REDACTED
Docket No. UE 433
Exhibit PAC/300
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

PACIFICORP

REDACTED

Direct Testimony of Nikki L. Kobliha

February 2024

TABLE OF CONTENTS

ATTACHED EXHIBITS

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, business address, and present position with PacifiCorp d/b/a Pacific Power (PacifiCorp or the Company).

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.

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 supports PacifiCorp's overall cost of capital recommendation.

Q. What is the purpose of each of the items summarized above?

A. Regarding the overall cost of capital recommendation, I sponsor the Company's proposed capital structure with a common equity level of 50.00 percent and provide support demonstrating why that level is appropriate at this time and how this capitalization benefits customers.

I explain the changes in the Company's credit ratings since the last rate proceeding and the changes to the Company's financial metrics in 2023. I discuss the support needed to achieve Standard & Poor's (S&P) and Moody's credit metric thresholds to maintain the Company's credit rating. I summarize the financial plan that has been established to provide the necessary financial support for PacifiCorp at this time, including the Company's changes to its capital plan and the support provided by Berkshire Hathaway Energy (BHE). I further demonstrate why the requested capital structure is an important component of that plan to support the Company's financial metrics. Finally, I explain why this form of regulatory support benefits customers. I also support PacifiCorp's proposed cost of long-term debt of 5.18 percent and cost of preferred stock of 6.75 percent.

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

A. PacifiCorp proposes an overall cost of capital of 7.74 percent. This cost includes the return on equity recommendation of 10.3 percent as supported by the direct testimony of Company witness Ann E. Bulkley and the capital structure and costs set forth in Table 1.

Table 1: Hypothetical Overall Cost of Capital

Component	% of Total	Cost %	Weighted Ave Cost %
Long-Term Debt	49.99%	5.18%	2.59%
Preferred Stock	0.01%	6.75%	0.00%
Common Stock Equity	50.00%	10.30%	5.15%
	100.00%		7.74%

Q. What time period does your analysis cover?

A. The costs of the long-term debt and preferred stock are measured over the calendar year 2025 test period (Test Period) proposed in this proceeding using an average of the five quarter-ending balances spanning the 12-month period ending December 31, 2025, based on known and measurable changes through December 31, 2025. The capital structure for the Company in this case is a hypothetical capital structure set at a level expected to enable the Company to maintain its current credit ratings. This is a departure from the Company's historical practice of basing the capital structure on the average of the five quarter-ending balances, as further discussed below.

III. PACIFICORP'S HISTORICAL CAPITAL STRUCTURES

Q. How does PacifiCorp's historical actual capital structure compare to what is currently authorized?

A. As shown in Table 2 below, PacifiCorp's historical equity ratio has remained relatively flat in the 2018 through 2023 time period, averaging just below 52 percent. In 2021, and again in 2022, the Commission authorized an equity level of 50 percent effective January 1, 2021. Since that time PacifiCorp's actual equity level has exceeded the authorized level.

Table 2: Historical Actual Capital Structure

As of December 31[1]:	2018	2019	2020	2021	2022	2023
Long-Term Debt	47.89%	48.36%	48.49%	47.69%	46.69%	49.93%
Preferred Stock	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%
Common Equity	52.09%	51.62%	51.50%	52.30%	53.30%	50.06%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

[1] Five quarter-end average % Capital Structure for trailing 12-month period ending December 31 of each period; 2023 period represents preliminary actual results.

Q. Why is the Company proposing a capital structure that differs from its forecast capital structure?

A. In the Company's last rate proceeding, the equity ratio that was agreed to by the parties was composed of 50 percent equity and 50 percent long-term debt. Through

2022, the Company managed to a capital structure in excess of this agreed upon level and it was not until the recent events related to the 2020 wildfires that the equity ratio dropped to the authorized level of 50 percent. As a result of incremental wildfire liability accruals throughout 2023 and settlements that were reached in December 2023, coupled with the Company's sizable capital expenditure plan, the Company's actual capital structure has become, and will continue to be for the foreseeable future, more highly leveraged and the Company's financial risk has increased significantly.

