Exhibit \_\_\_ (KLE-3) Docket UE-061546

Witness: Kenneth L. Elgin

#### BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**DOCKET UE-061546** 

Complainant,

vs.

PACIFICORP dba Pacific Power & Light Company,

Respondent.

In the Matter of the Petition of

PACIFIC POWER & LIGHT COMPANY

For an Accounting Order Approving Deferral of Certain Costs Related to the MidAmerican Energy Holdings Company Transition.

**DOCKET UE-060817** 

### EXHIBIT TO TESTIMONY OF

Kenneth L. Elgin

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Coverage Analysis

February 16, 2007

## PacifiCorp PCAM Coverage Analysis Benchmark Coverage Ratio

SHORT TERM DEBT

PREFERRED STOCK

**EQUITY** 

**TOTAL** 

16 17

18

19

Exhibit \_\_\_\_ (KLE-3)

Docket No. UE-061546

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0.14%

0.06%

3.12%

6.48%

4.50%

6.46%

6.77%

1 F	ower Sup	oply Costs Higher T	han Base	line (Assumptio	on)	\$13,000,000	
<u>S</u>	haring Ba	ands (Company Abs	sorbs):			Total PC Expens	e
2 3 4 5	First Next Over	3,000,001 7,400,001	То	3,000,000 7,400,000 Total Expens	100% 100% 100% e Adsorbed	Absorbed 3,000,000 4,400,000 5,600,000 13,000,000	
6	٠			1	NOI Impact	-\$8,450,000	
7				Washington	Rate Base	\$535,000,000	
8				Pre-F	PCAM ROR	8.06%	
9				IOI Requireme	_	\$43,121,000	
10		NOI Ir	npact of F	PCAM Mechani	· · · · · ·	-8,450,000	
11				NOI	with PCAM	\$34,671,000	
12		Resu		R @ Power Co		6.48%	
13 14						6.77% 2.48	
14		RATE OF RETUR	N:	Capital Structure	Return Rate	Overall Rate Of Return	Interest Coverage
4.5		LONG TERM DES	· <b>T</b>	E0 000/	6 220/	2 470/ F	, g 40]
15		LONG TERM DEE	) I	50.00%	6.33%	3.17%	2.48

3.00%

1.00%

46.00%

100.00%

### PacifiCorp PCAM Coverage Analysis Benchmark Coverage Ratio - Interim

Exhibit \_\_\_\_ (KLE-3 )

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Page 2 of 12

1 F	Power Sup	ply Costs Highe	r Than Baseline (Assumption)	\$20,000,000
<u>s</u>	Sharing Ba	nds (Company	Absorbs):	Total PC Expense
				Absorbed
2	First		3,000,000 100%	3,000,000
3	Next	3,000,001	To 7,400,000 100%	4,400,000
4	Over	7,400,001	100%	12,600,000
5			Total Expense Adsorbed	20,000,000
6			NOI Impact	-\$13,000,000
7			Washington Rate Base	\$535,000,000
8			Pre-PCAM ROR	and the Control of Minimary Inc. (Fig. 12) and the control of the
9		•	NOI Requirement @ 8.06%	
10		NO	I Impact of PCAM Mechanism (Line 6)	
11			NOI with PCAM	\$30,121,000
12		R	esulting ROR @ Power Cost Deviation	5.63%
13		1.,	ROE @ Power Cost Deviation	4.92%
14			Resulting Interest Coverage (Line 15)	2.09
		<u> </u>		

	RATE OF RETURN: (With PCAM Absorbtion)	Capital Structure	Return Rate	Overall Rate Of Return	Interest Coverage
15	LONG TERM DEBT	50.00%	6.33%	3.17%	2.09
16	SHORT TERM DEBT	3.00%	4.50%	0.14%	
17	PREFERRED STOCK	1.00%	6.46%	0.06%	
18	EQUITY	46.00%	4.92%	2.27%	
19	TOTAL	100.00%	•	5.63%	

