BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE	**)**	
APPLICATION OF ROCKY	**)**	**CASE NO. PAC-E-21-07**
MOUNTAIN POWER FOR	**)**	
AUTHORITY TO INCREASE ITS	**)**	**Direct Testimony of Nikki L. Kobliha**
RATES AND CHARGES IN IDAHO	**)**	**REDACTED**
AND APPROVAL OF PROPOSED	**)**	
ELECTRIC SERVICE SCHEDULES	**)**	
AND REGULATIONS	**)**	

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-21-07

May 2021

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ATTACHED EXHIBITS

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, business address, and present position with PacifiCorp.

A. My name is Nikki L. Kobliha and my business address is 825 NE Multnomah Street, Suite 1900, Portland, Oregon 97232. I am currently employed as Vice President, Chief Financial Officer and Treasurer for PacifiCorp. I am testifying for PacifiCorp d/b/a Rocky Mountain Power ("PacifiCorp" or the "Company").

Q. Please describe your education and professional experience.

A. I received a Bachelor of Business Administration with a concentration in Accounting from the University of Portland in 1994. I became a Certified Public Accountant in 1996. I joined PacifiCorp in 1997 and have taken on roles of increasing responsibility before being appointed Chief Financial Officer in 2015. I am responsible for all aspects of PacifiCorp's finance, accounting, income tax, internal audit, Securities and Exchange Commission reporting, treasury, credit risk management, pension, and other investment management activities.

II. SUMMARY AND PURPOSE OF TESTIMONY

Q. Please summarize the purpose of your testimony.

A. My testimony covers PacifiCorp's overall cost of capital recommendation, including a capital structure with a common equity level of 52.83 percent, the proposed cost of long-term debt of 4.76 percent, and cost of preferred stock of 6.75 percent.

Q. What is the purpose of the cost of capital recommendation?

A. The Company's proposed capital structure with a common equity level of 52.83 percent is required to maintain PacifiCorp's current credit ratings, which provide for a more competitive cost of debt. The overall cost of capital facilitates continued access by the

Company to the capital markets over the long term to the benefit of customers. This capital structure enables the Company's continued investment in infrastructure to provide safe and reliable service from new cost-effective energy resources at reasonable costs.

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

A. PacifiCorp proposes an overall cost of capital of 7.63 percent. This cost includes the return on equity recommendation of 10.20 percent, supported by the direct testimony of Ms. Ann E. Bulkley, and the capital structure and costs shown in Table 1 - Overall Cost of Capital.

Table 1: Overall Cost of Capital

Component	$m	Percent of Total	Cost Percent	Weighted Ave Cost
Long-Term Debt	$ 8,583	47.16%	4.76%	2.24%
Preferred Stock	$ 2	0.01%	6.75%	0.00%
Common Stock Equity	$ 9,616	52.83%	10.20%	5.39%
	$ 18,201	100.00%		7.63%

Q. What time period does your analysis cover?

A. The capital structure for the Company is measured over the 12-month period ending December 31, 2021, the test period in this proceeding, using an average of the five quarter-ending balances, based on known and measurable changes through December 31, 2021. Similarly, the costs of the long-term debt and preferred stock are an average of the costs measured for each of the five quarter-ending balances spanning the calendar year 2021 test period, using the Company's actual costs adjusted for known and measurable changes through December 31, 2021.

III. FINANCING OVERVIEW

Q. Please explain PacifiCorp's need for and sources of new capital.

A. PacifiCorp requires capital to meet its customers' needs for new cost-effective transmission and renewable generation, increased reliability, improved power delivery, and safe operations of its assets. PacifiCorp also needs new capital to fund long-term debt maturities.

As described in the testimony of Mr. Gary W. Hoogeveen, PacifiCorp has significantly increased its wind generation and transmission capacity through the Energy Vision 2020 project and additional cost-effective projects identified in the integrated resource plan. PacifiCorp spent approximately $3.3 billion for investments in renewable energy projects and related transmission from 2018 through calendar year 2020 and anticipates spending $2.7 billion in 2021 through 2023. This capital spending will require PacifiCorp to raise funds by issuing new long-term debt in the capital markets, retaining earnings, and if needed, obtaining new capital contributions from its parent company, Berkshire Hathaway Energy Company ("BHE").

