jurisdiction at 9.5 percent.

16 As I just discussed, it's well-recognized that
17 settlements represent compromise between the parties in
18 a case, and no one element can be evaluated in
19 isolation.

20 The Washington settlement is no different than
21 any other settlement in that regard, and it is not
22 possible to identify that one element of the settlement
23 to compare to the relative return for other
24 jurisdictions.

25 Similarly, it's not reasonable to conduct an

1 analysis of the company's request in another
2 jurisdiction. Other witnesses in this proceeding
3 suggest that the Utah ROE should be lower because there
4 are more rate mechanisms in Utah than in Wyoming,
5 another jurisdiction, where the company is seeking rate
6 relief.

7 The ROEs are established based on a proxy
8 group of companies and the relative risk profile of the
9 subject company in that group. In each jurisdiction
10 that analysis is performed and considers the relative
11 risk of the proxy group and the company to determine
12 range and the recommended ROE. That's the comparison
13 that should be used to establish the ROE, not an
14 analysis of an individual operating company's requested
15 ROE.

16 At no point in any rate proceeding am I aware
17 of any witness submitting as evidence the requested ROEs
18 in any rate case to demonstrate the market-expected ROE.
19 The suggestion to rely on the company's request in
20 Wyoming is similar to that, requesting that -- relying
21 on ROEs that are requested in other jurisdictions across
22 the country as a benchmark for the investor-required
23 return on, and it is inappropriate.

24 Taking into consideration all of the factors
25 discussed in my direct and rebuttal testimony, and

1 summarized here, I conclude that the company's requested
2 ROE of 9.8 percent is reasonable and appropriate and at
3 the low end of the ROE range that I've calculated based
4 on relevant factors.

5 Furthermore, as discussed in my direct and
6 rebuttal testimony, I have considered the company's
7 proposed capital structure as compared with the capital
8 structures of the utility operating companies of the
9 proxy group.

10 Consistent with my review of regulatory risk
11 factors and other business risks, all of which have been
12 performed by comparison to other utility operating
13 companies, I believe that it is the appropriate
14 benchmark for the capital structure to rely on utility
15 operating companies for the analysis.

16 As shown in my Exhibit AEB-11 that was
17 referenced earlier today to my direct testimony, the
18 average equity ratio for the proxy companies was 52.73
19 percent, within a range that the maximum of which was
20 61.54 percent. Based on that range, the company's
21 requested equity ratio of 53.67 is reasonable and
22 appropriate.

23 Thank you for the opportunity to present my
24 summary.

25 MR. MOSCON: Thank you, Ms. Bulkley.

1 Mr. Chairman, Ms. Bulkley is available for any
2 questions or cross-examination.

3 CHAIR LEVAR: Thank you, Mr. Moscon.

4 Why don't we take a short break and then we'll
5 return and resume with any cross-examination. Why don't
6 we recess for about 15 minutes. We'll return at 11:00
7 Mountain Time.

8 MR. MOSCON: Thank you.

9 (Whereupon a short recess was taken.)

10 CHAIR LEVAR: Thank you.

11 I will go to Ms. Schmid next. Ms. Schmid, do
12 you have any questions for Ms. Bulkley?

13 MS. SCHMID: I do. Thank you. Can you hear
14 me? Can you hear me?

15 CHAIR LEVAR: You're coming through very
16 clearly. Thank you.

17 MS. SCHMID: Thank you.

18 CROSS-EXAMINATION

19 BY MS. SCHMID:

20 **Q. Ms. Bulkley, thank you for your summary this**
21 **morning. I have a few questions from that, so I'll**
22 **start with those.**

23 **Your summary contained references to many**
24 **numbers, and I'd like some help finding at least one set**
25 **of those numbers in your prefiled testimony.**

1 In your summary, I believe that you said the
2 average ROE for vertically integrated utilities is 9.66,
3 with a max of 10. Did I recall that correctly?

4 A. What I said was that when you adjust the
5 analysis Mr. Coleman presented, that's what you get.
6 Yes, that's correct.

7 Q. And so is that in your rebuttal testimony?

8 A. No, it is not.

9 Q. So this is new information that you're
10 providing just today?

11 A. No, I wouldn't characterize it as new
12 information that I'm providing. I would characterize it
13 as information Mr. Coleman provided that I corrected.

14 Q. But you didn't do that until today; is that
15 correct?

16 A. Well, it was provided in his surrebuttal, so
17 this would have been my first opportunity to reference
18 it. That's correct.

19 Q. And his information was not provided in his
20 direct testimony?

21 A. That's correct. Exhibit 6 to his surrebuttal
22 testimony included an update of authorized ROEs through
23 2020, and that information in that exhibit was what I
24 was referring to, and it was not correct.

25 Q. Okay. So if we review your summary, we can

1 look for things where you make adjustments to his file
2 testimony; is that right?

3 A. I'm sorry. Say that again.

4 Q. If we review your summary, we can look for
5 instances where you made adjustments to his prefiled
6 testimony, his direct and his surrebuttal; is that
7 correct?

8 A. I don't think my summary includes any
9 adjustments to Mr. Coleman's direct testimony,
10 specifically. No, I don't think that's here at all.

11 Q. So they are adjustments to his surrebuttal
12 testimony?

13 A. It would be adjustments to Attachment 6 to his
14 surrebuttal testimony, correct.

15 Q. Okay.

16 Moving on. In your summary, you talked a
17 little bit about settlements, and you mentioned the
18 Washington settlement. If I recall correctly, you said
19 you can't look at a settlement item in isolation.

20 Is that a fair characterization of one thing
21 that you said?

22 A. Yep, that's correct. I did say that.

23 Q. Okay. So let's look at a couple of things.
24 And I'm going to use a hypothetical, and it's following
25 up on Mr. Moore's hypothetical. So let me set the

1 stage.

2 So we have a settlement in Washington, with an
3 ROE of 9.5 and a capital structure that has less equity
4 than the capital structure in Utah. We have a situation
5 in Utah where there -- the company is asking for a
6 higher ROE, and a more equity-rich capital structure.

7 Do you follow me?

8 A. I'm just writing this down to follow you with
9 your hypothetical. So I think I have it, yes.

10 Q. Mr. Moore went through a series of questions
11 asking you about a mathematical result.

12 A. No. Mr. Moore hasn't asked me any questions.

13 Q. I thought Mr. Moore did some -- no, I'm sorry.
14 Sorry.

15 A. No.

16 Q. He asked Ms. Kobliha. Kobliha. I forgot.
17 Okay. So let's follow up on that.

18 If we have the same revenue requirement in the
19 Washington case, with the lower ROE and lower capital
20 structure, as we have in the Utah case, with the higher
21 ROE and higher -- and more equity-rich capital
22 structure, where will the rate payers pay more?

23 A. I'm sorry. If the revenue requirements are
24 equal, the rate payers will pay the same amount.

25 The premise of your argument was if we have

1 the same revenue requirements in Washington and in Utah.
2 And so regardless of how you move the parts for ROE and
3 capital structure, if the revenue requirement is the
4 same, the customers would pay the same.

5 **Q. So what would it take to get a lower revenue**
6 **requirement or a lower rate in Washington?**

7 A. Well, in a revenue requirement, there are a
8 whole bunch of variables. So there could be all kinds
9 of things that would cause the revenue requirements to
10 differ from one jurisdiction to the next. The revenue
11 requirement isn't set solely based on the ROE and the
12 capital structure.

13 **Q. I may come back to that and I may not. I have**
14 **a few questions concerning equity risk premiums.**

15 **Do you agree that the testimony of the various**
16 **parties demonstrated there are a number of methods and**
17 **inputs to calculate the equity risk premium?**

18 A. There are a number of methodologies considered
19 by the parties, that's true.

20 **Q. Okay. Let's look at the ERP from Duff &**
21 **Phelps, which is the one Mr. Coleman used here.**

22 **If --**

23 A. Can you -- I'm sorry. Can you provide me a
24 document so I can be looking at the same thing as you?

25 **Q. Yes, I am. I'm just getting there.**

1 A. Okay.

2 Q. If we look at DPU Exhibit 2.05 Direct, we
3 should see that.

4 And the top of the page that I'm looking at
5 says, Capital Asset Pricing Model Results, Duff & Phelps
6 Market Risk Premium.

7 Do you see that?

8 A. Well, I didn't have the -- DPU's exhibits
9 here, so I'm trying to pull them up electronically. So
10 can you just bear with me for a second?

11 Q. I can. Thank you.

12 A. Thank you.

13 Q. Obviously, I need to up my hearing-via-video
14 game, and I apologize for that. I should have thought
15 of that before.

16 A. Well --

17 MR. MOSCON: Can I ask just a question to
18 clarify? And I think this might help. This is, by the
19 way, Matt Moscon. I think you said "direct." If it
20 helps, I think what we're all looking for -- and correct
21 me, Ms. Schmid, if I'm wrong -- is the DPU SRO2
22 Attachment 1, which is the surrebuttal exhibit to
23 Mr. Coleman.

24 Is that what we're looking for?

25 MS. SCHMID: I am looking at the Direct

1 Exhibit No. 2.05. But let me turn to his --

2 THE WITNESS: I don't have that handy,
3 actually.

4 BY MS. SCHMID:

5 Q. Okay. Well, I will represent to you, then,
6 that this exhibit, the risk-free rate presented by Duff
7 & Phelps, the average beta for all analysts, average
8 Value Line beta, average Zacks beta, average Yahoo!
9 Finance beta, and average Ned Davis beta, is 2.5.

10 A. The beta is 2.5? I don't --

11 Q. The risk-free rate --

12 A. I --

13 Q. The risk-free rate is 2.5.

14 A. Okay. I don't have that exhibit in front of
15 me to verify that or to put that into context, but --

16 MS. SCHMID: Chair LeVar, if we can take a
17 brief break, I will go and scan this so I can share it.
18 And I apologize for not doing that before.

19 CHAIR LEVAR: How about if I try to share it
20 right now and see if that works?

21 MS. SCHMID: Okay. Thank you.

22 CHAIR LEVAR: Is that showing enough of the
23 screen for the current discussion?

24 MS. SCHMID: It is. Thank you.

25 BY MS. SCHMID:

1 Q. Ms. Bulkley, do you see the exhibit that Chair
2 LeVar has kindly put up on the screen?

3 A. Yes, I do see -- this is -- it says it's Duff
4 & Phelps Market Risk Premium?

5 Q. Yes.

6 A. Yes, I see that.

7 Q. If we look at the risk-free rate, do we see
8 that the risk-free rate is 2.5 all the way down under
9 column one?

10 A. Yes, we do see that --

11 Q. Okay.

12 A. -- so -- but I'm not sure what that actually
13 means, because --

14 Q. I'm getting there. I'm getting there.

15 A. Okay.

16 Q. And then if you look at column three, the ERP,
17 you'll see that it is 6.0 all the way down. Right?

18 A. Yes, I do see that.

19 Q. Okay. So according to Duff & Phelps, the
20 total market return for the stock market should be
21 approximately 8.5 percent, the sum of the ERP and the
22 risk-free rate. Is that correct? According to Duff &
23 Phelps.

24 A. That would be correct, presumably.

25 Q. Okay.

1 A. According to the exhibit.

2 Q. Again, I'm not asking if you agree; I'm just
3 asking if I did the math right.

4 Is it correct that you are suggesting that a
5 12.49 MRP is appropriate for the Commission to use here,
6 and that's a figure that is more than 50 percent higher
7 than the total market return calculated by Duff &
8 Phelps, and over 100 percent higher than the ERP
9 calculated by Duff & Phelps?

10 A. Yes, that's correct, based on the S&P earnings
11 and estimates report, I believe, that's discussed in my
12 rebuttal testimony. So it would be using Standard and
13 Poor's own estimate of the market return of the expected
14 growth rates and the dividend yields for the S&P 500.
15 So that would be based on Standard and Poor's itself --
16 its estimate for the S&P 500.

17 Q. But when I look at the Duff & Phelps numbers,
18 I get the 8.5; is that correct?

19 A. Yes, Duff & Phelps does have a different
20 number.

21 Q. Okay.

22 A. S&P's number is for its -- for the overall
23 market as a whole. I don't exactly have the basis for
24 the Duff & Phelps information for you.

25 Q. Okay.

1 It was discussed in Casey's testimony, and
2 presented there. But let's move on.

3 I'm going to ask you a few questions about
4 your testimony in the tax reform legislation. You may
5 find it helpful to turn to your direct testimony.

6 Do you have that with you?

7 A. I do.

8 Q. Okay.

9 Lines -- let's start with lines 126 and 128.

10 And is it a fair characterization of your
11 testimony in lines 126 to 128 that you say -- or even
12 perhaps an exact quote -- that moreover, Rocky Mountain
13 Power's proposed common-equity ratio is reasonable
14 considering that federal tax reform legislation has had
15 a negative effect on the cash flows and credit matrices
16 of regulated utilities?

17 Did I read that correctly?

18 A. Just one word was incorrect. It's credit
19 metrics --

20 Q. Thank you.

21 A. -- of regulated utilities.

22 Q. Then let's turn to what effect the federal tax
23 reform legislation has had on Rocky Mountain Power,
24 specifically. And I'm just going to state -- everybody
25 knows this, but I'm going to state it anyway.

1 So Rocky Mountain Power is not traded on its
2 own; credit agencies look at PacifiCorp. And so I'm
3 going to start by using some information from Moody's
4 and data for PacifiCorp.

5 Around lines 599 to 607 of your direct
6 testimony, you discuss Moody's reaction to the tax
7 changes.

8 Are you there?

9 A. I'm there, yes.

10 Q. Thank you.

11 Your testimony notes how Moody's has responded
12 to the increased risk for utilities resulting from the
13 tax changes.

14 I can read what is in there verbatim, or else
15 I can just use a reference to those lines in your
16 testimony. Which would you prefer?

17 A. I think it's fine to use the reference.

18 Q. Okay. Thank you.

19 A. I can see down here.

20 Q. Just one second.

21 So using your testimony on those lines as a
22 background, let's turn to what Moody's has said
23 specifically about PacifiCorp. And this is getting into
24 a confidential exhibit that was provided, I believe,
25 with Mrs. -- with Ms. Kobliha's testimony as a work

1 paper, and in response to an OCS data request, but I
2 think what I'm going to say is not confidential. The
3 whole -- often, whole reports are marked confidential,
4 and not everything in it is truly confidential.

5 A. I don't have a copy of anything from
6 Ms. Kobliha's testimony here.

7 MR. MOSCON: This is Mr. Moscon. Before we go
8 forward, we're not sure what we're looking at to follow
9 along. What are we looking for?

10 MS. SCHMID: Okay. If we turn to line 602 and
11 605 of Ms. Bulkley's testimony, you will reference a
12 June 2008 Moody's report; is that correct?

13 THE WITNESS: No. I reference a June 2018
14 Moody's report.

15 BY MS. SCHMID:

16 Q. Sorry. Thank you. I couldn't read my own
17 writing. That was embarrassing.

18 And now, would it surprise you that in
19 June two thousand and -- June 27, 2019, Moody's gave
20 PacifiCorp a long-term rating of A3? And I believe that
21 has been discussed already by Ms. Kobliha.

22 Do you recall that?

23 A. I don't recall that specifically, no.

24 But is there a document that could be -- if
25 you're going to focus on a document from the rating

1 agency, is it possible to send that document to
2 counsel --

3 Q. I can scan it and send it --

4 A. -- who can send it to me? Yeah.

5 Q. -- or I can refer your counsel to the exhibit
6 on Ms. Kobliha's testimony, where it is.

7 A. Either works for me.

8 MR. MOSCON: Yeah, what -- if you can tell us
9 what specific exhibit you want us to turn to, we're
10 happy to try that.

11 MS. SCHMID: Okay. Thank you guys for helping
12 me with this.

13 It is, I believe, work paper number NCK-1 from
14 Ms. Kobliha's direct testimony. It is a confidential
15 exhibit. The title of the article is PacifiCorp Update
16 to Credit Analysis, and the date is June 27, 2019.

17 MR. MOSCON: Is that part of an exhibit?

18 MS. SCHMID: It's part of her work papers that
19 was filed with the commission.

20 MR. MOSCON: Okay. So...

21 CHAIR LEVAR: Let me -- this is Thad LeVar.
22 Did you mean NLK with --

23 MS. SCHMID: Yes, I did. Thank you.

24 CHAIR LEVAR: NLK-1, right? RMP work papers
25 NLK-1?

1 MS. SCHMID: Yes. Thank you.

2 THE REPORTER: I'm sorry. I'm not hearing
3 anyone. Are we okay?

4 MS. SCHMID: I think we're waiting for your
5 counsel to find this.

6 THE REPORTER: Okay. Sorry. This is the
7 reporter. I worry when everything freezes and I don't
8 hear anything. So as long as we're still okay.

9 MR. MOSCON: Right.

10 So we're at NLK-1, the exhibit of -- from
11 NLK-1. I don't know if Ms. Bulkley is, but at least
12 I've found it so far.

13 So then from that, specifically, what are we
14 looking for?

15 MS. SCHMID: The credit opinion dated June 27,
16 2019. And the article title is PacifiCorp Update to
17 Credit Analysis.

18 And I apologize for this. I should have
19 scanned it, but I did not.

20 MR. MOSCON: Okay. So that --

21 THE WITNESS: Others may have access to that.
22 I do not have access to Ms. Kobliha's work papers here.
23 I apologize for that.

24 MS. SCHMID: In that instance, Chair LeVar --
25 I hate to do this, but could I ask for a break, and I

1 will --

2 MR. MOSCON: Can I confirm, if this helps, is
3 Exhibit 4 to Ms. Kobliha's direct, which is NLK-4, is
4 the Ratings Direct Key Credit Factors for Regulated
5 Utilities Industry, is that what you're looking for?

6 MS. SCHMID: What is the date of that report?

7 MR. MOSCON: November 19, 2013.

8 MS. SCHMID: Okay. It is not the same thing
9 I'm looking at.

10 So I hate to do this, Chair LeVar, but could
11 we have a break? And I will scan the article to which I
12 am referring, and I will send it to Mr. Sabin, who can
13 share it with his counsel and then their witness. And I
14 truly apologize.

15 CHAIR LEVAR: Sure, we can take a ten-minute
16 break. And I will just verify that I have NLK-1 in
17 front of me, and it is the document that Ms. Schmid was
18 describing. So that's the correct work papers to Ms. --
19 it's the first confidential exhibit to Ms. Kobliha's
20 direct testimony.

21 So with that, if we still need a few minutes
22 to make sure that's in front of Ms. Bulkley -- do we
23 need ten, just to make sure?

24 MR. MOSCON: I don't know that we need --

25 CHAIR LEVAR: Is five -- okay. Why don't we

1 recess for five minutes.

2 MS. SCHMID: Five sounds good. Thank you.

3 (Whereupon a short recess was taken.)

4 CHAIR LEVAR: Okay. Why don't we go back on
5 the record.

6 Ms. Schmid, why don't you continue.

7 MS. SCHMID: Okay. I have provided a
8 confidential document to Rocky Mountain Power's counsel,
9 Mr. Sabin, and Mr. Moscon. Could they please send that
10 to Ms. Bulkley?

11 MR. MOSCON: Yes, we have forwarded that.

12 MS. SCHMID: Okay.

13 BY MS. SCHMID:

14 **Q. Mr. Bulkley, can you pull that up?**

15 **A. Yes, I have it.**

16 **Q. Okay.**

17 **So you're looking at what should be a credit**
18 **opinion dated June -- dated 27 June, 2019, with the**
19 **title PacifiCorp Update to Credit Analysis. Is that**
20 **right?**

21 **A. Yes. From Moody's Investor Services, yes.**

22 **Q. And so if you look on the left-hand side,**
23 **there is a box titled Ratings, and then underneath it,**
24 **PacifiCorp.**

25 **A. I see that, yes.**

1 Q. Okay. Can you read what the long-term rating
2 is, as presented in that box?

3 A. Yes. It's A3.

4 Q. Thank you. That was sort of a long way to get
5 there.

6 So is it fair to say that PacifiCorp, unlike
7 many regulated utilities that have been and still are
8 downgraded by Moody's -- PacifiCorp has a -- what we
9 could generally term a good rating?

10 A. That's sort of a relative term. It's a
11 reasonable rating.

12 Q. A reasonable rating. Okay.

13 And if -- and then let's go now -- and I
14 apologize. That was an awful lot of time to get that
15 simple question and answer in, but I learned a lot.
16 Thank you for your indulgence.

17 Let's turn now to around -- pardon me -- 538
18 or 589 or so of your testimony where you discuss
19 Standard and Poor's assessment of weakened credit
20 metrics for some utilities.

21 A. I'm there.

22 Q. Okay. I believe that you state, in essence,
23 utilities with minimal financial cushion will look at
24 issuing equity.

25 Is that a fair characterization or would you

1 **like the group of sentences read into the record?**

2 A. Well, I think it would be better to read it
3 into the record, actually. That's not entirely what it
4 says, but --

5 **Q. Okay. Could you read the whole thing into the**
6 **record, then, please?**

7 A. Sure. Do you want me to start at 583 or are
8 you most interested in 585, which I think is where your
9 paraphrase may have started?

10 **Q. I believe I'm interested in 585.**

11 A. 584.

12 **Q. Yes. And 585 to 588, I believe.**

13 A. Okay. Excellent.

14 "In addition, S&P expects that weaker credit
15 metrics will continue for those utilities operating with
16 minimal financial cushion. S&P further expects that
17 these utilities will look to offset the revenue
18 reductions from tax reform with equity issuances."

19 I think that's what you're looking to say.

20 **Q. Yes.**

21 A. Yes.

22 **Q. Would you agree that PacifiCorp has not issued**
23 **equity during the time from the passing of the TCJA to**
24 **today?**

25 A. That's really a question for Ms. Kobliha. I

1 can't say that I know that for sure.

2 Q. Okay.

3 Let's turn now to electric industry ROEs. And
4 I did circulate this to all the parties, I believe, as
5 DPU -- and the Commission -- as DPU Cross Exhibit No. 1.
6 And what it is, is it is a report and charts from RRA.

7 A. And the date on that document, can you just
8 confirm for me so I make sure I have the right thing?

9 Q. Yes. It is October 20, 2020.

10 A. Yes, I have that document.

11 Q. Okay.

12 Have you seen this document before?

13 A. Yes, I have.

14 Q. What period of time does the article discuss?

15 A. The article says it discusses January through
16 September 2020.

17 Q. And if we look at the bottom of the first
18 paragraph, the second sentence from the bottom, we see
19 that it states, "Based on data gathered by Regulatory
20 Research Associates, a group within S&P Global Market
21 Intelligence, the average return on equity authorized
22 electric utilities was 9.50% in all rates cases decided
23 in the first three quarters of 2020, below the 9.65
24 average for cases in full-year 2019."

