Exhibit No.___(BNW-14T)
Docket UE-130043
Witness: Bruce N. Williams

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP d/b/a Pacific Power & Light Company Respondent.	Docket UE-130043

PACIFICORP

REBUTTAL TESTIMONY OF BRUCE N. WILLIAMS

August 2, 2013

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Q. Are you the same Bruce N. Williams that previously submitted direct testimony on behalf of PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) in this case?

A. Yes.

PURPOSE AND SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the recommendations on capital structure and overall rate of return (ROR) from the Washington Utilities and Transportation Commission (Commission) Staff witness Mr. Kenneth L. Elgin and Boise White Paper, LLC (Boise) witness Mr. Michael P. Gorman. I also respond to Mr. Elgin's alternative cost of long-term debt for the Company. Dr. Samuel C. Hadaway addresses the cost of equity recommendations sponsored by these witnesses.

In addition, my rebuttal testimony provides an updated capital structure and cost of debt that reflects recent financing activity and reduces the Company's overall cost of capital.

Q. Please summarize your testimony.

A. The capital structures proposed by Mr. Elgin and Mr. Gorman and the cost of debt proposed by Mr. Elgin are flawed, not supported by facts, and do not reflect the Company's overall cost of capital. The Company's actual capital structure balances safety and economy by allowing the Company to retain its current credit ratings and obtain low-cost debt financings at an overall cost of capital similar to other Washington utilities. The Company's current, actual capital structure is designed to meet required rating agency credit metrics, and the Company has maintained approximately the same equity ratio in its capital structure for many years.

The cost of capital recommendations from Mr. Elgin and Mr. Gorman substantially reduce PacifiCorp's current allowed ROR to a level far lower than the allowed RORs of other Washington electric utilities. While Mr. Elgin and Mr. Gorman claim that their recommendations will not have a negative impact on PacifiCorp, both effectively concede that PacifiCorp would be downgraded if PacifiCorp had the balance sheet they advocate. Mr. Gorman's recommendation on capital structure and overall rate of return relies on an overly simplified model that does not reflect the financial and operational realities that guide prudent management of the Company's capital structure. Mr. Elgin does not even subject his recommendations to an analysis against common credit metrics.

POLICY ISSUES

Q. Are there important policy issues implicated by the determination of the Company's capital structure?

A. Yes. To support the Company's continuing investment in energy infrastructure in Washington, the Company needs to fairly recover the costs of the capital structure required to maintain its current credit ratings. The importance of the Commission's capital structure determinations was highlighted by the summary of recommendations attached to Governor Gregoire's January 4, 2013 letter to the Commission.[1] The second recommendation called for increased predictability and consistency in rate decisions and listed "methods for determining capital structure" as number one on the issues for initial focus.

[1] Exhibit No.___(DJR-2) at page 3.

Q. How can the Commission increase predictability and consistency in its determinations of capital structure?

A. Increased predictability and consistency can be achieved by adopting the utility's actual capital structure, as long as the utility can demonstrate that the equity component in the capital structure is required to support its credit rating and is otherwise reasonable.

Q. Has PacifiCorp justified adoption of its actual capital structure in this case, including the 52.2 percent equity component in its updated capital structure?

A. Yes. In my direct and rebuttal testimonies, I demonstrate that: (1) PacifiCorp's current equity level of approximately 52 percent is required to maintain its current single "A" rating; (2) PacifiCorp's current credit rating provides value to customers in terms of lower borrowing costs and access to capital; (3) PacifiCorp's overall ROR using its actual capital structure is approximately the same as the approved RORs of other regulated electric utilities in Washington; and (4) every other state in which PacifiCorp operates has approved a capital structure with an equity component of at least 52.1 percent.

Q. Another principle included in the second recommendation in the summary of recommendations from the Ratemaking Discussion Group, convened by Governor Gregoire, was the "use of attrition, pro forma and other adjustments to better match up investment recovery."[2] Does the adoption of a hypothetical capital structure to impute more debt and less equity support this principle?

A. No. By reducing a utility's allowed ROR through use of a hypothetical capital structure, the Commission increases the odds that the utility will not earn its allowed

[2] Exhibit No.___(DJR-2) at page 3.

rate of return. It is inconsistent to embrace innovative steps to reduce earnings attrition while at the same time increasing the likelihood of earnings attrition by adopting artificially leveraged capital structures.