### PacifiCorp PCAM Coverage Analysis \$3 Million Adverse Power Costs

PREFERRED STOCK

**EQUITY** 

TOTAL

17 18

19

Exhibit \_\_\_\_ (KLE-3 )
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1	Power Su	pply Costs Higher Than B	aseline (Assumption)		\$3,000,000	
į	Sharing B	ands (Company Absorbs)	<u>Y.</u>		Total PC Expens	
					Absorbed W/Sha	aring
2	First			100%	3,000,000	
3	Next	3,000,001	To 7,400,000	40%	. 0	
4	Over	7,400,001		10%_	0	
5			Total Expense Ads	orbed	3,000,000	
6	·		NOI Im	npact	-\$1,950,000	
					·	
7			Washington Rate	Base	\$535,000,000	
8			Pre-PCAM		8.06%	
9		•	NOI Requirement @ 8	3.06%	\$43,121,000	
10		NOI Impact	of PCAM Mechanism (L		-1,950,000	
11		•	NOI with F		\$41,171,000	
12			ROR @ Power Cost Dev		7.70%	
13	÷		ROE @ Power Cost Dev		9.42%	
14		Resultin	g Interest Coverage (Lir	าe 15)	3.05	
		RATE OF RETURN:	Capital Ret	urn	Overall Rate	Interest
		(With PCAM Absorbtion	• • • • • • • • • • • • • • • • • • •		Of Return	Coverage
15	÷	LONG TERM DEBT	50.00% 6	5.33%	3.17%	3.05
16		SHORT TERM DEBT	3.00% 4	4.50%	0.14%	

1.00%

46.00%

100.00%

6.46%

9.42%

0.06%

4.33%

7.70%

#### PacifiCorp PCAM Coverage Analysis \$4.7 Million Adverse Power Costs

16

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SHORT TERM DEBT

PREFERRED STOCK

**EQUITY** 

**TOTAL** 

Exhibit \_\_\_\_ (KLE-3 )

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1 F	Power Su	pply Costs Higher Th	han Baseline (Assumpt	ion)	\$7,400,000	
<u>s</u>	Sharing B	ands (Company Abs	sorbs):		Total PC Expens Absorbed W/Sha	
2	First		3,000,000	100%		a g
3	Next	3,000,001	To 7,400,000	40%	1,760,000	
4	Over	7,400,001		10%	0	
5		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	Total Expens	and the second second second second	4,760,000	
6				NOI Impact	-\$3,094,000	
7			Modification	Data Dava		
7					\$535,000,000	
8 9				PCAM ROR	8.06%	
10		NOL im	NOI Requireme	_	\$43,121,000	
11	•	NOI III	npact of PCAM Mechan	l with PCAM	-3,094,000 \$40,027,000	
11			NO.	WILLI POAW	<del>\$40,027,000</del>	
12		Resu	lting ROR @ Power Co	st Deviation	7.48%	
13			ROE @ Power Co	st Deviation	8.95%	
14		Re	sulting Interest Coverag	ge (Line 15)	2.95	
		RATE OF RETURN (With PCAM Absor		Return Rate	Overall Rate Of Return	Interest Coverage
15		LONG TERM DEB	T 50.00%	6.33%	3.17%□	2.95

3.00%

1.00%

46.00%

100.00%

4.50%

6.46%

8.95%

0.14%

0.06%

4.12%

7.48%

#### PacifiCorp PCAM Coverage Analysis \$12.4 Million Adverse Power Costs

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SHORT TERM DEBT

PREFERRED STOCK

**EQUITY** 

TOTAL

Exhibit \_\_\_\_ (KLE-3 )