25 Did I read that correctly?

1 A. You did. I believe I addressed this very data
2 in my summary, however.

3 **Q. Yes.**

4 A. And this article goes on to discuss certain of
5 the specific cases I referenced that are part of that
6 average.

7 **Q. Yes. And I was going to get there, but thank**
8 **you for getting there all on your own.**

9 With that in mind, you criticized, including
10 some of those ROEs in Mr. Coleman's figures -- however,
11 isn't it true that those ROEs are what the customer is
12 paying through rates in the listed company areas?

13 A. Well, for example, the Central Maine Power,
14 for an 18-month period, they would pay 8.25 percent,
15 after which time it would revert to nine and a quarter
16 percent.

17 So I -- it depends on which time period you're
18 referring to, I guess. However, that is a penalty based
19 on management performance, and it's not a measure of the
20 market cost of equity; it's a penalty to shareholders
21 for management performance.

22 So, yes, 8.25 percent would be paid for a
23 period of time, and then it would revert to nine and a
24 quarter.

25 Similarly, in the Green Mountain Power case,

1 this is a multiyear rate plan that did adjust for a
2 period of time. I'm not certain what the length of the
3 multiyear plan is and how many steps are in that plan,
4 but for some period of time, the rate adjusts to
5 8.2 percent. Again, it is not a market determination,
6 however, it's stipulated as part of a multiyear rate
7 plan.

8 MS. SCHMID: What I'd like to do is move for
9 the admission of DPU Cross Exhibit 1 so the Commission
10 can read this exhibit and take all comments made into
11 account.

12 May this DPU Cross Exhibit 1 please be
13 admitted?

14 CHAIR LEVAR: Ms. Schmid, I don't know that we
15 have that in our possession. I was looking for it while
16 you were discussing it with Ms. Bulkley, and I don't
17 have it in my possession. If you could direct me where
18 I should, or could, or...

19 MR. CLARK: Chair LeVar, I'm seeing it as
20 having been sent to our email earlier today.

21 CHAIR LEVAR: Okay. I was looking through
22 that and didn't find it. I found the Office's but not
23 the Division's.

24 MR. CLARK: It came through at about 8 -- at
25 8:47.

1 CHAIR LEVAR: Oh, okay. Cross Exhibit 2.

2 MS. SCHMID: No, it should be Cross Exhibit 1.

3 CHAIR LEVAR: Exhibit 1. Okay. Yes. Okay.

4 I have that one. So, sorry.

5 So with that, I'll go to the parties. Does
6 anyone object to that motion?

7 MR. MOSCON: No objection.

8 CHAIR LEVAR: Okay. I'm not seeing or hearing
9 any objection from anyone, so the motion is granted.

10 MS. SCHMID: With that, I conclude my
11 cross-examination of Ms. Bulkley. And again, I
12 appreciate the indulgence of the Commission and of the
13 parties. I will become more adept with electronic
14 trials soon. Thank you.

15 CHAIR LEVAR: Thank you, Ms. Schmid. We've
16 all had to adjust our practices a little bit this year.
17 Thank you for your participation.

18 Mr. Moore, do you have any questions for
19 Mr. Bulkley?

20 MR. MOORE: Yes, I do.

21 CHAIR LEVAR: Okay. Go ahead.

22 CROSS-EXAMINATION

23 BY MR. MOORE:

24 Q. Ms. Bulkley, you've testified in direct
25 testimony that RPM is riskier than your proxy group of

1 **companies; isn't that correct?**

2 A. I'm sorry, I'm having -- could you speak up a
3 little bit? I have a hard time hearing you.

4 **Q. I'll speak slower as well.**

5 **Ms. Bulkley, you've testified in your direct**
6 **testimony that Rocky Mountain Power is riskier than your**
7 **proxy groups of companies; isn't that correct?**

8 A. I have done a comparison of Rocky Mountain
9 Power to the proxy group in my direct testimony, and
10 included on certain bases, yes, there was greater risk.

11 **Q. What is RPM's current credit rating -- RMP's**
12 **current credit rating?**

13 A. I'm sorry, I don't have that at my -- I don't
14 have that handy.

15 **Q. Do you have Ms. Kobliha's direct testimony?**

16 A. I do not have her direct testimony, no.

17 **Q. I'll represent that it is an A from S&P, and**
18 **an A3 from Moody's. Do you have any reason to question**
19 **that?**

20 A. Well, we've just looked at the Moody's report,
21 so I'll agree to that. And I -- subject to check, I
22 guess I can agree to the S&P, rather than going through
23 that process again.

24 **Q. Do you know what the average rating is of your**
25 **proxy group of companies' credit rating?**

1 A. I don't have that, no.

2 Q. Do you have Professor Woolridge's testimony
3 available to you?

4 A. In electronic form, yes.

5 Q. Could you go to page 25 of his rebuttal?

6 A. His -- let me make sure --

7 Q. His rebuttal testimony.

8 A. Or his surrebuttal testimony? I don't have a
9 rebuttal, I have direct and surrebuttal.

10 Q. Oh, I'm sorry. Direct testimony.

11 A. Okay. So it's page 25 of direct.

12 Q. Yes. He states there that your proxy group
13 company has a credit rating of BBB+. Isn't that -- from
14 S&P, and from Moody's, BAA1.

15 Isn't that -- is -- do you see that?

16 A. That is what he states there. I don't have
17 the work paper to support that, but that is stated there
18 on that page, that's correct.

19 Q. Okay.

20 In your testimony regarding Rocky Mountain
21 Power's business risk, you identified capital
22 expenditures, regulatory environment, and the generation
23 profile as factors credit ratings agencies examine in
24 making credit ratings, and claim that all these factors,
25 including -- indicate that Rocky Mountain Power is

1 riskier than your proxy group. Isn't that correct?

2 A. I'm sorry to ask you to restate that. I just
3 didn't hear the whole thing. I apologize.

4 Q. I -- this -- I've had problems before. Let me
5 go slower here.

6 Specifically, in your testimony concerning
7 Rocky Mountain Power's business risk, you identified
8 capital expenditures, the regulatory environment in
9 Utah, the generation profile, as factors credit agencies
10 examine in making credit ratings, and claim that all
11 these factors indicate that Rocky Mountain Power is
12 riskier than your proxy group.

13 Did I say that correctly?

14 A. That's kind of a general characterization.
15 We could take them one by one, if you'd like.

16 Q. Let's take regulatory risks first.

17 A. Okay.

18 Q. Now, there's a lot of discussion on this topic
19 in testimony, but I want to focus on an issue I believe
20 we're in agreement with, and that is, in establishing
21 your testimony, credit ratings examined the regulatory
22 environment in the setting of -- setting rates for
23 utilities. Isn't that correct?

24 A. Credit rating agencies consider the regulatory
25 environment. Is that what you said?

1 Q. That's what I said.

2 A. Yes, I would agree with that.

3 Q. And would you agree that the credit rating
4 agencies looked at Rocky Mountain Power's regulatory
5 environment, and have given Rocky Mountain Power an A
6 and A3 credit rating? Isn't that correct?

7 A. That's correct. We -- that's what their
8 credit ratings -- well, subject to check on S&P, but
9 certainly the Moody's we've verified that PacifiCorp had
10 an A3.

11 Q. The same is true with capital factors -- with
12 the factors of capital expenditures in generation
13 profile. You testified that credit agencies examined
14 these factors in issuing credit ratings for utilities.
15 Isn't that correct?

16 A. That's correct.

17 Q. Therefore, the credit rating agencies examined
18 Rocky Mountain Power's regulatory environment, capital
19 expenditure, and generation profile. Incorporating all
20 these factors, you determined -- that you determined
21 made Rocky Mountain Power riskier than your proxy
22 groups, and determined that Rocky Mountain Power
23 qualified for a credit rating of, subject to check, A,
24 and A3. Isn't that correct?

25 A. I'm sorry to ask you to say that again.

1 Q. All right.

2 A. You're --

3 Q. Am I breaking up or am I going too fast?

4 A. I think it's a little bit of both. So -- it's
5 not breaking up, but it's quiet and fast. So I'm trying
6 to hear, and it makes it a little bit difficult. I
7 apologize.

8 Q. No. I'll see if I can help you out.

9 The credit rating agencies examine Rocky
10 Mountain Power's regulatory environment, capital
11 expenditures, and generation profile, and determined
12 that Rocky Mountain Power qualified for a credit rating
13 of A, as you say for the S&P, subject to check, and A3
14 per Moody's. Isn't that correct?

15 A. Generally speaking, yes, that's correct.

16 Q. Now, the credit rating agencies presumably
17 looked at similar factors for your proxy group, and
18 determined that the proxy companies should have an
19 inferior credit rating, according to the testimony of --
20 we talked about before, of S&P, BB+, and Moody's BAA1.
21 Isn't that correct?

22 A. Well, so here's the issue with that. There's
23 no matrix of factors that have been considered and how
24 they've been considered in developing the ratings for an
25 individual company.

1 So they're considering each of these things in
2 total, with the overall business risk, which is why in
3 my testimony I've relied on an analysis of each of those
4 individual mechanisms to assess the overall risk.
5 Because when you're looking at the rating agencies,
6 there's not a lot of transparency on how they have
7 considered each of those factors.

8 So they are there to some extent. To what
9 extent, I can't say. So I've relied on the S&P data
10 that indicates for each jurisdiction that all of the
11 proxy companies are operating in, what specific
12 mechanisms they might have, what their capital
13 expenditures look like through Value Line data for that
14 analysis. But I've looked at each of these things
15 individually and very transparently. The ratings are
16 not very transparent with respect to how these
17 particular issues are addressed.

18 **Q. Okay. Thank you.**

19 **Would you agree with me that credit agencies**
20 **that give utilities a higher credit rating are putting a**
21 **signal to the market that they're less risky than credit**
22 **ratings -- than utilities that the credit rating**
23 **agencies give a lower rating?**

24 A. Again, I think that's a general
25 characterization. So there's the rating, there's the

1 outlook, there's a whole bunch of factors that go into
2 that.

3 **Q. But generally that would be correct?**

4 A. Well, again, like I said, all of the factors,
5 right? So you have the ratings, you have the outlooks.
6 Certainly, when S&P downgraded its outlook on the entire
7 industry, that's one factor that overhangs the entire
8 industry, right? It doesn't necessarily affect an
9 individual company's ratings, but it affects the
10 industry in its entirety, right?

11 So there are outlooks and there are ratings
12 that all need to be taken into consideration. It's sort
13 of -- I don't think you can take just the letter grade
14 into account.

15 **Q. I see.**

16 So if I want to -- if a utilities company, to
17 borrow to -- from a lender, the lender would consider
18 their utility ratings as one factor in how risky the
19 environment is, and if that is true, the lower credit
20 rating would be a riskier -- would be a factor that
21 would be -- indicate that it would be riskier than a
22 higher credit rating?

23 A. That individual element by itself, yes. But
24 again, like I said, the overall factors would make a
25 difference as well. Is there a negative outlook? What

1 do the coverage ratios like look? What are the
2 prospects? So I think there's a bigger picture than
3 just the rating itself.

4 **Q. Ms. Bulkley, I'd like to turn now to your**
5 **projected DCF approach.**

6 A. Yes.

7 **Q. Isn't it true this is a unique approach**
8 **developed and used by you?**

9 A. Yeah, I think I've discussed this, actually,
10 in my rebuttal testimony. The purpose of this analysis
11 was to show what happens when the market were to
12 correct, as it has done. So I think -- I know
13 Dr. Woolridge's testimony suggests that this is some
14 unique methodology, but it is simply an analysis to
15 demonstrate that as analysts expected the utility stock
16 prices to decline, how would that affect the DCF.

17 **Q. Has your approach been published and has it**
18 **been subject to peer review?**

19 A. No. This was not an academic pursuit; this
20 was an estimate to demonstrate, as I said, what happens
21 when the prices for utility stocks decline, as they
22 have.

23 **Q. Can your approach be empirically tested?**

24 A. Again, same answer.

25 **Q. All right.**

1 And then again, your approach wouldn't be
2 generally accepted in the scientific community?

3 A. It's not a scientific study, as I said.

4 Q. Okay.

5 A. No. Illustrative example, as discussed in my
6 rebuttal testimony.

7 Q. Ms. Bulkley, I'd like you to turn to your
8 direct testimony on page 81, line 1616.

9 Referring to your model's results, you stated,
10 "I believe the ranges between 9.75 and 10.5 is
11 reasonable."

12 Is that correct?

13 A. Yes, that's correct.

14 Q. Now I'd like to turn to your table on page 82.

15 None of your constant gross DCF results are as
16 high as 9.75. Isn't that correct?

17 A. Yes, that's correct. My testimony places a
18 lot of discussion on the concerns about the constant
19 growth DCF. That's true.

20 Q. In fact, your low means for the 30, 90, and
21 180 day average ranged from 8.53, 8.53, to 8.52,
22 respectively. Your means go from 9.01, 8.89, and 8.7,
23 respectively. And your high means on the hundred-day
24 average is 9.75, and only your high means for the 30-day
25 average come close to 9.75 as -- at the result of 9.69.

1 **Did I read that chart correctly?**

2 A. I'm not exactly sure where you were reading
3 from in that chart. I followed you on the lows, but --

4 **Q. Did I jump wrong in the highs?**

5 **Could you read what your high means are for**
6 **your DCF analysis?**

7 A. So in my direct, they were 9.69, 9.45, and
8 9.45. And in my rebuttal they were 9.89, 9.86, 9.54.

9 **Q. And your rebuttal is on RMP Exhibit AEB-1R?**

10 A. Correct.

11 **Q. Okay. And again, your low means average go**
12 **from 8.45 to 8.45 to 8.43?**

13 A. Yes, that's correct.

14 **Q. And your means go to 9.00, 8.89, and 8.76.**
15 **And you've already discussed your high means.**

16 A. Yes.

17 **Q. Is that correct?**

18 A. Yes, that's correct. And if you sort of
19 looked at the projected DCF that you talked about
20 earlier in my direct, the high ratings would be 9.9, and
21 as prices dropped off, the highs in my constant growth
22 DCF were 9.89. So it kind of demonstrates directionally
23 that that wasn't so far off, huh?

24 **Q. Well, good point.**

25 **It is apparent that you put very little weight**

1 **in these models, isn't it? You almost totally**
2 **disregarded them to get to your recommendation of 10.20.**

3 A. So, again, I did consider all of the models
4 that are here. My testimony discusses, at length, the
5 concerns that I have with the constant growth DCF.

6 I think I would say each analyst in this case
7 has considered their models and how much weight to place
8 on every one of those models. So, for example,
9 Dr. Woolridge places no emphasis on his CAPM, which is
10 at 7.6.

11 So I think the process has been that each
12 person has developed their models and considered the
13 appropriate weight to place on the results of those
14 models.

15 I have placed -- I have had -- demonstrated
16 concerns with the constant growth DCF. Certainly in
17 direct, my concern was that utility stock prices were
18 high, driving the dividend yields to be low. In
19 rebuttal, as we see, markets corrected and the DCF
20 results came back higher, and analysts were expecting
21 that they were still too high at that point, so again,
22 causing concern that the results of that -- that that
23 model might still be underpredicting.

24 **Q. Okay. We'll get to that.**

25 **Isn't it true that your prediction of low**

1 utility stock prices is directly tied to your prediction
2 that long-term interest rates will go up in the near
3 term when rates will be in effect? Isn't that correct?

4 A. I don't think there's a direct tie there. I
5 think that's actually been fairly loose over time.

6 Q. May I direct your attention to page 50 and 51,
7 I believe, of your... of your direct testimony?

8 A. Fifty is the capital asset pricing model.

9 Q. I think so. Maybe I have your -- let me try
10 your surrebuttal testimony. I apologize.

11 A. I did not file surrebuttal testimony. I have
12 rebuttal testimony.

13 Q. Your rebuttal testimony.

14 A. Page 50 of my rebuttal testimony.

15 Q. Yes. Could you read line -- the first
16 sentence in -- on line 1027?

17 A. Yes. "An increase in long-term interest rates
18 will cause utility investors to move back into long-term
19 government bonds, as the yields on those bonds become
20 more competitive with the dividend yields of utilities."

21 Q. Keep going.

22 A. Oh. "A decrease in the stock price of
23 utilities resulting from such a shift will increase the
24 dividend yields of utilities."

25 That's, I think, what we saw. We were just

1 looking at that in our comparison of the direct versus
2 rebuttal DCF results.

3 **Q. So there is a -- you would call it an indirect**
4 **or loose connection between the -- your testimony, the**
5 **prediction of long-term interest rates and the DCF**
6 **model? From what you just read.**

7 A. Yes, there is a relation there. I would say
8 that -- as I said, I would say that it's loose.

9 Maybe it's sort of useful to demonstrate...
10 Oh. I have a chart that might be helpful here.

11 I'm not sure if this is the point you're
12 trying to address. Let me see if I can be helpful.

13 **Q. All right. We'll wait.**

14 A. Let's see. I'm not -- maybe it's presenting.

15 Are you seeing anything presented yet? Oh,
16 here it is.

17 **Q. Here you go.**

18 A. Okay. So the relationships, like I said, are
19 fairly loose. I'm going to show you two different
20 charts. So the first is the -- this chart here is the
21 federal funds rate that has shown over time some
22 decreases, you know, in the -- as a result of the
23 financial market collapse. It stayed low for a period
24 of time, was on its way back up, and then most recently
25 has been low as a result of the pandemic.

1 But what happens in the marketplace is that
2 doesn't really translate the same way. This is the
3 30-year Treasury bond yield, showing quite a bit of
4 fluctuation in the market overall, and not at all really
5 related to that interest rate.

6 So that's what I mean when I say a sort of
7 loose -- there's a loose relationship here. Because,
8 you know, obviously, this chart doesn't look anything
9 like this chart.

10 **Q. Right.**

11 A. Right? So the relationship for interest rates
12 doesn't really translate perfectly. That's where I
13 was -- what I was trying to say.

14 **Q. All right.**

15 A. If you have a federal funds rate and the
16 discussion from the fed that they're going to hold
17 interest rates constant forever, that's not necessarily
18 going to -- or for a period of time, that doesn't really
19 affect the 30-year Treasury as one might think it does.
20 And that, then, would be the more appropriate thing to
21 think about in terms of the DCF, right, would be the
22 risk-free rate that investors could actually get.

23 Is that where you were headed?

24 **Q. No, but that's a good point. We'll get back**
25 **to that.**

1 Let's talk about your CAPM model. Your
2 projection that interest rates will go up in the near
3 term is essential to your CAPM model because they
4 directly affect the projected free-risk interest rates
5 which are a component of the equation. Isn't that
6 correct?

7 A. Yes, that's the concept here that I'm talking
8 about. Maybe we got to it too early.

9 Q. Yeah.

10 Now, can I have you go to your rebuttal
11 testimony, page 26?

12 A. Page 26. I'm there, yes.

13 Q. Could you read the first full sentence of
14 that -- of line -- that starts in line 482?

15 A. 482...

16 "As shown," is that where you would like me to
17 start?

18 Q. Yes, please.

19 A. Okay. "As shown in Figure 8, while the share
20 prices of utilities declined in 2020, as investors
21 rotated from utilities to Treasury Bonds due to the
22 economic effects of COVID-19, the P/E ratios for my
23 proxy group companies in 2020 are still well above the
24 historical average levels over the past decade."

25 Is that the only sentence you need?

1 Q. Yes.

2 A. Okay.

3 Q. Now can I direct your attention to page 37 of
4 your direct testimony?

5 A. Yes, I'm there.

6 Q. You know, I had that misquoted. I'll just
7 skip that. You covered that.

8 On page 50 and 51 of your rebuttal
9 testimony --

10 A. Yes, Im there.

11 Q. On line 1023 to 1034, may I have you read
12 that?

13 A. 1023 to where? We've read portions of this
14 already into the record, I think.

15 Q. That's right.

16 Yes. Could you just read it again, starting
17 with, "Investors" -- it's in the middle of 1023, where
18 it says, "Investors continue to expect an increase in
19 long-term interest rates over the intermediate to
20 long-term," and continue reading until you get to the
21 end of your question.

22 A. The end of my question? Okay, so we're going
23 to reread the section that we already read into the
24 record?

25 Q. Yes, please.

1 A. Okay. So I will just start at the beginning
2 of that sentence on 1023 so that it makes sense.

3 "Section V of my rebuttal testimony notes that
4 investors continue to expect an increase in long-term
5 interest rates over the intermediate to long-term
6 despite the recent decline in yields on long-term
7 government bonds due in large part to the Federal
8 Reserve's effort to stimulate the economy and stabilize
9 financial markets during the COVID-19 pandemic."

10 I think this section we've already read, but
11 I'll read it again.

12 **Q. Right.**

13 A. "An increase in long-term interest rates will
14 cause utility investors to move back into long-term
15 government bonds, as the yields on those bonds become
16 more competitive with the dividend yields of utilities.
17 A decrease in the stock price of utilities resulting
18 from such a shift will increase the dividend yield of
19 utilities."

20 Is that where you want me to stop?

21 **Q. No. Keep going until you get to "decrease**
22 **over time."**

23 A. Okay.

24 "Thus, the forward-looking cost of equity
25 using the DCF model will increase. The projected stock

1 prices developed by the Value Line reflect this
2 relationship. Consistent with market expectations,
3 Value Line projects that the valuations of the companies
4 in my proxy group will decrease over the near-term."

5 Q. And it seems to me that you're making the
6 point that is -- the decrease of the value of utility
7 companies is tied to the interest rate's environment at
8 the time. Is that correct? Because the investors are
9 rotating out of government bonds as interest rates goes
10 up, into utility stocks --

11 A. Yes, the --

12 Q. -- then out of utility stocks, into bonds,
13 when the interest rate goes up, driving the price down.
14 Is that correct?

15 A. That is a sector rotation, yes.

16 Q. Now, interest rates are essential to all of
17 the models you use, isn't that correct, either directly
18 or indirectly?

19 A. They are related to the models, yes. Central
20 is strong, but they are related to all the models.

21 Q. All right.

22 A. As I pointed out in the charts that I've been
23 presenting. So it depends on which rates you're
24 referring to as well, right? The federal funds rate
25 that we're looking at here is not used in the model, but

1 the 30-year Treasury that's shown here is used in the
2 model.