Q. Has any party to this proceeding questioned the components that comprise the Company's actual capital structure?

A. No. There is no dispute about the Company's actual capital structure. No party has stated that the Company has incorrectly determined capital structure, included non-utility investments, or recommended other adjustments that have been proposed from time to time in past cases.

UPDATED CAPITAL STRUCTURE AND COST OF CAPITAL

Q. Are you providing an updated capital structure and cost of debt in your rebuttal testimony?

A. Yes. In my direct testimony, I calculated the Company's capital structure using the average of five-quarter ends, spanning the 12 months ending June 30, 2013. A portion of this calculation was based on forecast data, which I am now updating with the Company's actual data through June 30, 2013.

Q. Please describe the key changes in the Company's updated capital structure.

A. Since the time of my direct testimony, the Company updated its financing plan to reflect the extension of bonus depreciation. The enhanced cash flow resulting from bonus depreciation allowed the Company to reduce its common equity component while still meeting the rating agencies' key credit metrics to retain the Company's credit ratings.

In addition, the Company has now completed several financings, and I have incorporated the actual costs for those financings. The updated capital structure and costs of capital are in Table 1 below. The Company reduced its equity percentage from 52.51 percent to 52.22 percent; reduced its debt costs from 5.37 percent to 5.29 percent; and reduced its overall cost of capital from 7.80 percent to 7.75 percent.

TABLE 1

Component	Percent of Total	Cost	Weighted Average
Long-Term Debt	47.50%	5.29%	2.51%
Preferred Stock	0.28%	5.48%	0.02%
Common Stock Equity	52.22%	10.00%	5.22%
Total	100.00%		7.75%

The updated cost of debt and cost of preferred stock are detailed in Exhibit No.___(BNW-15) and Exhibit No. ___(BNW-16), respectively.

Q. **How does the Company's updated overall cost of capital compare to approved RORs for other regulated Washington electric utilities?**

A. As shown in Table 2 below, the Company's updated proposed overall cost of capital is in line with the other major Washington electric utilities—slightly above the recent Avista Corporation d/b/a Avista Utilities (Avista) settlement and below the Commission's recent determination for Puget Sound Energy, Inc. (PSE).[3]

TABLE 2

	PacifiCorp Updated UE-130043	Avista UE-110876	PSE UE-121697
Overall ROR	7.75%	7.64%	7.77%

[3] *See Wash. Utils. & Transp.Comm'n. v. Avista Corp. d/b/a/ Avista Utilities*, Docket UE-120436 and UG-120437, Dockets UE-110876 and UG-110877, Order 09 (December 26, 2012); *see also Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy, Inc.*, Docket UE-121697 and UG-121705, Order 07, and Docket UE-130137 and UG-130138, Order 07, ¶ 22, ¶ n.23 (June 25, 2013).

Q. What is the Company's actual capital structure?

A. I have updated the table from my direct testimony to show the more recent actual quarter end capital structures. The Company's actual capital structure is shown in Table 3 below.

TABLE 3

PacifiCorp's Actual Capital Structure						
Component	**June 30, 2013**	**Mar. 31, 2013**	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**5 Qtr. Average**
Long-Term Debt	48.58%	47.08%	47.15%	47.16%	47.53%	47.50%
Preferred Stock	0.25%	0.28%	0.28%	0.28%	0.28%	0.28%
Common Stock Equity	51.17%	52.64%	52.57%	52.56%	52.19%	52.22%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

REPLY TO STAFF'S PROPOSED CAPITAL STRUCTURE

Q. What is Mr. Elgin's proposed capital structure?

A. Mr. Elgin is proposing a 46.0 percent common equity component in the Company's capital structure.[4] Mr. Elgin's capital structure is purely hypothetical and lacks any resemblance to the Company's actual capital structure. As discussed in more detail in my direct testimony, the Company has consistently maintained equity in the Company's actual capital structure above the levels currently used to determine Washington rates.[5] Mr. Elgin's recommended hypothetical capital structure would further increase the discrepancy between the actual equity in PacifiCorp's capital structure required to maintain its current credit ratings and the amount of equity recognized in setting the Company's cost of capital.

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[4] Exhibit No.___(KLE-1T) at page 2, line 8.
[5] Exhibit No. ____(BNW-1T) at page 14, lines 6-9.

Q. Mr. Elgin supports his recommended capital structure by citing AUS Utility Reports (AUS) data for four utilities.[6] Please comment on this analysis.

