

Exh. NLK-7T

Docket UE-230172

Witness: Nikki L. Koblaha

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP dba
PACIFIC POWER & LIGHT COMPANY

Respondent.

Docket UE-230172
(Consolidated)

In the Matter of

ALLIANCE OF WESTERN ENERGY
CONSUMERS'

Petition for Order Approving Deferral of
Increased Fly Ash Revenues

Docket UE-210852
(Consolidated)

PACIFICORP

REBUTTAL TESTIMONY OF NIKKI L. KOBLIHA

October 2023

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ATTACHED EXHIBITS

Exhibit No. NLK-8—Pro Forma Cost of Long-Term Debt
Exhibit No. NLK-9—Cost of Short-Term Debt

1 **Q. Are you the same Nikki L. Kobliha who previously submitted direct testimony in**
2 **this proceeding on behalf of PacifiCorp dba Pacific Power & Light Company**
3 **(PacifiCorp or the Company)?**

4 A. Yes.

5 **I. PURPOSE AND SUMMARY OF TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. In my rebuttal testimony I will respond to certain issues raised by intervening parties
8 in their response testimony filed with the Washington Utilities and Transportation
9 Commission (Commission) on September 14, 2023. Specifically, I respond to the
10 testimonies of witness David C. Parcell on behalf of Staff of the Washington Utilities
11 and Transportation Commission (Staff) and witness J. Randall Woolridge on behalf
12 of the Public Counsel Unit of the Washington State Office of the Attorney General
13 (Public Counsel). I will also update the Company's proposed cost of capital.¹

14 **Q. Please explain how your testimony is organized and the issues you will address in**
15 **your rebuttal testimony.**

16 A. In my testimony, I address the following issues and recommendations and explain
17 why my analysis continues to support the capital structure proposed in my direct
18 testimony.

19 1. In Section II, I update the Commission with the cost of capital
20 reflecting the May 2023 debt issuance and an interest rate update for the
21 projected 2024 long-term debt issuances.

¹ Unless personal pronouns are specified by a witness in their testimony, in my rebuttal testimony I use "they/them" when using a pronoun to refer to a witness.

1 2. In Section III, I respond to the recommendations on capital structure,
2 and cost of short term debt and long term debt by Staff witness Parcell and
3 recommendations made by Public Counsel witness Woolridge on the
4 Company's proposed capital structure.

5 **II. UPDATED COST OF CAPITAL**

6 **Q. Please discuss the recent financing work that the Company has completed.**

7 A. During May 2023, the Company completed the issuance of a new series of long-term
8 debt, \$1.2 billion of 5.50 percent first mortgage bonds due May 2054. This issuance
9 of new long-term debt was included as pro-forma issuances in my direct testimony
10 cost of debt exhibit (Exhibit No. NLK-2) and I have now updated it with the actual
11 principal amount, terms, interest rate, yield discount and related actual and estimated
12 issuance costs.

13 **Q. Does the Company currently anticipate further long-term debt issuances**
14 **through the end of 2024 test period?**

15 A. The Company is still evaluating its financing needs for 2024. My direct testimony
16 indicated an additional \$1.7 billion of new long-term debt would be issued during
17 2024, split between 10-year and 30-year issuances occurring in January and July.
18 While the amount, timing, and tenor of these issuances have not changed, I have
19 updated the cost of debt using current forward treasury rates and indicative credit
20 spreads provided by PacifiCorp's relationship bank on July 10, 2023.

21 **Q. What is the new cost of debt?**

22 A. As shown in Exhibit No. NLK-8, the net impact from these changes described above,
23 plus an update to the variable-rate Pollution Control Revenue Bond rates using more

1 recent forward market rates, results in a weighted average cost of debt of 5.09
2 percent, which is 32 basis points higher than the 4.77 percent projected in my direct
3 testimony.

4 **Q. Are you currently recommending an update to the percentage capital structure**
5 **recommendation in your direct testimony for PacifiCorp?**

6 A. No change is proposed.

7 **Q. What overall cost of capital do you recommend for PacifiCorp?**

8 A. I am recommending an overall cost of capital of 7.60 percent. This cost includes the
9 return on equity recommendation of 10.00 percent, supported by the rebuttal
10 testimony of Company witness Ann E. Bulkley, and the capital structure and costs are
11 shown in Table 1.

Table 1: Overall Cost of Capital

Component	% of Total	Cost %	Weighted Ave Cost %
Long-Term Debt	48.72%	5.09%	2.48%
Preferred Stock	0.01%	6.75%	0.00%
Common Stock Equity	51.27%	10.00%	5.12%
	100.00%		7.60%

12 **III. CAPITAL STRUCTURE**

13 **Q. Please summarize Staff witness Parcell's and Public Counsel witness**
14 **Woolridge's capital structure proposal.**

15 A. Both witness Parcell and witness Woolridge recommend a common equity percentage
16 of 49.10 percent based on previously litigated proceedings.² This would include
17 short-term debt as part of the capital structure. Neither party provides any evidence as

² Parcell, Exh. DCP-1T at 30:18-19; Woolridge, Exh. JRW-1T at 11:11-14.

1 to why maintaining the status quo is reasonable other than to make inaccurate proxy
2 group comparisons.

