Introduction and Summary of Rebuttal Testimony

Q. Are you the same Bruce N. Williams that previously provided direct testimony in this proceeding on behalf of Rocky Mountain Power ("the Company" or "RMP")?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the capital structure recommendation offered by The Federal Executive Agencies ("FEA") witness Mr. Michael Gorman. Mr. Gorman's adjustment to capital structure is flawed and should not be used by the Commission. Further, Mr. Gorman attempts to support his recommendation on capital structure and overall rate of return through the use of a model that does not reflect the operational realities that guide prudent management of the Company's capital structure.

My rebuttal testimony also provides an updated overall cost of capital that reflects recent financing activity and results in a reduced overall cost of capital in this case.

Company witness Dr. Samuel C. Hadaway will address return on equity issues raised by Mr. Gorman, Division of Public Utilities ("DPU") witness Mr. Charles E. Peterson, Office of Consumer Services ("OCS") witness Mr. Daniel J. Lawton and Wal-Mart Stores, Inc. and Sam's West, Inc. witness Mr. Steve W. Chriss. I also comment on Mr. Lawton's pro forma ratio analysis to support his return on equity recommendation.

mortgage bonds. As shown in Exhibit RMP___(BNW-1R) the updated cost of long-term debt is 5.37 percent.

Company's Overall Cost of Capital

Q. Are you proposing a new overall cost of capital in this proceeding?

A. Yes. The Company has updated its cost of long-term debt to reflect these recent financing transactions discussed above. The table below shows the Company's updated overall cost of capital in this proceeding.

Updated Overall Cost of Capital

Component	Percent of Total	Cost	Weighted Average
Long Term Debt	47.6%	5.37%	2.56%
Preferred Stock	0.3%	5.43%	0.02%
Common Stock Equity	52.1%	10.20%	5.31%
Total	100.0%		7.89%

Review of FEA Recommendations

Q. Please summarize FEA's recommendations on capital structure and the resulting impacts to customers and the Company's credit rating.

A. While Mr. Gorman does not take issue with the cost of debt or the cost of preferred equity, he does propose a series of adjustments to reduce the common equity component of the capital structure from the Company's initial filing of 52.1 percent to 51.0 percent.

As further documented below, Mr. Gorman's erroneous removal of utility operation investments from the equity component of the capital structure, when combined with his recommendations for a lower return on equity and overall rate of return, would result in a serious risk of the Company's credit ratings being reduced by at least one notch. Mr. Gorman ignores the financial impacts on the Company and its customers by such adjustments and likely resulting downgrade. Customers would see increased costs reflected in rates, offsetting over time the near term revenue requirement reduction he proposes. In this highly sensitive credit environment, such recommendations are ill conceived.

Reply to FEA's Capital Structure Adjustment

Q. What is Mr. Gorman's proposed common equity percentage in the Company's capital structure and the basis for his recommendation?

A. Mr. Gorman is proposing a 51.0 percent common equity component in the Company's capital structure.[1] Mr. Gorman proposes a series of adjustments to PacifiCorp's filed capital structure to remove certain items he assumes are non-utility related.

Q. Please identify the fundamental problems in Mr. Gorman's analysis regarding the removal of "non-utility" investments from the capital structure.

A. The fundamental problem with Mr. Gorman's adjustments is his assumption that these investments do not relate to the cost of providing utility service in Utah or RMP's other jurisdictions.

The investments Mr. Gorman proposes to remove from the common equity component of the capital structure do relate to the utility operations of the Company. Mr. Gorman has incorrectly assumed that these investments relate to

[1]Gorman Direct testimony page 13, Table 3.

unregulated non-utility activities. By virtue of the orders of the six states that approved the acquisition of PacifiCorp by MidAmerican, PacifiCorp is not permitted to have non-utility or unregulated business. Mr. Gorman's adjustments pertain to the Company's regulated utility business, primarily to investments the Company has made in its coal mining operations and activities, such as the Bridger mine in Wyoming, plus investments related to other mining activities that fuel power plants, fund reclamation and environmental liabilities, employee benefits plans, customer weatherization loans and other utility activities.

Using the Bridger mine as an example, the Company's share of Bridger assets are included in rate base and the Company recovers the costs of fuel purchased from Bridger at Bridger's cost. These investments are clearly utility assets and have been made to facilitate utility operations. The Bridger mine does not perform any income producing activities and instead is dedicated to support the Company's (and other joint owners) fuel needs for their respective interests in the Jim Bridger plant.

The table below shows the composition of the investments that Mr. Gorman proposes to remove from the equity component of the Company's capital structure.

FEA Proposed Adjustment (thousands)	$ 338,434
Consisting of investments related to:	
Bridger mining activities	188,206
Trapper and other mining activities	32,246
Environmental Remediation	20,505
Employee benefit programs	75,931
Advances to minority owned plants	6,190
Customer weatherization loans	1,828
Other/Land purchases related to utility operations	13,528

These investments in coal mining, environmental remediation, employee benefit programs and these other activities do relate to Utah utility service and should not be treated as a reduction to the Company's common equity as Mr. Gorman proposes.

Q. **Do you have any additional comments on these proposed adjustments by Mr. Gorman?**

A. Yes. I should note that the Company has contributed a substantial amount of funds to its pension plan, primarily due to the 2008 financial crisis and the change in funding requirements due to the Pension Protection Act of 2006. These contributions are well in excess of the pension expense that has been recovered from customers. In fact, as of March 31, 2012, the excess of cumulative funding over cumulative expense is approximately $270 million. Further, this prepayment is expected to continue to increase over the next few years.

The Company must finance these utility employee pension contributions in excess of amounts recovered from customers, yet the prepayment balance is not presently part of rate base and does not receive any carrying charge from customers. In essence, these costs appropriately utilize the Company's long-term financing yet receive no carrying charge reimbursement from customers.

The Commission should reject Mr. Gorman's proposed adjustment based on his flawed assumption that investments in coal mining and other activities are not related to the cost of providing utility services in Utah. The pension expense prepayment balance discussed above highlights the unreasonableness and one-sided nature of Mr. Gorman's proposed adjustment.

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 rate of return 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 do 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 $900 million of debt and $75 million of interest to PacifiCorp's published results.[2] However, Mr. Gorman only included approximately $275 million of these debt adjustments and

---

[2] Mr. Williams Direct Testimony, page 18 lines 398 – 400.