TABLE OF CONTENTS

[PURPOSE AND SUMMARY 1](#_Toc403709328)

[REPLY TO STAFF’S PROPOSED CAPITAL STRUCTURE 2](#_Toc403709329)

[Credit Metrics 5](#_Toc403709330)

[REPLY TO PUBLIC COUNSEL’S PROPOSED CAPITAL STRUCTURE AND COST OF DEBT 6](#_Toc403709331)

[REPLY TO BOISE’S PROPOSED CAPITAL STRUCTURE 9](#_Toc403709332)

[Credit Metrics 15](#_Toc403709333)

**ATTACHED EXHIBITS**

Exhibit No. BNW-17—Standard & Poor’s Ratings Direct Report, “Corporate Methodology: Ratios and Adjustments” (November 19, 2013)

Exhibit No. BNW-18—Standard & Poor’s Credit Assessment

Exhibit No. BNW-19—Regulatory Research Associates, “Regulatory Focus, Major Rate Case Decisions – January—June 2014” (July 10, 2014)

Exhibit No. BNW-20—Standard & Poor’s Ratings Direct Report, “Corporate Methodology” (November 19, 2013)

**Q. Are you the same Bruce N. Williams who previously submitted direct testimony in this case on behalf of Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp?**

A.Yes.

# PURPOSE AND SUMMARY

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

A. The purpose of my rebuttal testimony is to demonstrate the reasonableness of my recommendations on capital structure, cost of debt, and overall rate of return (ROR). I also address the recommendations from Washington Utilities and Transportation Commission (Commission) Staff witness Mr. David C. Parcell, the Public Counsel Division of the Attorney General’s Office (Public Counsel) witness Mr. Stephen G. Hill, and Boise White Paper, LLC (Boise) witness Mr. Michael P. Gorman. Mr. Kurt G. Strunk responds to the cost of equity recommendations sponsored by these witnesses, and also addresses the positions of Staff and intervenors on capital structure and credit metrics.

**Q. Please summarize your testimony.**

A.I demonstrate that the Company’s actual capital structure with 51.73 percent common equity, and the 7.67 percent ROR it produces, provides the balance of economy and safety the Commission requires. I provide evidence that the Company’s capital structure and resulting ROR are reasonable, consistent with those of comparable electric utilities, and result in lower cost to customers than a hypothetical capital structure that takes into account the impact of higher leverage on the Company’s debt and equity costs.

 The other parties’ proposed capital structures, which rely on a 49.1 percent common equity ratio, are not an appropriate alternative to the Company’s recommendations. The analyses supporting the other parties’ recommended overall rates of return and their conclusions that decreased returns will not harm the Company’s credit ratings do not follow rating agency guidance and are not supported by facts.

**Q.** **Have you reviewed your cost of capital recommendations on rebuttal to determine if any updates are warranted?**

A. Yes. My cost of capital recommendations, which are based on the 12-month period ending December 31, 2014, have not changed since the Company’s initial filing.

# **REPLY TO STAFF’S PROPOSED CAPITAL STRUCTURE**

**Q. What is Staff’s proposed capital structure?**

A.Staff recommends the hypothetical capital structure adopted in Order 05 in Docket UE-130043 (the 2013 Order).

**Q. How does Mr. Parcell support Staff’s recommended hypothetical capital structure?**

A. Mr. Parcell relies on the 2013 Order and the average common equity ratio of various groups of electric utility companies.

**Q. Please comment on Mr. Parcell’s use of average common equity ratios.**

A.First, it is my understanding that the Commission has been skeptical of comparing a company’s equity ratio to those of comparable other utilities because the “individual circumstances of regulated utilities must be taken into account when determining the equity ratio that is appropriate for a given company at a particular point in time.”[[1]](#footnote-2) Thus, the Commission concluded that comparisons to other utilities “are not particularly useful measures to guide our decision.”[[2]](#footnote-3)

 Second, by its very definition an “average” of other utilities’ capital structures will mean that there are results both higher and lower than the average. Simply being higher (or lower) than the average should not rule out a capital structure as inappropriate and unreasonable.

 Third, if the Commission decides to consider average equity ratios, Mr. Strunk and I both provide evidence that the Company’s actual capital structure is more in line with the industry average than the proposed hypothetical capital structure.

