

Exhibit No. ___T (JAR-1T)

Docket No. UE-050684

Witness: James A. Rothschild

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP, d/b/a Pacific Power &
Light Company, Respondent.**

DOCKET NO. UE-050684

TESTIMONY OF

JAMES A. ROTHSCHILD

For

STAFF OF

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

**RE: PACIFICORP GENERAL RATE CASE
COST OF CAPITAL**

November 3, 2005

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1 and/or the inflation rate to estimate what total return common stock
2 investors require.

3

4 **C. Selecting a Comparative Group of Companies**

5

6 **Q. How did you select a comparative group of electric utilities?**

7 A. To reduce controversy, I used the same group of seventeen electric
8 companies selected by company cost of capital witness Dr. Hadaway.

9 These companies are listed on page 4 of my Exhibit Nos. ___ (JAR-5) and
10 ___ (JAR-6).

11

12 **Q. Why did you use the comparative group?**

13 A. I used the comparative group of companies in part because the common
14 stock of PacifiCorp is not publicly traded, and in part because a broader
15 sampling of investor expectations is possible when a group of companies is
16 used than if only one company is used.

1

D. The DCF Method

2

3 **Q. Is the DCF method widely used in utility rate proceedings?**

4 **A.** Yes. The DCF model is more widely used than any other approach to
5 determining the cost of equity.

6

7 1. *The basic DCF formula: "k = D/P + g"*

8

9 **Q. Is there a form of the DCF method that is commonly used?**

10 **A.** Yes. Utility rate proceedings typically focus on a special version of the DCF
11 model commonly referred to as the constant growth model. The formula
12 used is the cost of equity, k, equals the expected dividend yield (D/P, or
13 Dividend divided by Price) plus expected dividend growth (g). In other
14 words:

15

$$k = D/P + g$$

16

17 2. *The formula "b x r + sv" can be used to estimate "g" in the DCF formula*

18

19 **Q. How is it possible to ensure that the growth rate used in the constant-**