Q. How does PacifiCorp finance its electric utility operations?

A. Generally, PacifiCorp finances its regulated utility operations using a mix of debt and common equity capital of approximately 48/52 percent, respectively. During periods of significant capital expenditures, as expected to continue now through calendar year-end 2024 for potential new investments identified in the 2019 IRP action plan,[1] the Company will need to maintain an average common equity component in excess of

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[1] *PacifiCorp's 2019 Integrated Resource Plan*, Case No. PAC-E-19-16, Chapter 1 — Executive Summary, p. 22 (Oct. 18, 2019).

52 percent to maintain its credit rating and finance the debt component of the capital structure at the lowest reasonable cost to customers. Maintaining the Company's credit rating will provide more flexibility on the type and timing of debt financing, better access to capital markets, a more competitive cost of debt, and over the long-run, more stable credit ratings. In addition, PacifiCorp needs a greater common equity component to offset various adjustments that rating agencies make to the debt component of the Company's published financial statements. I discuss these adjustments in greater detail later in my testimony.

Q. How does PacifiCorp determine the levels of common equity, debt, and preferred stock to include in its capital structure?

A. As a regulated public utility, PacifiCorp has a duty and an obligation to provide safe, adequate, and reliable service to customers in its Idaho service area while prudently balancing cost and risk. Major capital expenditures are required in the near-term for new plant investment to enable PacifiCorp to fulfill its service obligation, including capital expenditures for new wind and transmission. These capital investments also have associated operating and maintenance costs. As part of its annual business planning process, PacifiCorp reviews all its estimated cash inflows and outflows to determine the amount, timing, and type of new financing required to support these activities and provide for financial results and credit ratings that balance the cost of capital with continued access to the financial markets.

Q. How does PacifiCorp manage its dividends to BHE?

A. PacifiCorp benefits from its affiliation with BHE as there is no stated dividend requirement. Historically, PacifiCorp has paid dividends to BHE to manage the common equity component of the capital structure and keep the Company's overall cost of capital at a prudent level. In major capital investment periods, PacifiCorp is able to retain earnings to help finance capital investments and forgo paying dividends to BHE. For example, following BHE's acquisition of PacifiCorp in 2006, PacifiCorp managed the capital structure through the timing and amount of long-term debt issuances and capital contributions from BHE, while forgoing any common dividends for nearly five years. At other times, absent the payment of dividends, retention of earnings could cause the percentage of common equity to grow beyond the level necessary to support the current credit ratings. Accordingly, dividend payments can be necessary, in combination with debt issuances, to maintain the appropriate percentage of equity in PacifiCorp's capital structure. With the significant capital investment required for new renewable generation resources, transmission, and other capital expenditures, however, the proposed capital structure in this case anticipates no additional common dividend payments by PacifiCorp to BHE through calendar year 2021.

Q. **What type of debt does PacifiCorp use in meeting its financing requirements?**

A. PacifiCorp has completed the majority of its recent long-term financing using secured first mortgage bonds issued under the Mortgage Indenture dated January 9, 1989. Exhibit No. 3, Pro forma Cost of Long-Term Debt, shows that, over the test period, PacifiCorp is projected to have an average of approximately $8.4 billion of first mortgage bonds outstanding, with an average cost of 4.87 percent. Presently, all outstanding first mortgage bonds bear interest at fixed rates. Proceeds from the issuance of the first mortgage bonds (and other financing instruments) are used to finance utility operations.

Another important source of financing in the past has been the tax-exempt financing associated with certain qualifying equipment at power generation plants. Under arrangements with local counties and other tax-exempt entities, these entities issue securities, and PacifiCorp borrows the proceeds of these issuances and pledges its credit quality to repay the debt to take advantage of the tax-exempt status of the financing. During the test period, PacifiCorp's tax-exempt portfolio is projected to be approximately $218 million, with an average cost of 0.61 percent, including the cost of issuance and remarketing.

Credit Ratings

Q. What are PacifiCorp's current credit ratings?

A. PacifiCorp's current ratings are shown in Table 2.

Table 2: PacifiCorp Credit Ratings

	Moody's	Standard & Poor's
Senior Secured Debt	A1	A+
Senior Unsecured Debt	A3	A
Outlook	Stable	Stable

Q. How does the maintenance of PacifiCorp's current credit rating benefit customers?

A. First, the credit rating of a utility has a direct impact on the price that a utility pays to attract the capital necessary to support its current and future operating needs. Many institutional investors have fiduciary responsibilities to their clients, and are typically not permitted to purchase non-investment grade (*i.e.*, rated below Baa3/BBB-) securities or in some cases even securities rated below single A. A solid credit rating directly benefits customers by reducing the immediate and future borrowing costs related to the financing needed to support regulatory obligations. It also allows the

Company to avoid posting cash collateral or letters of credit with trading counterparties. Counterparties generally assess companies based on a letter grade basis. A downgrade could possibly trigger the need for additional posted collateral.