3 **Q. All right.**

4 A. So it sort of depends on which rates you're
5 referring to.

6 **Q. We'll get to that right now, actually.**

7 **Are you aware that on page 8 and 9 of**
8 **Professor Woolridge's surrebuttal, he states the Federal**
9 **Reserve chair, Jerome Powell, stated in a September 4th**
10 **interview with NPR that, "We think that the economy is**
11 **going to need low interest rates to support economic**
12 **activity for an extended period of time; this will be**
13 **measured in years"?**

14 A. So I don't necessarily know that portion of
15 Dr. Woolridge's testimony, but I am familiar with
16 Chairman Powell's testimony on that topic.

17 I think two days prior to that, Vice Chair
18 Richard Clarida had some comments as well that provided
19 a little bit more color on this. And this goes back to
20 these two charts that I keep referring to here.

21 Where the Federal Reserve is addressing the
22 federal funds target rate, which is shown in this chart,
23 the yield curve, the 30-year Treasury, for example, is
24 separate and apart from that. And the Vice Chair
25 Clarida's comments -- I think it was August 30th --

1 suggested that they did not intend to touch the yield
2 curve.

3 So they're focused on this chart here, not
4 this chart here. And you can see that from the chart,
5 right? Obviously, they've held this federal funds rate
6 low in 2020. The federal funds rate is the interbank
7 lending rate, right? So that's --

8 **Q. Right.**

9 A. -- for banking. And then the 30-year Treasury
10 is what one might get if they were to invest in the
11 30-year Treasury. And so you can see that that yield
12 has moved completely independent from the Federal
13 Reserve's decision to maintain the federal funds rate at
14 a low level.

15 **Q. May I direct your attention to OCS Cross**
16 **Exhibit No. 3?**

17 A. Sure.

18 **Q. Do you have --**

19 A. I do have it.

20 **Q. -- access to the OCS cross exhibits?**

21 A. I do. They're in electronic form, so if you'd
22 just give me a second to open them, that would be great.

23 Yes, I have that open. This is an article
24 titled, "Fed expects to keep rates near zero through
25 2023."

1 Is that correct?

2 **Q. That's correct.**

3 A. Yep, that's this rate that we're talking
4 about, the federal funds rate, in my chart.

5 **Q. In your chart.**

6 **Isn't it true that the federal reserve has**
7 **mechanisms in their disposal to keep interest rates low,**
8 **long-term interest rates as well?**

9 A. Yes. As I just mentioned, though, I think the
10 comments from Vice Chair Clarida that were a couple of
11 days prior to the quote that was provided -- that you
12 provided to me from Dr. Woolridge's surrebuttal,
13 indicated that yield curve wasn't something that they
14 were going to be addressing. And I think that's fairly
15 evident from this other chart that I have, right?

16 So if you look at -- again, this is the near
17 zero. Here we are at the federal funds rate at 0.25
18 percent being held. And so that's what we're referring
19 to here when we talk about the rates would be held near
20 zero. Obviously, that has not been the case. As I
21 recall, you said that Chairman Powell's comment was
22 early September.

23 So if you look at this particular chart of the
24 30-year Treasury, and you look at September on this
25 chart, it's obvious that this is not being kept near

1 zero by the Federal Reserve, right? It's floating very
2 freely.

3 **Q. And when does that chart end?**

4 A. This chart ends October of -- the end of the
5 month. So October 28th I think was the data that I had
6 available to me.

7 So you could see at the bottom, September
8 is -- if you're going from the right, it's one, two --
9 it's the second white section of the chart. That's sort
10 of where September starts, and then October starts at
11 the rightmost white bar on the chart. And so obviously,
12 you can see that since September, the 30-year Treasury
13 has increased, even though Chair Powell's comments with
14 respect to interest rates in September -- again, those
15 were related to these interest rates, the federal funds
16 rates --

17 **Q. Could you give me a cite -- excuse me, I**
18 **didn't mean to interrupt you.**

19 A. No, no, that's fine.

20 **Q. Could you give me a cite to vice chair's**
21 **comments?**

22 A. Yeah. It was August 30th. I believe it's
23 August 30th. I could, maybe at a break, pull up the --
24 and provide a proper citation. I know when you go to
25 the Federal Reserve web page, you can get all the

1 speeches listed by date.

2 Q. All right.

3 A. I believe it was August 30th.

4 Q. Do you dispute Professor Woolridge's
5 contention on page 19 and 20 of his direct testimony
6 that -- as his rebuttal testimony, that several academic
7 articles have proven that over the last decade Wall
8 Street economists have been consistently predicting high
9 interest rates, and these economists have been
10 consistently wrong?

11 A. I'm sorry, what page of the testimony is that?

12 Q. Page 19 and 20.

13 A. This is of his surrebuttal, you say?

14 Q. No, no. This is of his direct testimony.

15 A. His direct testimony. I'm sorry. Let me pull
16 that up.

17 I see his testimony on those pages, yep.

18 Q. There are several articles referenced in his
19 footnotes. Footnote 10, 11, and 12.

20 A. Ten, 11, and 12. I see those articles, yes.

21 Q. They include an article entitled, "Economists
22 got it wrong for a decade, and they're trying to figure
23 out why." That's a 2015 article.

24 A. I do see that title. That's -- I see that.

25 Q. And there's another one saying, "Interest

1 rates forecasters are shockingly wrong almost all the
2 time."

3 A. I do see that article title, yes, that's true.

4 Q. And another one, "How interest rates keep
5 making people on Wall Street look like fools."

6 A. I see that title as well, yep.

7 Q. Do you have any reason to dispute the
8 conclusion or -- Mr. -- Professor Woolridge's contention
9 that these articles stand for the proposition that
10 economists have been predicting higher interest rates
11 for the last decade, and they've been wrong?

12 A. Well, I think they have actually ebbed and
13 flowed. If you're sort of looking at this particular
14 excerpt right here, you can see in my chart that
15 interest rates are higher and lower at periods of time.

16 So I'm not entirely sure, just by the catchy
17 titles of those articles, specifically what they entail,
18 but the actual yields do move, as evidenced here.

19 I would also note that the normalized rate
20 that Dr. Woolridge used is actually higher than the
21 projections that I relied on in the short term. So in
22 his CAPM, he's relying on -- I believe it's two and a
23 half percent at his risk free rate as a normalized
24 risk-free rate, where in the short term I think I relied
25 on a number that was about 1.81 maybe.

1 So --

2 **Q. What was your -- what was your long-term**
3 **number?**

4 A. So I was getting to that. The long-term
5 number I think was 320, and that is actually within the
6 range that Duff & Phelps established when -- in their --
7 Duff & Phelps didn't just pick a point estimate for a
8 normalized return. Their analysis includes a range.
9 The range goes over four.

10 So my long-term view is actually within the
11 range that was established by Duff & Phelps. And that
12 is actually in -- let's see. In the surrebuttal
13 testimony provided by Mr. Coleman, there is a Duff &
14 Phelps article there. I think it is Attachment 1 to his
15 surrebuttal.

16 And there is -- on page 50, actually, of that
17 document, there's a discussion of how they've developed
18 their risk-free rate. So the range goes up to 4.3
19 percent. So I'm within that rate.

20 **Q. What is the risk-free long-term rate?**

21 A. Well, as I said, there's a range that they
22 establish. So it's from 1.4 to 4.3.

23 **Q. Okay. Would you agree with me that if someone**
24 **is able to predict interest rates, they could make a**
25 **good living as a hedge fund manager in Wall Street?**

1 A. You know, I'm not really sure what it takes to
2 be a hedge fund manager, so I'm not going to opine on
3 that.

4 **Q. All right.**

5 A. I don't think -- I think that's outside of my
6 scope in this case.

7 **Q. That's outside of your scope?**

8 But you -- but is your testimony that people
9 can actually predict what will happen with interest
10 rates three to five years out?

11 A. Well, no. Let's be clear about what I'm
12 relying on and what we're doing in this exercise in
13 setting the cost of capital. What we're looking for is
14 the investor-required return on equity. So what I'm
15 relying on is what investors' expectations are, and that
16 should feed into what their expectations are for a
17 return on a forward-looking basis.

18 So I think that's an important consideration.
19 If investors are expecting that to occur, that's an
20 important factor to consider.

21 All of my analyses also considered the 30-day
22 average of the Treasury bond yield as well, but I do
23 think it's important to look -- when we're setting a
24 return that is meant to satisfy investors' expectations,
25 that's a forward look, and so it's important to consider

1 what investors are thinking about all of the
2 assumptions.

3 Q. And you're making the assumption that
4 investors are thinking that interest rates will be
5 higher three to five years out?

6 A. Oh, I'm not making that assessment by myself,
7 no.

8 Q. Okay.

9 A. I'm relying on a consensus estimate of 50
10 economists in the publication that I relied on.

11 Q. That would go back to the articles that
12 Professor Woolridge cited talking about the economists
13 being wrong consistently.

14 If those -- hypothetically -- let's ask
15 this -- because you haven't had a chance to read through
16 them. They were in the testimony. But hypothetically,
17 wouldn't you expect articles talking about the accuracy
18 of economic -- well, my point is -- let me start over.

19 These articles deal with objectual projections
20 -- with objectual facts, not ranges or judgment. What
21 they do is they look at the projections of a higher
22 interest rates at one time, and they compare them to
23 what interest rates actually occurred.

24 Would that make sense to you?

25 A. That's true, I'm assuming; I haven't read the

1 articles. But if you were to be trying to validate,
2 that would be one way to validate. I'll give you that.

3 **Q. Okay.**

4 A. I don't know what the article has done.

5 I do think that -- one thing that I do think
6 is interesting is that this is the subject of tremendous
7 scrutiny for Dr. Woolridge, the production -- or the
8 expectation of interest rates, yet the expectation of
9 growth that's used in the DCF model has not entered any
10 concern in his analysis. They are both expectations,
11 and they are both approximately three to five years in
12 the future.

13 **Q. Right.**

14 A. So I think it's important to recognize that
15 each of these models has -- in order to be considering a
16 forward-looking cost of equity, each one of these models
17 has some expectational information that's been relied
18 on. And so I think that's an important factor to
19 consider.

20 Certainly, Dr. Woolridge has relied, I think
21 his testimony says, primarily on his DCF results using
22 the projected earnings-per-share growth rates. Which he
23 has pages in his testimony that he says he has concerns
24 about those growth rates, but he's relied primarily on
25 those in the development of his final recommendation.

1 And again, they are projected, they're not --

2 Q. Right. We'll let your lawyers do --

3 THE REPORTER: I'm sorry, I didn't hear the
4 last word. "They are projected, they're not..."

5 THE WITNESS: Known.

6 THE REPORTER: Thank you.

7 THE WITNESS: Sure.

8 THE REPORTER: Go ahead.

9 BY MR. MOORE:

10 Q. All right. Well, I'll let your lawyers deal
11 with Dr. Woolridge's testimony, his turn.

12 May I direct your attention to page 114 of
13 your rebuttal testimony?

14 A. Yes, I'm there.

15 Q. I think you were stating, in response to
16 Professor Woolridge's testimony, that academic articles
17 demonstrate an upward bias of Wall Street's analyst
18 reports of EPS growth.

19 When you say that you discussed -- well, why
20 don't you -- could you read what you said, starting at,
21 "As discussed previously in my rebuttal"?

22 A. Sure. So you want me to read at line 2325,
23 the first -- the sentence that starts "As"? Is that
24 what you're looking to do?

25 Q. Please.

1 A. Sure.

2 "As discussed previously in my rebuttal
3 testimony, recent academic research has found that
4 analyst bias has been reduced or eliminated, if it ever
5 existed, after the financial market reforms of early
6 2000s."

7 Q. Were you --

8 A. Do you want me to -- just this?

9 Q. Yes, that's great.

10 Were you referring to page 94 and 95 of your
11 rebuttal testimony when you addressed a quote from a
12 McKinsey article?

13 A. I'm sorry. The pages that -- can you refer me
14 back to the pages so I can be sure?

15 Q. Yes, 94 and 95.

16 A. Yes, that does reference the same topic.

17 Q. Okay. Let me get there.

18 Could you read into the record the quote that
19 you have excerpts there from the McKinsey article?

20 A. Sure.

21 "Exceptions to the long pattern of excessively
22 optimistic forecasts are rare, as a progression of
23 consensus earning estimates for the S&P 500 shows
24 (Exhibit 1). Only in years such as 2003 to 2006, when
25 strong economic growth generated actual earnings that

1 caught up with earlier predictions, do forecasts
2 actually hit the mark. This pattern confirms our
3 earlier findings that analysts typically lag behind
4 events in revising their forecasts to reflect new
5 economic conditions. When economic growth accelerates,
6 the size the forecast error declines; when economic
7 growth slows, it increases. So as economic growth
8 cycles up and down, the actual earnings S&P 500
9 companies report occasionally coincide with the
10 analysts' forecasts, as they did, for example, in 1988,
11 and from 1994 to 1997, and from 2003 to 2006."

12 Q. Yes.

13 Now, I'm going to have you turn to OCS's
14 Exhibit No. 8, which is a page from Dr. -- from
15 Professor Woolridge's testimony, quoting the same
16 article.

17 He has an emphasized -- he has a -- are you
18 there?

19 A. I'm sorry, no. I've lost you. Where are you?

20 Q. I'm on -- I didn't know if you would have
21 Dr. Woolridge's testimony, so I made it into an exhibit
22 for reference.

23 A. Okay.

24 Q. That would be Exhibit 8.

25 A. Okay. Hold on one second. Let me just get

1 that. Exhibit 8, you said?

2 Q. I believe so. If not, if you have
3 Dr. Woolridge's testimony, it's page 23.

4 A. I'm just waiting for it to pull up.

5 Q. All right.

6 A. Okay, I have that.

7 Q. Okay. You see the long quote that's separated
8 from the text?

9 A. I do see that, yes.

10 Q. And this is the same article that you were
11 referring to?

12 A. Um...

13 Q. It's in the footnote 17, "Equity analysts:
14 Still too bullish."

15 A. Let me go back and check.

16 Yes, that's the same article. That's correct.

17 Q. Could you read the concluding sentence that's
18 been emphasized?

19 A. Sure. The sentence -- the underlined
20 sentence, yes. It says, "Moreover, analysts have been
21 persistently overoptimistic for the past 25 years, with
22 estimates ranging from the 10 percent" -- "from 10 to 12
23 per" -- ah, try that again -- "10 to 12 percent a year,
24 compared to the actual earnings growth of 6 percent.
25 Over this timeframe, actual earnings growth surpassed

1 forecasts in only two instances, both during earnings
2 recovery following a recession. On average, analysts'
3 forecasts have been almost 100 percent too high."

4 **Q. Now I would like to direct your attention to**
5 **OCS Cross Exhibit 5A.**

6 A. I would note this entire article is addressed
7 in my rebuttal testimony. And as I said in my rebuttal
8 testimony, the period that was analyzed in this article
9 extends through 2008 and includes the financial market
10 collapse. So very difficult to expect the analysts
11 would have been able to predict the severity and
12 magnitude of that financial crisis.

13 **Q. Well, they didn't, did they?**

14 A. Well, I'm not sure anyone could. So the
15 concept that you could, you know, predict the onset of
16 that crisis, and the magnitude of it and how much it
17 would disrupt markets overall on a three- to five-year
18 look forward, would be unfathomable.

19 **Q. So the answer is no, they couldn't predict it?**

20 A. No.

21 **Q. I mean, obviously.**

22 A. No one could.

23 **Q. All right.**

24 **Can I direct your attention --**

25 A. That doesn't make their forecast inherently

1 wrong. It does say that you can't possibly expect that
2 an analysis will predict a major market collapse.

3 **Q. Could you look at --**

4 CHAIR LEVAR: Mr. Moore, this is Thad LeVar.
5 Before you go to this next exhibit, I think it's
6 probably a good time to take a recess. I don't know if
7 this is a good stopping point for you or if you'd like
8 to go a little bit further.

9 MR. MOORE: I'm almost done.

10 CHAIR LEVAR: Okay.

11 MR. MOORE: And I have no problem stopping
12 here --

13 CHAIR LEVAR: For a break?

14 MR. MOORE: -- for a break. I just have a few
15 more questions. If you feel that -- I see that it's
16 12:30. It's a little bit late. We can stop here.

17 CHAIR LEVAR: Yeah, why don't we do that. Why
18 don't we come back in one hour, and then you can
19 continue at that point.

20 MR. MOORE: All right. Thank you.

21 CHAIR LEVAR: Thank you. We're in recess for
22 one hour.

23 (Whereupon a lunch recess was taken.)

24 CHAIR LEVAR: We'll go back on the record and
25 we will continue with Mr. Moore's cross-examination of

1 Ms. Bulkley.

2 Go ahead.

3 BY MR. MOORE:

4 Q. Ms. Bulkley, may I direct your attention to
5 OCS Exhibit 5A?

6 A. Yes. I'm there.

7 Q. This is an excerpt of the McKinsey study we've
8 been referring to; is that correct?

9 A. It is -- yes. I don't know if it's an
10 excerpt, but it is the McKinsey study. I haven't been
11 through the entirety of it.

12 Q. Can you turn to page 2, the second page of the
13 exhibit?

14 A. So page 15 of the study?

15 Q. Yes.

16 A. Yes, I'm there.

17 Q. The graph on the bottom of the page, do you
18 see that?

19 A. I do.

20 Q. Yeah, that graph is a graph of the last
21 25 years of the analyst predictions, and the average --
22 and it comes out to about -- the predictions, about to
23 12.2 -- to 12 percent you have for earnings per share.

24 Would that be a rough -- I know we can't tell
25 by looking at that, but that's just about right,

1 **correct? The dotted line that's actually 13.**

2 A. The dotted line that says 13. I'll agree to
3 that.

4 **Q. And the --**

5 A. I don't know what it actually is supposed to
6 represent, but --

7 **Q. Long-term average forecast. Where the blue**
8 **line is right -- is representing the actual -- what**
9 **actually happened to the earnings per share.**

10 MR. MOSCON: Mr. Moore, I'm sorry to belatedly
11 do this, but we've been trying to find it. Could you
12 restate which exhibit you're looking at? I realize I'm
13 the only one that hasn't found it, but I haven't.

14 MR. MOORE: It's 5B -- 5A. I have two
15 exhibits, 5A and 5B. 5A has the excerpt that I'm
16 talking about. 5B is the entire study.

17 MR. MOSCON: Okay. And 5A you sent -- you
18 took to the second page, and that's where we're at?
19 Okay. Sorry --

20 MR. MOORE: This would be page 15.

21 MR. MOSCON: Thank you. Sorry to interpret.

22 MR. MOORE: Are you with me?

23 MR. MOSCON: I'm seeing lines, so I think I'm
24 there.

25 MR. MOORE: All right.

1 BY MR. MOORE:

2 Q. And in the corner of the page, over the term
3 "overly optimistic," there's a little excerpt that says,
4 "Actual growth surpassed forecasts only twice in 25
5 years -- both times during the recovery following a
6 recession."

7 Do you see that?

8 A. I do see that. I'm missing pages 2 through
9 14, though, in this document.

10 Q. Well, could I direct your attention to
11 Exhibit 5B? Which is the whole study, if you want to
12 look at that.

13 A. That would probably be helpful. Let me just
14 that a minute to open that.

15 Okay. Yep.

16 Q. All right. Getting back to page 15, or the
17 second page on Exhibit 5A, the graph on the bottom of
18 the page.

19 Doesn't this depict that as -- the authors of
20 the study state that estimated -- long-term estimated
21 forecasts generally are widely higher than the actual
22 forecast?

23 A. I'm not entirely sure what this suggests,
24 without having read the entirety of the document. But
25 certainly, it looks like the 7 percent is less than 13.

1 I'll say that.

2 **Q. All right.**

3 A. That's about what I can tell you. I
4 haven't -- you know, obviously, I just skipped briefly
5 from page 1 to 15 in less than a minute. So...

6 **Q. Well, you quoted from this article in your**
7 **testimony.**

8 A. Yes. I just haven't committed it to memory,
9 so I would need to --

10 **Q. All right.**

11 A. -- review that. So...

12 MR. MOORE: I will move to admit both Exhibits
13 A -- 5A and 5B.

14 CHAIR LEVAR: If anyone objects to that
15 motion, please unmute yourself and state your objection.

16 I'm not hearing or seeing any objection, so
17 the motion is granted.

18 MR. MOORE: With that, I'll end my
19 cross-examination.

20 CHAIR LEVAR: Okay. Thank you, Mr. Moore.

21 Ms. Baldwin, do you have any questions for
22 Ms. Bulkley?

23 MS. BALDWIN: Yes, thank you. I just have a
24 few.

25 CHAIR LEVAR: Okay. Go ahead.

CROSS-EXAMINATION

BY MS. BALDWIN:

Q. Good afternoon, Ms. Bulkley.

A. Good afternoon.

Q. Do you recall this morning I think you were discussing with Mr. Moore the business risk factors that rating agencies look at when they award credit rating to public utilities, in addition to other companies?

A. Yes, I do recall that discussion.

Q. Did you look at the business risk factors for the companies that you used in your comparables in this case?

A. I did look at some risk factors, yes, on Exhibit AEB-10, and also I looked at CAPX in comparison to the proxy group on AEB-9.

Q. Do you feel you have a fair understanding of the -- those risk factors for why PacifiCorp is awarded the rating that it is?

A. So I think we should talk a little bit about ratings first, because there's a little bit of a misconception here about what ratings are offering.

So the ratings are looking at a risk of default, first of all, and when you're looking at that -- so this is on the debt side, not the equity side, which I think is an important factor to recognize.

1 So this does not necessarily affect the ROE. This is
2 not investor expectations, but a default risk. That's
3 what the ratings are measuring. So I think that's an
4 important consideration, number one.

5 Number two, this is looking at PacifiCorp as a
6 whole, not any one individual subsidiary operation.
7 Whereas, when we're setting the return in this case,
8 we're looking at what is the appropriate return for
9 Rocky Mountain Power in this state.

10 And so that level of information is not -- at
11 least not transparent in a ratings report, that they
12 have looked at the individual subsidiary level analysis,
13 and as I said, it's for credit default purposes.

14 **Q. So what is it that they look at for something**
15 **like Rocky Mountain Power? Or what is it you take into**
16 **consideration for Rocky Mountain Power?**

17 A. As I noted in my testimony, I've looked at a
18 variety of risk factors. I've looked at what's the --
19 whether there's a fuel cost recovery mechanism, what the
20 test year is, what the rate base is, is there
21 decoupling, capital cost recovery. I've looked at the
22 overall CAPX for the company as compared to the
23 operating companies -- the subsidiary operating
24 companies of the proxy group. So all of their
25 individual utility operating companies, as compared to

1 this utility operating company.

2 Q. So are you aware that NV Energy is a sister
3 company to PacifiCorp?

4 A. Yes.

5 Q. And are you aware that it has subsidiary
6 operating companies as well?

7 A. Not specifically, but that's -- excuse me.
8 Pardon me. That's probably the case.

9 Q. So you -- but you never even considered taking
10 into consideration what NV Energy's operating companies
11 -- how they compare -- being also Birkshire
12 Hathaway-owned companies, how they compare to PacifiCorp
13 or Rocky Mountain Power?