Table 3 presents the Company's forecast capital structure for 2024 and 2025.

Table 3: Forecast Capital Structure

Forecast as of December 31[1]:	2024	2025
Long-Term Debt	55.80%	55.64%
Preferred Stock	0.01%	0.01%
Common Equity	44.19%	44.35%
Total	100.00%	100.00%

[1] Five quarter-end average % Capital Structure for 12-month period ending December 31 of each period.

The result of these circumstances is that the Company faces significant risk of a further credit ratings downgrade at its forecast capitalization. Further, the Company's access to the capital markets is challenged as a result of the risk associated with wildfires. Therefore, PacifiCorp is seeking regulatory support through a ratemaking capital structure that will provide the necessary financial support for its current credit ratings. Supporting the Company's credit ratings, and the ability to access capital in the market when it is required, on reasonable terms, provides benefits to PacifiCorp's customers, particularly at a time when significant capital investment is required in the system to meet ongoing operational requirements and policy objectives.

IV. PACIFICORP'S CREDIT METRICS

Q. What are PacifiCorp's current credit ratings?

A. PacifiCorp's current ratings are shown in Table 4.

Table 4: PacifiCorp Credit Ratings

	Moody's	**S&P's**
Senior Secured Debt	A2	A
Issuer	Baa1	BBB+
Outlook	Stable	Negative

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 and the ability to attract the capital necessary to fund 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-/Baa3) securities or in some cases even securities rated below a single A rating. A further credit rating downgrade has the potential for the Company's Senior Secured Debt ratings to drop below an A rating, thus further limiting the Company's access to capital. A solid credit rating directly benefits customers by reducing the immediate and future borrowing costs related to the financing needed to support regulatory obligations.

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 during the midst of the financial turmoil. Other lower-rated utilities were shut out of the market and could not obtain new capital.

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 and critical 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 summarize the Company's historical credit metrics.

A. Confidential Table 5 below presents PacifiCorp's cash from operations pre-working capital divided by debt (CFO Pre-WC/Debt) and funds from operations divided by debt (FFO/Debt) metrics for the period from 2019 through 2024. These are the key metrics relied upon by Moody's and S&P. As shown in this table, the Company's 2023 forecast metrics are in the low end of the target range for Moody's. The Company's forecast metrics for 2024 are in the [redacted] range for Moody's and [redacted] range for S&P. These metrics are on the low side but should be sufficient for the current credit ratings of BBB+/Baa, as long as the Moody's metrics start to improve.

Confidential Table 5: PacifiCorp's Historical Credit Metrics

	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast[3]
CFO Pre-WC/Debt (Moody's) [1]	18.4%	18.2%	21.4%	21.0%	[redacted]	
Moody's Guidance	19-20%	19-20%	19-20%	19-20%		
FFO/Debt (S&P) [2]	17.5%	17.4%	21.9%	22.2%		
S&P Guidance	14-16%	14-16%	14-16%	14-16%		

[1] For 2019 through 2022, CFO Pre-WC/Debt are from Moody's. For 2023 and 2024, Moody's metrics are estimated by PacifiCorp. All years reflect adjustments for wildfire accruals, settlements, wildfire insurance and net power costs.
[2] For 2019 through 2022, FFO/Debt metrics are from S&P. For 2023 and 2024, S&P metrics are estimated by PacifiCorp and reflect adjustments for wildfire accruals.
[3] Metric calculations based on PacifiCorp's proposed 50/50 capital structure in this case.