**Q. Do you agree with Mr. Parcell’s statement that the average common equity ratio authorized for electric utilities in 2013 was about 49 percent?**

A. No, the source of this statement, Exhibit No. DCP-16, is misleading. The data set for that exhibit includes many unrated utilities or those with ratings of Baa1 or lower, which are not comparable to the Company. Of the 22 comparable utilities, 19 had a common equity component listed. The average common equity of the 19 electric utilities that are A-rated is 51.24 percent, more than 200 basis points higher than Mr. Parcell claims and in line with the Company’s actual common equity of 51.73 percent. In fact, only four A-rated utilities in Mr. Parcell’s group of 19 had a common equity percentage below 50 percent.

**Q. Did Mr. Parcell provide any testimony comparing the Company’s proposed overall ROR to industry averages?**

A. No, Mr. Parcell did not provide any comparison of the Company’s proposed overall ROR to industry averages. When determining the balance between safety and economy in a capital structure, the resulting ROR is a critical factor.[[3]](#footnote-4) As shown in Table 3 in my direct testimony, the Company’s current ROR of 7.36 percent in Washington is the lowest in any of its states, and Staff’s position in this case would reduce it further by almost 30 basis points. As discussed in more detail below, the Company’s proposed ROR of 7.67 percent is in line with current RORs of comparable companies.

**Q. Mr. Parcell attempts to support his hypothetical capital structure through a discussion concerning “double leverage.” Has the Commission previously considered this issue?**

A. Yes. The Commission has twice heard arguments in support of a “double leverage” adjustment and, in each case, rejected them.[[4]](#footnote-5) When approving the merger of PacifiCorp and MidAmerican Energy Holdings Company (now Berkshire Hathaway Energy or BHE), the Commission adopted “state of the art” ring-fencing provisions intended to insulate PacifiCorp from the risks of leverage financing at the parent company. In rejecting double leverage adjustments related to BHE, the Commission found that such adjustments:

 [V]iolate the familiar principle in utility law that financial benefits should follow burden of risks. . . If the risks and costs of activities at the parent-level are born exclusively by shareholders—because customers are insulated from them by the ring fence—then it is fair and appropriate for the shareholders, and not the customers, to receive the benefits that result from those activities.[[5]](#footnote-6)

**Q. Are there cost of capital items on which you and Mr. Parcell agree?**

A.Yes. Mr. Parcell accepts the Company’s proposed costs of preferred stock and long-term debt.[[6]](#footnote-7) The cost of long-term debt that Mr. Parcell accepts (5.19 percent), however, is the Company’s proposed cost under its actual capital structure. The cost of long-term debt if the Commission utilizes the hypothetical capital structure Mr. Parcell recommends is 5.80 percent, as shown in the Company’s alternative overall cost of capital.[[7]](#footnote-8)

### Credit Metrics

**Q. Please comment on Mr. Parcell’s reliance on a pre-tax interest coverage ratio to support his overall cost of capital recommendation.**

A.Mr. Parcell’s analysis is perfunctory, relying on a single credit metric (the pre-tax interest coverage ratio) that he admits is no longer used by the rating agencies.[[8]](#footnote-9) Mr. Parcell’s model also does not account for the other adjustments proposed by Staff witnesses in this case, and does not include the financing costs of assets under construction. There is therefore no factual basis for his claims that his proposed capital structure and costs of capital would support the Company’s current credit ratings. In fact, as I have demonstrated, the opposite is true.

# REPLY TO PUBLIC COUNSEL’S PROPOSED CAPITAL STRUCTURE AND COST OF DEBT

**Q. Please summarize Mr. Hill’s proposed capital structure and costs of capital.**

A.Mr. Hill proposes a hypothetical capital structure and costs of capital consistent with the Company’s alternative overall cost of capital, but with an 8.90 percent return on equity. Mr. Strunk responds to Mr. Hill’s return on equity recommendation.

**Q. Are there specific costs of capital on which you and Mr. Hill agree?**

A. Yes. Mr. Hill and I agree that if the Commission adopts a capital structure containing less common equity than the Company’s actual capital structure, a corresponding increase in the costs of long-term and short-term debt is necessary. Mr. Hill accepts my recommended cost of long-term debt and short-term debt of 5.80 percent and 2.11 percent, respectively, if a hypothetical capital is utilized. Mr. Hill and I also agree on the cost of preferred stock of 6.75 percent.