14 A. No, I would not do this -- that in this
15 analysis.

16 Q. Okay.

17 A. This analysis is looking at what the return on
18 equity should be for this individual operating
19 subsidiary as compared to the proxy group.

20 So we're using public market data for a set of
21 utility companies, which is the best public information
22 that we have. Within those companies there are many
23 utility operating companies. Would it be more ideal if
24 there were market data on each of those individual
25 utility operating companies? It would. But what we

1 have is market data on the parent company level.

2 So we're using the parent company-level
3 information, but then in order to assess the risk
4 associated with this individual subsidiary, we're
5 looking at the relative risks of the utility
6 subsidiaries of the parent companies -- not of Rocky
7 Mountain Power's parent company, but the companies
8 that we're using in our data set -- to calculate the
9 returns.

10 **Q. But in that data set, you never considered to**
11 **use NV Energy, only MidAmerican?**

12 A. Well, I wouldn't be able to do that, because
13 they don't have any public pricing data to run through
14 our model. So --

15 **Q. NV Energy -- you're claiming -- so I'm sorry**
16 **to interrupt, but -- so -- is your testimony that**
17 **NV Energy does not have public market data? The parent**
18 **company, NV Energy.**

19 A. My -- I would have to verify that, but I'm
20 pretty sure that NV Energy no longer has a stock price,
21 that it's not traded publicly anymore.

22 **Q. Okay.**

23 **Subject to check, I think that you are wrong**
24 **on that point.**

25 **Is it also your position that MidAmerican does**

1 **not have -- is not publicly traded?**

2 A. Yes, it is. My understanding is that they
3 would all be under the parent company -- that they are
4 at the operating-company level, that they are not traded
5 independently anymore.

6 **Q. That MidAmerican and NV Energy are not traded**
7 **publicly?**

8 A. I don't believe so.

9 **Q. Okay.**

10 **Would you accept, subject to check, that**
11 **Nevada Power Company, who is a sister company to Rocky**
12 **Mountain Power, has just recently settled their rate**
13 **case for an ROE of 9.4 percent?**

14 A. I'm unaware of that.

15 **Q. Okay.**

16 MS. BALDWIN: I have no further questions.

17 THE WITNESS: Again, it's a settlement, but --
18 I'm unaware of it --

19 MS. BALDWIN: I have no further questions.

20 THE REPORTER: I'm sorry. You're talking at
21 the same time. Could I hear that again?

22 THE WITNESS: Sorry.

23 MS. BALDWIN: I have no further questions.

24 THE REPORTER: And then what you were saying,
25 Ms. Bulkley?

1 THE WITNESS: Oh, that I was unaware. But it
2 was a settlement. I'm sorry.

3 THE REPORTER: Thank you.

4 THE WITNESS: We spoke at the same time.

5 CHAIR LEVAR: Thank you, Ms. Baldwin.

6 Mr. Russell, do you have any questions for
7 Ms. Bulkley?

8 MR. RUSSELL: No, I do not. Thank you.

9 CHAIR LEVAR: Okay. Thank you.

10 Mr. Sanger?

11 MR. SANGER: No, I do not. Thank you.

12 CHAIR LEVAR: Okay. Mr. Boehm?

13 MR. BOEHM: No questions, your Honor. Thank
14 you.

15 CHAIR LEVAR: Okay. Thank you.

16 Mr. Moscon, any redirect?

17 MR. MOSCON: Yes, just a couple of questions.
18 And I'm going to ask Mr. Sabin to send to everyone an
19 e-mail, because if I did it myself, I'm sure I would
20 disconnect from the proceeding and cause a feedback loop
21 and other giant issues.

22 But this a -- there should just be two pieces
23 of information here. Well, there's three pages, two of,
24 you've -- everyone's seen before. But just so it's all
25 in one place.

REDIRECT EXAMINATION

BY MR. MOSCON:

Q. Ms. Bulkley, you just went through a little bit of discussion with Ms. Baldwin, as you had previously with both Mr. Moore and Ms. Schmid, on the A3 rating that PacifiCorp has, and an implication that if it's got such a strong rating, there should be no investor risk.

Do you recall generally these questions by all those parties?

A. Yes, I do.

Q. Okay.

One of the items that was just emailed around -- and I'm -- I don't know if everyone has had a chance to see their inbox, so maybe I should ask you to share your screen, to pull it up -- is going to go to a risk factor on the regulatory environment that Rocky Mountain Power operates in.

While -- are you -- do you have that document there handy that you could pull that up and put on a screen?

A. I do. Let me see if I can be as good at it as earlier.

Q. It's called Redirect No. 1, if that helps.

A. So I believe that I'm sharing the documents --

1 well, maybe it hasn't come through yet.

2 Is this the document that you are referring
3 to?

4 Q. Okay. Scroll down in that document. Keep
5 going. Keep going to the page with the pie chart. Stop
6 right there. You'll see there's something that's
7 highlighted.

8 Now, do you recall in your testimony
9 referencing the fact that Rocky Mountain Power was in a
10 jurisdiction in which its regulatory environment posed
11 some risks that investors would consider, and it was one
12 of the factors making Rocky Mountain Power risky
13 compared to the proxy group? Do you remember that part
14 of your testimony?

15 A. Yes. Yes, I do.

16 Q. With -- is the data that's here on this
17 Exhibit -- or Redirect Exhibit 1 information that you
18 had reviewed or relied upon in making that reference?

19 A. Yes, it is. So this document is a summary
20 from Regulatory Research Associates, which is a
21 subsidiary of S&P. It's part of S&P's Global Market
22 Intelligence -- maybe it's -- yeah, I think it's Global
23 Market Intelligence division. And they review the
24 regulatory jurisdictions and rank them. And so this
25 information was what I relied on with respect to the

1 Utah jurisdiction, and I made those comments in my
2 rebuttal testimony.

3 Q. Okay. So if you look specifically at the
4 highlighted paragraph that's in yellow -- will you just
5 read for us that highlighted paragraph?

6 A. Certainly.

7 "RRA is reducing the rating of Utah regulation
8 to Average/2 from Average/1. This is driven primarily
9 by a recent restrictive Public Service Commission of
10 Utah decision for Dominion Energy, Inc. subsidiary
11 Questar Gas Company, in which the commission adopted a
12 below industry average equity return and directed the
13 company to phase-in a relatively modest rate increase.
14 This in conjunction with constructive developments in
15 certain other jurisdictions caused a shift in Utah's
16 relative position within the RRA rankings framework."

17 Q. Okay. Thank you.

18 Could you put on -- as long as you're doing
19 this far better than I would -- share on your screen the
20 other two documents, which are the charts that have been
21 referred to several times during your cross-examination.

22 A. Sure.

23 Q. One, I believe, is the fed rate. So it's 2
24 and 3, Redirect 2 and 3. Although, I don't expect you
25 to put both on at the same time. Let's start with 2.

1 A. Just one minute.

2 Okay. I have it pulled up. Let me try to
3 present it. It should be coming.

4 Q. All right. And I don't know if it's possible
5 to get the -- No. 3 in the queue, or if it's not, the
6 way that they've been separated.

7 But do you recognize this chart?

8 A. I do.

9 Q. And then you had, from time to time, been
10 drawing comparisons between that and the yield curve,
11 which is -- there we are. You have it perfect. That
12 one right there.

13 So would you describe for the Commission the
14 interplay between the Cross Exhibit 2 and the Cross
15 Exhibit 3 -- or the Redirect -- excuse me, Redirect 2
16 and Redirect 3?

17 A. Well, so Redirect 2 is the federal funds rate.
18 So this is the interbank lending rate, and this is a
19 rate that is set by the Federal Reserve for the --
20 borrowing between banks. And that is the rate that the
21 Federal Reserve is setting pretty close to -- it's .25
22 percent at this time. 0.25 is their target range for
23 this rate.

24 Redirect Exhibit 3 is the 30-year Treasury
25 bond, and this is the yield that -- this is the yield --

1 the current yield on the 30-year Treasury bond. So if
2 you were to buy that bond today, this would be the yield
3 that you would be -- you would get on that bond.

4 They are different instruments. One is a
5 yield curve, the other one is the interbank lending
6 rate. That are different instruments. In the past, the
7 Federal Reserve has -- in the 2008-2009 market collapse,
8 they did use a cap on the yield -- on the 30-year
9 Treasury yields as a mechanism, as I mentioned earlier
10 in my testimony.

11 Based on Vice Chair Clarida's comments back in
12 August, that doesn't sound like an instruct that the
13 Federal Reserve is intending to use currently. And
14 certainly, as you can see when you compare the two
15 charts, at least currently, that has not been -- they
16 have not employed caps on the 30-year Treasury. So --
17 and they don't relate at all to the federal funds rate.
18 So the federal funds rate has remained flat. And then
19 if you look at the 30-year Treasury yield, it has,
20 obviously, had considerable volatility over the last
21 eight months or so.

22 MR. MOSCON: Chairman LeVar, I would move for
23 the admission of Bulkley Redirect Exhibits 1, 2, and 3
24 in the record.

25 CHAIR LEVAR: If anyone objects to that

1 motion, please unmute yourself and state your objection.

2 I'm not seeing or hearing any objection, so
3 the motion is granted. Thank you.

4 MR. MOSCON: All right. Thank you. That's
5 all the redirect that we have. Thank you.

6 CHAIR LEVAR: Okay. Thank you, Mr. Moscon.

7 Ms. Schmid, do you have any recross questions
8 for Ms. Bulkley?

9 MS. SCHMID: I do not. Thank you.

10 CHAIR LEVAR: Okay. Thank you.

11 Mr. Moore?

12 MR. MOORE: I do.

13 CHAIR LEVAR: Okay, go ahead.

14 RECCROSS-EXAMINATION

15 BY MR. MOORE:

16 Q. Ms. Bulkley, that first exhibit -- oh, there
17 you are. That first exhibit you had talking about the
18 Dominion case granting a lower ROE than industry
19 average, what was that again? Was it an -- who put out
20 that publication?

21 A. Yes, I understand your question. So the
22 publication is -- let me just open it to get the
23 correct -- it's S&P's Global Market Intelligence, and it
24 is the same -- it's Regulatory Research Associates,
25 which was purchased by S&P many years back. It's the

1 same service that I think all of the witnesses in this
2 case have relied on for authorized ROE data.

3 **Q. What is the date?**

4 A. The date on this was March 26, 2020.

5 **Q. All right.**

6 **May I direct your attention to OCS Cross**
7 **Exhibit No. 4?**

8 A. Four. This is a --

9 **Q. Well, it's also -- do you have it up?**

10 A. I do. I think I have the right exhibit. This
11 is a summary of water ROEs -- water utility ROEs?

12 **Q. Well, that's what it's titled, but it's the**
13 **S&P Global Market Intelligence again, isn't it?**

14 A. Yes, it is. Same service. Correct.

15 **Q. But it's from a later date, July 20, 2020.**

16 A. Yes, and a different analyst who covers the
17 water sector, Heike Doerr.

18 **Q. Right.**

19 **And then we look to the third page of the**
20 **exhibit, and there's a chart.**

21 A. I see that chart.

22 **Q. And it has ROEs for water, electricity, and**
23 **gas utilities, correct?**

24 A. It does have them as quarterly averages,
25 that's true. I am suspicious of these, though. As I

1 noted in my earlier testimony, that I think it's
2 important to look at all of the individual data,
3 because, as I noted in the electric cases, there were
4 several observations that shouldn't be included in the
5 averages. That being said, these are quarterly average.

6 **Q. Let's look at the gas utilities, 2020, the**
7 **last -- the bottom of the table. It has there ROEs at,**
8 **the first quarter, 9.35, and the second quarter, 9.55.**

9 **That would average out to 9.4, correct?**

10 A. That would be the average of those, correct.
11 Again, with my reservations about not seeing the
12 underlying data. But that would be the mathematical
13 average of those two points, correct.

14 **Q. Now, you are aware that the ROE in the Questar**
15 **Gas Company -- or the Dominion gas company was**
16 **9.5 percent; isn't that correct?**

17 A. Yes, it is.

18 **Q. So that's higher than the industry average.**

19 A. Well, again, so there's a difference in time
20 period, and I don't know what the underlying data is
21 here. So I'm not sure what else to say about that.

22 **Q. All right.**

23 **Well --**

24 A. As I pointed out earlier, there can be quite a
25 few things that you need to correct for in the data

1 sets.

2 Q. But didn't you just testify that this was the
3 organization where the witnesses are getting their ROE
4 recitations from?

5 A. Absolutely, but that doesn't mean that you
6 shouldn't verify the data you're using.

7 Q. Right.

8 But on this analysis, it has the Dominion case
9 coming in at a higher ROE than industry average.

10 A. Well, again, it's higher than the quarterly
11 averages that are reported here. And as I said, with
12 the caveat that you would need to understand all of the
13 underlying data points, just like I mentioned on the
14 electrics to start my testimony today. And it would be
15 important to vet that data.

16 MR. MOORE: All right. Thank you. I have no
17 further questions.

18 CHAIR LEVAR: Thank you, Mr. Moore.

19 Ms. Baldwin, do you have any recross for
20 Ms. Bulkley?

21 MS. BALDWIN: No recross. Thank you.

22 CHAIR LEVAR: Okay. Thank you.

23 Mr. Russell?

24 I don't know if you're -- I'm not hearing
25 anything from you, Mr. Russell. You're still muted on

1 my screen.

2 MR. RUSSELL: Yeah, sorry. I was -- I had a
3 hard time finding my microphone button there.

4 No, I don't have any questions for this
5 witness. Thank you.

6 CHAIR LEVAR: Great. Thank you.

7 Mr. Sanger?

8 MR. SANGER: I have no questions. Thank you.

9 CHAIR LEVAR: Thank you.

10 Mr. Boehm? Mr. Boehm?

11 I'm going to assume he doesn't have any. He
12 didn't have any cross-examination questions.

13 So I'll go to Commissioner Clark. Do you have
14 any questions for Ms. Bulkley?

15 MR. CLARK: No questions. Thank you.

16 CHAIR LEVAR: Thank you.

17 Commissioner Allen?

18 MR. ALLEN: No questions. Thanks.

19 CHAIR LEVAR: Okay. And I don't have any
20 questions either. So thank you for your testimony
21 today, Ms. Bulkley.

22 THE WITNESS: Thank you very much.

23 CHAIR LEVAR: Mr. Moscon or Mr. Sabin,
24 anything further from Rocky Mountain Power?

25 MR. MOSCON: No, Mr. Chairman. This -- that

1 concludes, for cost of capital, the company's witnesses.

2 CHAIR LEVAR: Okay. Thank you.

3 I'll go to Ms. Schmid next. Do you have --
4 would you like to call the Division of Public Utilities'
5 witness?

6 MS. SCHMID: I would. Thank you.

7 The Division would like to call Mr. Casey Jay
8 Coleman as its witness.

9 May he please be sworn?

10 CHAIR LEVAR: Good afternoon, Mr. Coleman. Do
11 you swear to tell the truth?

12 THE WITNESS: Yes.

13 CHAIR LEVAR: Okay. Thank you.

14 Go ahead.

15 DIRECT EXAMINATION

16 BY MS. SCHMID:

17 **Q. Mr. Coleman, could you please state your full**
18 **name and spell it for the court reporter?**

19 A. My name is Casey Jay Coleman. C-a-s-e-y,
20 J-a-y, C-o-l-e-m-a-n.

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

23 A. I work for the Division of Public Utilities
24 for the State of Utah, as a utility technical
25 consultant.

1 Q. In conjunction with your employment with the
2 Division, have you participated in this case on behalf
3 of the Division?

4 A. Yes.

5 Q. Specifically, did you prepare and cause to be
6 prefiled testimony and exhibits in this docket?

7 A. Yes, I did.

8 Q. Were those filed as DPU Direct -- DPU DIR
9 2.0/DIR on August 20th, with accompanying exhibits 2.1
10 DIR through 2.08 DIR?

11 A. Yes.

12 Q. And did you prepare and cause to be filed your
13 surrebuttal testimony on October 8th, which has been
14 identified as the prefiled surrebuttal testimony of
15 Casey Jay Coleman, and its certificate of service, as
16 DPU Exhibit 2, SR -- 2.0 SR?

17 A. Yes.

18 Q. And did that prefiled surrebuttal testimony
19 have exhibits accompanying it labeled 2.1 SR through
20 2.8 SR?

21 A. Yes.

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

24 A. I have a couple minor changes. It will be on
25 the surrebuttal testimony.

1 **Q. Okay. If you could present those.**

2 A. Sure.

3 The first one will be on line 46 of the
4 surrebuttal testimony. And it's right there in the
5 paragraph. It says, "In DPU 1.0 SR." 1.0 should be
6 changed to 2.0.

7 And then --

8 MR. MOSCON: Sorry to interrupt. I thought
9 you said in your surrebuttal at line 46.

10 THE WITNESS: Correct.

11 MR. MOSCON: Is that where you're at?

12 THE WITNESS: Yes.

13 MR. MOSCON: So my line 46 says "DPU SR 02
14 Attachment 6." Is that what you're talking about?

15 THE WITNESS: Oh, okay. Maybe I was reading
16 an earlier version that had the 1 in there. It should
17 be 2.0. So good to know that I changed the correct
18 one.

19 MR. MOSCON: Well, and it's not -- mine says
20 DPU SR 02 Attachment 6." I just want to make sure I'm
21 looking at what you're looking at.

22 THE WITNESS: Let's see. My line 46 says,
23 "DPU 1.0 SR Attachment 6."

24 BY MS. SCHMID:

25 **Q. Casey, I believe that that was not the filed**

1 **version of your surrebuttal.**

2 A. Okay. All right.

3 **Q. What I have in front of me is the same as**
4 **Mr. Moscon has in front of him in DPU SR-02**
5 **Attachment 6.**

6 A. Okay. That's fine, then. I just wanted to
7 make sure that -- I was the one that filed testimony,
8 and we had done it as Number 2. So I just wanted to
9 make sure that the surrebuttal had shown that.

10 **Q. Okay. Anything else?**

11 A. The only other one was on line 102.

12 **Q. Also of your surrebuttal?**

13 A. Surrebuttal testimony.

14 I believe what I was looking at -- that
15 should say "analyze," and it looks like an A was not
16 put in there. So that would just need to reflect
17 "analyze."

18 **Q. With those corrections, if we were to ask**
19 **you -- if I were to ask you the same questions today**
20 **that are contained in your prefiled direct and**
21 **surrebuttal, would your answers be the same?**

22 A. They would, yes.

23 MS. SCHMID: With that, I'd like to move for
24 the admission of DPU 2.0 DIR, with Exhibits 2.01 through
25 2.08 DR, and DPU 2.0 SR, with its exhibits 2.01 through

1 2.08 SR.

2 CHAIR LEVAR: Thank you.

3 If anyone objects to that motion, please
4 unmute yourself and state your objection.

5 I'm not seeing or hearing any objections, so
6 the motion is granted. Thank you.

7 BY MS. SCHMID:

8 **Q. Mr. Coleman, have you had the opportunity to**
9 **prepare a summary of your testimony?**

10 A. Yes, I have.

11 **Q. Could you please share that with us?**

12 A. Yes.

13 Good morning, Chairman LeVar, Commissioner
14 Clark, and Commission Allen. I appreciate the
15 opportunity to discuss the cost of capital for Rocky
16 Mountain Power on behalf of the Division in this docket.

17 In previous dockets, the Commission has
18 discussed its responsibility to determine the
19 appropriate cost of equity for a regulated utility,
20 indicating how applying the different financial models
21 requires judgment at each important step.

22 The Commission has been candid about how each
23 financial model analysis will provide a good framework
24 for analysis and a useful means of organizing relevant
25 information.

1 Using this framework of financial models, the
2 Commission can use judgment, experience, and other
3 necessary qualitative information to determine a fair
4 and reasonable rate for a regulated utility.

5 The purpose of my testimony is to provide the
6 data and analysis that provides a reasonable framework
7 for ratemaking purposes. I present evidence using
8 generally accepted evaluation methods, including the
9 Capital Asset Pricing Model, the Constant Growth
10 Discounted Cash Flow Model, and a risk premium method.

11 Throughout my direct and surrebuttal
12 testimony, I discuss the financial principles stated by
13 Dr. James C. Bonbright. The calculated rate should act
14 as a minimum cost when determining the fair rate of
15 return. According to Dr. Bonbright, the minimum cost,
16 or floor, for regulated utility would be the cost of
17 equity. Cost of equity is the -- is a starting point
18 for regulatory commissions to set rates and from there
19 make adjustments according to other policy
20 considerations.

21 Using generally accepted evaluation methods, I
22 was able to calculate the reasonable range of the
23 company's ROE estimates, or return on equity estimates,
24 at 7.24 percent to 9.17 percent. This range constitutes
25 the floor the party should use to begin the evaluation

1 of a fair rate of return for Rocky Mountain Power.

2 In my surrebuttal testimony using data from
3 Regulatory Research Associates, a group within S&P
4 Global Market Intelligence, I calculate the average
5 allowed rate of return for electric utilities at
6 9.5 percent for the period of January 2020 through
7 September of 2020.

8 Following the principles outlined in Hope and
9 Bluefield that investors are generally given the
10 opportunity to earn equal returns earned by other
11 companies of similar risks, I would suggest the maximum
12 return on equity for Rocky Mountain Power would be the
13 average allowed rate of return of 9.5 percent, unless
14 Rocky Mountain Power can be shown to have significantly
15 greater risk than a comparable group of companies.

16 As my testimony shows, Rocky Mountain Power
17 does not have significantly greater risk than a
18 comparable group of companies. Therefore, it follows
19 that the average allowed rate of return for the electric
20 industry would establish the upper limit that would be
21 considered a fair rate of return for investors and
22 customers of Rocky Mountain Power.

23 From my reasonable range of return on equities
24 from 7.14 percent to 9.17 percent for the company, the
25 average allowed rate of return for regulated utilities

1 is 9.5 percent. And using the principle of gradualism,
2 the Division recommends the Commission set the cost of
3 equity for Rocky Mountain Power at 9.25 percent.

4 The Division does not take issue with the
5 company's proposed capital structure, and using the
6 actual capital structure suggested by Rocky Mountain
7 Power of 5.367 percent equity, a .01 percent preferred
8 stock and 46.32 percent debt, the Division calculates a
9 weighted average cost of capital for Rocky Mountain
10 Power as 7.18 percent.