Q. Please summarize the credit rating agencies' perspectives on the current business risk of PacifiCorp.

A. In June 2023, S&P downgraded PacifiCorp's issuer credit rating to BBB+ from A and lowered PacifiCorp's senior secured credit rating to A from A+. S&P also revised the outlook on PacifiCorp to negative from stable. The negative outlook on PacifiCorp reflects the likelihood that S&P could lower the ratings of PacifiCorp by one or more notches over the next 24 months. Furthermore, S&P revised their assessment of PacifiCorp's group status in the BHE group to strategically important from core. This was based on S&P's belief that BHE would no longer support PacifiCorp under all foreseeable circumstances. A strategically important group rating raises PacifiCorp's credit rating by three notches over PacifiCorp's stand-alone credit profile of BB+. In that report, S&P noted that:

> To incorporate the increasing event risk that may depress credit metrics over our forecasts associated with the potential litigations, we revised our financial policy modifier to negative from neutral. Overall, we assess PacifiCorp's stand-alone credit profile (SACP)

> to 'bb+', reflecting our revised view of PacifiCorp's business risk profile and financial policy modifier.[1]

Following the wildfire settlements in December 2023, S&P affirmed its rating of PacifiCorp at BBB+ with a negative outlook. In that report, S&P noted that the negative outlook:

> …reflects the likelihood that we can lower its ratings over the next 24 months depending on legal developments surrounding wildfires in the company's service territory. Currently, we expect the company's funds from operations (FFO) to debt to be 13% - 15% over our outlook period."[2] S&P further noted that "we could also lower ratings if the company's stand-alone FFO to debt consistently weakens to below 13% or if PacifiCorp contributes to a future significant wildfire.[3]

In November 2023, Moody's downgraded PacifiCorp's senior unsecured issuer rating to Baa1 from A3 and its first mortgage bond rating to A2 from A1. Moody's noted that it expected PacifiCorp's CFO pre-WC to debt ratio to be in the range of 16 to 17 percent beginning in 2024, which is significantly below the original expected range of 19 to 20 percent. Moody's noted that the decline:

> …largely reflects the company's plan to build a cash reserve over the next five years through the suspension of annual dividends estimated at $700 million per year to secure the funding of potential wildfire liabilities through a combination of lower capital expenditures, retaining more cash, and operating with higher leverage.[4]

Further, in December, Moody's noted that wildfire risk was a significant risk for PacifiCorp and has a substantial impact on its credit profile.[5]

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[1] S&P Global Ratings, Research Update: PacifiCorp Downgraded to BBB+, Outlook Revised to Negative: Berkshire Hathaway Energy Co. Outlook Also Negative, June 20, 2023, p. 2.
[2] S&P Global Ratings, Research Update: PacifiCorp Ratings Affirmed Following Archie Creek Settlement; Outlook Negative, December 12, 2023, p. 1.
[3] *Id*., at 2.
[4] Moody's Rating Action: Moody's downgrades PacifiCorp to Baa1, outlook stable, p. 1.
[5] Moody's Investors Services, Credit Opinion, PacifiCorp, Update following a downgrade to Baa1, December 4, 2023, p. 1.

Q. What other factors will affect the Company's capital structure during the period when rates will be in effect?

A. In addition to the ongoing financing requirements of the regular operations of the business, the Company has $10.6 billion in capital investments over the 2024 through 2026 timeframe. The Company's planned investments include approximately $1.0 billion related to wildfire mitigation, as presented in Confidential Table 6 below.

Confidential Table 6: Forecast Capital Expenditures[1]

Capital Expenditures ($, millions)	**2024**	**2025**	**2026**
Wind Generation	[redacted]		
Electric Distribution			
Electric Transmission			
Solar Generation			
Electric Battery & Pumped Hydro Storage			
Wildfire Mitigation			
Other			
Total Capital Expenditures			

[1] Data is confidential until Form 10-K published on February 25, 2024.

Q. What steps is the Company taking to improve its financial metrics?

A. PacifiCorp has suspended its dividend for the period from 2024 through 2028, which will improve retained earnings and free up available financing that can be used to fund the Company's ongoing capital requirements. In addition, the Company has reviewed its capital plans to restructure the timing and scope of its capital investments. Finally, the Company is proposing that the Commission maintain the equity ratio that was established in the last rate proceeding.

Q. What is the projected effect of the Company's proposal on its financial metrics over the next several years?

A. As shown in Confidential Table 7 below, PacifiCorp's financial plan will support the coverage ratios over the period from 2024 through 2026, with ratios in line with a BBB+ rating. The financial plan builds cash, to cover potential wildfire liabilities but may not be enough and further downward pressure could be placed on PacifiCorp's credit metrics.

