Q. Please state your name, business address and present position with PacifiCorp (the Company).

A. My name is Bruce N. Williams. My business address is 825 NE Multnomah, Suite 1900, Portland, Oregon 97232. I am the Vice President and Treasurer of PacifiCorp.

Qualifications

Q. Please briefly describe your education and business experience.

A. I received a Bachelor of Science degree in Business Administration with a concentration in Finance from Oregon State University in June 1980. I also received the Chartered Financial Analyst designation upon passing the examination in September 1986. I have been employed by PacifiCorp for twenty-two years. My business experience has included financing of PacifiCorp's electric operations and non-utility activities, investment management, investor relations and responsibility for certain non-regulated activities.

Q. Please describe your present duties.

A. I am responsible for the Company's treasury, pension and other investment management and credit risk management. In this proceeding, I am responsible for the preparation of the Company's embedded cost of debt and preferred equity.

Purpose of Testimony

Q. What is the purpose of your testimony in this proceeding?

A. My testimony:

- Presents an overview of how the Company finances its operations;
- Updates the Company's embedded cost of debt and preferred stock as of

August 31, 2006; and

- Demonstrates that the Company has fulfilled a commitment from Docket No. UE-051090 regarding a reduction in the incremental cost of long-term debt.

Financing Overview

Q. How does PacifiCorp finance its electric utility operations?

A. PacifiCorp finances the cash flow requirements by utilizing a reasonable mix of debt and equity securities designed to provide a competitive cost of capital and predictable capital market access.

Q. How does PacifiCorp meet its debt and preferred equity financing requirements?

A. PacifiCorp relies on a mix of first mortgage bonds, other secured debt, tax exempt debt, unsecured debt and preferred to meet its long-term debt and preferred stock financing requirements. The Company has concluded the majority of its long-term financing utilizing secured first mortgage bonds issued under the PacifiCorp Mortgage Indenture dated January 9, 1989. Exhibit No. ___(BNW -2) shows that, as of August 31, 2006, PacifiCorp had approximately $3.5 billion of first mortgage bonds outstanding, with an average cost of 6.70 percent and an average remaining life of 13.4 years. Currently all of PacifiCorp's first mortgage bonds bear interest at fixed rates. Proceeds from the issuance of the first mortgage bonds (and all other financing instruments) are used to finance the combined utility operation.

Another important source of financing has been the tax-exempt financing associated with certain qualifying equipment at PacifiCorp's power generation plants. Under arrangements with local counties and other tax-exempt entities, PacifiCorp borrows the proceeds and guarantees the repayment of the long-term debt in order to take advantage of their tax-exempt status in financings. As of August 31, 2006, PacifiCorp's tax-exempt portfolio was $738 million in principal amount with an average cost of 4.59 percent (which includes the cost of issuance and credit enhancement.)

Update of Embedded Cost of Long-Term Debt and Preferred Stock

Q. What overall rate of return was authorized for the Company in its last Washington general rate case Docket No. UE-050684 (2005 Rate Case)?

A. In Order 04 in the 2005 Rate Case, the Commission adopted the following capital structure and cost elements, which produced an overall rate of return of 8.10 percent:

Component	Ratio (%)	Cost (%)	Wtd. Cost (%)
Equity	46	10.20	4.69
Long-term Debt	50	6.427	3.21
Preferred	1	6.59	.0659
Short-term Debt	3	4.50	.135
TOTAL	**100**		**8.10**

Source: Order 04, ¶ 287.

Q. What is the Company proposing for cost of capital in this proceeding?

A. As discussed in Ms. Kelly's testimony, the Company is accepting the capital structure and return on equity of 10.2 percent, as determined in the 2005 Rate Case. We are also accepting the cost for short-term debt of 4.50 percent as determined in that proceeding, even though our actual current cost of short-term debt is 5.42 percent (as of August 31, 2006). For purposes of this proceeding, we are updating only the embedded cost of long-term debt and preferred stock, as those costs have declined and it is in customers' interests to update these cost of capital elements.

Q. How did you calculate the Company's embedded cost of long-term debt and preferred stock?

A. I calculated the embedded costs of long-term debt and preferred stock using the methodology relied upon in the Company's previous rate cases in Washington and elsewhere.