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1 F	ower Su	pply Costs Highe	Than Base	eline (Assumption	on)	\$12,400,000	
<u>s</u>	Sharing B	ands (Company A	Absorbs):	•		Total PC Expens Absorbed W/Sha	
2	First			3,000,000	100%	3,000,000	9
3	Next	3,000,001	To	T 1 T 1 T 1 T 1 T 1 T 1 T 1 T 1 T 1 T 1	40%		
4	Over	7,400,001	, ,		10%	500,000	
5		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		Total Expens		5,260,000	
6				1	NOI Impact	-\$3,419,000	
7				Washington	Rate Base	\$535,000,000	
. 8 . 9				Pre-F	PCAM ROR	8.06%	
9			N	NOI Requiremen	nt @ 8.06%	\$43,121,000	
10		NO	I Impact of I	PCAM Mechani		-3,419,000	
11	•			NOI	with PCAM	\$39,702,000	
12		Re	esulting RO	R @ Power Co	st Deviation	7.42%	
13			RO	E@Power Co	st Deviation	8.82%	
14			Resulting In	iterest Coverag	e (Line 15)	2.92	
		RATE OF RETU		Capital Structure	Return Rate	Overall Rate Of Return	Interest Coverage
15		LONG TERM D	EBT	50.00%	6.33%	3.17%	2.92

3.00%

1.00%

46.00%

100.00%

4.50%

6.46%

8.82%

0.14%

0.06%

4.06%

7.42%

#### PacifiCorp PCAM Coverage Analysis \$17.4 Million Adverse Power Costs

16

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SHORT TERM DEBT

PREFERRED STOCK

**EQUITY** 

TOTAL

Exhibit \_\_\_\_ (KLE-3 )

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Page 6 of 12

Sharing Bands (Company Absorbs):	1 F	Power Su	pply Costs High	ner Than Ba	aseline (Assumpti	on)	\$17,400,000	
2 First 3,000,000 100% 3,000,000 3,000,000 4 0% 1,760,000 4 0ver 7,400,001 To 7,400,000 40% 1,760,000 5 Total Expense Adsorbed 5,760,000	<u> </u>	Sharing B	ands (Compan	y Absorbs):			•	
Next   3,000,001   To   7,400,000   40%   1,760,000   1,000,000   1,000,000   5   Total Expense Adsorbed   5,760,000   6   NOI Impact   -\$3,744,000	2	First			3.000.000	100%		9
4         Over         7,400,001         10%         1,000,000           5         Total Expense Adsorbed         5,760,000           6         NOI Impact         -\$3,744,000           7         Washington Rate Base Pre-PCAM ROR Pre-PCAM ROR Pre-PCAM ROR Pre-PCAM ROR Pre-PCAM ROR Pre-PCAM ROR POWER ROR PCAM ROR PCAM PCAM SA1,121,000 PCAM ROR			3,000,001	-		Andread State of the Control of the	•	
Total Expense Adsorbed 5,760,000  NOI Impact -\$3,744,000  Washington Rate Base \$535,000,000 Pre-PCAM ROR 8.06% NOI Requirement @ 8.06% \$43,121,000 NOI Impact of PCAM Mechanism (Line 6) -3,744,000 NOI with PCAM \$39,377,000  Resulting ROR @ Power Cost Deviation 7.36% ROE @ Power Cost Deviation 8.69% Resulting Interest Coverage (Line 15) 2.89  RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage		Over		•		al in the foreign and being located		
7			, ,		Total Expens	se Adsorbed		
Pre-PCAM ROR 8.06% NOI Requirement @ 8.06% \$43,121,000 NOI Impact of PCAM Mechanism (Line 6) -3,744,000 NOI with PCAM \$39,377,000  Resulting ROR @ Power Cost Deviation 7.36% ROE @ Power Cost Deviation 8.69% Resulting Interest Coverage (Line 15) 2.89  RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage	6	·				NOI Impact	-\$3,744,000	
Pre-PCAM ROR 8.06% NOI Requirement @ 8.06% \$43,121,000 NOI Impact of PCAM Mechanism (Line 6) -3,744,000 NOI with PCAM \$39,377,000  Resulting ROR @ Power Cost Deviation 7.36% ROE @ Power Cost Deviation 8.69% Resulting Interest Coverage (Line 15) 2.89  RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage				·				
Pre-PCAM ROR 8.06% NOI Requirement @ 8.06% \$43,121,000 NOI Impact of PCAM Mechanism (Line 6) -3,744,000 NOI with PCAM \$39,377,000  Resulting ROR @ Power Cost Deviation 7.36% ROE @ Power Cost Deviation 8.69% Resulting Interest Coverage (Line 15) 2.89  RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage	7				Washingtor	n Rate Base	\$535,000,000	
NOI Impact of PCAM Mechanism (Line 6) -3,744,000 NOI with PCAM \$39,377,000  Resulting ROR @ Power Cost Deviation 7.36% ROE @ Power Cost Deviation 8.69% Resulting Interest Coverage (Line 15) 2.89  RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage	8						The second second second second	
NOI with PCAM \$39,377,000  Resulting ROR @ Power Cost Deviation 7.36% ROE @ Power Cost Deviation 8.69% Resulting Interest Coverage (Line 15) 2.89  RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage	9				NOI Requireme	nt @ 8.06%	\$43,121,000	
Resulting ROR @ Power Cost Deviation 7.36% ROE @ Power Cost Deviation 8.69% Resulting Interest Coverage (Line 15) 2.89  RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage			N	IOI Impact o				
RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage	11				NOI	with PCAM	\$39,377,000	
RATE OF RETURN: Capital Return Overall Rate (With PCAM Absorbtion) Structure Rate Of Return Coverage			_			·		
RATE OF RETURN: Capital Return Overall Rate Interest (With PCAM Absorbtion) Structure Rate Of Return Coverage								
RATE OF RETURN: Capital Return Overall Rate Interest (With PCAM Absorbtion) Structure Rate Of Return Coverage								•
(With PCAM Absorbtion) Structure Rate Of Return Coverage	14		L	Resulting	Interest Coverag	ge (Line 15)	2.89	
(With PCAM Absorbtion) Structure Rate Of Return Coverage								
15 LONG TERM DEBT 50.00% 6.33% 3.17% 2.89					•			
	15		LONG TERM	DEBT	50.00%	6.33%	3.17%	2.89