11 The Division's recommended return on equity of
12 9.25 percent and a weighted average cost of capital of
13 7.18 percent balances the competing forces of customers
14 and investors, while recognizing the need for gradualism
15 in the current market and the Utah-specific regulatory
16 climate. It allows just and reasonable rates.

17 The Commission should adopt the 9.25 percent
18 recommended return on equity for Rocky Mountain Power.

19 MS. SCHMID: Thank you, Mr. Coleman.

20 Mr. Coleman is now available for questions
21 from the parties and from the Commission.

22 CHAIR LEVAR: Thank you, Ms. Schmid.

23 I'll go to Mr. Moore first. Do you have any
24 questions for Mr. Coleman?

25 MR. MOORE: No questions. Thank you.

1 CHAIR LEVAR: Okay. Thank you.

2 Ms. Baldwin?

3 MS. BALDWIN: No questions. Thank you.

4 CHAIR LEVAR: Okay. Thank you.

5 Mr. Russell?

6 MR. RUSSELL: No questions. Thank you.

7 CHAIR LEVAR: Thank you.

8 Mr. Sanger?

9 MR. SANGER: No questions. Thank you.

10 CHAIR LEVAR: Okay. Mr. Boehm? And I'm not
11 sure he's still with us. I don't see him on the list of
12 people connected to the -- oh, no, I do see --

13 Mr. Boehm, you're muted. Do you have any
14 questions for Mr. Coleman? You're still muted, but I'm
15 going to assume that's a no.

16 Mr. Moscon or Mr. Sabin, do you have any
17 questions for Mr. Coleman?

18 MR. MOSCON: We do have a few.

19 CHAIR LEVAR: Go ahead.

20 MR. BOEHM: I'm sorry, your Honor. This is
21 Kurt Boehm. I was having trouble finding the mute
22 buttons. But I have no questions.

23 CHAIR LEVAR: Okay. Thank you.

24 Mr. Moscon, go ahead.

25 MR. MOSCON: Thank you.

CROSS-EXAMINATION

BY MR. MOSCON:

Q. And good afternoon, Mr. Coleman. To make it easier for the parties and the Commission -- and I may even ask the Commission a question on what is easiest -- we have just sent an email around that has cross-examination exhibits, but I'll note that but for one document, they're all contained in -- or all but two -- they are all contained in the exhibit attached to Mr. Coleman's surrebuttal, which is the Attachment 1 -- DPU SR 02 Attachment 1, which is the Duff & Phelps report.

So if it's easier for parties to simply find that attachment and to go through that, or to look directly at the exhibits that were just emailed -- whatever is easiest for the parties.

Mr. Coleman --

CHAIR LEVAR: Mr. Moscon, would you -- I'm sorry. Would you repeat the exhibit number again for --

MR. MOSCON: Yes.

CHAIR LEVAR: We're in Mr. Coleman's surrebuttal, correct, from October 8th?

MR. MOSCON: Correct. So it is -- make sure that's right. It is the DPU Exhibit 2.0 SR, Attachment 1. So in my copy, it's, I believe, the first

1 exhibit after his surrebuttal.

2 CHAIR LEVAR: Thank you.

3 MR. MOSCON: Okay. And as long as --
4 Mr. Chairman, as long as I'm having a dialogue with you,
5 I may ask if it's easier -- if the commissioners and
6 parties all have their own copies, I won't ask anyone to
7 share a screen and to put it up as a visual, but -- we
8 can do that. But if the commissioners and parties all
9 have this Duff & Phelps report, then I'm just going to
10 assume that if I ask Mr. Coleman to turn to a certain
11 page, that that's available to the commissioners and
12 parties; is that the way you'd prefer?

13 CHAIR LEVAR: I think the best way for me to
14 respond to that is, it's on the website and it's not
15 confidential. So it's pretty easy for any of us to
16 access just from the docket website without having to go
17 into our confidential database. So I think it should be
18 pretty accessible to everyone.

19 MR. MOSCON: All right. Then we're going to
20 go forward without putting it up on the screen.

21 BY MR. MOSCON:

22 **Q. Mr. Coleman, do you have accessible to you**
23 **both your surrebuttal testimony as well as this Duff &**
24 **Phelps report that we've just been talking about?**

25 A. Yes, I do.

1 Q. Okay.

2 And you recall generally in your testimony --
3 and I'll characterize it this way, but it's really not
4 important, though -- but I'll call it a dispute between
5 you and Ms. Bulkley about who was or wasn't
6 understanding or processing or interpreting the Duff &
7 Phelps data correctly.

8 Is that -- are you familiar, generally, with
9 that dispute between the two witnesses?

10 A. I think the dispute was different, but I will
11 agree that we had a disagreement.

12 Q. Okay.

13 Would you go ahead and turn to your Attachment
14 No. 1, which is this Duff & Phelps report?

15 A. Okay.

16 Q. The first thing I want you to do is to turn to
17 page 5 in it, if you would.

18 Are you there?

19 A. I'm getting there. Just a second. Hold on.

20 MS. SCHMID: Mr. Moscon, what is the first
21 word on that page?

22 MR. MOSCON: "Disclaimer."

23 MS. SCHMID: Thank you.

24 THE WITNESS: Okay.

25 BY MR. MOSCON:

1 Q. Are we there?

2 A. Yeah.

3 Q. So you agree -- in fact, as noted, this report
4 comes with a disclaimer -- and what I'm about to read is
5 in the second paragraph -- that -- well, actually, let's
6 start at the first paragraph.

7 Doesn't the first paragraph tell us that
8 this -- these materials that you've attached as an
9 exhibit do not represent the official position of Duff &
10 Phelps, LLC? Is that a correct statement?

11 A. That's what the disclaimer says.

12 Q. And doesn't that disclaimer further go on to
13 state that it is not guaranteed to be complete,
14 accurate, or timely?

15 A. Well, what it says is the information
16 presented in this session has been obtained with the
17 greatest care from sources believed to be reliable, but
18 is not guaranteed to be complete, accurate, or timely.

19 Q. Right. Okay. And the timely is one of the
20 things we're going to focus on.

21 If you would turn to page 10 of this same
22 report. And to make sure that we're on the same chart,
23 I'm looking at something that is entitled, A COVID-19
24 Brief Timeline.

25 A. Okay. Yeah, I have it in front of me.

1 Q. Okay.

2 Now, you indicated that you received this
3 information in April of this year; is that correct?

4 A. That's when the webinar was held by Duff &
5 Phelps, yes.

6 Q. And in fact, their timeline ends in April of
7 this year; is that correct?

8 A. Correct.

9 Q. And so would you agree with me it's a fair
10 assumption to make that if this is already published in
11 April of 2020, that the data that was being relied on,
12 even the most recent data that was being relied on in
13 this, was from the March to early April timeframe?

14 A. No. And the reason why that is, is because --
15 the reason that this was provided was to basically
16 reinforce that the Division had looked at COVID and a
17 variety of other factors that Ms. Bulkley was saying we
18 hadn't looked at.

19 And what we were trying to get at was the
20 point that Duff & Phelps had looked at a variety of
21 those elements, and so us, as the Division, reviewed
22 those elements as well. And so to characterize that we
23 hadn't looked or taken into consideration any of those
24 elements was an error. I didn't portray that Duff &
25 Phelps had done an in-depth and a complete analysis

1 there, but what it was, was to show that we had done a
2 good faith approach of trying to determine what the
3 impact would be with the market.

4 And also, having said this, this is when the
5 webinar happened, but I think it would be an error to
6 suggest that Duff & Phelps hasn't continued to monitor
7 the market, because they do make changes to their
8 risk-free rate and their equity risk premium according
9 to what's happening in the market, and will put that
10 information out to investors.

11 And so to suggest that Duff & Phelps, on
12 April 20th, decided not to look at what was happening in
13 the market anymore, to me, would be erroneous.

14 **Q. Okay. Well, thank you for that, but my**
15 **question is really going to your exhibit that's in the**
16 **record.**

17 **And so would you agree with me that your**
18 **exhibit that's in the record, of Duff & Phelps, is**
19 **limited insomuch as the data that it's providing and**
20 **relying on is limited to information that was available**
21 **from April and prior to April? Is that correct?**

22 **A. Yes, but again, I don't see the relevance,**
23 **because earlier today Ms. Bulkley and also Ms. Kobliha**
24 **had looked at credit reports for 2018. So does that**
25 **mean that the credit reports were only good as of 2018**

1 and they shouldn't be used today?

2 Q. Well, Mr. Coleman, let me simply ask this:
3 Insofar as we are going to talk about the impact that
4 COVID had, and to the extent that we are going to rely
5 on this exhibit to support the fact that COVID has been
6 examined, you would agree with me, wouldn't you, that
7 the impacts that COVID has had, and continues to have,
8 on the economy and on investors was not fully known or
9 realized as of April of this year? Wouldn't you agree
10 with that?

11 A. That's what this information is showing.
12 That's true, yes.

13 Q. Would you turn to page 55 in this same report?
14 And again, to make sure that we're all looking at the
15 same page, it is entitled Summary Table of Factors.

16 A. Okay.

17 Q. And you would agree with me, wouldn't you,
18 that what this chart is showing us is how certain
19 factors, which are listed on the left-hand side -- how
20 -- whether they go up or down or they have a change,
21 what the effect is on ERP, which stands for equity risk
22 premium? Is that your understanding of this chart?

23 A. Yes.

24 Q. So just a couple of examples. The second line
25 down, implied equity volatility. If the change is that

1 equity volatility goes up, that -- the effect on the ERP
2 is that EPR also goes up, correct?

3 A. If you're looking at that specifically, then
4 yes, that would be one of the elements it would
5 consider, with the equity risk premium going up.

6 Q. And the same would also be true of the equity
7 uncertainty, which is two lines down from that, and two
8 lines up from the bottom, the default spread model. As
9 each of those go up, the realized effect on ERP is ERP
10 also moving up. Is that what this chart summarizes?

11 A. That's what it's showing, yes.

12 Q. Okay.

13 If you'd turn with me to the very next page,
14 page 56 of this report. This is a graphic showing the
15 Volatility Index from the Chicago Board Options
16 Exchange; is that right?

17 A. Yes.

18 Q. And the graphic notes that there's a new
19 record high for the VIX, which is this index, as of
20 March 16, 2020; is that correct?

21 A. Yes.

22 Q. And in fact, that high is significantly
23 greater than the Great Recession of 2008, which is also
24 pointed out on the chart; is that correct?

25 A. I don't know that I would characterize it as

1 significantly higher. 80.9 and 82.7 is not
2 significantly higher.

3 Q. Would you agree it's as high or higher than
4 the Great Recession --

5 A. Yes.

6 Q. -- of 2008?

7 A. Yes.

8 Q. Okay.

9 Now, one thing I didn't have you have handy,
10 but I'm going to ask you to do anyways -- do you have
11 Ms. Bulkley's rebuttal handy anywhere near you?

12 A. Let me see if I can find that. Hold on a
13 second.

14 Q. And I apologize I didn't, up front, tell you
15 to have that. That's my fault.

16 MS. SCHMID: Mr. Moscon -- or Mr. Chair, if I
17 may ask Mr. Moscon a question?

18 CHAIR LEVAR: Go ahead.

19 MS. SCHMID: Would it be possible for you to
20 put the references up on the screen?

21 MR. MOSCON: The references -- when you say
22 "the references," do you mean --

23 MS. SCHMID: To Ms. Bulkley's testimony.

24 MR. MOSCON: Okay. So what I'm going to do is
25 to put page 17 of her rebuttal on the screen, and I'll

1 ask someone -- I'm going to see if people that know this
2 system better than I do can get there.

3 Both Saba and Stewart get frustrated with me
4 when I refer to this computer as the magic black box.
5 So I'm not going to touch it myself.

6 MS. SCHMID: I sympathize with -- and agree
7 with your characterization of the computer.

8 MR. MOSCON: So Mr. Sabin is going to share a
9 screen. So I don't -- is that visible to everyone?

10 THE WITNESS: I can see it.

11 BY MR. MOSCON:

12 Q. Okay.

13 So we had just looked in the Duff & Phelps
14 report. That had a VIX index; that's what we were
15 looking at on their page 56. And on page 17 of
16 Ms. Bulkley's rebuttal, she also has a VIX index.

17 And that's what you're seeing there; is that
18 correct?

19 A. Yes.

20 Q. The difference being that Ms. Bulkley's VIX
21 index continues farther -- we already talked about the
22 fact that Duff & Phelps was already published in April,
23 and this seems to go until approximately September of
24 this year.

25 Do you see how it extends every four months

1 from 9 to 1 to 5, and the next line would be 9 of 2020?

2 A. Sure.

3 Q. And so you would agree, would you not, looking
4 at this graphic and Ms. Bulkley's testimony, that the
5 volatility, although it's dropped from March of this
6 year, still remains higher than it has been in the
7 previous five years? Do you agree with that?

8 A. The market right now is uncertain, and there's
9 more volatility than there has been previously, yes.

10 Q. Okay.

11 So you would agree that if you looked at the
12 line of August of 2014, which was when the last rate
13 case setting the company's current ROE was handled, that
14 the volatility in the market was lower -- demonstrably
15 lower than it is currently; is that correct?

16 A. "Demonstrably" is not a word that I would use.
17 That is relative. I would say that you could look and
18 see that there -- it is lower in 2014 than it is now.

19 Q. Okay.

20 Would you turn with me to page 61, back on the
21 Duff & Phelps report? I call it a report. I don't know
22 if that's the right word. But page 61.

23 A. Hold on. Let me get there. You said page 61?

24 Q. Yes.

25 A. Okay.

1 Q. Are you there?

2 This is a document that is entitled U.S.
3 Monthly Economic Policy Uncertainty Index, to make sure
4 we're looking at the same thing.

5 A. Yes.

6 Q. And similarly, you would agree with me that
7 the economic policy uncertainty, as demonstrated by Duff
8 & Phelps data, makes clear that uncertainty is much
9 higher, at least when this was published, compared to in
10 the summer of 2014, when the last ROE was set in this
11 matter. Is that correct?

12 A. There is differences there, yes.

13 Q. Okay. If you turn just one page in the Duff &
14 Phelps report, you're going to get a new table called
15 Default Spread Model.

16 A. Okay.

17 Q. Would you agree, similarly, that the Default
18 Spread Model shows greater risk of default in the 2020
19 timeframe than when the Commission decided this
20 company's last rate case in 2014?

21 A. Yes.

22 Q. Okay.

23 Let's turn to your surrebuttal. And I'm going
24 to ask you to turn to page 6 of your own testimony.

25 A. Okay.

1 MR. MOSCON: And Ms. Schmid, do you -- is it
2 easier for you if we put this on the screen?

3 MS. SCHMID: I do have his in front of me.
4 Thank you, though.

5 MR. MOSCON: Okay.

6 BY MR. MOSCON:

7 Q. You agree with me, Mr. Coleman, don't you -- I
8 think, in fact, you may have led with this -- when I
9 first referenced this Duff & Phelps report, that what
10 brought this up was that Ms. Bulkley had criticized the
11 Division for not mentioning or referring to the Federal
12 Reserve's monetary policy, and in response, you
13 indicated that -- in fact, I'm just going to have you
14 read that sentence that's on line 110 that starts, "When
15 the Division analysis uses."

16 Will you read that sentence for us?

17 A. "When the Division analysis uses Duff and
18 Phelps' risk-free rate and equity risk premium as a key
19 metric, by association, the Division is just as
20 meticulous in its determination of an appropriate cost
21 of capital."

22 Q. Okay.

23 So you would agree with me that, essentially,
24 the Division has incorporated the Duff & Phelps analysis
25 in its work, because its response was, "Oh, we didn't

1 ignore it; we looked at Duff & Phelps, and Duff & Phelps
2 looked at it."

3 Is that correct?

4 A. I think when you look at the models that I
5 used, we used the equity risk premium from Duff &
6 Phelps, we also used the risk-free rate, and we also
7 analyzed what Duff & Phelps was doing to determine those
8 rates. And so we were comfortable in using their equity
9 risk premium and risk-free rates, because we felt that
10 that had -- they had -- as you saw from what we had
11 provided, they had done an extensive job of looking at a
12 variety of market factors to determine those amounts.

13 Q. Okay.

14 Would you turn with me to your attachment --
15 well, it's called the DPU SR 02 Attachment 3, but it's
16 easiest for me to think of it as the second exhibit
17 behind your surrebuttal.

18 A. Is that the one Cost of Capital in the Current
19 Environment?

20 Q. Yes. That -- yep.

21 A. Okay.

22 Q. Now, the cost of capital in Duff & Phelps that
23 you attach when you refer to this, this itself does not
24 reference -- this page right here, itself, doesn't
25 reference the Federal Reserve monetary policy that

1 **Ms. Bulkley had criticized the Division for leaving out,**
2 **does it?**

3 A. I think you need to look at Attachment 2 to
4 have a better understanding of that. Let me make sure
5 that I have the number right.

6 So Attachment 2 in my surrebuttal testimony
7 shows -- and I will put in here that it's the most
8 recent information that Duff & Phelps has. I checked
9 twice to make sure that they had a 2020 report out, and
10 they didn't. So this is what is considered their 2019
11 report from their yearbook, which is using 2018
12 information.

13 But what this shows is what Duff & Phelps goes
14 through as far as the process to determine their equity
15 risk premium. So when that infographic that I showed
16 you shows Duff & Phelps is using the 6.0 equity risk
17 premium, by default they are following what is that
18 entire chapter three, as far as analyzing that.

19 And so they are looking at all of those things
20 that I included in my Attachment 1, plus all of the
21 other elements that is included in this -- and I don't
22 know the exact -- and I don't know the exact -- it looks
23 like 67 pages in just this chapter when they do the
24 equity risk premium.

25 So I would say yes, when -- what -- that

1 information graphic doesn't show that, but anyone that's
2 familiar with Duff & Phelps and the process they're
3 going through is going to have an understanding that
4 that's included in what they're saying their equity risk
5 premium should be as of that date that incorporates all
6 of those things.

7 Q. Would you -- one of the things that's a
8 specific issue is going to be the impact and any
9 adjustment or analysis that should be triggered by the
10 Tax Cut and Jobs Act, or it's referred to as the TCJA in
11 testimony.

12 So if I just call it the TCJA, are you --

13 A. Yes.

14 Q. You know what I'm referring to?

15 A. Yes, that's fine. Yes.

16 Q. Okay.

17 If you'd go to page 22 of your surrebuttal.

18 A. Sorry. I'm getting there.

19 Q. It takes me a minute, too, so no rush.

20 A. Okay. So surrebuttal page 22.

21 Q. Okay. You see on line 451 there's a sentence
22 right after "Yes."

23 Will you -- actually, two sentences. Will you
24 read those two sentences starting with, "The Division"?

25 A. Sure.

1 "The Division did not explicitly discuss the
2 overall risk related to the TCJA because it did not
3 believe this will be a significant risk faced by Rocky
4 Mountain Power in 2021. Investors have had time to
5 understand and evaluate the cash flow implications to
6 Rocky Mountain Power."

7 **Q. So it's fair to say that the Division did not,**
8 **in addressing any reasonable ROE for the company,**
9 **consider or make an adjustment for any uncertainty or**
10 **volatility that could be attributed by virtue of the**
11 **TCJA; is that correct?**

12 A. Yes. Because as I said there, we don't
13 believe it's a risk that's going to be impacting
14 investors in 2021, because they will have the ability --
15 three or four years of time will allow them to see
16 what's going to happen with that.

17 Plus, the other element is the tax credits are
18 being dealt with right now in this rate case, as far as
19 how Rocky Mountain Power is going to deal with them, and
20 so we believe that that risk is going to be mitigated or
21 reduced because of results that come out of this rate
22 case.

23 **Q. Would you turn to page 32 of Ms. Bulkley's**
24 **direct?**

25 MR. MOSCON: And I'm going to ask Mr. Sabin,

1 if he can, to go ahead and put that up on the screen, 32
2 of her direct, just so that anyone that doesn't have
3 Ms. Bulkley's testimony handy...

4 And specifically, we're going to be looking
5 for Figure 10.

6 MR. SABIN: Sorry, what page was it?

7 MR. MOSCON: Page 32 of direct of Ms. Bulkley.

8 THE WITNESS: Okay. Figure 10. "Credit
9 Rating Downgrades Resulting from TCJA."

10 BY MR. MOSCON:

11 Q. That's the one that we're at.

12 A. Okay.

13 Q. You would -- even though -- and -- your
14 understanding is that TCJA was passed when? When was
15 that act passed?

16 A. I believe it was in 2018, as a result of tax
17 cuts by President Trump.

18 Q. So even though it had been passed in 2018 or
19 earlier, you would agree with me, would you not, that
20 this data that is taken from a Moody's report indicates
21 that at least nine utilities have had credit downgrades
22 that Moody's tied to the TCJA from 2018 through 2020?
23 Is that correct?

24 A. It looks like it's more than nine, but --
25 unless you're excluding gas companies from that. There

1 is a list of companies in 2019 and 2020 that did get a
2 downgrade.

3 Q. Yeah. Okay.

4 Well, in fact, what I was really looking at is
5 Q4 2019 and Q1 2020. But you're correct, if you go back
6 earlier, there is even more than that. So it's my fault
7 for --

8 A. Correct. I was just looking at 2019 and 2020.

9 Q. All right.

10 But the point being is that Moody's has
11 demonstrated -- or Moody's is showing and reporting that
12 even as far as spring of this year, when this was
13 published, that it was continuing to have an impact on
14 utilities. Isn't that correct?

15 A. It's all relative. Because what I don't know
16 from looking at those lists of companies is the
17 underlying factors that also caused this downgrade. I
18 haven't been able to look at the report that was out
19 there by Moody's, and the different things, to know that
20 it was exactly because of the TCJA. I don't know if
21 those downgrades and ratings happened as they were said
22 there. And there -- as was discussed in the hearing
23 today, the credit -- there's a lot of elements that go
24 involved with that, as far as what's going to make a
25 rating go up or down.

1 If you want me to say over the time period has
2 some ratings gone down, sure, but I don't know if those
3 companies were as strong as Rocky Mountain Power in
4 2018, 2019, and 2020. I don't know what their metrics
5 were, I don't know what their CFO rates were and the
6 other parts that go into that, to be able to have this
7 be a valuable evaluation, other than there were -- are
8 companies that have been downgraded.

9 **Q. Okay.**

10 A. But I think it's important to recognize that
11 we're talking specifically Rocky Mountain Power, and if
12 they're going to be downgraded, not what -- not all of
13 the other companies that are out there as well. And I
14 believe Ms. Bulkley said the same thing earlier today in
15 her testimony.