Second, credit ratings are an estimate of the probability of default by the issuer on each rated security. Lower ratings equate to higher risks and higher costs of debt. The Great Recession of 2008-2009 provides a clear and compelling example of the benefits of the Company's credit rating because PacifiCorp was able to issue new long-term debt in the midst of the financial turmoil. Other lower-rated utilities were shut out of the market and could not obtain new capital.

More recently, at the onset of the pandemic in the Spring of 2020, market uncertainty led to many commercial paper borrowers seeing higher rates, challenges issuing commercial paper and pressure on longer-term notes with significantly wider credit spreads. PacifiCorp was able to issue long-term debt in April of 2020 at a rate 50 to 100 basis points lower than similar triple B rated entities.

Third, PacifiCorp has a near constant need for short-term liquidity as well as periodic long-term debt issuances. PacifiCorp pays significant amounts daily to suppliers whom we count on to provide necessary goods and services, such as fuel, energy, and inventory. Being unable to access funds can risk the successful completion of necessary capital infrastructure projects and would increase the chance of outages and service failures over the long term.

PacifiCorp's creditworthiness, as reflected in its credit ratings, will strongly influence its ability to attract capital in the competitive markets and the resulting costs of that capital.

Q. Please provide examples where poor credit ratings hurt a utility's flexibility in the credit markets.

A. During the Great Recession in 2008, Arizona Public Service Company (rated Baa2/BBB- at that time) filed a letter with the Arizona Corporation Commission in October 2008 stating that the commercial paper market was completely closed to it and it likely could not successfully issue long-term debt.[2]

Further, those issuers who could access the markets paid rates well above the levels that PacifiCorp was able to obtain. For example, PacifiCorp issued new 10-year and 30-year long-term debt in January 2009 with 5.50 percent and 6.00 percent coupon rates, respectively. Subsequently, Puget Sound Energy (rated Baa2/A- at that time) issued new seven-year debt at a credit spread over Treasuries of 480.3 basis points resulting in a 6.75 percent coupon rate.

Q. Can regulatory actions or orders affect PacifiCorp's credit rating?

A. Yes. Regulated utilities such as PacifiCorp are unique in that they cannot unilaterally set the price for their services. The financial integrity of a regulated utility is largely a result of the prudence of utility operations and the corresponding prices set by regulators. Rates are established by regulators to permit the utility to recover prudently incurred operating expenses and a reasonable opportunity to earn a fair return on the capital invested.

Rating agencies and investors have a keen understanding of the importance of regulatory outcomes. For example, Standard & Poor's ("S&P") has opined on the

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[2] *See* Exhibit No. 4.

correlation between regulatory outcomes and credit ratings, concluding:

[redacted]

Similarly, Moody's recently issued a credit opinion for PacifiCorp, concluding:

[redacted]

[redacted]

As discussed in the testimony of Ms. Bulkley, Section VIII, Regulatory and Business Risk, the regulatory environment and the rate decisions by utility commissions have a direct and significant impact on the financial condition of utilities.

Q. How does the maintenance of PacifiCorp's current credit ratings benefit customers?

A. PacifiCorp is in the midst of a period of major capital spending and investing in cost-effective infrastructure to provide electric service that is reliable, clean, and affordable.

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[3] S&P Ratings Direct, *Assessing U.S. Investor-Owned Utility Regulatory Environments,* p. 4 (Aug. 10, 2016).
[4] Moody's Credit Opinion, *PacifiCorp Update to Credit Analysis*, p. 2 (June 25, 2020).

If PacifiCorp does not have consistent access to the capital markets at reasonable costs, these borrowings and the resulting costs of building new facilities become more expensive than they otherwise would be. The inability to access financial markets can threaten the completion of necessary projects and can impact system reliability and customer safety. Maintaining the current single A credit rating makes it more likely PacifiCorp will have access to the capital markets at reasonable costs even during periods of financial turmoil.