3.00%

1.00%

46.00%

100.00%

4.50%

6.46%

8.69%

0.14%

0.06%

4.00%

7.36%

#### **Staff PCAM Coverage Analysis \$4 Million Adverse Power Costs**

PREFERRED STOCK

**EQUITY** 

TOTAL

17

18

19

Exhibit \_\_\_\_ (KLE-3 )

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0.06%

4.21%

7.57%

1	Power Su	pply Costs Higher Th	an Baseline (Assumption	on)	\$4,000,000	
	Sharing E	ands (Company Abs	orbs):		Total PC Expens Absorbed W/Sha	
2	First		4,000,000	100%	4,000,000	arn ig
3		4,000,001	To 10,000,000	50%	·	
4		10,000,001	10 10,000,000	10%	Ö	
5		. 10,000,001	Total Expens	The Deep William And Control Co.	4,000,000	
J			rotal Expens	C Addolbed	4,000,000	
6			1	NOI Impact	-\$2,600,000	
	-			•		
7			Washingtor	n Rate Base	\$535,000,000	
8			•	CAM ROR	8.06%	
9			NOI Requireme	nt @ 8.06%	\$43,121,000	
10		NOI Im	pact of PCAM Mechani		-2,600,000	
11			NOI	with PCAM	\$40,521,000	
				. :		
12	•	Resul	ting ROR @ Power Co	st Deviation	7.57%	
13			ROE @ Power Co		9.15%	
14		Res	sulting Interest Coverag		2.99	
		<u> </u>				
		RATE OF RETURN		Return	Overall Rate	Interest
		(With PCAM Absort	btion) Structure	Rate	Of Return	Coverage
15		LONG TERM DEB	Г 50.00%	6.33%	3.17%	2.99
16		SHORT TERM DEL		4.50%	0.14%	2.00
			3.5076		2.1.70	