16 **Q. Okay. Fair enough.**

17 **Mr. Coleman, I understand you to be saying you**
18 **haven't had a chance to study this, you don't know what**
19 **all Moody's was looking at when they published their**
20 **report. But is it fair to say that coming into this**
21 **proceeding, you don't have any evidence at your**
22 **fingertips that would dispute the report that Moody's**
23 **tied these downgrades -- downgraded credit ratings to**
24 **TCJA, do you?**

25 A. No, I don't have any reason to dispute that,

1 but I don't know why that's relevant to Rocky Mountain
2 Power's specific situation in this rate case.

3 Q. Okay.

4 Will you turn to page 3 of your surrebuttal?

5 A. Maybe. Okay. Page 3.

6 Q. Okay. Now, here on page 3, in the middle, on
7 line 47, you indicate -- and you're referring to
8 Attachment 6 -- that the average cost of equity for 2020
9 is 9.5 percent. Is that right?

10 A. I updated a calculation, and what I calculated
11 was at 9.5 percent.

12 Q. Okay.

13 And you go on to assert that, based on
14 Dr. Bonbright's principle, that the actual cost of
15 equity may have been lower but, you know, the
16 Commission's added to that to get to the 9.5.

17 Is that a fair paraphrase of this line?

18 A. What I believe my testimony was is there is a
19 floor and a maximum, and when you're looking at the
20 allowed rate of return, which is what it's reported by,
21 our -- most of the commissions would have calculated a
22 return on equity, and then they would have adjusted for
23 whatever risk premiums or other elements in the market
24 they felt was appropriate, to come up with the settled
25 or allowed rate of return for a company.

1 Q. Okay.

2 And would you turn to the Attachment 6 that
3 was referenced by you on that page? So this is, for the
4 record, DPU SR 02 Attachment 6. And while everyone is
5 turning to it, to make sure we're all on the same page,
6 it's S&P Global Market Intelligence Rate Case History
7 (Past Rate Cases).

8 A. Yeah, give me just a minute.

9 Okay.

10 MS. SCHMID: And just to make sure I'm in the
11 right place, with the right attachment, is this an
12 attachment that has two pages? The first page --

13 MR. MOSCON: Yeah.

14 MS. SCHMID: -- beginning with Iowa and the
15 second page beginning with Virginia?

16 MR. MOSCON: Well, mine, the first page begins
17 Iowa and the second page begins Indiana. But it is a
18 two-page document, and it's DPU document Attachment
19 No. 6 to Mr. Coleman surrebuttal, and it's just a list
20 of the litigated return on equities from various states.

21 MS. SCHMID: Thank you. Sometimes things
22 shift around when we print. But I'm on the same
23 attachment. So thank you.

24 THE WITNESS: Okay.

25 BY MR. MOSCON:

1 Q. Are you there, Mr. Coleman?

2 A. Yes.

3 Q. Okay.

4 And so just, again, making sure, this is a
5 listing of ROE decisions from the year 2020; is that
6 correct?

7 A. Yes. We tried to take all of the ones from --
8 starting in January, up until where the report was
9 created, which looks like the last date was
10 September 24th of 2020.

11 Q. Okay. And in decision type, which is the
12 column right before the ROE, there is -- it's
13 distinguished between a settled case or a fully
14 litigated case. Do you see that?

15 A. Yes.

16 Q. And you don't dispute, do you, what I think
17 several parties have already discussed today, which is
18 that a settled case, whether it's high or low, that
19 number may or may not be as reflective of what a
20 commission really thought, because one party may have
21 given up some revenue for something or there may have
22 been some other process going on? But you would
23 distinguish settled cases from fully litigated cases,
24 wouldn't you?

25 A. Distinguish in which way?

1 Q. Meaning that they may or may not reflect what
2 the commission itself thought the appropriate ROE based
3 on all the evidence would have been.

4 A. Because it is a settled case, the commission
5 didn't have the opportunity or didn't have the
6 requirement to set a rate of return for utilities; they
7 just accepted the settlement, is how my understanding of
8 the regulatory process works.

9 Q. Okay.

10 Now, I want to make sure I understand. This
11 document that we're looking at, it says S&P Global
12 Market Intelligence, but you talked about "we." Is this
13 a document that the Division prepared or S&P prepared?

14 A. Well, I got the data from S&P Global Market
15 Intelligence, but I did the calculations and I put
16 together the information using what was available from
17 S&P or RRA, which is the same thing.

18 Q. Okay.

19 I want to have you look at what I think is
20 going to be on everybody's page 2, which is the Vermont
21 case.

22 Do you see that? It's the Green Mountain
23 Power Corp.

24 A. Correct.

25 Q. And it's listed as a fully litigated case from

1 August that resulted in a 8.2 ROE. Do you see that?

2 A. I do.

3 Q. Now, when you put this together, did you turn
4 to that case to determine whether that was a settlement
5 versus a litigated case?

6 A. I trusted the information that was provided in
7 S&P. So I didn't go look at each of these individual
8 cases to determine if what they were putting out there
9 was accurate or not.

10 Q. There should have been emailed to you, and to
11 everyone, just before we began, a list of exhibits, and
12 one of which is the actual order in the Vermont case. I
13 don't know if you have your email handy. If it's going
14 to cause too much trouble, I'm happy to read what I'm
15 getting at, but I don't want you to feel like you
16 haven't had a chance to see the document.

17 So do you see the exhibit that's been sent to
18 you that is a State of Vermont decision in this case?

19 I'm going to ask Mr. Sabin to put it on the
20 screen for everyone to just make it easier.

21 A. I have it in front me, but having it on the
22 screen could be helpful.

23 Q. Okay.

24 I'm going to -- I've highlighted a portion on
25 the second page. I'm going to have Mr. Sabin go down to

1 that. And this is in the case where the commission is
2 indicating why it landed on an 8.2 ROE.

3 And would you read the highlighted portion out
4 loud?

5 A. Yeah. Yeah, just one second here. I'm just
6 trying to make sure I'm in the -- okay.

7 "Under the MYRP" -- I'm not sure what that
8 stands for, but -- "Under the MYRP, the authorized
9 return on equity is calculated based on fluctuations in
10 the yield on 10-year Treasury Notes, which has dropped
11 precipitously as a result of disruptions to financial
12 markets caused by the COVID-19 pandemic. The Commission
13 emphasizes that the reduction of GMP's ROE from 9.06 to
14 8.20 is based exclusively on the results of the ROE
15 formula set forth in the MYRP."

16 Q. Would you -- and let me represent to you --
17 and you're able to check, if you want, on page 1 -- that
18 MYRP is actually a multiyear plan, and so that -- rather
19 than basing its decision on evidence, the commission
20 simply ruled that, under this plan, a multiyear plan
21 that had been entered into prior to this rate case, the
22 commission was required to set the ROE at that rate, and
23 it was not based on any other factor. Would you agree
24 with that?

25 A. That's what that order is suggesting, yes.

1 Q. Okay.

2 Now, if we go back to the list of -- which is
3 your exhibit that -- the Attachment 6 that had all the
4 other reports listed, one of the other cases that was
5 listed as fully litigated is the Maine case, the Central
6 Maine Power Case, and it also ended up at an 8.25 ROE.

7 Do you see that? It's on my page 1. I'm not
8 sure what page it is on yours.

9 A. You said it was Maine?

10 Q. Uh-huh. Maine.

11 A. Central Maine Power Company. It's a
12 distribution company, fully litigated, 8.25 percent.

13 Q. And were you here when Ms. Bulkley stated that
14 that ruling was based on essentially assessing a penalty
15 against the shareholders of a utility for reasons
16 unrelated to actual economic circumstances?

17 A. I'm not sure if it's this case, but I did
18 review some of the Maine -- Central Maine, and I am
19 aware that because of management and other issues, they
20 were having a reduction in the ROE because of that.

21 Q. Okay.

22 Would you agree with this, if you just take
23 your chart, Attachment 6, that there's really two
24 outliers drawing the average down? This is the chart
25 that you've looked at, that, according to your

1 conclusions, says that vertically integrated utilities
2 have a 9.54 average, but there are two outliers at 8.2,
3 which are the Vermont case and the Maine case.

4 And I know you haven't done the math, or at
5 least I suspect you haven't, but would you agree with
6 me, just looking at it, that if you were to remove those
7 two outliers, that the actual average would be well
8 above 9.6 percent?

9 A. So here's my answer to this. And this has
10 been a pretty consistent position with the Division. I
11 don't know if Rocky Mountain Power has gone and looked
12 at all of the ones that were higher, say like a 10.2
13 percent, to see if they also had formulas that would
14 cause them to need to be excluded.

15 What we did is we provided the information to
16 the Commission so that they can be able to make an
17 evaluation.

18 There are a couple that are lower. We believe
19 that ratepayers are paying those rates in those states,
20 and so it's some information that's valuable and helpful
21 to the Commission. But if you cut off the low part of
22 it, shouldn't you do the same to the high part? There
23 might be outliers as well.

24 What we did is we provided the information and
25 then created an average that was calculated with this,

1 and I don't think it's that far outside of what would be
2 acceptable.

3 And Ms. Schmid may have to help me with this,
4 because I know we've been bouncing around, but I believe
5 earlier today she shared an exhibit that showed RRA had
6 recently calculated what the allowed rate of return was,
7 and had Ms. Bulkley look at that. That was as of
8 October 2020, with the most updated information, and RRA
9 had calculated the 9.5 percent, similar to what I had
10 calculated here from information.

11 So when they're putting that out there, they
12 didn't say, "Well, these are two outliers that should be
13 excluded." They calculated an average and a rate that
14 is applicable and should be there.

15 And so what we did is provide the information
16 for the Commission, allow them to be able to make the
17 determination, and the calculation was that it was at
18 9.5 percent.

19 **Q. I appreciate that, Mr. Coleman, but -- and**
20 **maybe I haven't been clear. I didn't want you to remove**
21 **the two 8.2s because they were just so outrageously low**
22 **compared to the rest, though they were. Wasn't -- the**
23 **distinction that we were making is that they, in fact,**
24 **weren't actually fully litigated cases, meaning that the**
25 **results in those cases were based on things other than a**

1 **weighing of the evidence by commissions, right?**

2 **Isn't that the point we were making?**

3 A. My analysis didn't do that. When I take the
4 average of 9.5 percent, that was of all of the cases;
5 fully litigated, settled, everything else. If you take
6 all of those in there, the 9.5 percent includes all of
7 those.

8 Now, you could suggest that those need to be
9 eliminated, but if you look down lower at settled
10 average and also at the litigated average, and then I
11 also did the vertically integrated at 9.54, some of
12 those exclude some of those things, and they're -- like
13 vertically integrated was only the ones that said
14 vertically integrated in there.

15 So the average that's there is of everything.
16 It's not just of settled ones or fully litigated. That
17 includes all the information that was there showing what
18 the average was, and then I tried to break it out if the
19 Commission wanted to get a little more detail as far as
20 what would be applicable and how to look at it. That's
21 what was included in there.

22 **Q. Let's do this, then. This might be the**
23 **easiest way to make sure we're talking about the same**
24 **thing. I'm going to ask Mr. Sabin to put up the next**
25 **cross exhibit slide that we've sent over, but -- and put**

1 it on the screen. But, again, everyone has had this
2 emailed.

3 Do you see in front of you a chart that says
4 "2020 Authorized ROEs"?

5 A. Yes, I see that.

6 Q. So let me represent to you that what this is,
7 is it takes the diagram that had all of them, it removes
8 the settled cases, it -- and it puts forward only the
9 fully litigated cases from 2020. And that's the
10 results, and there are some, as you will see and note,
11 in that 9.25 range, and then there are some as high as
12 the 10.0 range.

13 So do you see that scattering?

14 A. I can see dots on a graph. I don't know what
15 any of those dots tie to, but I can see that some were
16 below 9.25 percent and some were higher than 10. -- but
17 I don't know which dot ties back to what was on the
18 attachment here, if they're accurate or not. I could
19 look at it and try to determine that quickly from what's
20 here. But I got this today, and I have no way to verify
21 the information is accurate or correct, or what it ties
22 back to.

23 Q. I get that, so I won't ask you to vouch for
24 the accuracy of this chart.

25 But would you agree with me that if the

1 Commission were to, itself, decide that, yes, those dots
2 are in the right place, and that's where the fully
3 litigated cases for 2020 have turned out thus far --
4 would you agree with me that the company's request of
5 the 9.8, which is shown by the dashed line, seems to go
6 through the two, four -- five top cases, and that there
7 are only three cases that have resulted below a 9.5?
8 Would you at least agree that this chart shows only
9 three dots below the 9.5 level?

10 A. The chart simply shows that, but there's too
11 many other factors involved with this. I mean, how do I
12 know if those companies are lower risk, what their
13 business risks are, what their tax implications are,
14 what is their credit rating? There are so many other
15 elements, which is what we've talked about the whole
16 time, as far as the framework that's being developed
17 with that.

18 Sure, that line goes between three or four
19 dots. What are those three or four companies, and what
20 makes up all those elements of it? I believe that's
21 what the Commission is here to determine, is to say,
22 "Okay, are those companies as risky, more risky or less
23 risky than Rocky Mountain Power in determining what the
24 appropriate rate of return should be?"

25 And that's what I think I said in the

1 testimony, is when you look at the elaborative returns,
2 those are basically what should be the ceiling, or the
3 top part, of what the Commission should consider,
4 because that's what is required by the Hope and
5 Bluefield standards, and somewhere in between that is
6 what's probably the appropriate return on equity for
7 Rocky Mountain Power because of their risk position,
8 that they're a lower risk than the other utilities that
9 are out there.

10 THE REPORTER: Mr. Moscon, if you're talking,
11 I think you're muted.

12 CHAIR LEVAR: We're not hearing you.

13 And why don't we --

14 MR. MOSCON: -- same speech. Go ahead.
15 Sorry.

16 CHAIR LEVAR: Is this an appropriate place to
17 take a quick break, or are you in the middle of a train
18 of thought on your next question?

19 MR. MOSCON: No. That's fine. I'm happy to
20 -- whatever is better for the Commission.

21 CHAIR LEVAR: Why don't we take a ten-minute
22 break right now, and then we'll return and resume your
23 cross-examination.

24 MR. MOSCON: Thank you.

25 (Whereupon a short recess was taken.)

1 CHAIR LEVAR: Okay. Thank you.

2 Mr. Moscon, you can continue.

3 MR. MOSCON: Thank you.

4 Mr. Chairman, I'd like to move for the
5 admission of Coleman Cross Exhibits 1 and 2. There were
6 only two again that weren't already exhibits previously
7 admitted.

8 And after that, then I'll be concluded with my
9 cross-examination of Mr. Coleman.

10 CHAIR LEVAR: Thank you.

11 If anyone objects to that motion, please
12 unmute yourself and state your objection.

13 I'm not seeing or hearing any objections, so
14 the motion is granted.

15 Mr. Moscon, you said that concludes your
16 cross-examination?

17 MR. MOSCON: Yes.

18 CHAIR LEVAR: Ms. Schmid, any redirect?

19 MS. SCHMID: Very, very limited. Thank you.

20 REDIRECT EXAMINATION

21 BY MS. SCHMID:

22 **Q. Good afternoon, Mr. Coleman.**

23 **A. Hello.**

24 **Q. At the beginning of your cross-examination by**
25 **Rocky Mountain Power, you were asked a series of**

1 questions about the DPU -- sorry -- about the Duff &
2 Phelps report that was DPU SR 02 Attachment 1,
3 Exhibit 1.

4 Do you recall that attachment and those
5 questions?

6 A. Yes.

7 Q. Can you clarify for us what the purpose of
8 having that document attached to your prefiled testimony
9 was?

10 A. Yes, thank you. So the purpose in including
11 that information was to try to give a little more
12 breadth and understanding as far as Duff & Phelps and
13 the equity risk premium and the risk-free rate, and what
14 that company goes through in determining those elements
15 of it, so that -- we were criticized by Rocky Mountain
16 Power that we didn't look at a certain number of factors
17 when we were doing our analysis, and it was to show that
18 Duff & Phelps did, in fact, look at those things and a
19 variety of other elements to come up with this
20 determination.

21 So it was mischaracterized that we hadn't
22 looked at those things. Because we were using Duff &
23 Phelps' published information meant that we had looked
24 at and had considered the impacts of COVID and some of
25 the elements with it as well.

1 Q. Thank you.

2 Next, were you listening or reading what was
3 presented earlier in the hearing when the ratings
4 downgrade for the regulation of Utah was discussed as a
5 route of the Dominion Energy Utah rate case?

6 A. Yes.

7 Q. If you know, did Dominion and Rocky Mountain
8 Power treat the effects of the Tax Cut Jobs Act the same
9 in their rate cases?

10 A. So I can give you a very broad overview. I'm
11 honestly not the expert on that topic, but in
12 discussions with the Division and within our
13 organization, I can give you what my broad
14 understanding is.

15 I believe that Dominion Energy, when they were
16 dealing with the tax credits, made the decision to
17 refund back what was due to customers on bills basically
18 at that time, where Rocky Mountain Power, because of the
19 amounts that were there and the tax credits, instead
20 were able to defer or to keep those credits, which is
21 part of what we're discussing now in this rate case, to
22 be able to offset potential increases by customers or
23 other elements, and so they didn't refund the money
24 directly back to customers.

25 And so I believe that the way that Dominion

1 Energy and Rocky Mountain Power handled the situation
2 was different, and could have had some credit impacts
3 because of that.

4 Q. Thank you.

5 Various lists of states, ROEs, whether or not
6 a case was litigated or settled, have been presented in
7 this rate case, especially today.

8 Do you believe that if the Commission
9 determines certain states, such as Maine or Vermont or
10 New Hampshire, or the one that has the rider should be
11 kicked out, do you believe that information contained in
12 DPU Cross Exhibit 1, the RRA report for September, would
13 assist the Commission in calculating its own base
14 number?

15 A. Yes.

16 Q. Do you know if a settlement just goes into
17 effect automatically or if it is reviewed by a
18 commission?

19 A. I can only say specifically what happens here
20 in Utah. I don't know if each state is going to have
21 the same regulatory climate and environment. Here in
22 Utah, a commission -- the Commission has the ability to
23 accept or reject the settlement according to what the
24 parties have put forward.

25 So I believe we have the ability to review,

1 and I wouldn't think that we're going to be vastly
2 different than other places, but I don't know every
3 other state and what their regulatory environment is as
4 far as a stipulation.

5 Q. And when the Commission in Utah makes that
6 judgment, does the Commission -- is the Commission --
7 I'll strike that question.

8 So you calculated a range of 7.24 to
9 9.17 percent as -- I'm just going to call it your base
10 layer. Is that fair?

11 A. Yeah. Framework would be a good
12 characterization; that's a word we've used a lot. But
13 that's the framework that I used to calculate an
14 appropriate rate of return.

15 Q. That's a much better word. Thank you.

16 So is the 7.24 to 9.17 your final
17 recommendation or do you adjust that for some things?

18 A. No, we do adjust the final recommendation
19 according to a variety of different factors. One that
20 we've specifically talked about was gradualism, and also
21 the business risks there, and come with our final
22 recommendation -- or my final recommendation of 9.25
23 percent.

24 Q. And it's that 9.25 percent that you recommend
25 the Commission adopt; is that correct?

1 A. That is correct, yes.

2 MS. SCHMID: Thank you very much. Those are
3 all my redirect questions.

4 CHAIR LEVAR: Thank you, Ms. Schmid.

5 I'll first ask all the attorneys in this
6 hearing not named Moscon, if any of you have recross
7 questions for Mr. Coleman, please unmute yourself and
8 let me know that you do.

9 Okay. I'm not seeing or hearing any. So
10 Mr. Moscon, do you have any recross for Mr. Coleman?

11 MR. MOSCON: No. Thank you.

12 CHAIR LEVAR: Thank you.

13 Commissioner Allen, do you have any questions
14 for Mr. Coleman?

15 MR. ALLEN: No questions. Thank you.

16 CHAIR LEVAR: Commissioner Clark?

17 MR. CLARK: No questions. Thank you.

18 CHAIR LEVAR: Okay. Thank you. And I don't
19 have any questions.

20 So thank you for your testimony today,
21 Mr. Coleman.

22 THE WITNESS: You're welcome.

23 MS. SCHMID: The Division has no other
24 witnesses in this portion of the hearing. Thank you.

25 CHAIR LEVAR: Okay. Thank you, Ms. Schmid.

1 Okay, Mr. Moore, we're to you now.

2 MR. MOORE: Yes, the Office of Consumer
3 Services calls Professor Randall Woolridge, and asks
4 that he be sworn.

5 CHAIR LEVAR: Okay. Good afternoon
6 Dr. Woolridge -- sorry -- Woolridge.

7 Do you swear to tell the truth?

8 THE WITNESS: I do. Sorry. I didn't know if
9 I was on or not.

10 CHAIR LEVAR: Yes. Okay. Thank you.

11 Mr. Moore, go ahead.

12 DIRECT EXAMINATION

13 BY MR. MOORE:

14 **Q. Could you state and spell your name for the**
15 **record, and state how you are employed?**

16 A. Yes. My name is the initial J. Randall
17 Woolridge. That's spelled W-o-o-l-r-i-d-g-e.

18 I am a professor of finance at the
19 Pennsylvania State University.

20 **Q. Who are you testifying for today?**

21 A. I'm testifying for OCS.

22 **Q. Did you file, or cause to be filed, on**
23 **August 20, 2020, direct testimony, together with**
24 **exhibits RW -- JWR 1.1 to JWR 10.6, Attachment 1,**
25 **together with your work papers?**

1 A. Yes. Exhibits JRW 1 through 10, yes.

2 **Q. Did you file surrebuttal testimony on October**
3 **8, 2020?**

4 A. I did.

5 **Q. Do you have any changes you'd like to make to**
6 **your testimony at this time?**

7 A. I have two changes in my direct testimony.
8 First of all, on page -- on page 46, line number 990,
9 the 5.5 percent should be 5.6 percent. So 5.5 percent
10 should be 5.6 percent.

11 And then if you go to my exhibits, go to page
12 1 of JRW 8 -- and somehow there was an Excel thing left
13 out. There's a panel C that should not be there. So
14 that should just be eliminated.

15 **Q. Are those all your changes?**

16 A. Yes.

17 **Q. Other than those two changes, if I asked you**
18 **the same questions today, would your answers be the**
19 **same?**

20 A. Yes.

21 MR. MOORE: The Office moves to admit his
22 testimony and exhibits.

23 CHAIR LEVAR: If anyone objects to that
24 motion, please unmute yourself and state your objection.

25 I'm not hearing or seeing any objections, so

1 the motion is granted. Thank you.