Q. Can you provide an example of how the current ratings have benefited customers?

A. Yes. One example is PacifiCorp's ability to significantly reduce its cost of long-term debt primarily through obtaining new financing at very attractive interest rates. The lower cost of debt benefits customers through a lower overall rate of return and lower revenue requirement.

To determine the savings realized from maintaining a higher credit rating, in Exhibit No. 5 New Debt Issue Spreads, I compare the actual effective interest rate on the Company's existing long-term debt through March 31, 2021, which was issued since its acquisition by BHE in 2006, comprising 17 series of debt, to what the effective interest rate would have been with a BBB credit rating. The spread of each issuance was changed to match what a BBB rated utility achieved at about the same point in time that PacifiCorp issued the debt. The total result for the 17 series of debt averaging \$7.0 billion, would have been an effective average interest rate of approximately 5.14 percent or 60 basis points higher than PacifiCorp's actual effective interest rate. Combined with the existing pre-acquisition debt, the resulting overall cost of long-term debt would increase to 5.25 percent if the Company had a BBB rating. PacifiCorp is currently projecting an overall cost of long-term debt of 4.76 percent, or approximately 49 basis points lower than it might have otherwise been under the scenario I described above.

Table 3 below shows the reduction in the Company's cost of long-term debt since 2010.

Table 3: PacifiCorp's Cost of Long-Term Debt

	2021 GRC Effective 2022	PAC-E-10-07 Feb. 28, 2011
Cost of Long-Term Debt	4.76%	5.88%

PacifiCorp's customers have benefited from a 112 basis points (1.12 percent) reduction in the Company's cost of long-term debt. The Company estimates that this reduction in the average cost of debt since 2010 results in a decrease of approximately $7 million in the revenue requirement in the current case. Customers have also benefited from the Company's ability to negotiate lower underwriting fees on long-term debt issuances through BHE's global underwriting fee position.

Q. Are there other identifiable advantages to a favorable rating?

A. Yes. Higher-rated companies have greater access to the long-term markets for power purchases and sales. This access provides more alternatives to meet the current and future load requirements of their customers. Additionally, a company with strong ratings will often avoid having to meet costly collateral requirements that are typically imposed on lower-rated companies when securing power in these markets.

In my opinion, maintaining the current single A rating provides the best balance between costs and continued access to the capital markets, which is necessary to fund capital projects for the benefit of customers.

Q. Is the proposed capital structure consistent with PacifiCorp's current credit rating?

A. Yes. This capital structure is intended to help the Company deliver its required capital expenditures and achieve financial metrics that will meet rating agency expectations.

Q. Does PacifiCorp's credit rating benefit because of BHE and its parent Berkshire Hathaway Inc.?

A. Yes. PacifiCorp's credit ratios have been weak for its ratings level. Although ring-fenced, PacifiCorp has been able to sustain its ratings in part through the acquisition by BHE and its parent, Berkshire Hathaway Inc. S&P was very clear on this point in its April 2021 assessment of PacifiCorp:

[redacted]

Moody's states in their June 2020 credit opinion of PacifiCorp:

[redacted]

These examples are evidence of the credit rating benefit resulting from BHE's

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[5] S&P Ratings Direct, PacifiCorp (April 5, 2021), at 9.
[6]Moody's Credit Opinion, PacifiCorp Update to Credit Analysis (June 25, 2020), at 6.

ownership of PacifiCorp.

Rating Agency Debt Imputations

Q. Is PacifiCorp subject to rating agency debt imputation associated with power purchase agreements ("PPAs")?

A. Yes. Rating agencies and financial analysts consider PPAs to be debt-like and will impute debt and related interest when calculating financial ratios. For example, S&P will adjust PacifiCorp's published financial results and impute debt balances and interest expense resulting from PPAs when assessing creditworthiness. They do so to obtain a more accurate assessment of a Company's financial commitments and fixed payments. S&P Ratings Direct November 19, 2013, details its view of the debt aspects of PPAs and other debt imputations, and is included as Confidential Exhibit No. 6.

Q. How does this impact PacifiCorp?

A. In its most recent evaluation of PacifiCorp, S&P added approximately $863 million of additional debt and $30 million of related interest expense to the Company's debt and coverage tests for PPAs and other liabilities of the Company that are considered to be debt-like by S&P.

Q. How does inclusion of the PPA-related debt and these other adjustments affect PacifiCorp's capital structure as S&P reviews the Company's credit metrics?