Confidential Table 7: PacifiCorp's Projected Credit Metrics

$, billions	**2024**	**2025**	**2026**
Long-term Debt Issuances	[redacted]		
Long-term Debt Maturities			
Proposed Common Equity			
FFO / Debt (Moody's)			

V. REGULATORY PRECEDENT FOR THE USE OF A HYPOTHETICAL CAPITAL STRUCTURE

Q. Is there precedent for regulatory support in the form of a hypothetical capital structure that differs from the Company's actual capital structure?

A. Yes. There are several examples of regulatory commissions providing regulatory support in the form of a hypothetical capital structure that is composed of a greater percentage of equity than a company's actual capital structure. In particular, the Washington Utilities and Transportation Commission (WUTC) has identified criteria for the use of a hypothetical capital structure. In addition, the Regulatory Commission of Alaska (Alaska Commission), the Federal Energy Regulatory Commission (FERC) and the Louisiana Public Service Commission (Louisiana Commission) have all supported the financial integrity of the utilities that they regulate using hypothetical capital structures in certain circumstances.

Q. Please summarize the Washington precedent regarding the use of a hypothetical capital structure.

A. In Dockets UE-170485 and UG-170486 the WUTC established that a "hypothetical capital structure should be reserved for circumstances including, but not limited to, financial hardship or tight capital market conditions."[6]

Q. Please summarize the Alaska regulatory precedent with respect to the use of a hypothetical capital structure to support financial integrity.

A. The Alaska Commission has routinely authorized a hypothetical capital structure in circumstances where they determined that a company's capital structure was impaired. In particular, the Alaska Commission authorized a hypothetical capital structure for Anchorage Municipal Light and Power (ML&P) in several cases from Docket U-87-84[7] to Docket U-99-139 over which time, the Commission increased ML&P's equity ratio significantly from 4.5 percent to 40.4 percent equity. In each case, the Alaska Commission determined that the use of a hypothetical capital structure was appropriate because the company's equity ratio was impaired. In 2005, Docket No. U-05-86, the company indicated that at a 40.4 percent equity ratio, it was no longer impaired and that it enjoyed investment-grade bond ratings.[8]

Q. Please summarize the FERC precedent regarding the use of a ratemaking equity ratio that exceeds the company's actual equity ratio.

A. The FERC, through Order 679, established incentive rate treatment for transmission

[6] Washington Utilities and Transportation Commission v. Avista Corporation, d/b/a Avista Utilities, Dockets UE-170485 and UG-170486 (consolidated), Order 07, Docket UE-171221, Order 02, April 26, 2018, at para 110.
[7] Regulatory Commission of Alaska, Docket No. U-10-31, Order No. 15 at 7 referencing Docket No. U-87-84.
[8] Regulatory Commission of Alaska, Docket No. U-10-21, Order No. 15.

investments that met established criteria for transmission system expansion.[9] One of the incentives considered was the use of a hypothetical capital structure, which has been approved for transmission projects meeting the established criteria.[10] In a recent proceeding, Missouri River Energy (Missouri River) proposed the use of a hypothetical capital structure, composed of 50 percent debt and 50 percent equity to finance its investment and ownership in the Big Stone Project. Missouri River noted that the use of the hypothetical capital structure proposed was needed to produce a debt service coverage ratio that was consistent with Missouri River's current Moody's rating and that absent the capital structure, the financing of Big Stone Project would result in downward pressure on the company's credit rating. The FERC approved the use of a hypothetical capital structure as well as other incentives noting that the requested incentives were tailored to the risks and challenges of the Big Stone Project and also that the hypothetical capital structure would help ensure the maintenance of the company's current credit rating.[11]

Q. Please summarize the Louisiana Commission decision to use a ratemaking equity ratio that is higher than the company's actual equity ratio.

