Q. Please state your name, business address and present position with Rocky Mountain Power (the "Company"), a division of PacifiCorp.

A. My name is Bruce N. Williams. My business address is 825 NE Multnomah, Suite 1900, Portland, Oregon 97232. My present position is Vice President and Treasurer.

Qualifications

Q. Please describe your education and business experience.

A. I received a Bachelor of Science degree in Business Administration with a concentration in Finance from Oregon State University in 1980. I also received the Chartered Financial Analyst designation upon passing the examination during 1986. I have been employed by the Company for 25 years. My business experience has included financing of the Company's electric operations and non-utility activities, responsibility for the investment management of the Company's qualified and non-qualified retirement plan assets, and investor relations.

Q. Please describe your present duties.

A. I am responsible for the Company's treasury, credit risk management, pension and other investment management activities. I am also responsible for the preparation of PacifiCorp's embedded cost of debt and preferred equity and any associated testimony related to capital structure for regulatory filings in all of PacifiCorp's state and federal jurisdictions.

Q. Please provide a summary of your testimony?

A. My testimony discusses the Company's capital structure and costs of capital. It supports the proposed common equity level of 52.3 percent and provides evidence

of why that level is appropriate and demonstrates the benefits to customers, including maintaining the Company's current credit ratings which will facilitate continued access to the capital markets for the Company and over the long-term a more competitive cost of debt and overall cost of capital. This capital structure is necessary to enable the Company to continue to invest in infrastructure in order to provide safe and reliable service to our customers at reasonable costs.

Q. What is the overall cost of capital that you are proposing in this proceeding?

A. Rocky Mountain Power is proposing an overall cost of capital of 8.25 percent. This cost includes the return on equity recommendation of 10.5 percent from Dr. Samuel C. Hadaway and the following capital structure and costs:

Overall Cost of Capital

Component	Percent of Total	% Cost	Weighted Average
Long Term Debt	47.4%	5.78%	2.74%
Preferred Stock	0.3%	5.43%	0.02%
Common Stock Equity	52.3%	10.50%	5.49%
Total	100.0%	8.25%	

Financing Overview

Q. Please explain Rocky Mountain Power's need for and sources of new capital.

A. Rocky Mountain Power is in the process of adding significant new plant investments over multiple years. These investments include required pollution control equipment, generation upgrades, and transmission facilities. These investments help system reliability, improve power delivery and help to assure safe operations for the benefit of its customers.

Q. How does the Company finance its electric utility operations?

A. Generally, the Company finances its regulated utility operations utilizing

approximately a 50/50 percent mix of debt and common equity capital. Immediately prior to and during periods of significant capital expenditures, the Company may allow the common equity component of the capital structure to increase. This provides more flexibility regarding the type and timing of debt financing, better access to the capital markets, a more competitive cost of debt, and over the long-run, more stable credit ratings; all of which assist in financing such expenditures. In addition, all else being equal, the Company will need to have 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 will discuss these adjustments in greater detail later in this testimony.

Q. Has the Company recently begun paying dividends to MidAmerican Energy Holdings Company ("MEHC")?

A. Yes. With the passage of recent legislation enacting bonus depreciation, the Company's expected net cash flow during the next two years will increase significantly. This will reduce but not eliminate the need for new borrowings and, 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. Consequently, dividend payments are now necessary, in combination with debt issuances, to keep the percentage of equity in the Company's capital structure in line with the level sufficient to support the Company's credit ratings. As a result, the Company has initiated the payment of dividends to MEHC to continue to manage the common equity component of the

capital structure and keep the Company's overall cost of capital at a prudent level.

Q. Please explain why dividends were not paid to MEHC in the past.

A. Since the acquisition in 2006 by MEHC, the Company has managed the capital structure through the timing and amount of long-term debt issuances and capital contributions while forgoing any common dividend distributions. MEHC recognizes that the Company is in a period requiring significant capital investment which, until recently, has far exceeded the Company's ability to finance with internally generated funds. As such, MEHC allowed the Company to retain earnings totaling over $2 billion and even increased its investment in the Company by more than $1 billion in order to enable the Company to finance capital investment and help maintain the credit ratings during this period of capital spending. As I will discuss later, the maintenance of credit ratings has allowed the Company to access the capital markets when other utilities were denied access, provided a lower cost of debt and a lower overall cost of capital.