1.00%

46.00%

100.00%

6.46%

9.15%

#### **Staff PCAM Coverage Analysis** \$10 Million Adverse Power Costs

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PREFERRED STOCK

**EQUITY** 

TOTAL

Exhibit \_\_\_\_ (KLE-3 )
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1 F	Power Su	pply Costs Hiç	gher Than Bas	eline (Assumptio	on)	\$10,000,000	
<u>\$</u>	Sharing B	ands (Compa	ny Absorbs):			Total PC Expens Absorbed W/Sha	
2	First			4,000,000	100%	4,000,000	9
3	Next	4,000,001	To		50%		
4	Over	10,000,001			10%		
5		, ,		Total Expens	e Adsorbed	7,000,000	
6				1	OI Impact	-\$4,550,000	
7				Washington		<ul> <li>Problem of the state of the sta</li></ul>	
8					CAM ROR	8.06%	
9 10				NOI Requiremen	_	\$43,121,000 -4,550,000	
11			NOI Impact of	PCAM Mechani	with PCAM	\$38,571,000	
11				1101	WIGHT CAN	\$30,371,000	
12			Resulting RO	R @ Power Cos	st Deviation	7.21%	
13				E @ Power Cos		8.36%	
14			Resulting Ir	nterest Coverag	e (Line 15)	2.82	
		RATE OF R		Capital	Return	Overall Rate	Interest
		(With PCAM	Absorbtion)	Structure	Rate	Of Return	Coverage
15		LONG TERM	/ DEBT	50.00%	6.33%	3.17%	2.82
16		SHORT TER	RM DEBT	3.00%	4.50%	0.14%	

1.00%

46.00%

100.00%

6.46%

8.36%

0.06%

3.84%

7.21%

#### **Staff PCAM Coverage Analysis** \$15 Million Adverse Power Costs

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SHORT TERM DEBT

PREFERRED STOCK

**EQUITY** 

**TOTAL** 

Exhibit \_\_\_\_ (KLE-3 )
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1	Power Su	pply Costs Higher Th	an Baseline (Assumpti	ion)	\$15,000,000	
	Sharing E	ands (Company Abso	orbs):		Total PC Expens Absorbed W/Sha	
2	First		4,000,000	100%	4,000,000	g
3	Next	4,000,001	To 10,000,000	50%	3,000,000	
4	Over	10,000,001	The state of the s	10%	·	
5		,	Total Expens	net minerally members of the	7,500,000	
6			-	NOI Impact	-\$4,875,000	
7					\$535,000,000	
8				PCAM ROR	8.06%	
9			NOI Requireme	_	\$43,121,000	-
10		NOI Imp	pact of PCAM Mechan			
11			NO	with PCAM	\$38,246,000	
12		Result	ting ROR @ Power Co		7.15%	
13			ROE @ Power Co		8.23%	
14		Res	ulting Interest Coverag	je (Line 15)	2.79	
. •						
		RATE OF RETURN	: Capital	Return	Overall Rate	Interest
		(With PCAM Absorb	•	Rate	Of Return	Coverage
15	-	LONG TERM DEBT	50.00%	6.33%	3.17%	2.79