Q. Please explain the cost of debt calculation.

A. I calculated the cost of debt by issue, based on each debt series' interest rate and net proceeds at the issuance date, to produce a bond yield to maturity for each series of debt. It should be noted that in the event a bond was issued to refinance a higher cost bond, the pre-tax premium and unamortized costs, if any, associated with the refinancing were subtracted from the net proceeds of the bonds that were issued. The bond yield was then multiplied by the principal amount outstanding of each debt issue, resulting in an annualized cost of each debt issue. Aggregating the annual cost of each debt issue produces the total annualized cost of debt. Dividing the total annualized cost of debt by the total principal amount of debt outstanding produces the weighted average cost for all issues. This is the Company's embedded cost of long-term debt.

Q. What is the Company's embedded cost of long-term debt?

A. As shown in Exhibit No. ___(BNW-2), the embedded cost of long-term debt as of August 31, 2006 is 6.335 percent.

Q. How did you calculate the embedded cost of preferred stock?

A. The embedded cost of preferred stock was calculated by first determining the cost of money for each issue. This is the result of dividing the annual dividend rate by the ratio of net proceeds to gross proceeds for each series of preferred stock. The cost associated with each series was then multiplied by the stated value or principal amount outstanding for each issue to yield the annualized cost for each issue. The sum of annualized costs for each issue produces the total annual cost for the entire preferred stock portfolio. I then divided the total annual cost by the total amount of preferred stock outstanding to produce the weighted average cost of all issues. This is the Company's embedded cost of preferred stock.

Q. What is the Company's embedded cost of preferred stock?

A. Exhibit No. ___(BNW-3) shows the embedded cost of preferred stock as of August 31, 2006 is 6.455%.

Q. What is the resulting overall rate of return after updating the costs of long-term debt and preferred stock?

A. The updating results in the following cost elements and overall rate of return:

Component	Ratio (%)	Cost (%)	Wtd. Cost (%)
Equity	46	10.20	4.69
Long-term Debt	50	6.335	3.1675
Preferred	1	6.455	.0645
Short-term Debt	3	4.50	.135
TOTAL	**100**		**8.057**

Fulfillment of MEHC Commitment

Q. Did PacifiCorp and MidAmerican Energy Holdings Company (MEHC) make certain commitments concerning PacifiCorp's cost of incremental debt?

A. Yes. During the regulatory approval process related to the acquisition of PacifiCorp, MEHC stated that PacifiCorp's incremental cost of long-term debt would be reduced as a result of the acquisition by MEHC, due to the association with Berkshire Hathaway. In Docket No. UE-051090, MEHC and PacifiCorp made a formal commitment (General Commitment 37) that over the next five years, they would demonstrate that PacifiCorp's incremental long-term debt issuances would be at a spread ten basis points below its similarly rated peers.

Q. Has PacifiCorp issued any debt that would be subject to this commitment?

A. Yes. On August 7, 2006, PaciCorp issued $350 million of new long-term debt.

Q. Have you assessed whether the MEHC commitment was fulfilled with respect to this long-term debt issuance?

A. Yes. Confidential Exhibit Nos. ___(BNW-4C) and ___(BNW-5C) demonstrate that PacifiCorp's August issuance of long-term debt not only met, but exceeded, the promised level of savings.

Q. Please summarize what is shown in Exhibit Nos. ___(BNW-4C) and ___(BNW-5C).

A. Lehman Brothers and RBS Greenwich Capital have each undertaken separate studies and analyses of PacifiCorp's August 10, 2006 offering of $350 million of First Mortgage Bonds, 6.10 percent Series due 2036.

In Exhibit No. ___(BNW-4C), Lehman Brothers concludes that:

- PacifiCorp's issuance was priced fifteen basis points better than an index of 30-year first mortgage bonds for comparably rated utilities;
- PacifiCorp priced its bonds twenty basis points better than what its peers would have obtained, based on secondary quotes;
- Since January 2006, comparable offerings by similarly rated utilities were, on average, twenty basis points more costly than the PacifiCorp issuance; and
- PacifiCorp obtained pricing that was 36 basis points better than the average 30-year bond issuance for the entire utility industry in issuances since June 2006.

In Exhibit No. ___(BNW-5C), RBS Greenwich concludes that:

- PacifiCorp's bond priced 24 basis points better than a third-party index of comparably rated utility first mortgage bonds;
- Similarly rated utilities would have issued bonds at rates at least 16.5 basis points more costly than PacifiCorp's issuance; and
- PacifiCorp's bond issuance was 18 basis points lower in cost than the pricing obtained by comparable utility issuances of the same maturity since January 2006.

Q. Does this conclude your testimony?

A. Yes.