

Exhibit No. ___(BNW-6T)
Docket Nos. UE-061546/UE-060817
Witness: Bruce N. Williams

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

vs.

PACIFICORP dba Pacific Power & Light
Company,

Respondent.

Docket No. UE-061546

In the Matter of the Petition of
PACIFICORP dba Pacific Power & Light
Company,
For an Accounting Order Approving Deferral
Of Certain Costs Related to the MidAmerican
Energy Holdings Company Transition.

Docket No. UE-060817

**PACIFICORP
REBUTTAL TESTIMONY
OF
BRUCE N. WILLIAMS**

March 2007

1 **Q. Please state your name.**

2 A. My name is Bruce N. Williams.

3 **Q. Have you filed direct testimony in this case?**

4 A. Yes.

5 **Q. Please describe the purpose of your rebuttal testimony?**

6 A. My rebuttal testimony responds to the adjustment proposed by Staff witness Mr.
7 Kenneth L. Elgin relating to the claimed cost of capital impacts associated with
8 implementation of a power cost adjustment mechanism. I will demonstrate that
9 the criterion that Mr. Elgin's relies upon in his testimony is fundamentally flawed.
10 In addition, I will show that the Company's capital structure has continued to
11 strengthen and Mr. Elgin's proposed adjustment is inconsistent with this fact.
12 Finally, I have adjusted the cost of capital to reflect the known and measurable
13 increase in costs of long-term debt and short-term debt since the time of the
14 original filing in this case.

15 **Staff's Proposed Cost of Capital Adjustment**

16 **Q. What observation do you offer with respect to Mr. Elgin's testimony?**

17 A. Mr. Elgin focuses on the impact of power cost scenarios on the Company's pre-
18 tax interest coverage ratio. However, the major credit rating agencies no longer
19 utilize pre-tax interest coverage as one of their key financial ratios. In June, 2004,
20 Standard & Poor's ("S&P") published an update to its financial guidelines that
21 identified the three measures for which they established minimum levels for each
22 ratings category. Those three ratios are funds from operations ("FFO") to total
23 debt, FFO to interest coverage, and total debt to total capital. Notably, the pre-tax

1 interest coverage ratio is not one of the three key financial guidelines. Dr.
2 Hadaway also addresses this issue in his rebuttal of Mr. Elgin's proposed
3 adjustment.

4 **Q. Is Mr. Elgin's statement accurate that a pre-tax interest coverage ratio of**
5 **2.50x is sufficient to satisfy S&P's criteria for a "BBB" rating?**

6 A. No. As indicated in the June 2, 2004 S&P Research Report, "[p]retax interest
7 coverage as a key credit ratio was eliminated." This report is attached as Exhibit
8 No. ___(BNW-7). Mr. Elgin's statement is thus not consistent with S&P
9 published benchmarks.

10 **Q. Have Moody's Investors Services and Fitch Ratings also moved away from**
11 **relying on pre-tax interest coverage as a key credit ratio?**

12 A. Yes. Consistent with S&P, the other major rating agencies also focus more on
13 cash flow measures rather than income as a determinant of credit worthiness.

14 **Q. Are there any appropriate benchmarks that could be used to determine the**
15 **impact of excess power costs on ratings?**

16 A. Yes. Company witness Dr. Hadaway has modeled the impact of excess power
17 costs and what ratings level it would imply.

18 **Updated Capital Structure, Cost of Debt and Preferred Stock**

19 **Q. How does PacifiCorp's more recent capital structure, cost of debt and**
20 **preferred stock compare to what was filed in your direct testimony in this**
21 **case?**

22 A. The Company's capital structure has continued to strengthen consistent with my
23 prior testimony to the Commission. This improvement has been due in significant

1 part to two factors related to the March 2006 acquisition of PacifiCorp:

- 2 • MidAmerican Energy Holdings Company (“MEHC”), PacifiCorp’s parent
- 3 company has made \$215 million of cash capital contributions since the
- 4 close of the transaction, and
- 5 • MEHC has allowed PacifiCorp to retain all earnings by not seeking a
- 6 payment of dividends on common stock since the acquisition.

7 At December 31, 2006, PacifiCorp’s actual capital structure was:

8 <u>Component</u>	<u>Ratio</u>
9 Equity	49%
10 Long-Term Debt	46%
11 Preferred Stock	1%
12 Short-Term Debt	<u>4%</u>
13	100%

14 **Q. Has PacifiCorp’s capital structure complied with Commitment 18a adopted**
 15 **by the Commission as a condition of the acquisition of PacifiCorp by**
 16 **MEHC?**

17 A. Yes. PacifiCorp’s capital structure has continued to exceed the minimum levels
 18 of common equity capital called for by that commitment as well as others that
 19 were required by the Commission in Order No. 08 in Docket UE-051090. As I
 20 mentioned previously, PacifiCorp capital structure has benefited from capital
 21 contributions from our parent company as well as the retention of all earnings
 22 since the acquisition by MEHC.

1 **Q. Have you calculated the Company's cost of long-term debt, preferred stock**
 2 **and short-term as of December 31, 2006?**

3 A. Yes. While there is no change in the Company's cost of preferred stock from
 4 what was included in my direct testimony (6.455%), the costs of long-term debt
 5 and short-term debt have increased.

	<u>Direct Testimony</u>	<u>Actual at Dec 31, 2006</u>
7 Long-Term Debt	6.335%	6.392%
8 Short-Term Debt	4.50%	5.3%

9 **Q. Should the Commission adjust the Company's weighted average cost of**
 10 **capital as Mr. Elgin recommends?**

11 A. No. The Commission should, however, adjust the cost of capital that was filed in
 12 the Company's direct testimony to increase the long-term and short-term debt
 13 costs consistent with December 31, 2006 actuals. The new recommended cost of
 14 capital is shown in the table below.

15	<u>Component</u>	<u>Ratio</u>	<u>Cost (%)</u>	<u>Wtd. Cost (%)</u>
16	Equity	46%	10.2%	4.692%
17	Long-Term Debt	50%	6.392%	3.196%
18	Preferred Stock	1%	6.455%	0.065%
19	Short-Term Debt	<u>3%</u>	5.3%	<u>0.159%</u>
20		100%		8.112%

21 **Q. Does this conclude your testimony?**

22 A. Yes.