A. Negatively. By including the imputed debt resulting from PPAs and these other adjustments, PacifiCorp's capital structure has a lower equity component as a corollary to the higher debt component, lower coverage ratios, and reduced financial flexibility than what might otherwise appear to be the case from a review of the book value capital structure. For example, as shown in Table 4, if one were to apply the total $863 million amount of debt adjustments that S&P most recently made to PacifiCorp's proposed capital structure in this case, the resulting common equity percentage would decline from 52.83 percent to 50.44 percent.

Table 4: Rating Agency Adjusted Capital

	Proposed Cap Structure		Rating	Adjusted Cap Structure	
	Book Values	% of Total	Agency Admits	Book Values	% of Total
Long-Term Debt	$ 8,583	47.16%	$ 863	$ 9,446	49.55%
Preferred Stock	2	0.01%	(1)	1	0.01%
Common Equity	9,616	52.83%	0	9,616	50.44%
	$ 18,201	100.00%	$ 862	$ 19,063	100.00%

IV. CAPITAL STRUCTURE DETERMINATION

Q. How did the Company determine its recommended capital structure?

A. The capital structure is based on the actual capital structure at March 31, 2021, and forecasted capital activity, including known and measurable changes, through December 31, 2021. PacifiCorp averaged the five quarter-end capital structures measured beginning at December 31, 2020, and concluding with December 31, 2021, resulting in a capital structure with an equity component of 52.83 percent. The capital activity includes known maturities of certain debt issues that were outstanding at March 31, 2021, and subsequent issuances of long-term debt. The known and measurable changes represent forecasted capital activity since March 31, 2021.

Q. Why does the Company propose a capital structure calculated using a five-quarter average?

A. This approach smooths volatility in the capital structure, which will fluctuate as the Company expends capital, issues or retires debt, retains earnings, or declares dividends.

This approach is consistent with the Company's previous general rate cases beginning with Case No. PAC-E-10-07 ("2010 Rate Case").

Q. How does the Company's proposed capital structure compare to recent actual capital structures and to the capital structure authorized in PacifiCorp's 2010 Rate Case?

A. The capital structures are compared in Table 5 below.

Table 5: Forecast and Actual Capital Structures

PacifiCorp's Comparison of % Capital Structures						
	Dec 31, 2021 Forecast*	Dec 31, 2020 Actual*	Dec 31, 2019 Actual*	Dec 31, 2018 Actual*	Dec 31, 2017 Actual*	PAC-E-10-07 Capital Structure
Long-Term	47.16 %	48.49 %	48.36 %	47.89 %	48.49 %	47.60 %
Preferred	0.01 %	0.01 %	0.02 %	0.02 %	0.02 %	0.30 %
Common	52.83 %	51.50 %	51.62 %	52.09 %	51.49 %	52.10 %
Totals	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

*Five quarter-end average % Capital Structure calculated for trailing 12-month period

The percentage increase in the common equity component of the capital structure from the actual December 31, 2020 five-quarter average to that projected for the 2021 test period is due to earnings offset by debt issuances and the forgoing of any common dividend payments in 2021. Further, the Company's projected capital structure for 2021 contains a modestly higher common equity component than what was approved by the Commission in the 2010 Rate Case.

Q. Is the capital structure comparable to the capital structures of the proxy group used in the ROE testimony of Ms. Bulkley?

A. Yes, Section IX of Ms. Bulkley's testimony discusses the reasonableness of the proposed 52.83 percent as it closely approximates the average capital structure of the proxy group at 52.7 percent.

Q. How did you calculate the Company's embedded costs of long-term debt and preferred stock?

A. Consistent with my determination of the percentage capital structure discussed previously, I have similarly calculated the embedded costs of debt and preferred stock as an average of the five quarter-end cost calculations spanning the test period, beginning at December 31, 2020, and concluding with December 31, 2021.

Q. Please explain the cost of long-term debt calculation.

A. I calculated the embedded cost of debt using the methodology relied upon in the Company's previous rate cases in Idaho and other jurisdictions. More specifically, I calculated the cost of debt by issue, based on each debt series' interest rate and net proceeds at the issuance date, to produce a bond yield to maturity for each series of debt outstanding as of each of the five quarter-ending dates spanning the 12-month calendar year 2021 test period. It should be noted that in the event a bond was issued to refinance a higher cost bond, the pre-tax premium and unamortized costs, if any, associated with the refinancing were subtracted from the net proceeds of the bonds that were issued. Each bond yield was then multiplied by the principal amount outstanding of each debt issue, resulting in an annualized cost of each debt issue. Aggregating the annual cost of each debt issue produces the total annualized cost of debt. Dividing the total annualized cost of debt by the total principal amount of debt outstanding produces the weighted average cost for all debt issues.