3.00%

1.00%

46.00%

100.00%

4.50%

6.46%

8.23%

0.14%

0.06%

3.78%

7.15%

#### Staff PCAM Coverage Analysis \$17.4 Million Adverse Power Costs

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1 F	ower Su	pply Costs Higher Tha	n Baseline (Assumpti	on)	\$17,400,000	
<u>s</u>	Sharing B	ands (Company Absor	<u>rbs):</u>		Total PC Expens Absorbed W/Sha	
2 3 4	First Next Over	4,000,001 10,000,001	4,000,000 To 10,000,000	100% 50% 10%	4,000,000 3,000,000 740,000	9
5			Total Expens	e Adsorbed	7,740,000	
6				NOI Impact	-\$5,031,000	
7			•		\$535,000,000	
8						
9		NOI lmn	NOI Requireme act of PCAM Mechan	_	\$43,121,000 -5,031,000	
10 11		NOI IMP		with PCAM	\$38,090,000	
• •			1101		Ψοσ,σσσ,σσσ	
12		Resulti	ng ROR @ Power Co	st Deviation	7.12%	
13			ROE @ Power Co		8.16%	
14		Resu	ulting Interest Coverag	ge (Line 15)	2.78	
		RATE OF RETURN:	Capital	Return	Overall Rate	Interest
		(With PCAM Absorb	tion) Structure	Rate	Of Return	Coverage
15		LONG TERM DEBT	50.00%	6.33%	3.17%	2.78
16		SHORT TERM DEB		4.50%	0.14%	=:/=
17		PREFERRED STOC		6.59%	0.07%	
18		EQUITY	46.00%	8.16%	3.75%	
19		TOTAL	100.00%		7.12%	

# Staff PCAM Coverage Analysis Coverage @ 57% Debt, 43% Equity

15

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LONG TERM DEBT

SHORT TERM DEBT

PREFERRED STOCK

**EQUITY** 

**TOTAL** 

Exhibit \_\_\_\_ (KLE-3 )
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1 P	ower Su	oply Costs Higher Than Baseline (Assumption)	\$25,000,000	
<u>s</u>	haring B	ands (Company Absorbs):	Total PC Expense Absorbed W/Sha	
2	First	4,000,000 100%		J
3	Next	4,000,001 To 10,000,000 50%	3,000,000	
4	Over	10,000,001 10%		
5		Total Expense Adsorbed	8,500,000	
6		NOI Impact	-\$5,525,000	
7		Washington Rate Base	\$535,000,000	
8		Pre-PCAM ROR	8.06%	
9		NOI Requirement @ 8.06%		
10	•	NOI Impact of PCAM Mechanism (Line 6)		
11		NOI with PCAM	\$37,596,000	
12		Resulting ROR @ Power Cost Deviation		
13		ROE @ Power Cost Deviation		
14		Resulting Interest Coverage (Line 15)	2.50	
		RATE OF RETURN: Capital Return (With PCAM Absorbtion) Structure Rate	Overall Rate Of Return	Interest Coverage

54.00%

3.00% 1.00%

42.00%

100.00%

6.33%

4.50%

6.46%

8.12%

3.42%

0.14%

0.06%

3.41%

7.03%

2.50

## Staff PCAM Coverage Analysis Cost of Capital Adjustment

LONG TERM DEBT

SHORT TERM DEBT

PREFERRED STOCK

**EQUITY** 

**TOTAL** 

15

16

17

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Exhibit \_\_\_\_ (KLE-3 )

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1 Power Supply Costs Higher Than Baseline (Assumption)					\$10,000,000	
<u>s</u>	Sharing Bands (Company Absorbs):				Total PC Expens Absorbed W/Sha	
2 3 4 5	First Next Over	4,000,001 10,000,001	4,000,000 To 10,000,000 Total Expens	100% 50% 10% se Adsorbed	4,000,000 3,000,000	ang
6				NOI Impact	-\$4,550,000	
			·			
7	Washington Rate Base \$535,000,000					
8	Pre-PCAM ROR 8.06%					
9	NOI Requirement @ 8.06% \$43,121,000					
10	NOI Impact of PCAM Mechanism (Line 6)4,550,000					
11			NO	I with PCAM	\$38,571,000	
12		Result	ing ROR @ Power Co	ost Deviation	7.21%	
13		ROE @ Power Cost Deviation 8.55%				
14						
		RATE OF RETURN (With PCAM Absorb		Return Rate	Overall Rate Of Return	Interest Coverage

54.00%

3.00%

1.00% 42.00%

100.00%

6.33%

4.50%

6.46%

8.55%

3.42%

0.14%

0.06%

3.59%

7.21%

2.58