A. Mr. Elgin's analysis is incomplete and it does not support his proposed capital structure. Focusing on companies with limited unregulated operations, Mr. Elgin states that, "The AUS data show that these four utilities have equity ratios of about 46 percent."[7] A closer review of the capital structures and rates of return of these four utilities demonstrates that their capital structures are similar to PacifiCorp's, and each contains a higher equity component than what Mr. Elgin recommends.

For example, Xcel Energy, Inc., has a number of utilities that serve various states. The regulatory commissions in these states have recognized equity levels in Xcel utilities' capital structures ranging from 51 percent to 56 percent levels as noted in Table 4 below.

TABLE 4

		Authorized			
State	**Xcel Utility**	**Common Equity/ Total Cap.**	**ROE**	**ROR**	**Docket**
Colorado	Pub. Svc. Co. of Colorado	56.00%	10%	8.08%	11AL-947E
Minnesota	Northern States Power Co.	52.56%	10.37%	8.32%	E-002/GR-10-971
New Mexico*	Southwestern Pub. Svc.	51.11%	11.25%	9.04%	10-00395-UT
North Dakota*	Northern States Power Co.	52.56%	11.25%	8.74%	PU-10-657
South Dakota	Northern States Power Co.	53.04%	9.25%	7.79%	EL11-019
Texas	Southwestern Pub. Svc.	52.00%	10.65%	8.62%	40824
Wisconsin	Northern States Power Co.	52.37%	10.40%	8.57%	4220-UR-118

*Filed amounts. Cases were settled with specified dollar amounts of increases.

[6] Exhibit. No.___(KLE-1T) at page 11, lines 19-21.
[7] *Id*. at 12.

Similarly, Westar Energy's last rate filing proposed a 51.62 percent common equity component,[8] and Wisconsin Energy's utility's (Wisconsin Electric Power Co.) authorized rates include an overall cost of capital with a 51.00 percent common equity level.[9]

Q. What explains the discrepancy between the equity levels that Mr. Elgin quotes in his testimony for these utilities and the actual equity levels you have provided?

A. It appears that Mr. Elgin is using the consolidated parent company's book equity percentage. This would be the equivalent of PacifiCorp proposing to use the book equity percentage of MidAmerican Energy Holdings Company (MEHC)—or even more extreme, Berkshire Hathaway—to determine PacifiCorp's revenue requirement. My understanding is that the Commission does not consider a utility's unregulated operations or affiliates in determining capital structure because it would give "a misleading picture" of the utility's capital structure.[10]

Q. What about the companies that Mr. Elgin discounted in his analysis?

A. Mr. Elgin cites the equity percentages of ALLETE, Alliant Energy Co. and IDACORP, Inc. at 53.3 percent, 51.2 percent, and 52.6 percent respectively.[11] He then discounts the usefulness of those figures because these entities have unregulated operations that Mr. Elgin presumed to be funded with equity (implying that the equity level in the regulated entities is lower).

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[8] *In re Westar,* Direct Testimony of Antony Somma, Docket 12-WSEE-112-RTS (August 25, 2011) (State Corporation Commission of Kansas).

[9] *Joint Application of Wisconsin Electric Power Company and Wisconsin Gas Company d/b/a We Energy, for Authority to Adjust Rates,* Wisconsin Final Decision, Docket 5-UR-106 at 13 (December 21, 2012). (Public Service Commission of Wisconsin).

[10] *See Wash. Utils. & Transp.Comm'n. v. Puget Sound Energy, Inc.*, Dockets UE-121697 and UG-121705, Order 07, and Dockets UE-130137 and UG-130138, Order 07, ¶ 62 (June 25, 2013).

[11] Exhibit No.___(KLE-1T) at page 12, lines 9-11.

Mr. Elgin's presumption is inaccurate. The actual equity levels of these entities' regulated operations are readily available on their FERC Form 1 filings. The equity percentage of ALLETE's regulated operation (Minnesota Power) is 55.30 percent at December 31, 2012. The equity percent of Alliant Energy Co.'s regulated operations (Interstate Light and Power) at December 31, 2012, is 48.95 percent. The equity percentage of IDACORP's regulated operations (Idaho Power Co.) is 51.39 percent at December 31, 2012.[12] The Company's updated common equity component of 52.2 percent is solidly within the range of 48.9 percent to 55.3 percent for these other utilities.