Q. Shouldn't the additional cash flow generated by the tax law changes mitigate the need for a rate increase?

A. Only to a limited extent. Bonus depreciation provides a temporary cash flow benefit to the Company in the form of accelerated tax benefits, but this cash benefit does not translate one-for-one into a reduction in revenue requirements. Income tax expense, a component of revenue requirements, generally is unchanged as a result of bonus depreciation, as the current income tax benefits received from bonus depreciation generally are fully offset by additional deferred income tax expenses. Customers receive benefits from bonus depreciation in the

form of increased deferred income tax liabilities, which reduces rate base and by lower equity levels carried in the Company's capital structure than would otherwise be the case without the benefits of bonus depreciation. This capital structure with a lower equity level still produces financial results that meet the rating agency's expectations due to the improved cash flow metrics resulting from bonus depreciation.

Credit Ratings

Q. Why should this Commission be concerned about credit ratings and the views expressed by rating agencies?

A. This Commission should be concerned about credit ratings and the views of rating agencies for several reasons. 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 BBB-) securities or in some cases even securities rated below a single A.

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. However, even investment grade rated borrowers have experienced recent problems accessing the capital markets or even been shut out entirely. The financial crisis of 2008 and 2009 provided clear and compelling evidence of the benefits of the Company's credit rating as it was able to issue new long-term debt during the midst of the financial turmoil. Other lower rated utilities were simply

shut out of the market and could not obtain new capital regardless of how much they were willing to pay.

Q. Can you give the Commission examples where poor credit ratings hurt a utility's flexibility in the credit markets?

A. Yes. Arizona Public Service Company (rated at that time Baa2/BBB-) filed a letter with the Arizona Corporation Commission during October 2008 stating that the commercial paper market was completely closed to them and, they likely could not successfully issue long-term debt. See Exhibit No. 5, APS Access to Corporate Debt Markets.

Further, those issuers who could access the markets paid rates well above the levels that the Company was able to achieve. For example, Nevada Power (rated Baa3/BBB) issued new debt two days following PacifiCorp's January 2009 issuance and was required by investors to pay a coupon of 7.375% for a five year maturity. Subsequently, Puget Sound Energy (rated Baa2/A-) issued new seven year debt at a credit spread over Treasuries of 480.3 basis points resulting in a 6.75 percent coupon.

Q. How do these coupon rates compare to PacifiCorp during that period and more recently?

A. The Company completed in January 2009 an offering of $350 million of first mortgage bonds with a 10 year maturity at a coupon rate of 5.50 percent and $650 million of 30 year first mortgage bonds with a coupon of 6.00 percent. The Company was able to achieve both a longer maturity and lower cost than either of those other utilities.

More recently, the Company completed an issuance of $400 million of first mortgage bonds at a coupon rate of 3.85 percent which compares very favorably to debt issuances by similarly or higher rated utility issuers including Pacific Gas & Electric Company, The Detroit Edison Company and Southern California Edison Company. This favorable debt rate is included in the cost of debt calculation in this docket.

Further, the Company has a near constant need for short-term liquidity as well as periodic long-term debt issuances. We daily pay significant amounts to suppliers whom we count on providing necessary goods and services such as fuel and spare parts 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.

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

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

A. Yes, in a very significant way. Regulated utilities such as the Company are fairly unique since they unilaterally cannot set their own prices for their services. The financial integrity of a regulated utility is largely a result of how the utility is treated on cost recovery issues and the 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. Therefore, rate decisions by utility commissions have a direct

and significant impact on the financial condition of utilities.

Rating agencies and investors have a keen understanding of the importance of regulatory outcomes. For example, Standard & Poor's writes: "(t)he assessment of regulatory risk is perhaps the most important factor in Standard & Poor's Ratings Services' analysis of U.S. regulated, investor-owned utility's business risk."[1] Similarly, Moody's has stated:

> [f]or a regulated utility, the predictability and supportiveness of the regulatory framework in which it operates is a key credit consideration and the one that differentiates the industry from most other corporate sectors. The most direct and obvious way that regulation affects utility credit quality is through the establishment of prices or rates for the electricity, gas and related services provided (revenue requirements) and by determining a return on a utility's investment, or shareholder return.[2]

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

A. The Company is in the midst of a period of heavy capital spending and investing in infrastructure in order to provide for the needs of customers. If the Company 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 it otherwise would be. The inability to access financial markets can threaten the completion of these necessary projects which, in turn, will impact system reliability and customer safety. All of these resulting higher costs are ultimately borne by the customers. Maintaining the current single-A credit rating makes it more likely the Company will have access to the capital markets at

[1] Standard & Poor's Ratings Direct – Assessing U.S. Utility Regulatory Environments; March 11, 2010.
[2] Moody's Investors Service Regulated Electric and Gas Utilities; August 2009.

reasonable costs even during periods of financial turmoil. Such a rating will allow the Company continued access to the capital markets that will enable it to fulfill its capital investments for the benefit of customers.