3 **Q. Can you describe the proxy group comparisons presented by witness Parcell and**
4 **witness Woolridge and why they are inaccurate?**

5 A. Both witness Parcell and witness Woolridge present proxy group comparisons at the
6 utility holding company level. These ratios are not comparable to the Company,
7 which is a utility operating company. Witness Bulkley's Exhibit No. AEB-14 is
8 presented at the utility operating company level making it directly comparable to the
9 Company. In addition, witness Parcell uses three points of equity ratios, June 9, 2023,
10 July 21, 2023, and August 11, 2023,³ and witness Woolridge uses December 31,
11 2022,⁴ while the Company presented eight quarters of historical common equity ratio
12 data and the resulting average of all quarters presented. Looking at several data points
13 and compiling an average smooths out peaks and valleys that occur in debt or equity
14 ratios due to timing of debt issuances, equity issuances or dividend payments. The
15 Company considers this variability when setting the common equity level proposed in
16 its rate cases by using an average of the five quarter-ending balances spanning the test
17 period. Using the eight-quarter average in Exhibit No. AEB-14 the low, high, and
18 mean common equity ratios are 45.95 percent, 61.06 percent, and 53.18 percent,
19 respectively, placing the Company's request within a reasonable range when
20 compared to the proxy group.

³ Parcell, Exh. DCP-7.

⁴ Woolridge, Exh. JRW-5 at 1.

1 **Q. Staff witness Parcell makes reference to the capital structure of Berkshire**
2 **Hathaway Energy (BHE) having lower levels of equity than PacifiCorp.⁵ Is that**
3 **relevant to this case?**

4 A. No. The equity level at BHE is not part of this proceeding. As a holding company,
5 BHE owns a number of companies, both regulated and non-regulated in nature.
6 Reasons for BHE having lower levels of equity than PacifiCorp can include
7 acquisitions of new companies and funding the capital opportunities of subsidiaries
8 that, unlike PacifiCorp, do not have independent, standalone financing arrangements
9 and associated ring-fencing provisions. The ring-fencing provisions protect
10 PacifiCorp and its customers in the event that BHE, the ultimate parent Berkshire
11 Hathaway Inc. (BHI) or any of these companies' subsidiaries finds themselves in
12 bankruptcy, isolating PacifiCorp and its customers from any impacts. PacifiCorp
13 operates independent of BHE and BHI and funds its own operations through its
14 ongoing cash from operations, holding its own debt through periodically accessing
15 the debt capital markets, and paying dividends when necessary to balance its capital
16 structure. This independent operation is consistent with merger commitments
17 prohibiting cross-subsidization (general condition (GC) 9), requiring PacifiCorp to
18 maintain separate debt (GC 15) and preventing PacifiCorp from pledging any assets
19 to support the securities of BHI, BHE, or any of their subsidiaries (GC 20).⁶ All of
20 this is to say any reference to the capital structure of BHE is irrelevant.

⁵ Parcell, Exh. DCP-1T at 28:6-7.

⁶ See *In the Matter of the Joint Application of MidAmerican Energy Holdings Co. and PacifiCorp, d/b/a Pac. Power & Light Co., for an Order Authorizing Proposed Transaction*, Docket No. UE-051090, Order 07, Appendix A (Feb. 22, 2006), amended by Order 08 (Mar. 10, 2006).

1 **Q. Why have you not included short-term debt as part of the capital structure?**

2 A. As stated in my direct testimony, short-term debt is an important source of liquidity
3 for the Company, including interim funding for long-term debt maturities and new
4 capital spending, and provides the Company a window of time to assess market
5 conditions before using more permanent long-term debt financing. However, short-
6 term debt balances can move dramatically, and the Company often has periods when
7 there is little or no short-term debt outstanding. For example, in the Company's last
8 two Washington rate cases, including short-term debt had no practical impact on the
9 cost of capital rounded to two decimal places.

10 **Q. If the Commission decides to include short-term debt as part of the capital
11 structure, what is your recommended cost for short-term debt?**

12 A The five-quarter short term debt balance forecasted for the period ending December
13 2024 is \$170 million. This would equate to .73 percent of the capital structure. Using
14 forward rates and including all in-costs of borrowing the Company recommends a
15 weighted short-term debt cost of 5.665 percent. Please see Exhibit No. NLK-9.

16 **IV. CONCLUSION**

17 **Q. Please summarize your recommendations to the Commission.**

18 A. I recommend the Commission adopt PacifiCorp's proposed capital structure with an
19 equity level of 51.27 percent. This capital structure balances the financial integrity of
20 the Company and costs to customers by reflecting an equity ratio necessary for
21 PacifiCorp to maintain strong credit metrics used in determining the Company's
22 credit rating. I recommend the Commission not include short-term debt as part of the
23 capital structure as it is not a long-term source of financing for the Company and has

1 no material impact on the capital structure. I also recommend the cost of debt be
2 updated to 5.09 percent to reflect recent credit spreads and market conditions. When
3 combined with the cost of equity recommended by witness Bulkley, this produces the
4 same overall cost of capital recommended in my direct testimony of 7.60 percent.

5 **Q. Does this conclude your rebuttal testimony?**

6 A. Yes.