A. In Docket U-17282, Order No. U-17282-C, Gulf States Utilities Company proposed the use of an imputed equity ratio of 40 percent, which was higher than the company's actual equity ratio of 35 percent. The Staff of the Louisiana Commission agreed to this capital structure on the basis that the 40 percent equity ratio was

[9] *Promoting Transmission Inv. through Pricing Reform, Order No. 679, 116 FERC P 61,057*, *order on reh'g*, *Order No. 679-A, 117 FERC P 61,345 (2006)*, *order on reh'g*, *119 FERC P 61,062 (2007)*.
[10] Federal Energy Regulatory Commission, Docket No. ER23-2284-000, Order on Transmission Rate Incentives and Accepting Tarrif Revisions, Midcontinent Independent System Operator, Inc. (MISO), on behalf of Missouri River Energy Services (Missouri River), August 31, 2023.
[11] Id., at para 21.

consistent with the equity ratios of other utilities that had investment grade first mortgage bonds. At that time, Gulf States Utilities was not investment grade. The Louisiana Commission authorized the use of the 40 percent equity ratio.[12]

Q. Please summarize your conclusions regarding the regulatory precedent for the use of a hypothetical capital structure to support financial integrity.

A. While the Company's actual capital structure is the most appropriate capital structure to rely on in the normal course of business operations, as it reflects the actual financing of the ongoing operations of the business, it is reasonable and appropriate to rely on a hypothetical capital structure in circumstances where there is a need to support a company's credit ratings and overall access to capital. Providing this level of regulatory support helps to maintain the credit quality of the regulated utility and ensures that the company has consistent access to capital on reasonable terms, which provides benefits to customers.

Q. How does PacifiCorp's proposed hypothetical capital structure compare with the capital structures of the proxy group companies relied upon in Company witness Bulkley's calculation of the cost of equity?

A. PacifiCorp's proposed hypothetical equity ratio of 50 percent is well below the average equity ratio of the utility operating companies of the proxy group used in Company witness Bulkley's analysis. As shown in Company witness Bulkley's Exhibit PAC/416, the average equity ratio for Company witness Bulkley's proxy group companies is approximately 52.89 percent and the range is from 45.52 percent

[12] Louisiana Public Service Commission, In RE: Gulf States Utilities Company, Ex Parte Application for an Increase in Rates for Retail Electric Service, Docket No. U-17282, Order No. U-17282-C, p. 5.

to 61.26 percent. Therefore, PacifiCorp's requested equity ratio is within the range established by Company witness Bulkley's cost of equity study.

VI. FINANCING OVERVIEW

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. During periods of significant and sustained capital expenditures, as expected to continue now through calendar year end 2026 and beyond for the potential new renewable and carbon free generation resources and associated transmission identified to meet Oregon's energy policy goals, the Company will need to maintain strong regulatory support through its capital structure and return on equity 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 is critical to continue to provide access to debt financing at competitive rates and access to capital markets on an as-required basis. All of these factors assist in financing expenditures like potential new renewable and carbon free generation resources and associated transmission.

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 Oregon service area while prudently balancing cost and risk. Major capital expenditures are required in the near-term for new plant investment to fulfill its service obligation, including capital expenditures for new renewable and carbon free generation resources, associated new transmission, and wildfire mitigation. These capital investments also have associated operating and maintenance costs. As part of its annual business plan process, PacifiCorp reviews all of 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. Please explain PacifiCorp's need for and sources of new capital.

A. PacifiCorp has continued needs for additional capital to maintain the transmission and distribution system and to meet its customers' needs for new cost-effective transmission and renewable generation, increased reliability, improved power delivery, and safe operations. PacifiCorp also needs new capital to fund long-term debt maturities.

PacifiCorp expects to spend approximately $10.6 billion in capital expenditures from 2024 through 2026 with significant investments in wildfire mitigation efforts as well as renewable energy projects and related transmission. This capital spending will require PacifiCorp to raise funds by issuing new long-term debt in the debt capital markets and retaining all its earnings.