2 Go ahead, Mr. Moore.

3 BY MR. MOORE:

4 **Q. Have you presented -- have you prepared a**
5 **summary to present to the Commission at this time?**

6 A. I have.

7 **Q. Please proceed.**

8 A. Okay.

9 Good afternoon, Commissioners. I am here to
10 testify on behalf of OCS on the cost of capital rate of
11 return.

12 The company has proposed a capital structure
13 with a common-equity ratio of 53.67 percent.
14 Ms. Bulkley has recommended a ROE of 10.2 percent. The
15 company's overall rate of return request is 7.70
16 percent.

17 In rebuttal, Ms. Bulkley updated her ROE
18 studies and concluded that 10.2 percent is still her
19 recommendation, however, the company has reduced its ROE
20 request to 9.8 percent.

21 Now, I've reviewed the company's proposed
22 capital structure and overall cost of capital. The
23 proposed capitalization has more common equity and less
24 financial risk than other electric utility companies.
25 Therefore, my primary recommendation, I am using a

1 capital structure that is more reflective of the capital
2 structures of electric utilities. I'm using a capital
3 structure of 50 percent -- that 50 percent equity
4 makeup.

5 To estimate the cost of equity, I have applied
6 a discounted cash flow, or DCF, and the Capital Asset
7 Pricing Model, or CAPM models, to two proxy groups of
8 electric utilities. I have my own electric proxy group.
9 I also used Ms. Bulkley's proxy group. In the end, I
10 find my range for an ROE is 7.6 percent to 8.95 percent.

11 I believe this accurately reflects the current
12 market cost of equity capital. However, to recognize
13 the fact that authorized returns were above my numbers,
14 and the Commission's traditional view of gradualism, in
15 my primary recommendation I'm recommending an ROE of 9
16 percent. Given my recommendation and capitalization and
17 ROE, my primary recommendation is an overall rate of
18 return of 6.91 percent.

19 My alternative recommendation uses RMP's
20 proposed capital structure with a common-equity ratio of
21 9. -- 53.67 percent. However, in that recommendation,
22 since I'm using a higher common-equity ratio than --
23 with less finance risk, I'm lowering my ROE to 8.75
24 percent, which is still at the high end of my range of
25 ROEs. My alternative rate of return position is at

1 6.92 percent.

2 Now, there's a number of issues in this case,
3 I think, that differ between my position and
4 Ms. Bulkley. First of all, in terms of the capital
5 structure, as I said, the cap structure has a high
6 common-equity ratio. And one of the things I do, I do a
7 capital structure study in there, and I show that, you
8 know, they're proposing 53.67 percent, while the average
9 of the two proxy groups -- the average common-equity
10 ratios are 43.6 percent and 44.0 percent.

11 Much more, if you look at Rocky Mountain
12 Power's parent, Birkshire Hathaway Energy, they have a
13 common-equity ratio of 42.4 percent.

14 So the common-equity ratio in the capital
15 structure proposed by the company is much higher than
16 other electric utilities, and obviously much higher than
17 Rocky Mountain -- than Birkshire Hathaway Electric --
18 Birkshire Hathaway Energy.

19 Second thing is capital market conditions.
20 Ms. Bulkley's analysis is based on projections of higher
21 interest rates. As I talk in my testimony, interest
22 rates are low, and obviously with the coronavirus,
23 they've gone to be even lower. Economists have been
24 forecasting higher interest rates for ten years, and
25 interest rates have continued to go down over time.

1 Another third issue is the risk of Rocky
2 Mountain Power. I use credit ratings. Their credit
3 rating -- S&P of A, Moody's of A3 -- show that they are
4 clearly less risky than other electric utilities.

5 Number four. There's a disconnect between
6 Ms. Bulkley's 10.2 percent ROE recommendation and her
7 equity cost rate studies. The average of her mean DCF
8 studies is 8.9 percent. If you look at her risk premium
9 study, and you just look at the current rates, not the
10 projections, it's at 9.33 percent. The only thing that
11 really supports her 10.2 percent is her CAPM studies,
12 her CAPX pricing model studies, and there's a big flaw
13 in those, which I'll get to in a little bit.

14 But, I mean, she has numbers from 8.5 to
15 12.3 percent. So she has a very broad range, but
16 there's a disconnect there between her equity cost-rate
17 studies and her 10.2 recommendation.

18 With respect to the DCF approach, another
19 issue. Number one, she's selectively eliminated low-end
20 DCF results. If you look at what happens if you include
21 the low-end numbers, her DCF result goes from
22 8.93 percent, to 8.59 percent.

23 She's also -- you know, there's other things.
24 I talk about she's exclusively used analysts' growth
25 rate forecasts. She's created her own DCF model --

1 projected DCF model, which you don't see anywhere. And
2 finally, obviously, she says the DCF doesn't work, the
3 dividend -- you know, the utility stock price is too
4 high and that sort of thing. She's been saying this for
5 a number of years in her testimonies and, you know, the
6 S&P -- you know, the utilities have continued to do
7 rather well.

8 With her CAPM approach, that's where the
9 big -- we have a big problem. Number one, she uses a
10 projected 30-year Treasury rate of 3.3 percent, which is
11 a lot higher than current rates.

12 Big issue was -- she also uses this thing
13 called ECAPM, which is an Empirical Capital Asset
14 Pricing Model, which is kind of a -- just a -- an ad hoc
15 model some consultant has come up with.

16 But the big issue is her market risk premium.
17 She has a market risk premium of 12.49 percent. I mean,
18 this is higher than any market -- I mean, the market
19 risk premium is one of the biggest mysteries of finance.
20 There's lots of studies on the market risk premium.
21 There's no study that comes with a market risk premium
22 nearly as high as 12.49 percent. It's just -- nobody
23 comes up -- and this is her own study for this -- you
24 know, for this consulting engagement, that sort of
25 thing, you know.

1 You look at -- around, and there's lots of
2 studies of the market risk premium. And I looked at
3 30-some in developing my market risk premium, and
4 there's nothing that comes close to 12.49 percent. When
5 you dig into it, her 12.49 percent market risk premium
6 is based on the expected stock market return of 14.05
7 percent.

8 I mean, historically, the stock market has
9 produced a 10 percent annual return. I can guarantee if
10 you look at the company's pension application, they
11 don't have a return on U.S. stocks of 12 -- of 14.05
12 percent. If they did, obviously, that would change the
13 pension issue a lot in this case.

14 But anyhow -- and the key ingredient to this
15 is she used -- she applies the DCF model to the S&P 500,
16 she uses analysts' growth rate forecasts as the growth
17 component of that, and she uses a growth rate of
18 11.6 percent. Well, you know, the fact is, companies
19 aren't going to grow their earnings 11.6 percent,
20 especially when -- in my testimony, I go through the tie
21 between earnings growth rates and GDP growth rates.

22 Now, the long-term U.S. economy is only
23 forecasted to grow between 4 and 4.4 percent. Well,
24 she's using an earnings growth rate that's basically
25 almost three times that. There's no way that can

1 happen. There's a direct tie between how fast the
2 economy can grow and how fast earnings can grow. And
3 her study assumes that corporate earnings can grow at
4 three times the GDP growth rate. It can't happen.

5 By the way, it's not -- this isn't just my
6 opinion. I cite, you know, Milton Friedman, Warren
7 Buffet, Jeremy Siegel about -- there's a tie between
8 this.

9 So her DCF results should really be ignored
10 because of this huge market risk premium which is tied
11 to these -- this expected earnings growth rate.

12 Anyhow, a couple more things. Obviously, she
13 has a risk premium model. I know there's a lot of
14 discussion about authorized ROEs. Well, she directly
15 uses ROEs in her risk premium model. Again, using
16 current interest rates, her number is 9.33 percent,
17 which isn't that far from where I am.

18 But anyhow, this is all based on commission
19 behavior, not on investor behavior. You know, usually
20 you use estimated equity cost rate, you look at numbers
21 in the marketplace, where are investors, you look at
22 risks and that sort of thing. This is just looking to
23 see what other commissions are doing, and then running
24 regression on those.

25 One of the things -- she also throws in the

1 expected earnings approach. This is not a measure --
2 way to measure the market cost of capital. You know,
3 it's an accounting-based issue. It's independent of
4 market data. It really doesn't capture capital market
5 indicators with the cost of equity.

6 And you know, even Dr. Moren (phonetic), who
7 is pretty -- he cites this in his book, but you look --
8 when he testifies, he doesn't use the expected earnings
9 model.

10 Several other things. Ms. Bulkley brought
11 up -- said RMP is riskier because, and she cites the
12 company's capital expenditures, she cites the Utah
13 regulatory climate, and she cites the electric, fuel,
14 and generation. These are all factors that are captured
15 in their credit ratings; that's all there is to it.

16 And so, given that they have better credit
17 ratings than other electric utilities, they're less
18 risky.

19 One other factor, she also cites flotation
20 costs. We've -- she -- the company hasn't paid any
21 flotation costs. They don't need revenues in the type
22 of -- in the form of a higher ROE to get -- for costs
23 they don't incur.

24 So other than that, in my surrebuttal
25 testimony, I pretty much reiterate a lot of this stuff.

1 I show that utilities are taking advantage of this
2 low-cost environment to raise lots of capital. In 2020,
3 they've raised -- they're going to raise a record amount
4 of capital. So it's not like the capital markets --
5 they're using the capital markets and getting low-cost
6 capital.

7 And I mention, for example, fed shares said
8 the interest rates are going to be near zero for --
9 until 2023. I talk, again, about Rocky Mountain's risk,
10 and I talk about the capital structure issue.

11 And finally, once again, we go back and deal
12 with this CAPM model, and the -- having earnings growing
13 at three times GDP growth rate.

14 In summary, again, my recommendation -- my
15 primary recommendation is an equity ratio of 50 percent,
16 and an ROE of nine percent, recognizing gradualism. My
17 alternative is to go to a -- the company's proposed
18 capital structure, with a higher common-equity ratio,
19 less financial risk. As a result, you use a lower ROE
20 if you're going to use a higher common-equity ratio.

21 And again, part of all this -- remember, these
22 proxy companies are -- these are the utility-holding
23 companies. This came up earlier. They're not the
24 operating companies that lie below them. The ones that
25 have stock that are -- you know, you look at

1 Ms. Bulkley's exhibits. The proxy companies are the
2 holding companies. They're not the operating companies.
3 So that's who we use to estimate an equity cost rate.

4 And overall, you know, Rocky Mountain is less
5 risky than these other electric utilities, as and by
6 their S&P and Moody's credit ratings.

7 **Q. Does that complete your summary?**

8 A. I'm sorry. Yes, that does.

9 MR. MOORE: Professor Woolridge is available
10 for cross of questions from the Commission.

11 CHAIR LEVAR: Thank you, Mr. Moore.

12 Ms. Schmid, do you have any questions for
13 Professor Woolridge?

14 MS. SCHMID: I do not. Thank you.

15 CHAIR LEVAR: Thank you.

16 Ms. Baldwin?

17 MS. BALDWIN: I have no questions for
18 Mr. Woolridge. Thank you.

19 CHAIR LEVAR: Okay. Thank you.

20 Mr. Russell?

21 I'm not hearing any response from Mr. Russell.
22 I think you're on mute.

23 Okay. I'll assume there's no questions from
24 Mr. Russell.

25 Mr. Sanger, any questions from you?

1 MR. SANGER: No, thank you, I do not.

2 CHAIR LEVAR: Okay. Thank you.

3 Mr. Boehm?

4 Okay. I'll go to Mr. Sabin or Mr. Moscon. Do
5 you have -- Mr. Sabin, do you have questions for
6 Professor Woolridge?

7 MR. SABIN: I do. Thank you. Can you hear me
8 okay?

9 CHAIR LEVAR: I'm hearing you clearly, yes.

10 Mr. Woolridge, can you hear him?

11 THE WITNESS: Yes, I can.

12 CHAIR LEVAR: Okay. Go ahead.

13 CROSS-EXAMINATION

14 BY MR. SABIN:

15 Q. Professor Woolridge, in your opening statement
16 you noted that the range -- your calculated range for
17 ROE in this matter is from -- runs from a low of
18 7.60 percent to a high of 8.95 percent. Is that
19 correct?

20 A. Yes.

21 Q. And I think I -- if I wrote this quote down
22 correctly, I think you said authorized -- quote,
23 "Authorized returns are above your range."

24 Is that correct?

25 A. That is correct. Yes, that's correct.

1 Q. And that's true across the board, right, that
2 the authorized returns you're seeing are -- fall above
3 what you are recommending here?

4 A. Yeah. And I think utility commissions have
5 been slow to lower ROEs to reflect capital costs. Why,
6 I don't know. I mean, where you really see that is now
7 utility market-to-book ratios are above -- they were
8 above -- they were around two. That tells you one
9 thing. The returns these companies are earning are
10 above their equity cost rates.

11 And so I think commissions -- I don't know if
12 commissions are believing these forecasted interest
13 rates or what, but they've been very slow to lower ROEs
14 to reflect what's happened to interest rates over the
15 last decade.

16 Q. Mr. -- or Professor Woolridge, in her rebuttal
17 testimony -- and I don't know if you have that -- if you
18 have Ms. Bulkley's rebuttal testimony there.

19 A. No, I do not.

20 Q. Okay. Well, I'm going to refer to Figure 13
21 of her rebuttal testimony. I'll try and bring it up for
22 you. Give me one second.

23 Okay. I'm going to ask you to tell me when
24 you see that, and I will proceed with my questions.

25 A. Yes.

1 Q. You can see it okay? All right.

2 I'm going to refer to Figure 13, which is on
3 page -- here on page 83 of her rebuttal testimony. She
4 has plotted out the average authorized ROEs in the cases
5 in which you've testified, versus your recommendations.

6 Do you see that chart?

7 A. I do.

8 Q. Okay.

9 Do you have any reason to disagree with the
10 data or the representation she has provided in
11 Figure 13?

12 A. No. I kind of wish, though, that she'd gone
13 ahead and plotted what her recommendations are on that
14 graph, because you're going to see her recommendations
15 have all been above 10 percent consistently for the last
16 four or five years, higher than that if you keep going
17 backward.

18 So, I mean, if she'd plotted hers with this,
19 you could see -- just like mine are below the averages,
20 hers are well above the averages.

21 Q. I just think my question was, does this
22 accurately represent your recommended ROEs versus the
23 authorized ROEs that have been ordered by commission?

24 A. Oh, yes, I agreed with that, but I just made
25 that additional comment.

1 Q. That's all I --

2 A. I agreed with that, yes.

3 Q. That's all I needed to know. Thank you.

4 I have sent some exhibits that -- if you could
5 look in the exhibits that I have sent. You should see
6 that there were four or five exhibits. And I'm going to
7 share this with you.

8 A. I don't have those exhibits. I did not get
9 them. You didn't send them to me.

10 Q. I think I sent them to your counsel. Just
11 trying to make sure that they went the right route.

12 I'm going to put up -- this is Rocky Mountain
13 Power Cross Exhibit 3. This is a document that
14 represents all of the rate cases in which you've
15 testified from 2012 through 2020. And in each case it
16 has the type of utility, the docket number, your final
17 recommendation, and the authorized ROE.

18 Would you just look through that and tell me
19 if you have any -- if you believe that all to be
20 accurate?

21 A. I really don't know. I'd have to go back and
22 look at those. So I have no -- I can't say whether it's
23 accurate or not. I mean, I don't -- I don't know why --
24 I would say subject to check, it -- subject to check, I
25 could agree. I don't -- I'm sure that Ms. Bulkley

1 wouldn't put false information in there. So I'm not
2 blaming her, I just -- I have no reason not to believe
3 that she did correctly, but can I verify it by looking
4 at this screen? No.

5 **Q. Okay.**

6 MR. SABIN: Mr. Chairman, I would move the
7 admission of Rocky Mountain Power Cross Exhibit No. 3.

8 CHAIR LEVAR: If anyone objects to that
9 motion, please indicate your objection.

10 I'm not seeing or hearing any objections, so
11 the motion is granted. Thank you.

12 BY MR. SABIN:

13 **Q. Okay. And I'm just going to point out, in**
14 **your column for your final recommendation, it's true,**
15 **isn't it, on this chart that there is not a single ROE**
16 **you've ever recommended above nine percent?**

17 A. I --

18 **Q. In eight years.**

19 A. At least -- I would say -- generally, I would
20 say that's probably true. So I'm not going to disagree
21 with that.

22 **Q. Okay. And would you accept, subject to check,**
23 **that your average is approximately 8.75 percent?**

24 A. Probably, yes.

25 **Q. Okay.**

1 I'm going to put up another exhibit here.
2 Give me one second.

3 All right. Tell me when you see that
4 document.

5 A. I do see that.

6 Q. Okay. I'm going to represent this is Rocky
7 Mountain Power Cross Exhibit No. 4. You can -- the
8 figure on the right should look familiar to you. That
9 is Figure 13 from Ms. Bulkley's rebuttal testimony.

10 On the left-hand side, what that is, is --
11 that is -- we've taken the quarterly average of your
12 recommended ROEs from all of your cases from 2012 to
13 2020, and compared it to the authorized ROEs in those
14 same cases.

15 So you can see that your recommendation is
16 here in the first column, the authorized ROE is in the
17 second column, and then the average authorized ROE is in
18 the third column, meaning the average nationwide.

19 Do you have any -- I note your prior statement
20 about not being able to verify every line item on the
21 fly, but subject to check, would you accept that these
22 figures are accurate?

23 A. Again, I have no idea.

24 Q. Okay.

25 Well, let me represent to that you that

1 these -- this data comes from a -- comes from data
2 responses that you have provided -- or that the OC --
3 that the Office provided with your cases, and we've
4 taken those cases and plotted them here.

5 Do you have any reason to disagree that this
6 is accurate?

7 A. I don't know, but I can't verify. I can't
8 even read the numbers.

9 Q. Okay. Let me -- I'm sorry. I didn't know
10 that. Let me make it bigger. Is that helpful?

11 A. That is.

12 Q. Okay.

13 A. I -- yeah, I can read the numbers now.

14 Q. Okay. I'm going to apologize again. I didn't
15 know you couldn't read them. So... It's hard to know
16 when it's displaying, how big it is. I can't see what
17 you're seeing. So please let me know if that happens
18 again.

19 A. Okay. No, no. I appreciate it. Thank you.

20 Q. Okay.

21 And here, what I want to demonstrate is, the
22 percentages you are recommending are, in every case,
23 below the recommend -- below the authorized ROE, and
24 also, in every case it is below the average authorized
25 ROE nationwide.

1 **Do you agree with that?**

2 A. I agree. And I -- my bet is if you did the
3 same thing with Ms. Bulkley's recommendations, they're
4 all above where the Commission came in and they're above
5 the average authorized ROEs. I mean, the ROEs, for how
6 many years, have been in the nines, and I haven't seen
7 her in a case where she's been below ten in -- since
8 I've seen her testify.

9 So, I mean -- yeah, I mean, if you completed
10 this graph and put hers above it, it would look a lot
11 like mine below it.

12 **Q. Well, I'll press you on that just a minute.**
13 **You agree with me that her range runs from 9.7 to 10.2,**
14 **right?**

15 A. I believe so, yes.

16 **Q. And I actually see authorized ROEs in both**
17 **columns, some above 10.2; there's a 10.25 here. But I**
18 **see lots of 9.7s, 9.8s, 9.9s. I don't see any that fall**
19 **within your range.**

20 A. Yeah. Again, I -- again, there's two things.
21 One thing, these are, you know, her recommendations. As
22 I said at the outset, if you look at her numbers in this
23 case, her DCF is 8.9 percent, or it goes down to 8.6
24 percent if you take care of her outliers. She doesn't
25 even consider that.

1 So, really, it's her professional judgment.
2 "Well, I'm going to ignore those low numbers. I'm going
3 to ignore this risk premium number, which is
4 9.33 percent. I'm going to ignore everything on this
5 CAPM number."

6 So, again, yeah, I mean, you're right. If you
7 look at her numbers, they're higher, but it's also --
8 she's at 10.2. The numbers don't support it. I mean,
9 the DCF model is used in every jurisdiction around the
10 country. She ignores it. I mean -- and so it's all
11 based on one thing, her CAPM numbers.

12 **Q. Let me represent to you that we did the math**
13 **on -- just taking the average of the authorized ROEs in**
14 **the cases in which you've testified, and those -- that**
15 **average is 9.65 percent.**

16 I don't expect you to be able to know that,
17 but that compared to the authorized -- or to the
18 recommended ROEs from you from the prior exhibit, means
19 there's about a 90 basis-point difference between the
20 average you recommend and the average that the
21 commissions approve. A 90 basis-point difference.

22 **Do you have any reason to dispute that?**

23 A. I really don't know. Again, I can't verify
24 this. But my bet is if you had another column with
25 Ms. Bulkley's recommendations, there would be about a

1 90 basis-point difference there.

2 Q. Well, I'll just note, there's nothing in the
3 record that demonstrates what you're saying.

4 That's right, isn't it? You don't have an
5 exhibit that shows what you're saying?

6 A. No, I don't, but I have a lot of experience,
7 and so I -- I've seen her testimony a lot.

8 Q. Okay.

9 MR. SABIN: I can't remember, Mr. Chairman --
10 I'd like to move for the admission of Rocky Mountain
11 Cross Exhibit -- I think this is 5.

12 CHAIR LEVAR: Thank you.

13 If anyone objects to that motion, please state
14 your objection.

15 I'm not seeing or hearing any objection, so
16 the motion is granted.

17 BY MR. SABIN:

18 Q. Okay. Professor, I'd like to take you to a
19 different topic. I'm going to show you -- this is a --
20 the case in which you testified, which -- you testified
21 in February in a case in Maryland. It's for the
22 application of Delmarva Power & Light Company for an
23 increase in its retail rates for the distribution of
24 electric energy. And I'm going to pull that up here.
25 Give me one second.

1 Let me know, Professor, when you see that.

2 A. I can see that, yes.

3 Q. Okay. I'm going to go down. This is the --
4 your testimony from that -- from -- your direct
5 testimony from that proceeding. And I'm going to go
6 down to page 17. I don't mean to give anybody a
7 headache from moving through it fast. I just wanted to
8 show you the opening page.

9 The question you asked yourself here is, "Do
10 authorized ROEs for electric delivery companies like BGE
11 differ from authorized ROEs for integrated electric
12 utilities?" And you answer, "Yes."

13 And then would you just read the remainder of
14 that paragraph into the record, please?

15 A. [As read] "One consistent factor in electric
16 utility authorized ROEs is the ROEs for electric or
17 distribution-like companies have consistently been below
18 those of vertically integrated utilities. This is shown
19 in Figure 4. The lower authorized ROEs are usually
20 attributed to the fact that delivery or distribution
21 companies do not own or operate electric generation
22 which is presumed to be riskier part of electric utility
23 operations. I believe Commissions in states who have
24 deregulated recognize the lesser risk and award lower
25 ROEs. The ROE" -- "authorized ROEs for electric

1 delivery companies have been 30 to 50 basis points below
2 those of vertically-integrated electric utilities in
3 recent years. In 2018, the average authorized ROE for
4 electric delivery companies was 9.37%."