**Q.** **Is Mr. Hill correct that the Company has not paid dividends for eight years?**

A. No. Mr. Hill testifies that “over the past eight years, PacifiCorp’s common equity ratio has migrated from about 49 percent to about 52 percent as the Company has not paid dividends to its parent and has retained earning to raise the common equity ratio.”[[9]](#footnote-10) My direct testimony is clear that the Company initiated the payment of dividends in 2011 and expects to continue paying dividends to its parent company. Without these dividends, the Company’s common equity level would be higher.[[10]](#footnote-11)

**Q. Does Mr. Hill acknowledge that PacifiCorp has retained its credit ratings over the past eight years?**

A.Yes, his table on page 23 shows that PacifiCorp’s corporate credit ratings have remained unchanged since 2006. This table also displays the common equity percentage over that time period. This underscores my point that PacifiCorp’s increase in the common equity component has helped it retain its credit ratings and achieve a lower cost of debt. As Mr. Hill agrees, it is therefore inappropriate to adjust the capital structure for a lower common equity component without a corresponding increase to the cost of debt.

**Q. Do you agree with Mr. Hill’s implication that Washington is such a small relative percentage of PacifiCorp that the Commission’s decisions have no impact on PacifiCorp’s creditworthiness?**

A.No. Each state that PacifiCorp serves is very important to the Company and, to be fair to all of its customers, the Company uses the same actual capital structure for each state jurisdiction.[[11]](#footnote-12)

 As I discussed in my direct testimony, regulatory treatment of a utility is critically important when rating agencies assess the creditworthiness of a utility.[[12]](#footnote-13) While Mr. Hill may believe that it is unlikely that downgrade will occur if the Commission again adopts a hypothetical common equity component to set Washington rates, the Commission’s decision in the 2013 Order indisputably drew negative attention from the rating agencies. For example, Moody’s wrote:

Among its jurisdictions, the company’s most challenging is Washington, where the allowed ROE is the lowest at 9.5% and where it is contesting its last rate decision, while filing for a new base rate increase ($27 million request.)[[13]](#footnote-14)

 Similarly, Fitch has stated:

Rate constructs in five of the six jurisdictions include power cost adjustments, the State of Washington being the exception.

\* \* \*

[The Washington Commission] approved a $17 million electric rate increase based on a 9.5% return on equity (ROE) in December 2013…. The allowed return, in Fitch’s opinion is lower than the sector average of around 10%.[[14]](#footnote-15)

**Q. Is Mr. Hill’s comparison of expected pension returns and return on equity in this case a relevant comparison?**

A.No. Among other reasons, there is no correlation in the underlying test periods and different factors inform the calculation of the returns. Pension accounting relies on conservative actuarial data, follows generally accepted accounting principles, and is based on the long-term nature of pension fund assets. The Commission has never used a pension return to corroborate a return on equity determination, despite the fact that Mr. Hill has made a similar argument in the past.[[15]](#footnote-16)

**Q. Please comment on Mr. Hill’s statements that his overall ROR would support the Company’s financial position.**

A.Mr. Hill’s analysis consists solely of a pre-tax interest coverage ratio and has the same deficiencies as Mr. Parcell’s similar analysis.[[16]](#footnote-17) These analytical flaws lead Mr. Hill to take the position that a lower overall ROR (7.32 percent) than currently authorized (7.36 percent) will result in an improved interest coverage ratio (3.28x) as compared to the Company’s actual ratio (3.09x). On its face, this contention is not credible.

# REPLY TO BOISE’S PROPOSED CAPITAL STRUCTURE

**Q. What is Boise’s proposed capital structure?**

A.Like Staff and Public Counsel,Boise proposes a hypothetical capital structure containing a common equity component of 49.10 percent.

**Q. How does Mr. Gorman support Boise’s recommended hypothetical capital structure?**

A.Mr. Gorman compares the adjusted debt ratio of different groups of electric utilities with the hypothetical capital structure and concludes that the hypothetical capital structure is reasonable.

**Q. In testimony filed earlier this year in other states, did Mr. Gorman support the use of the Company’s actual capital structure in setting its cost of capital?**

A.Yes. In recent cases in Utah and Wyoming, Mr. Gorman testified in support of using the Company’s actual capital structure to set rates. For example, in Wyoming Docket No. 20000-446-ER-14, Mr. Gorman proposed a capital structure containing 51.1 percent common equity.[[17]](#footnote-18) Mr. Gorman supported this recommended capital structure as reflecting the Company’s actual end-of-test-year capital structure.