Q. Has PacifiCorp's access to the credit markets changed since the Company's last rate proceeding?

A. Yes. PacifiCorp has had reasonable access to the capital markets since the last rate proceeding, up until the recent credit rating downgrade that resulted from the wildfire liability in Oregon based on an unknown class size. Since that time, the Company has maintained access to capital, however, the costs of that capital have increased, reflecting the risk associated with the wildfire liability and the ongoing operational risk. PacifiCorp spent a significant amount of time talking with its investors in the December 2023 and early January 2024 timeframe leading up to its January 2024 long-term debt offering to provide them a detailed update on our plans to mitigate any further wildfire risk. Although the transaction went well and PacifiCorp was able to access the debt capital markets, some traditional investors in PacifiCorp debt decided to not participate. In addition to the measures to improve its metrics that I discuss below, the Company is proposing regulatory solutions related to the escalating wildfire liability. Those solutions are addressed in Company witness Joelle R. Steward's testimony.

Q. How is BHE providing support to PacifiCorp to improve its metrics?

A. PacifiCorp has consistently benefitted from its affiliation with BHE because there is no dividend requirement. While historically PacifiCorp has paid dividends to BHE to manage the common equity component of the capital structure, in sustained periods of capital investment, PacifiCorp is able to retain earnings to help finance investments and forego dividend payments to BHE. As discussed previously, BHE has pledged that it will not require a dividend from PacifiCorp over the next five years, which will allow PacifiCorp to retain earnings to help finance wildfire settlements and capital investments.

Q. How has the Company revised its investment plans to support its credit profile?

A. PacifiCorp has adjusted its capital investment plan over the next five years, reducing the planned expenditures in 2024 through 2026 by nearly $900 million when compared to previously forecasted amounts. In addition to reducing the capital spending, which increases the credit metrics, the Company has refocused its capital plan in the next three years on wildfire mitigation expenses to reduce the risk of wildfire events, and on investment in the ongoing safety and reliability of the service. In addition, the Company has adjusted the timing of its investments that are required to continue to transition to clean energy resources and renewable resources. The adjustment in the timing of these investments will provide better support for the Company's financial profile in the short term.

Q. Is PacifiCorp's proposed hypothetical capital structure a necessary component of the financial plan to reduce the Company's financial risk and support the Company's credit metrics?

A. Yes. The Company's proposal, to rely on a hypothetical capital structure that is composed of 50 percent debt and 50 percent equity will demonstrate to the credit rating agencies and the market that the Company has the regulatory support needed to improve its financial metrics to stabilize the outlook in the short term. The combination of the suspension of the Company's dividend to BHE, the restructuring of its capital plan, and the proposed capital structure will support PacifiCorp's current credit metrics. As shown in Confidential Table 7 above, this financial plan, including regulatory support at a 50/50 capital structure will result in credit metrics in the range expected by the rating agencies for its current credit rating.

Q. What is the benefit to PacifiCorp's customers of providing support to the Company in the form of a hypothetical equity ratio?

A. Solid credit metrics will reduce PacifiCorp's financial risk, which is necessary to access debt in the market on reasonable terms. Simply stated, providing regulatory support in the form of the proposed hypothetical capital structure will reduce the Company's risk profile and result in lower overall financing costs for customers. This is important because 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. 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, can impact safe and reliable system operations, and result in a significant liquidity challenge.

Q. How has the Company's strong rating historically benefitted customers?

A. PacifiCorp has historically been able to significantly reduce its cost of long-term debt primarily through obtaining new financings at very attractive interest rates. The lower cost of debt has provided benefits to customers through a lower overall rate of return and lower revenue requirement.

In addition, higher-rated companies have greater access to the long-term markets for power purchases and sales. This access provides these companies with 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.

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 PAC/301, Pro forma Cost of Long-Term Debt, shows that, over the test period, PacifiCorp is projected to have an average of approximately $14.5 billion of first mortgage bonds outstanding, with an average cost of 5.18 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 utility operation.