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. Such access provides these companies with more alternatives when attempting 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 the Company's current credit rating?

A. Yes. This capital structure is intended to enable the Company to deliver its required capital expenditures and achieve financial metrics which will meet rating agency expectations. S&P has stated very clearly their expectations for PacifiCorp: "we expect FFO to total debt and FFO interest coverage will be in the high teens and the 4.0x - 4.5x range, respectively. We view these cash flow levels as minimum levels to retain the rating."[3]

[3] Standard & Poor's Ratings Direct April 28, 2011.

Q. Does the Company's credit rating benefit because of MEHC and its parent Berkshire Hathaway?

A. Yes. Although ring fenced, historically, the Company's credit ratios have been weak for the ratings level and we have been able to sustain our ratings, in part through the acquisition by MEHC and its parent, Berkshire Hathaway. S&P was very clear on this point in their recent assessment of PacifiCorp in stating "….cash flows metrics remain just adequate to support the ratings." S&P further stated:

> …..the Company's funds for operations (FFO) to total debt has been consistently in the high teens, slightly below our expected credit metrics for the rating, since it was acquired by [MEHC]. Leverage has also been somewhat high for the rating at 53 percent at year-end 2009. However, we expect that credit metrics will improve in the coming years, producing FFO total debt in the area of 20 percent, FFO interest coverage ….in the range of 4.0x – 4.5x, and leverage of about 50 percent.[4]

Clearly, Rocky Mountain Power and its customers have benefited from the higher ratings the Company would otherwise not likely have been awarded on a stand-alone basis. Another important element supporting the Company's current ratings is the rating agencies' expectations that Rocky Mountain Power will receive supportive regulatory treatment including reasonable outcomes in rate proceedings, including applications to recover the full cost of large scale capital projects. Absent ownership by MEHC and constructive regulatory treatment that permits a fair opportunity for the Company to recover its reasonable and prudent expenses, including a return on its investment comparable to other similarly

[4] Standard & Poor's Rating Direct October 7, 2010.

situated utilities, PacifiCorp's senior secured and corporate credit ratings would have likely suffered at least a one rating level downgrade.

Q. Has there been any changes in the Company's credit ratings that needs clarification?

A. Yes. In March 2009, S&P upgraded PacifiCorp's senior secured debt to 'A' while it downgraded PacifiCorp's short-term debt ratings to 'A-2'. Similarly, Moody's revised PacifiCorp's senior secured debt to 'A2' from 'A3' in August 2009.

Q. Please explain these rating changes.

A. The action on PacifiCorp's senior secured debt merely reflects a change in S&P's methodology rather than a change in PacifiCorp's credit quality or financial metrics. S&P changed its approach to estimating the amount of collateral that would be available to senior secured debt holders in the event of a default by PacifiCorp on its first mortgage bonds.

S&P has been cautious about PacifiCorp credit metrics and, as noted previously, views the Company's credit metrics on a stand-alone basis as just adequate to support the ratings. Indeed, in downgrading the Company's short-term debt ratings, S&P cited a need to take a firmer view on linking PacifiCorp short-term ratings to stand-alone credit quality. S&P sustained their current 'A-' corporate credit rating based on their expectation "that management will achieve cash flow metrics more consistent with an 'A' rating over the next several years."[5]

The upgrade of the Company's senior secured debt by Moody's was part of an industry-wide action in which the majority of senior secured debt ratings of

[5] Standard & Poor's Rating Direct April 30, 2010.

investment-grade regulated utilities were upgraded by one level. The action was a result of Moody's analysis of the history of regulated utility defaults and was not specific or unique to the Company.

Q. Do S&P's recent credit reports on PacifiCorp underline S&P's expectation that PacifiCorp improve its financial metrics in order to maintain its current credit rating?

A. Yes. S&P made several references to the need for PacifiCorp to improve its stand-alone financial metrics, noting that PacifiCorp's financial risk profile reflects a large capital program and the need to shore up cash flow metrics. S&P also stated that, "[g]iven the recent turmoil in both the liquidity and capital markets, we have taken a firmer view on the need to link the PacifiCorp short-term ratings to its stand-alone quality, which supports an 'A-2' short-term rating." S&P also reiterated its credit view that, "supportive rate case outcomes remain key to maintaining and improving upon the company's financial performance." Exhibit Nos. 6, 7, 8 are the April 28, 2011, October 7, 2010, and April 30, 2010, S&P Ratings Direct publications.