Q. What would the consequences be if the Company adopted Mr. Elgin's hypothetical capital as its actual financing?

A. If the Company financed itself consistent with Mr. Elgin's hypothetical capital structure, there would be swift and severely negative consequences. There would certainly be a multi-step credit rating downgrade by the rating agencies. Mr. Elgin's own testimony is that his recommended capital structure would support only a "BBB" credit rating.[13] That would be at least a three-step downgrade from the Company's current "A" rating, and it is quite possible that the rating agencies would view such an increase in leverage more negatively than Mr. Elgin expects. This means that the actual ratings may be even lower than Mr. Elgin's recommended downgrade to "BBB" via his hypothetical capital structure. In summary, such a capital structure would undermine the safety of the Company's finances to the detriment of its customers.

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[12] Exhibit No.___(BNW-15).
[13] Exhibit No.___(KLE-1T) at page 47, line 2.

Q. Would the ratings downgrade resulting from adoption of Mr. Elgin's capital structure increase the Company's borrowing costs?

A. Yes. To provide the magnitude of this increased customer cost, I analyzed the Company's debt issuances since its acquisition by MEHC during 2006 and correspondingly changed the issuance spread to match what a BBB-rated utility achieved at approximately the same point in time that the Company issued debt. The result is that on the 12-series of debt totaling $4.8 billion the cost would increase by 84 basis points to 6.125 percent. That increase in the cost of debt would result in PacifiCorp's customers paying approximately $40 million more in annual interest expense.

This may not capture the full extent of the increased costs because it assumes that PacifiCorp would have been able to issue debt during the financial crisis, during which certain BBB-rated utilities found the long-term debt markets closed to them. There would also be a corresponding increase in the authorized return on equity that would be needed following such an increase in risk.

Q. In addition to these higher capital costs, would there be other adverse consequences to a ratings downgrade?

A. Yes. These include potential loss of access to the capital markets, increased fees under credit agreements, letters of credit and other banking arrangements, increased collateral requirements to support wholesale energy activities, and possible loss of access to the wholesale energy markets. All of these potential developments would undermine the safety and stability of the Company's business operations.

Q. In criticizing PacifiCorp's proposed capital structure, Mr. Elgin claims that it is inconsistent with a MEHC commitment against cost of capital increases resulting from the acquisition.[14] Please respond.

A. Mr. Elgin's allegation is incorrect. As the Commission has previously found, MEHC's ownership of PacifiCorp has lowered PacifiCorp's cost of capital, not increased it.[15]

Q. How does Mr. Elgin's proposed total ROR compare to recent Commission orders for the other major Washington electric utilities?

A. As shown in Table 5 below, Mr. Elgin's recommended ROR for PacifiCorp is much lower than the RORs approved for Avista and Puget in late 2012 and mid-2013, respectively, and PacifiCorp's current ROR, approved in March 2012.[16] In all cases, Staff supported the approved ROR as a part of a settlement agreement.

TABLE 5

	PacifiCorp Updated UE-111190	Avista UE-110876	PSE UE-121697	Elgin Proposed UE-130043
Overall ROR	7.75%	7.64%	7.77%	7.03%

Q. Is there any basis for reducing PacifiCorp's ROR in this case by 71 basis points?

A. No. Dr. Hadaway demonstrates that PacifiCorp's requested ROE of 10.0 percent is in line with average ROEs from other commissions. Additionally, Dr. Hadaway demonstrates that interest rates recently increased to levels higher than those that prevailed in 2012, because of potential changes in Federal Reserve monetary policy.

[14] Exhibit No.___(KLE-1T) at page 46, lines 7-16.
[15] *Wash. Utils. & Transp.Comm'n. v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-100749, Order 06, ¶ 102 (March 25, 2011).
[16] *See Wash. Utils. & Transp.Comm'n. v. Avista Corp. d/b/a/ Avista Utilities*, Dockets UE-120436 and UG-120437, Dockets UE-110876 and UG-110877, Order 09 (December 26, 2012); *see also Wash. Utils. & Transp.Comm'n. v. Puget Sound Energy, Inc.*, Dockets UE-121697 and UG-121705, Order 07, and Dockets UE-130137 and UG-130138, Order 07, ¶ 22, ¶ n.23 (June 25, 2013).

As shown in the rebuttal testimony of Mr. William R. Griffith, PacifiCorp has under-earned in Washington on a consistent basis since 2006.[17] Mr. Elgin's recommended ROR would do nothing to arrest the Company's attrition and, on the contrary, would likely accelerate it.