VII. FINANCING COST CALCULATIONS

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

A. I have 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, 2024, and concluding with December 31, 2025.

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 outstanding as of each of the five quarter-ending dates spanning the 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. The support for each of these pro-forma weighted average cost of debt calculations as of each of the five quarter-ending dates spanning the Test Period are provided as attachments by the Company in response to Standard Data Request 12. The average of these-five annualized cost of debt calculations, as summarized below, is PacifiCorp's embedded cost of long-term debt for this proceeding:

Table 8: PacifiCorp Embedded Cost of Long-Term Debt

	Forecast LT Debt O/S ($m)	Pro-forma Weighted Average % Cost of LT Debt	% Cost of Debt Calcs provided in response to OR GRC SDR12
12/31/24	$13,702	5.17%	attach SDR 12-2
03/31/25	$14,902	5.19%	attach SDR 12-3
06/30/25	$14,902	5.19%	attach SDR 12-4
09/30/25	$14,652	5.18%	attach SDR 12-5
12/31/25	$14,600	5.18%	attach SDR 12-6
5QE Ave	**$14,551**	**5.18%**	

Q. **Please describe the changes to the amount of outstanding long-term debt between December 31, 2023, and December 31, 2025?**

A. Approximately $675 million and $218 million of the Company's fixed rate and variable rate long-term debt, respectively, will mature during this period and I have therefore removed this debt when appropriate in the determination of the proposed average cost of debt. As reflected in Exhibit PAC/301, Pro forma Cost of Long-Term Debt, the Company added new fixed rate long-term debt during the period, a five-, seven-, 10- and 30-year split term offering totaling $3.8 billion was issued in January 2024 and anticipates an additional five- and 10-year split term issuances totaling $1.2 billion in 2025.

Q. Regarding the total $3.8 billion of long-term issuances in January 2024, what were the interest rates, credit spreads and all-in cost of debt for each of the new First Mortgage bond series?

A. See the table below for the summary details including the United States (U.S.) Treasury Benchmark rates, credit spreads and additions to the all-in spread for actual and estimated issuance costs for each of the new approximate five-, seven-, 10- and 30-year term first mortgage bond series issuances from January 2024.

Table 9: $3.8 Billion PacifiCorp Long-Term Debt Issuance

$3.8b PacifiCorp Long-Term Debt Issuance in January 2024 % Cost of Debt Summary:				
Series	**2029 Bonds** First Mortgage Bonds due 2/15/29	**2031 Bonds** First Mortgage Bonds due 2/15/31	**2034 Bonds** First Mortgage Bonds due 2/15/34	**2055 Bonds** First Mortgage Bonds due 1/15/55
Principal	$500m	$700m	$1,100m	$1,500m
T-Rate Benchmark	3.905%	3.928%	3.922%	4.092%
Treasury Spread	1.200%	1.400%	1.550%	1.750%
Re-offer Yield	5.105%	5.328%	5.472%	5.842%
Coupon Rate	5.100%	5.300%	5.450%	5.800%
+ Issuance Costs (1)	0.107%	0.090%	0.075%	0.064%
All-In % Cost of Debt	5.212%	5.418%	5.547%	5.906%

(1) Includes actual and current estimated costs.

Q. Regarding the $1.2 billion of new long-term issuances in 2025, how did you determine the interest rate and resulting cost for this new long-term debt?

A. The Company's current estimated credit spread for five-year and 10-year debt is

1.20 and 1.55 percent, respectively. The recent forward five-year and 10-year U.S. Treasury rates for March 2025 are approximately 3.89 and 4.13 percent, respectively. Issuance costs for five-year and 10-year debt of this type adds approximately 0.13 and 0.10 percent to the all-in cost, respectively. Therefore, as reflected in Exhibit PAC/301, Pro Forma Cost of Long-Term Debt, the Company projects a total all-in cost of long-term debt of 5.22 percent and 5.78 percent, respectively, for the projected new five-year and 10-year long-term debt.

Q. Did you make any further adjustments in your pro-forma calculations of the Company's weighted cost of debt over the Test Period?

A. Yes. For the pro-forma weighted average cost of debt calculations made for each of the five quarter-ending dates spanning the Test Period, as evidenced in the attachments provided by the Company in response to Standard Data Request 12, I adjusted the interest rate on the then existing long-term debt scheduled to mature within one year to reflect expected financing rates. This adjustment is consistent with the Commission practice as set forth in Order 01-787[13] and with the Company's practice in cases since that order.