Q. Please describe the changes to the amount of outstanding long-term debt between December 31, 2020, and December 31, 2021.

A. $420 million of the Company's fixed rate long-term debt will mature during this period, and I have therefore removed this debt when appropriate in the determination of the proposed average cost of debt. Also, as reflected in Exhibit No. 3, Pro forma Cost of Long-Term Debt, a new long-term debt issuance of $400 million is projected for July 2021, consistent with our forecast and necessary to fund our operations, including to refinance the $400 million first mortgage bond maturity scheduled for July 2021.

Q. Regarding the new $400 million long-term debt issuance mentioned above, how did you determine the interest rate for this new debt series?

A. I projected this debt would be issued at the Company's estimated April 2021 credit spread over the projected long-term Treasury rates as of July 15, 2021. Finally, I added in the effect of issuance costs. This reflects the Company's best estimate of the cost of new debt, assuming the Company's senior secured long-term debt ratings remain unchanged. Currently the Company's senior secured long-term debt is rated A+ and A1 by Standard & Poor's and Moody's, respectively.

Q. What is the resulting estimated interest rate for this new long-term debt?

A. The Company's estimated April 2021 credit spread for thirty-year debt was 0.95 percent. The forward long-term Treasury rate for July 15, 2021, is 2.31 percent. Issuance costs for this type of debt add approximately 5 basis points (*i.e.*, 0.05 percent) to the all-in cost. Therefore, the projected cost of the new debt is 2.31+ 0.95 + 0.05 = 3.31 percent.

Q. A portion of the securities in PacifiCorp's debt portfolio bears variable rates. What is the basis for the projected interest rates used by PacifiCorp?

A. The Company's variable rate long-term debt in this case is in the form of tax-exempt debt. Exhibit No. 7, Variable Rate Pollution Control Revenue Bonds, shows that, on average, these securities have been trading at approximately 85 percent of the 30-day London Inter Bank Offer Rate ("LIBOR") for the period January 2000 through March 2021. Therefore, the Company has applied a factor of 85 percent to the forward 30-day LIBOR rate as of each of the three remaining quarter-ending dates spanning calendar year 2021 and then added the respective credit facility and remarketing fees for each floating rate tax-exempt bond outstanding during the period. Credit facility and remarketing fees are included in the interest component because these are costs which contribute directly to the interest rate on the securities and are charged to interest expense. This method is consistent with the Company's past practices when determining the cost of debt in previous Idaho general rate cases as well as in other states that regulate PacifiCorp.

Q. How did you calculate the embedded cost of preferred stock?

A. The embedded cost of preferred stock was calculated by first determining the cost of money for each issue. I began by dividing the annual dividend per share by the per share net proceeds for each series of preferred stock. The resulting rate associated with each series was then multiplied by the total par or stated value outstanding for each issue to yield the annualized cost for each issue. The sum of annualized costs for each issue produces the total annual cost for the entire preferred stock portfolio. I then divided the total annual cost by the total amount of preferred stock outstanding to produce the weighted average cost for all issues. The result is PacifiCorp's embedded cost of preferred stock.

Embedded Cost of Long-Term Debt

Q. What is PacifiCorp's embedded cost of long-term debt?

A. The cost of long-term debt is 4.76 percent, as shown in Exhibit No. 3, Pro forma Cost of Long-Term Debt.

Embedded Cost of Preferred Stock

Q. What is PacifiCorp's embedded cost of preferred stock?

A. Exhibit No. 8, Cost of Preferred Stock, shows the embedded costs of preferred stock to be 6.75 percent.

V. CONCLUSION

Q. Please summarize your recommendations to the Commission.

A. I respectfully request the Commission adopt PacifiCorp's proposed capital structure with a common equity level of 52.83 percent. This capital structure balances the financial integrity of the Company and costs to customers by reflecting the minimum equity ratio necessary for PacifiCorp to maintain its ratings under current market conditions. When combined with PacifiCorp's updated cost of long-term debt of 4.76 percent and the cost of equity of 10.20 percent recommended by Ms. Bulkley, this produces a reasonable overall cost of capital of 7.63 percent.

Q. Does this conclude your direct testimony?

A. Yes.