REPLY TO PROPOSED STAFF/COST OF DEBT

Q. What is Mr. Elgin's proposed cost of debt for the Company?

A. Mr. Elgin proposes 5.34 percent for the Company's cost of debt. Mr. Elgin states that this is Avista's total cost of debt, but it also includes four percent of hypothetical short-term debt.[18]

Q. Do you agree with Mr. Elgin's inclusion of short-term debt in his proposed cost of debt?

A. No. The Company did not have any external short-term debt at the quarter ends used to determine capital structure in this case. In the Company's 2010 general rate case, the Commission rejected the same recommendation by Mr. Elgin stating: "We are not persuaded, in this case, by Staff's arguments to impute short-term debt in the Company's hypothetical capital structure."[19] The Commission further stated that they were not persuaded that the Company's "'actual' capital structure contains such short term debt."[20] Nothing has changed since that case that warrants reconsideration of Mr. Elgin's recommendation.

Q. Do you agree with how Mr. Elgin calculated PacifiCorp's cost of debt?

A. No. Mr. Elgin proposes a 5.34 percent rate, claiming he is using "Avista's total cost

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[17] Exhibit No. ____(WRG-1T).
[18] Exhibit No. ____(KLE-1T) at page 37, lines 2-5.
[19] *Wash. Utils. & Transp.Comm'n. v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-100749, Order 06 at 22 (March 25, 2011).
[20] *Id.*

of debt from its last general rate case."[21] But in that case, Staff and other parties entered into a settlement agreement in which it was agreed that Avista's cost of debt would be 5.72 percent.[22]

Q. Given the Company's updated cost of debt, is Mr. Elgin now recommending a hypothetical cost of debt that exceeds PacifiCorp's actual cost of debt?

A. Yes. Adoption of Mr. Elgin's recommendation would increase PacifiCorp's cost of debt from 5.29 percent to 5.34 percent. Staff's proposal to use Avista's debt costs instead of PacifiCorp's actual debt costs would deprive customers of the benefit of PacifiCorp's ability to obtain low-cost financing.

Q. Has the Company been able to lower its cost of debt in recent years?

A. Yes. Table 6 below is an update to the table that was included in my direct testimony. It shows the updated cost of debt proposed for this case—which is a 60 basis points reduction in approximately two years. Customers have clearly benefitted from the Company maintaining its credit ratings and the resulting lower cost of debt.

TABLE 6

	UE-130043 PacifiCorp Proposed	**UE-111190 March 2012**	**UE-100749 March 2011**
Cost of Long-Term Debt	5.29%	5.76%	5.89%

[21] Exhibit No. ____(KLE-1T) at page 37, line 2.

[22] *Wash. Utils. & Transp.Comm'n. v. Avista Corporation d/b/a Avista Utilities*, Multiparty Settlement Stipulation ¶ 7, Dockets UE-110876 and UG-110877, and Dockets UE-120436 and UG-120437 (October 2012).

REPLY TO BOISE'S PROPOSED CAPITAL STRUCTURE

Q. What is Mr. Gorman's proposed capital structure?

A. Mr. Gorman recommends the Commission continue to use a hypothetical capital structure containing 49.1 percent common equity.[23]

Q. Does Mr. Gorman dispute the Company's actual capital structure?

A. No. Unlike the Company's previous Washington general rate cases, Mr. Gorman has no specific adjustments to the actual capital structure. Instead he promotes the use of the hypothetical capital structure "because it supports PacifiCorp's current bond rating, and is generally consistent with cost management for PacifiCorp in managing its cost of service in Washington."[24]

Q. Do you believe Mr. Gorman's proposed capital structure would support the Company's current bond rating?

A. No. If the Company was actually capitalized consistent with Mr. Gorman's recommendation, there is little doubt that PacifiCorp's current rating would be lower.

Standard & Poor's has written that they consider the Company's actual adjusted financial measures to be in line with the ratings, but they note "[c]apital spending and dividend payments translate to rising negative discretionary cash flow over the forecast period, indicating external funding needs and vigilant cost recovery by management to maintain cash flow measures."[25] Clearly, under Mr. Gorman's proposed hypothetical capital structure, the resulting leverage and ensuing reduced credit metrics would fall short of rating agency expectations for the current ratings.

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[23] Exhibit No.___(MPG-1T) at page 14, Table 3.
[24] *Id.*, lines 15-17.
[25] Standard & Poor's Ratings Direct, April 29, 2013.