 Similarly, in Utah Docket No. 13-035-184, Mr. Gorman accepted[[18]](#footnote-19) the Company’s proposed capital structure, including a common equity component of 51.60 percent, which was the average of actual capitalization during the test period.[[19]](#footnote-20)

**Q. Please respond to Mr. Gorman’s use of adjusted debt ratios as the exclusive basis for his capital structure recommendation.**

A. Mr. Gorman’s analysis of Standard & Poor’s (S&P) adjusted debt ratios has three major problems. First, credit ratings are not established solely on one measure of capital structure, but on a multitude of items including financial metrics. The Commission has specifically observed that “ratings agencies consider a host of factors” when determining a company’s credit rating, not just the equity ratio.[[20]](#footnote-21)

 Second, S&P does not currently rely on the credit metric that Mr. Gorman uses. In S&P’s most recent overall summary of its rating methodology,[[21]](#footnote-22) it lists seven cash flow/leverage analysis ratios—none of which are adjusted debt ratios.

 Third, the data in Mr. Gorman’s workpapers, which was the source of his adjusted debt ratio analysis, shows that the Company already has weaker credit ratios and metrics than either the A- or A rated groups of utilities that he cites.



 Reducing the Company’s common equity component and increasing its leverage will further weaken ratios that are already well below the respective peer group. Mr. Gorman’s hypothesis that this will not have an impact on ratings is unrealistic. His statement that a reduction in the Company’s common equity will likely not result in a reduction to its bond rating is inconsistent with the evidence drawn from his own data.

**Q. Is there other evidence demonstrating that the Company cannot modify its capital structure to reduce its common equity ratio and continue to support its current bond ratings?**

A.Yes. As I noted in direct testimony, a comparison to other Washington utilities regulated by this Commission demonstrates that a lower equity level directly corresponds to lower credit ratings.



 My direct testimony also shows the clear relationship between these lower common equity components and a higher cost of debt for the other Washington utilities.



**Q. Does Mr. Gorman compare overall RORs in his testimony?**

A.No. As I discussed earlier, it is insufficient to look at just one component of the capital structure (such as common equity percentage) without considering the impacts on the other components, their respective costs, and the resulting overall ROR. Mr.Gorman does not include any analysis of how the Company’s overall ROR compares to other utilities, rendering his analysis incomplete and limiting its value in this case.

**Q. Is information on other utility RORs available in Mr. Gorman’s workpapers?**

A. Yes. Utility ROR data can be found in Mr. Gorman’s workpapers,[[22]](#footnote-23) and I have summarized it below:

 

 After Mr. Gorman filed testimony, RRA published their results for the third quarter of 2014, and I have added those below.

 

 It is clear that the Company’s proposed overall ROR of 7.67 percent is slightly below national utility averages.

**Q. Mr. Gorman refers to a “Change in PacifiCorp’s Dividend Plan.” Will you please comment on this reference?**

A.Yes. As my direct testimony and data request responses in this case make clear, the Company has not made any recent changes in its dividend plan. PacifiCorp began paying dividends to its parent company in 2011. The impact of these dividends has been included in the Company’s proposed capital structure in this case and is a reason why the common equity percentage is approximately 50 basis points lower than the Company’s actual common equity ratio in the 2013 general rate case.

 Further Mr. Gorman’s testimony about BHE’s need for dividends to support acquisitions is pure speculation, with no evidentiary support and little relevance to this case. Mr. Gorman and I agree, however, that PacifiCorp’s dividends are “reasonable.”[[23]](#footnote-24)

**Q. Are there cost of capital items on which you and Mr. Gorman agree?**

A.Yes. Mr. Gorman accepts the Company’s proposed costs of short-term debt, preferred stock, and cost of long-term debt.[[24]](#footnote-25) But like Mr. Parcell, the cost of long-term debt that Mr. Gorman accepts (5.19 percent), is the Company’s proposed cost under its actual capital structure. Using Mr. Gorman’s capital structure, the Company’s debt cost would be 5.80 percent.[[25]](#footnote-26)

### Credit Metrics

**Q. Please comment on Mr. Gorman’s discussion concerning financial integrity and his credit metric analysis.**

A.Mr. Gorman’s analysis has several major flaws and cannot be relied upon to verify claims that his proposed ROR would support the Company’s credit ratings.[[26]](#footnote-27)

 First, like the other witnesses, Mr. Gorman does not include any of the adjustments proposed by the other Boise witnesses. In total, the Boise witnesses are recommending a $2.7 million rate decrease in this case, the effect of which Mr. Gorman completely ignores in his analysis.[[27]](#footnote-28) Similarly, Mr. Gorman’s analysis assumes that the Company will actually earn its authorized ROR. As demonstrated in the testimony of Mr. R. Bryce Dalley, the Company has under-earned in Washington every year since at least 2006. Assuming similar under-earning prospectively further erodes the credit metrics calculated by Mr. Gorman.

