

BEFORE THE  
PUBLIC SERVICE COMMISSION OF UTAH

\_\_\_\_\_)  
In the Matter of the Application of )  
Rocky Mountain Power for )  
Authority To Increase its Retail )  
Electric Utility Service Rates in ) Docket No. 13-035-184  
Utah and for Approval of Its )  
Proposed Electric Service )  
Schedules and Electric Service )  
Regulations. )  
\_\_\_\_\_)

Direct Testimony and Exhibits of  
**Michael P. Gorman**

On behalf of  
**The Federal Executive Agencies**

April 17, 2014



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

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

17 Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

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

20 **SUMMARY**

21 Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.

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

24 My recommended return on equity of 9.40% would result in an overall  
25 cost of capital of ~~7.74~~7.41% as developed on my Exhibit FEA\_\_\_\_(MPG-1).

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

171 operates. PacifiCorp's competitive position reflects the  
 172 stable regulatory framework of the low-risk regulated  
 173 utility. We consider the utility's geographical, market, and  
 174 regulatory diversity over its six-state service territory a  
 175 strength because these factors provide extensive market  
 176 diversity. About 70% of retail revenue is derived from  
 177 residential and commercial customers, providing cash  
 178 flow diversity and at least a base level of usage.  
 179 PacifiCorp serves a total of 1.7 million retail customers, in  
 180 Utah, Wyoming, and Idaho through its Rocky Mountain  
 181 Power operating unit; and in Oregon, Washington, and  
 182 California through its Pacific Power unit, which provides a  
 183 high level of cash flow diversity.<sup>4</sup>

184 **RMP's Proposed Capital Structure**

185 **Q WHAT IS RMP'S PROPOSED CAPITAL STRUCTURE?**

186 **A** RMP's proposed capital structure is shown in Table 1 below.

<b>TABLE 1</b>	
<b><u>RMP's Proposed Capital Structure</u></b>	
<b>(June 30, 2015)</b>	
<b><u>Description</u></b>	<b><u>Weight</u></b>
Long-Term Debt	48.38%
Preferred Stock	0.02%
Common Equity	<u>51.60%</u>
Total Regulatory Capital Structure	100.00%
Source: Direct Testimony of Bruce Williams, page 2.	

187 I will not raise issues with RMP's capital structure in this case.

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<sup>4</sup>Standard & Poor's RatingsDirect Summary: "PacifiCorp," March 31, 2014 at 2-4.