Q. How does Mr. Gorman's proposed ROR compare to recent Commission orders for the other major Washington utilities?

A. As shown in Table 7 below, Mr. Gorman's recommended ROR for PacifiCorp is much lower than the RORs approved for Avista and Puget in late 2012 and mid-2013, respectively, and PacifiCorp's current ROR, approved in March 2012.[26]

TABLE 7

	PacifiCorp Updated UE-111190	Avista UE-110876	PSE UE-121697	Gorman Proposed UE-130043
Overall ROR	7.75%	7.64%	7.77%	7.25%

REPLY TO BOISE'S CREDIT METRIC ANALYSIS

Q. Please comment on Mr. Gorman's discussion concerning financial integrity and his credit metric analysis.

A. Mr. Gorman attempts to support his proposed capital structure, return on equity, and the resulting overall ROR through an analysis of key credit metrics.

Q. Do you agree with Mr. Gorman's credit metric analysis?

A. No. I disagree with Mr. Gorman's analysis and conclusions for several reasons. First, Mr. Gorman's calculations did not accurately reflect the adjustments that rating agencies make when calculating their credit metrics. For instance, my direct testimony stated that Standard & Poor's adds nearly $850 million of debt and $19 million of interest to PacifiCorp's published results.[27] However, Mr. Gorman only included $275.8 million of these debt adjustments and about $12 million of

[26] *See Wash. Utils. & Transp.Comm'n. v. Avista Corp. d/b/a/ Avista Utilities*, Dockets UE-120436 and UG-120437, Dockets UE-110876 and UG-110877, Order 09 (December 26, 2012); *see also Wash. Utils. & Transp.Comm'n. v. Puget Sound Energy, Inc.*, Dockets UE-121697 and UG-121705, Order 07, and Dockets UE-130137 and UG-130138, Order 07, ¶ 22, n.23 (June 25, 2013).
[27] Exhibit No. ___(BNW-1T), at page 21, lines 7-10.

interest adjustments.[28] The debt amount alone is less than one third of the adjustment that S&P makes. Had Mr. Gorman included the actual amounts that Standard & Poor's uses, it would have weakened his resulting ratios.

Second, Mr. Gorman's model also excludes a significant amount of interest expense that the Company reports on its financial statements such as interest on customer deposits, interest on capital leases, regulatory liabilities, and others.

Third, Mr. Gorman ignores the rating agencies published expectations for PacifiCorp and instead measures the flawed results of his model against the general utility industry. In fact, Mr. Gorman's model did not calculate funds from operations (FFO) to interest, one of the key ratios that Standard & Poor's has published as their expectations for PacifiCorp to achieve.

Fourth, Mr. Gorman's model assumes no earnings attrition or regulatory lag, which seriously detracts from PacifiCorp's credit metrics, and focuses only on a single period rather than historical and forecast periods used by the rating agencies. In other words, for Mr. Gorman's model to be valid, PacifiCorp would need to earn its allowed rate of return in Washington—something it has not done in many years for all of the reasons described in Mr. Griffith's testimony.

Fifth, Mr. Gorman includes substantial bonus depreciation tax benefits in his model, which uses data for the test period ended June 30, 2012. Bonus depreciation rates were 100 percent for the first half of this test period and 50 percent for the second half of this test period. In contrast, bonus depreciation expires December 31, 2013, so substantially all of the rate effective period for this rate case falls in the period *after* bonus depreciation has expired. The rating agencies consider forecast

[28] Exhibit No.___(MPG-20).

results for the period after bonus depreciation expires, but Mr. Gorman's model does not.

Q. Is the conclusion Mr. Gorman reaches from his credit metrics analysis similarly flawed?

A. Yes. While Mr. Gorman states several times that his model produces results that support an investment grade bond rating,[29] this could mean ratings many notches below the Company's current bond ratings.

Mr. Gorman concludes his analysis by stating that his cost of capital recommendations support the Company's "current A- utility bond rating."[30] But the Company's utility bond ratings are currently "A" by Standard & Poor's[31] and "A2" by Moody's Investors Service,[32] and an "A-" rating would constitute at least a one-step downgrade for the Company's bond ratings. As bonds are the Company's principal source of long-term debt financing (with currently over $7 billion outstanding), such a downgrade would have costly results for customers.

Q. Has Mr. Gorman proposed any changes to the Company's proposed cost of debt or preferred stock?

A. No. Mr. Gorman's proposed rate of return incorporates the Company's filed cost of debt and preferred stock.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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[29] *See, e.g.*, Exhibit No.___(MPG-1T) at page 42, lines 12-13.
[30] Exhibit No.___(MPG-1T) at page 43, lines 2-3.
[31] Exhibit No.___(BNW-1T) at 4.
[32] *Id.* at 4.