 Second, Mr. Gorman’s model does not include any of the financing costs associated with construction work in progress (CWIP). The Company must finance the costs of assets while they are under construction and incurs interest expense on the debt portion of those financings. To compensate the Company, there is an allowance for funds used during construction (AFUDC) that is a non-cash offset to interest expense. As AFUDC is non-cash, it is not included in the rating agencies’ determination of earnings before interest, taxes, depreciation and amortization (EBITDA) or funds from operations (FFO). However, the debt and corresponding interest costs on the financings are real and are included in the rating agencies’ credit ratio analysis. Mr. Gorman’s models have understated debt and interest expense and thereby produce erroneously high debt and interest coverage ratios.

Third, Mr. Gorman’s analysis does not include the full amount of adjustments that S&P makes when it assesses the Company’s creditworthiness. The result is that Mr. Gorman has included less than one-half of the amount of S&P’s debt adjustments.

Fourth, Mr. Gorman does not test his proposed ROR against five of the seven ratios for which S&P publishes targets as part of its quantitative analysis.

**Q.** **Which specific rating agency adjustments does Mr. Gorman omit from his analysis?**

A. Mr. Gorman does not include the following adjustments and thus ignores the corresponding amount of increased debt as of December 31, 2013:[[28]](#footnote-29) (1) Asset Retirement Obligations (AROs)—$89.7 million; (2) Post-retirement employee benefits—$111.15 million; (3) Accrued Interest—$110.0 million. Each of these adjustments and the respective amounts are documented on S&P’s website, a print-out of which is attached as Exhibit No. BNW-18. As shown in that exhibit, Mr. Gorman has correctly included S&P’s adjustments related to operating leases and purchased power agreements, but omitted the balance of S&P’s debt adjustments.

**Q.** **Has S&P stated explicitly that they include the three adjustments that Mr. Gorman’s analysis omits?**

A. Yes. In addition to the evidence of how S&P specifically reviews the Company’s credit rating, S&P is very clear about generally viewing these items as debt. For instance, S&P states the following:

* AROs—“We treat AROs as debt-like obligations….”[[29]](#footnote-30)
* Post-retirement employee benefits—“We include underfunded defined-benefit obligations for retirees, including pensions and health care coverage (collectively, postretirement benefits or PRB) in our measure of debt.”[[30]](#footnote-31)
* Accrued Interest—“We reclassify as debt any accrued interest that is not already included in reported debt.”[[31]](#footnote-32)

**Q.** **Does Mr. Gorman’s analysis provide a benchmark comparison for all seven of S&P’s cash flow/leverage ratios?**

A. No. Mr. Gorman’s analysis provides results for only two of the seven ratios.[[32]](#footnote-33) He ignored the five other ratios that S&P uses to help assess interest coverage and debt payback.

For all of these reasons, the Commission should not rely on Mr. Gorman’s credit metrics analysis. Mr. Gorman’s conclusion that his proposed overall ROR will produce financial results that support the Company’s credit ratings is unsubstantiated.