5 Q. Okay. And this testimony you filed -- by my
6 records, it was filed in February of 2020. Right? You
7 agree with that?

8 A. It sounds -- yeah, that sounds right.

9 Q. Okay. That was prior to the pandemic?

10 A. Yes.

11 Q. And in that case, you recommended that
12 Delmarva should receive a nine percent ROE, correct?

13 A. I think I recognized gradualism in that case
14 as well, but I don't remember the details.

15 Q. Okay.

16 Delmarva is a delivery -- it's an electric
17 delivery company only; it's not a fully integrated -- or
18 it's not a vertically integrated electric utility,
19 right?

20 A. No, it's not. And -- but again, Rocky
21 Mountain has better credit ratings, and so you would
22 think Rocky Mountain, in the view of S&P and Moody's, is
23 less risky than other utilities. So they account for --
24 they account for their generation, they account for
25 their fuel supplies and that sort of thing.

1 Q. Yeah. And you say, though, that authorized
2 ROEs for electric delivery companies have been about --
3 between 30 and 50 basis points below those of vertically
4 integrated utilities, right?

5 A. Historically, they have been, yes.

6 Q. And you say that -- at the bottom sentence
7 there, that the average ROE for electric delivery
8 companies is approximately 9.37 percent as of the --
9 sometime in 2018.

10 A. That was in 2018, yeah.

11 Q. Right. So -- and you're providing this
12 information in a February 2020 case, right?

13 A. I do -- well, hold on. I don't know what the
14 date was of this testimony. I don't remember. It's
15 probably on the first page. I don't remember.

16 Q. I'm happy to -- right there. February 21,
17 2020, right?

18 A. Very good. Okay.

19 Q. So let me ask my question again. This
20 testimony you were providing was being provided in a
21 case when -- you filed this on February 20 -- 21, which,
22 presumably, the case was heard after that date, right?

23 A. No. This was a settlement. I think it was a
24 settlement.

25 Q. Okay.

1 A. I'm pretty sure it was a settlement.

2 Q. But in any event, the case -- you filed your
3 direct testimony before any settlement or proceeding was
4 done, right?

5 A. Yes, I did.

6 Q. Okay.

7 So if I take -- and you're providing this 9.37
8 percent in a 2020 case. I assume you thought that was
9 relevant. And I add to it the 30 to 50 basis points on
10 top of the 9.37 percent, that gets us a range of between
11 9.67 to 9.87 percent that would normally, you would say,
12 be the expected electric -- the ROE for a vertically
13 integrated electric utility in that time period. Right?

14 A. Yeah. And I think that if you look at the
15 data -- but you have to look at the data for 2020.
16 First of all, you don't compare 2018 to 2020. Those are
17 two different timeframes.

18 Q. I don't think I was. I think I was telling
19 you that, for that timeframe, it should have been
20 between 9.67 and 9.87 percent. Right?

21 A. Well, and we have data. We know right now, in
22 2020 -- if you really focus -- want to focus on, you
23 know, the authorized returns for -- obviously,
24 vertically integrated utilities, the number year-to-date
25 is like 9.67 percent. I mean, if you want to look at

1 other utilities and pick your ROEs that way, that's one
2 way to do it.

3 When I -- I don't use other ROEs. I present
4 them so the Commission knows where they are, but I don't
5 use them in my determinations.

6 **Q. I understand that.**

7 A. Ms. Bulkley does. She uses a risk premium
8 model with authorized ROEs. I don't do that.

9 **Q. Okay. Understood.**

10 So, you believe, though, as you sit here, that
11 an electric service only company, just a few months ago,
12 before COVID-19, should be getting a nine percent ROE,
13 and Rocky Mountain Power, a fully integrated utility six
14 or seven months into the pandemic, should be getting
15 exactly the same ROE as that entity? I just want to be
16 clear. That's what you're telling us?

17 A. First of all, I don't know what my range was
18 in that case. The nine percent had gradualism built
19 into it. There's no doubt about that.

20 So I don't know what my range was. My -- I
21 know my range was below where it is in this case, but
22 again, I used gradualism in that case as well.

23 But anyhow, so that's one thing. But in the
24 end, obviously, interest rates are a lot lower now than
25 they were, things like that. Other factors have come

1 into play, and that's why, you know, the numbers still
2 have worked out to about nine percent.

3 And again, Rocky Mountain is less risky than
4 these other utilities, judged by their credit ratings.

5 Q. Okay.

6 You brought up interest rates. I want to
7 shift to that topic. On -- if I could get you to turn
8 to page 8 of your surrebuttal.

9 A. Yes.

10 Q. Tell me when you're there.

11 A. I'm there.

12 Q. Okay.

13 Do you see in the middle of page, line 146?

14 A. Yes.

15 Q. I'm going to ask you to read your question
16 there on line 146, and then go down to line 152. If you
17 could read that into the record, I'd appreciate it.

18 A. "Has Ms. Bulkley recognized that interest
19 rates and capital costs have declined?"

20 Q. Go ahead, continue reading.

21 A. Oh, the whole paragraph?

22 Q. Yep.

23 A. Oh. "No. She clearly ignores the impact of
24 interest rates which seems to suggest that she believes
25 that the lower level of interest rates has nothing to do

1 with the return on equity investors require.
2 Ms. Bulkley's direct and rebuttal testimonies and the
3 results of her analyses indicate that the decline in
4 interest rates does not matter to capital costs. This
5 ignores the direct relationship between lower interest
6 rates and lower capital costs."

7 **Q. Okay.**

8 **So you're critical of Ms. Bulkley because you**
9 **say her analysis does not properly take into account**
10 **interest rate adjustments; is that correct?**

11 A. No. I said she -- in the end, she didn't talk
12 about a lot of things. She didn't focus on what's
13 happening to interest rates.

14 **Q. Your position is that interest rates have a**
15 **direct relationship with the return on equity. That's**
16 **what this paragraph you read just said; is that right?**

17 A. Generally, it does, yes. It's going to vary
18 over time. It's not one for one, it's going to vary.
19 But generally, over time, interest rates go down, RO --
20 you know, equity cost rates go down. Likewise, interest
21 rates go up, generally. Not a one-for-one relationship.

22 **Q. Okay.**

23 **I'm going to bring up another exhibit here.**
24 **Just write myself a note. Okay.**

25 **Not that one.**

1 Okay. Tell me when -- this will look
2 familiar. And actually, this is already in the record
3 as a different exhibit, but I will -- I also have it in
4 my exhibits.

5 So I -- tell me when you see that. That
6 should look familiar from an exhibit Mr. Moscon talked
7 with Ms. Bulkley about earlier.

8 A. Yes.

9 Q. Do you agree with me that this -- I mean, take
10 your time and look at it -- that this is
11 representative -- I'll just represent this comes from
12 the Federal Reserve, October 15, 2020. We plotted the
13 federal funds target rate from 2008 through the present.

14 Do you have any reason to dispute that this is
15 accurate?

16 A. I have no reason to dispute that, yes.

17 Q. Okay.

18 And it's already been admitted, so I'm going
19 to shift now to another exhibit. Okay. And I'm going
20 to show you this document. Tell me when that comes up.

21 A. Yes.

22 Q. Okay.

23 I'm going to -- let me represent to you we've
24 taken that same data from the earlier -- from your
25 recommended ROEs in the cases in which you've testified,

1 and we've plotted that against the average federal funds
2 rate over the same period, from 2012 to the third
3 quarter of 2020. Okay?

4 And let me just represent to you that -- so
5 this is a compilation of the earlier exhibits I showed
6 you, both the federal funds rate -- we've just averaged
7 it over the same period we averaged your recommended
8 ROEs.

9 And I'll just ask you, subject to check, do
10 you have any reason to dispute that this would be an
11 accurate reflection of those averages?

12 A. No. It could be, yeah. I don't have any
13 reason to dispute that. That's correct. And --

14 Q. Okay.

15 A. -- the results don't surprise me, because ROEs
16 are -- you know, the federal funds rate is a one-day
17 rate. We look at long-term rates when we're looking at
18 ROEs. We don't look at one-day rates.

19 Q. My point is that you just -- you criticized
20 Ms. Bulkley for saying that her analysis does not
21 properly account for the, quote, direct relationship
22 between interest rates and the return on equity, but as
23 I look at the recommended ROEs that you have put forward
24 in cases, it doesn't appear to me that it follows in any
25 regard what's going on with the federal funds changes in

1 **the interest rates.**

2 A. Well, that's because this exhibit doesn't
3 relate to ROEs. The fed -- the overnight fed funds rate
4 doesn't relate to ROEs. It can -- you know, the fed
5 adjusted rate is a one-day rate. You know, we look at
6 30-year rates, not one-day rates, when we set this. And
7 obviously, the fed directly controls this, and they can
8 manipulate it, but long-term rates are going to reflect
9 other factors as well.

10 They're going to reflect, primarily, two
11 things: expected growth and expected inflation. Those
12 are the primary drivers of long-term rates, and those
13 are what we look at when we compare it -- make our -- we
14 use our ROEs. But neither Ms. Bulkley or myself look at
15 the feds fund rates and use it in any way to estimate an
16 ROE.

17 **Q. Okay. So you agree with her earlier testimony**
18 **today, then, that the interest rates that she was**
19 **looking at are the appropriate ones to consider in a --**
20 **in your ROE analysis?**

21 A. I don't understand what your question is.
22 Which ones are you talking about?

23 **Q. Let me pull those up. Give me one second, and**
24 **I will go grab the earlier exhibit that...**

25 **So let me pull this up.**

1 Do you recall earlier -- well, let me know
2 when you see this, and then we'll talk about that.

3 A. Yes.

4 Q. This is -- let me represent this is, again,
5 Bulkley Redirect Exhibit 3. So you agree with her,
6 then, that this -- these are the kind of rates -- these
7 30-year Treasury yields are the ones that you're looking
8 at when you're doing an ROE analysis properly?

9 A. Generally, yes, that's what -- I mean,
10 obviously, in our CAPM models and things like that, as a
11 base rate, you use that interest rate. And --

12 Q. Okay. Okay. Thank you.

13 I'm going to stop sharing that.

14 MR. SABIN: Mr. Chairman, I would like to move
15 for the admission of Rocky Mountain Power Cross Exhibits
16 No. 4 and 8.

17 CHAIR LEVAR: Okay. If anyone objects to that
18 motion, please indicate your objection.

19 I'm not seeing or hearing any objections, so
20 the motion is granted.

21 MR. SABIN: Okay. Thank you.

22 BY MR. SABIN:

23 Q. I just want to cover one more topic with you,
24 Professor, and that is, Ms. Bulkley earlier testified
25 that -- I think there's a -- let me just represent I

1 think there's a significant disagreement between you and
2 Ms. Bulkley about the health of the utility industry at
3 present. And that's not my -- that's not your words,
4 those are mine.

5 Do you agree that that's an area of
6 disagreement between the two of you?

7 A. I don't know what her opinion is.

8 Q. Well, I think she testified earlier that the
9 utility sector has not recovered in the current
10 pandemic, as the remainder of the S&P 500 has recovered.
11 And I -- if I heard you correctly in your statement
12 earlier, I think you're representing that it's never
13 been a better time for the equity markets, utilities are
14 going to set records on the amount of equity that
15 they're able to obtain in this timeframe, and that
16 it's -- things are going quite well for the utility
17 sector. And again, those are my words, not yours, so --

18 Have I understood you correctly?

19 A. Well, let's put it this way: Utilities are
20 raising a record amount of capital. I mean, over a
21 hundred billion dollars a year for the last three years.
22 2020 was bigger than the last two years.

23 So their ability -- because they all --
24 investment grade bond ratings, they have access to
25 capital, and they're raising capital. And it's cheap,

1 so it's good. But, you know, if things were so bad,
2 they couldn't be out there raising capital on a
3 day-to-day basis. The markets have been good; they've
4 been able to raise capital.

5 Q. Okay. So I think the answer, then, is yes,
6 you believe the industry is very healthy, and she
7 disagrees and believes that there are -- it's lagging
8 behind the remainder of the S&P.

9 A. In my testimony, I do say they haven't
10 recovered as well as the rest of the market, in terms of
11 the -- from the stock -- you know, the Dow Jones Utility
12 Index hasn't performed as well, but, you know, over
13 time, utilities usually underperform in the market
14 because they're less risky. Historically, you can you
15 track that.

16 But they haven't recovered as well -- they got
17 hit harder than usual during March and April; they
18 haven't recovered as well. But that still hasn't
19 stopped them from raising capital, that sort of thing.

20 Q. Yeah. So I just want to confirm with you,
21 then -- I'm going to show you -- I'm putting up another
22 exhibit. This is Rocky Mountain Power Cross Exhibit
23 No. 7.

24 You saw this in Ms. Bulkley's presentation
25 earlier this morning. You can see that the bottom line

1 represents the S&P 500 Utilities, versus the top number,
2 which is the S&P 500, right? See that?

3 A. Yes.

4 Q. And you can see that the S&P during the period
5 from January until basically September, October, has
6 pretty well recovered. Would you agree?

7 A. It pretty much has. This week hasn't been a
8 good week.

9 Q. Yeah.

10 And then if you look at the utility line, it
11 was running higher than the S&P in January, February,
12 and early March, but then took a deep dive in middle of
13 March, and really has never gotten back -- it's running
14 quite a bit below where it was, say, in, you know,
15 January or February? Wouldn't you agree?

16 A. Yeah, that's true. I agree. And I think one
17 of the ironies here is, of course, Ms. Bulkley -- the
18 only way that we really directly use utility stock
19 prices is in the DCF approach, and Ms. Bulkley has
20 ignored her DCF results, so -- because they're too low.

21 And so the irony is, even though they have
22 underperformed, their DCF numbers are still low, and
23 they're so low that she refuses to use them.

24 Q. Well, I mean, it's true, though, isn't it,
25 that the S&P Utilities Index is a reflection of what

1 investors think about the utility stocks at present?
2 Right? If they had a high opinion of those stocks,
3 they -- it would have recovered.

4 A. Well, in the end, they have recovered to some
5 degree. The dividend yields are not back to where they
6 were, but they're getting closer. They're at like 3.6,
7 not 3.1 or 3.2. But again, Ms. Bulkley didn't use
8 utility stock prices, because she doesn't -- because the
9 numbers are too low for her.

10 Q. I'm just asking you about the disagreement
11 between you and her about the health of the utilities
12 industry. And investors seem to agree with her, not
13 with you. Isn't that true?

14 A. No. I -- if you look at my testimony, I
15 recognize they've underperformed. I talk about that,
16 but I said that hasn't stopped them from raising record
17 amounts of capital.

18 So it's not like the capital -- I mean,
19 they -- it's still an attractive place. The markets
20 have been very kind to utilities. And they have
21 underperformed, but historically, utilities do
22 underperform because they're less risky.

23 MR. SABIN: Okay. Mr. Chairman, I'd like to
24 move to admit Rocky Mountain Power Cross Exhibit No. 7.

25 CHAIR LEVAR: Okay. If anyone objects to the

1 motion, please indicate your objection.

2 I'm not seeing or hearing anything, so the
3 motion is granted. Thank you.

4 MR. SABIN: So I just want to confirm,
5 Mr. Chairman. I believe I've admitted Exhibits 3, 4, 5,
6 7, and 8. I think that's correct. I want to just make
7 sure that you have the same.

8 CHAIR LEVAR: If we have not covered those
9 specific exhibit numbers, then I will grant this motion
10 to submit those exhibits.

11 MR. SABIN: Okay.

12 Could I ask for just one moment to confer with
13 my client to make sure that we've covered everything we
14 need to with this witness?

15 CHAIR LEVAR: Yeah. Well, in fact, why don't
16 we take a ten-minute break, and then we'll come back to
17 you and then to Mr. Moore, if he has any redirect.

18 MR. SABIN: That's fine. Thank you very much.

19 CHAIR LEVAR: Why don't we come back in ten
20 minutes.

21 (Whereupon a short recess was taken.)

22 CHAIR LEVAR: We'll go back to Mr. Sabin. Do
23 you have any further questions for Mr. Woolridge?

24 MR. SABIN: I do not have any further
25 questions at this time. Thank you.

1 CHAIR LEVAR: Thank you.

2 Mr. Moore, do you have any redirect for
3 Mr. Woolridge?

4 MR. MOORE: Yes, I do.

5 CHAIR LEVAR: Okay. Go ahead.

6 REDIRECT EXAMINATION

7 BY MR. MOORE:

8 Q. Professor, do you have Ms. Bulkley's testimony
9 on hand?

10 I'm missing my witness.

11 MR. MOSCON: I note that he's not even on the
12 screen anymore.

13 CHAIR LEVAR: I probably should have checked
14 that before I started the hearing back.

15 MR. MOORE: I know he's planning on coming
16 back in.

17 There he is.

18 THE WITNESS: Sorry about that. I got knocked
19 off.

20 CHAIR LEVAR: Okay, Mr. Moore.

21 BY MR. MOORE:

22 Q. Professor, do you have access to Ms. Bulkley's
23 rebuttal testimony?

24 A. I do not.

25 Q. I will represent that on page 26 of her

1 rebuttal testimony, Ms. Bulkley testified in connection
2 with the DCF mode, that utility prices are still too
3 high.

4 Could you respond to that?

5 A. Yeah. I mean, obviously, we saw that they've
6 underperformed since the -- March and April of this
7 year, and yet she still says they're too high, and
8 therefore, the dividend yields are too low, and that's
9 why she refuses to use the DCF model.

10 So, yeah, I mean, she still says -- I mean,
11 she's forecasting -- apparently, you know, she knows
12 more than the market, and thinks that utility stock
13 prices should be lower. But, I mean, she's been saying
14 this for three or four years, so this is not a new
15 observation on her part.

16 MR. MOORE: Thank you. I have no further
17 questions.

18 CHAIR LEVAR: Thank you.

19 Did those questions from Mr. Moore raise any
20 recross from anyone? If you do have any recross, please
21 unmute yourself and tell me that you do.

22 MR. SABIN: None from Rocky Mountain Power,
23 Chairman.

24 CHAIR LEVAR: Okay. Thank you.

25 And I'm not seeing any recross from anyone

1 else, so I'll go to Commissioner Allen next.

2 Commissioner Allen, do you have any questions
3 for Professor Woolridge?

4 MR. ALLEN: No questions. Thank you.

5 CHAIR LEVAR: Okay. Commissioner Clark?
6 You're muted, Commissioner Clark.

7 MR. CLARK: Yeah, I -- that mute button is
8 elusive on this -- under this program. Sometimes it's
9 there, sometimes I can't find it.

10 But anyway, I have no questions. Thank you.
11 Thank you, Professor.

12 CHAIR LEVAR: Thank you.

13 And I don't have any other questions either,
14 so thank you for your testimony this afternoon,
15 Professor Woolridge.

16 THE WITNESS: Great. Thank you.

17 CHAIR LEVAR: Mr. Moore, anything else from
18 the Office of Consumer Services?

19 MR. MOORE: The Office has nothing else.
20 Thank you.

21 CHAIR LEVAR: Okay. Thank you.

22 Ms. Baldwin?

23 MS. BALDWIN: Commissioner, I'm very sorry.
24 My witness was available -- I didn't realize -- he told
25 me about an hour ago that he was only available until

1 about 4:00 our time. So, if possible, we'd like to be
2 able to put our witness on tomorrow.

3 CHAIR LEVAR: Okay. Does anyone else have
4 anything else? I don't think there were any other
5 witnesses from any parties for this phase of the
6 hearing. Does any participant in this hearing have any
7 other issue?

8 MR. MOORE: I have one issue, Commissioner.

9 CHAIR LEVAR: Mr. Moore?

10 MR. MOORE: I neglected to move to admit OCS
11 Cross Exhibit No. 4. I wonder if there would be any
12 objection if I could move to have it admitted now?

13 CHAIR LEVAR: If anyone objects to that
14 motion, please indicate your objection.

15 MR. SABIN: Can you give me one moment? I
16 just can't -- I don't think there's an objection, but I
17 can't remember what Cross Exhibit 4 is. Let me go back
18 and find that.

19 CHAIR LEVAR: Sure. We'll wait a few moments
20 for everyone to have that opportunity.

21 MR. SABIN: Sorry. It's coming up. Give me
22 one second.

23 Sorry. My computer is stuck. Give me one
24 second. I'm not sure what's going on.

25 There it is. Okay. I've got it up. Just one

1 second.

2 Sorry. It's just alluding me. Give me one
3 second.

4 Okay, here they are.

5 So you said it was No. 4?

6 MR. MOORE: Yes.

7 MR. SABIN: I don't think we have any
8 objection to that. I think it's fine.

9 CHAIR LEVAR: Okay. Does anyone else need any
10 more time to see if you had any objections to the
11 motion?

12 Okay, with that, the motion is granted.

13 Anything else from any party before we recess
14 until tomorrow morning?

15 MR. SANGER: Yes. This is Irion Sanger. Just
16 one minor item. Just wanted to let you know that my
17 associate, Joni Sliger, will be appearing for me
18 tomorrow. She is -- she made an appearance in the
19 intervention. Just wanted to let you know.

20 CHAIR LEVAR: Okay. Thank you.

21 Anything else?

22 Thank you to everyone for your participation
23 today. We are in recess until 9:00 a.m. Friday morning.
24 Thank you.

25 (Hearing in recess at 4:30 p.m.)

REPORTER'S CERTIFICATE

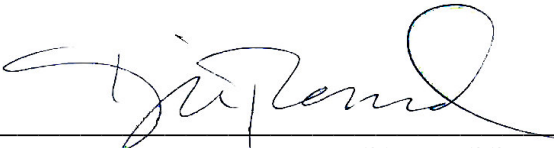
STATE OF UTAH)
)
COUNTY OF UTAH)

I, DEIRDRE RAND, a Certified Court Reporter and
Registered Professional Reporter, hereby certify:

THAT the foregoing proceedings were taken via
teleconference, at the time and place therein set forth,
with the parties via videoconference from their
respective locations; that the proceedings were taken
down by me in shorthand and thereafter my notes were
transcribed through computer-aided transcription; and
the foregoing transcript constitutes a full, true, and
accurate record of such arguments adduced and oral
proceedings had, and of the whole thereof, which were
and intelligible through the videoconference connection.

I further certify that I am not a relative or
employee of any of the parties, nor do I have a
financial interest in the action.

I have subscribed my name on this 9th day of
November, 2020.


DEIRDRE RAND, RPR, CSR, CCR

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