Q. Do other rating agencies share S&P's view concerning the need for supportive rate case outcomes?

A. Yes. Fitch stated, "[t]he current ratings and stable outlook assume [PacifiCorp] continues to benefit from parent company support and reasonable outcomes in pending and future rate proceedings to recover anticipated, significant capital investment."[6] More recently, Fitch wrote:

[6] Fitch Ratings – October 1, 2010.

"Given the size of its planned capital investment, timely recovery of capital and related operating and maintenance costs is crucial for PPW's creditworthiness. Therefore, currently unanticipated adverse developments in PPW's six regulatory jurisdictions, leading to greater regulatory lag or lower recoveries, and resulting weaker coverage ratios compared with Fitch's projections could lead to future deterioration in PPW's creditworthiness and lower credit ratings."[7] Likewise Moody's lists "Reasonably supportive regulatory environment" as one of the ratings drivers. Moody's also states, "The stable outlook incorporates Moody's expectation that PacifiCorp will continue to receive reasonable regulatory treatment for the recovery of its higher capital expenditures…." Further as to what could change the rating-down; Moody's writes "…..if there were to be adverse regulatory rulings on current and future rate cases such that we would anticipate a sustained deterioration in financial metrics..."[8]

Capital Structure

Q. How did the Company determine the capital structure proposed in this case?

A. The test period in this proceeding is the 12 months ending December 31, 2010, with known and measurable changes through December 2011. To appropriately match the Company's costs with customer prices during the period, the capital structure is based on the actual capital structure at March 31, 2011, and forecasted capital activity, including known and measurable changes, through December 31, 2011. The Company has averaged the five quarter end capital structures measured beginning at December 31, 2010, and concluding with December 31, 2011. The capital activity includes known maturities of certain debt issues that were outstanding at December 31, 2010, subsequent issuances of long-term debt and the payment of dividends. The known and measurable changes represent actual and forecasted capital activity since March 31, 2011.

[7] Fitch Ratings – January 6, 2011.
[8] Moody's Investor Service May 9, 2011.

Q. Why is Rocky Mountain Power using an average of five quarter ends to determine the proposed capital structure rather than simply an average of the beginning and ending points as in previous cases?

A. As the Company has grown, its capital expenditure program has increased significantly from historical levels which, in turn, have required new financings to also be much larger. These larger financings are usually more efficient due to lower transactional costs, and better received by investors who value the greater liquidity that larger financings typically offer. However, the trade-off is greater volatility in the Company's capital structure ratios, particularly at quarter-end following sizable financings. As such, the Company is proposing in this case to use a capital structure that employs an average of the five quarter ending balances spanning the test period to help smooth out this volatility. This is also the same methodology the Company used in its most recent rate case, Case No. PAC-E-10-07, and approved by the Commission.

Q. How does this capital structure compare to what in the Commission ordered the Company's most recent rate case?

A. The capital structures are compared in the table below.

Rocky Mountain Power Comparison of Capital Structures		
	Case No. PAC-E-10-07	**2011 General Rate Case**
Long-Term Debt	**47.6%**	**47.4%**
Preferred Stock	**0.3%**	**0.3%**
Common Equity	**52.1%**	**52.3%**
Totals	**100.0%**	**100.0%**

The proposed capital structure in this docket has a slightly higher common equity component than the Company's capital structure in the prior case which the

Commission accepted without adjustment.

Q. What type of debt and preferred equity securities does the Company employ in meeting its financing requirements?

A. The Company relies on a mix of first mortgage bonds, other secured debt, tax-exempt debt, and preferred stock to help meet its long-term financing requirements. These securities employ various maturities in order to provide flexibility and mitigate refinancing risks. The Company has completed the majority of its long-term financing utilizing secured first mortgage bonds issued under the Mortgage Indenture dated January 9, 1989. Exhibit No. 9 Cost of Long-Term Debt shows that, over the 12 months ended December 31, 2011, the Company is projected to have an average of approximately $5.7 billion of first mortgage bonds outstanding, with an average cost of 6.24 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 the combined utility operation.

Another important source of financing 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, the Company borrows the proceeds of these issuances from the respective entities and pledges its credit quality to repay the debt in order to take advantage of the tax-exempt status of the financings. These bonds are primarily in a variable rate mode and are re-marketed, some as often as weekly. In addition to tax-exempt status, these securities take advantage of current very low short-term

interest rates. On the other hand, the variable rate structure of this type of financing exposes the Company to re-marketing and interest rate risks as well as dislocations in the short-term credit markets. Hence, the Company is careful as to the total amount of this variable rate financing that it maintains in its capital structure.