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

A. Yes.

1. *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.* Dockets UG-040640 et al., Order 06 ¶ 30 (Feb. 18, 2005). [↑](#footnote-ref-2)
2. *Id.* [↑](#footnote-ref-3)
3. In fact, the overall ROR is what the Commission commonly refers to as “economy.” *See Wash. Utils. & Transp. Comm’n v. PacifiCorp,* Docket UE-130043, Order 05 ¶ 25 (Dec. 4, 2013). [↑](#footnote-ref-4)
4. *See Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-050684, Order 04 (Apr. 17, 2006); *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-061546, Order 08 (June 21, 2007). [↑](#footnote-ref-5)
5. *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-050684, Order 04 ¶ 285 (Apr. 17, 2006). [↑](#footnote-ref-6)
6. Testimony of David C. Parcell, Exhibit No. DCP-1T at 2. [↑](#footnote-ref-7)
7. Direct Testimony of Bruce N. Williams, Exhibit No. BNW-1T at 3. [↑](#footnote-ref-8)
8. Testimony of David C. Parcell, Exhibit No. DCP-15 at 1. [↑](#footnote-ref-9)
9. Testimony of Stephen C. Hill, Exhibit No. SGH-1CT at 22:14-16. [↑](#footnote-ref-10)
10. Direct Testimony of Bruce N. Williams, Exhibit No. BNW-1T at 6:16-7:2. [↑](#footnote-ref-11)
11. Washington, however, is the only state to include short-term debt in the capital structure for purposes of determining overall ROR. [↑](#footnote-ref-12)
12. *See* Direct Testimony of Bruce N. Williams, Exhibit No. BNW-1T at 15:1-16:9. [↑](#footnote-ref-13)
13. Moody’s Investors Service, May 7, 2014. [↑](#footnote-ref-14)
14. Fitch Ratings, March 11, 2014. [↑](#footnote-ref-15)
15. *See e.g.* *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Docket UE-090704, Testimony of Stephen C. Hill, Exhibit No. SGH-1T at 57 (Nov. 17, 2009). [↑](#footnote-ref-16)
16. Confidential Testimony of Stephen C. Hill, Exhibit No. SGH-1CT at 58:14-19. [↑](#footnote-ref-17)
17. Docket No. 20000-446-ER-14, Non-Confidential Sur-Rebuttal Testimony of Michael P. Gorman, WIEC Exhibit No. 307 at 8 (Wy.P.S.C. Sept. 19, 2014). [↑](#footnote-ref-18)
18. Utah Docket No. 13-035-184, Direct Testimony and Exhibits of Michael P. Gorman on behalf of the Federal Executive Agencies at 9 (Apr. 17, 2014). [↑](#footnote-ref-19)
19. The Company subsequently reduced the common equity component to 51.43 percent to reflect financing activity completed after direct testimony was filed. The Utah and Wyoming cases used different test periods than this case, which accounts for the difference in the Company’s actual capital structure between those cases and this case. [↑](#footnote-ref-20)
20. *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.* Dockets UG-040640 et al., Order 06 ¶ 35
(Feb. 18, 2005). [↑](#footnote-ref-21)
21. Exhibit No. BNW-17, Standard & Poor’s Ratings Direct Report, “Corporate Methodology: Ratios and Adjustments” (Nov. 19, 2013). [↑](#footnote-ref-22)
22. Exhibit No. BNW-19, Regulatory Research Associates, “Regulatory Focus, Major Rate Case Decisions—January–June 2014” (July 10, 2014). [↑](#footnote-ref-23)
23. Responsive Testimony of Michael P. Gorman, Exhibit No. MPG-1T at 12:24. [↑](#footnote-ref-24)
24. Exhibit No. MPG-3 at 1. In addition, Mr. Gorman and I disagree about the cost of short-term debt if a hypothetical capital structure is used (1.73 percent versus 2.11 percent). [↑](#footnote-ref-25)
25. Direct Testimony of Bruce N. Williams, Exhibit No. BNW-1T at 3. [↑](#footnote-ref-26)
26. Mr. Gorman’s conclusion that ratings would not change is unclear. Mr. Gorman argues that the ratios would support an “investment grade” bond rating (leaving open the possibility of a multi-step downgrade from the Company’s current bond ratings). Mr. Gorman does not explicitly state that there would be no change to the Company’s current bond ratings, implying a downgrade is certainly possible. [↑](#footnote-ref-27)
27. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 6, Table 1. [↑](#footnote-ref-28)
28. For purposes of this rebuttal testimony, I am focusing on the more significant adjustments and ignoring the adjustment related to preferred stock due to the immaterial amount that remains outstanding. [↑](#footnote-ref-29)
29. Exhibit No. BNW-17 at 12. [↑](#footnote-ref-30)
30. *Id.* at 25. [↑](#footnote-ref-31)
31. *Id.* at 7. [↑](#footnote-ref-32)
32. Exhibit No. BNW-20, Standard & Poor’s Ratings Direct Report, “Corporate Methodology” (Nov. 19, 2013) at 35 - Table 18. [↑](#footnote-ref-33)