During the 12 months ended December 31, 2011, PacifiCorp's tax-exempt portfolio is projected to be $738 million in principal amount with an average cost of 2.23 percent (which includes the cost of issuance and credit enhancement).

Q. How does the Company determine the amount of common equity, debt and preferred stock to be included in its capital structure?

A. As a regulated public utility, the Company has a duty and an obligation to provide safe, adequate and reliable service to customers in its Idaho service territory while prudently balancing cost and risk. In order for Rocky Mountain Power to fulfill its service obligation, the Company is making significant capital expenditures for new plant investment, including transmission and environmental control investments on existing fossil-fired generation units. Each of these capital investments also has associated operating and maintenance costs. Through its planning process, the Company determined the amount of necessary new financing needed to support these activities and to provide financial results and credit ratings that balance the cost of capital with continued access to the financial markets.

Q. Please describe the changes to the amount of outstanding long-term debt.

A. During the 12 months ending December 31, 2011, the balance of the outstanding

long-term debt will change through maturities and principal amortization totaling $586.7 million.

In addition, the Company recently completed the issuance of new long-term debt in the amount of $400 million with a coupon rate of 3.85 percent This issuance is included in the proposed capital structure and the cost is included in the cost of debt calculation.

Purchase Power Agreements

Q. Is the Company subject to rating agency debt imputation associated with Purchase Power Agreements?

A. Yes. Rating agencies and financial analysts consider Purchase Power Agreements ("PPAs") to be debt-like and will impute debt and related interest when calculating financial ratios. For example, S&P will adjust the Company's published financial results and impute debt balances and interest expense resulting from PPAs when assessing creditworthiness. They do so in order to obtain a more accurate assessment of a company's financial commitments and fixed payments. Exhibit No. 10 S&P RatingsDirect May 7, 2007, is a publication by S&P detailing its view of the debt aspects of PPAs.

Q. How does this impact the Company?

A. During a recent ratings review, S&P evaluated the Company's PPAs and other related long-term commitments. Approximately $396 million of additional debt and $26 million of related interest expense were added to the Company's debt and coverage tests solely as a result of PPAs. There were also other adjustments made by S&P that resulted in a total of approximately $1 billion of debt and $78 million

of interest being imputed into PacifiCorp's credit ratios.[9]

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

A. Negatively. By including the imputed debt resulting from PPAs and these other adjustments, the Company'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, if one were to add the total $1 billion amount of debt adjustments that Standard & Poor's makes to the Company's capital structure in this case, the resulting common equity percentage would decline from 52.3 percent to 48.7 percent. The 48.7 percent equity ratio falls below S&P's published expectations for PacifiCorp.

	Book Values/Ratios	Rating Agency Adjustments	Adjusted Book Values/Ratios
Long-Term Debt	$6,466 / 47.4%	$1,000	$ 7,466 / 51.0%
Preferred Stock	$41 / 0.3 %	0	$41 / 0.3 %
Common Equity	$7,129 / 52.3%	0	$ 7129 / 48.7%
Totals	$13,636 / 100.0%	$1,000	$ 14,636 / 100.0%

Financing Cost Calculations

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

A. I calculated the embedded costs of debt and preferred stock using the

[9] Standard & Poor's Rating Direct October 7, 2010.

methodology relied upon in the Company's previous rate cases in Idaho and other jurisdictions.

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

A. 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. 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. This is the Company's embedded cost of long-term debt.

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 begin by dividing the annual dividend per share by the per share net proceeds for each series of preferred stock. The resulting cost 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 the Company's embedded cost of preferred stock.

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

A. The Company's variable rate long-term debt in this case is in the form of tax-exempt debt. Exhibit No. 11 PCRB Variable Rates shows that, on average, these securities had been trading at approximately 94 percent of the 30-day London Inter Bank Offer Rate (LIBOR) for the period January 2000 through March 2011. Therefore, the Company has applied a factor of 94 percent to the forward 30-day LIBOR rates at each future quarter-end spanning the test period and then added the respective credit enhancement and remarketing fees for each floating rate tax-exempt bond. Credit enhancement 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 the other states that regulate PacifiCorp.

Embedded Cost of Long-Term Debt

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

A. The cost of long-term debt is 5.78 percent for the period ending December 31, 2011, as shown in Exhibit No. 9, Cost of Long-Term Debt.

Embedded Cost of Preferred Stock

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

A. Exhibit No. 12, Cost of Preferred Stock, shows the embedded cost of preferred stock for the period ending December 31, 2011, to be 5.43 percent.

Q. Does this conclude your direct testimony?

A. Yes.