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 cost rate associated with each series was then multiplied by the total par or stated value

[13] *In the matter of PacifiCorp's Proposal to Restructure and Reprice its Services in Accordance with the Provisions of SB 1149*, Docket No. UE 116, Order No. 01-787 (Sept. 7, 2001).

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.

A. <u>Embedded Cost of Long-Term Debt</u>

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

A. The cost of long-term debt is 5.18 percent, as shown in PAC/301, Pro forma Cost of Long-Term Debt.

B. <u>Embedded Cost of Preferred Stock</u>

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

A. PAC/302, Cost of Preferred Stock, shows the embedded costs of preferred stock to be 6.75 percent.

VIII. 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 50.00 percent. This equity ratio is reasonable when compared with the equity ratios of the proxy group companies relied upon in Company witness Bulkley's testimony for the determination of the return on equity. In addition, the Company and parties have agreed to a similar capital structure in the last rate proceeding. Finally, the authorization of this capital structure sends an important message to the financial community regarding the regulatory support for PacifiCorp. When combined with the other elements of the Company's financial plan, including suspended dividends through 2028 to increase retained earnings and a restructuring of the Company's capital investments will provide the necessary financial support and risk mitigation necessary to support the Company's credit metrics and credit ratings. Reviewing PacifiCorp's history demonstrates that a financially strong company provides positive financial benefits to customers in the form of access to capital on reasonable terms, which is very important at this point, where the capital investments necessary to achieve the Company's clean energy goals are significant over the next several years. Finally, when combined with PacifiCorp's updated cost of long-term debt of 5.18 percent and the cost of equity of 10.30 percent recommended by Company witness Bulkley, this produces a reasonable overall cost of capital of 7.74 percent.

Q. Does this conclude your direct testimony?

A. Yes.

Docket No. UE 433
Exhibit PAC/301
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

PACIFICORP

Exhibit Accompanying Direct Testimony of Nikki L. Kobliha

Pro Forma Cost of Long-Term Debt

February 2024

PACIFICORP
Electric Operations
Pro-Forma Cost of Long-Term Debt Detail
12 months ended December 31, 2025

LINE NO.	INTEREST RATE	DESCRIPTION	ISSUANCE DATE	MATURITY DATE	ORIG LIFE	PRINCIPAL AMOUNT ORIGINAL ISSUE	PRINCIPAL AMOUNT 5QE AVE OUTSTANDING	(DISC)/PREM & ISSUANCE EXPENSES	REDEMPTION EXPENSES	NET PROCEEDS TO COMPANY TOTAL DOLLAR AMOUNT	NET PROCEEDS TO COMPANY PER $100 PRINCIPAL AMOUNT	MONEY TO COMPANY	ANNUAL DEBT SERVICE COST	LINE NO.
	(a)	(b)	(c)	(d)	(e)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	
1														1
2														2
3	3.500%	Series due Jun 2029	03/01/19	06/15/29	10	$400,000,000	$400,000,000	($2,874,181)	$0	$397,125,819	$99.281	3.584%	$14,336,000	3
4	2.700%	Series due Sep 2030	04/08/20	09/15/30	10	$400,000,000	$400,000,000	($2,876,791)	$0	$397,123,209	$99.281	2.780%	$11,120,000	4
5	7.700%	Series due Nov 2031	11/21/01	11/15/31	30	$300,000,000	$300,000,000	($3,701,310)	$0	$296,298,690	$98.766	7.807%	$23,421,000	5
6	5.900%	Series due Aug 2034	08/24/04	08/15/34	30	$200,000,000	$200,000,000	($2,614,365)	$0	$197,385,635	$98.693	5.994%	$11,988,000	6
7	5.250%	Series due Jun 2035	06/08/05	06/15/35	30	$300,000,000	$300,000,000	($3,992,021)	($1,295,995)	$294,711,984	$98.237	5.369%	$16,107,000	7
8	6.100%	Series due Aug 2036	08/10/06	08/01/36	30	$350,000,000	$350,000,000	($4,048,881)	$0	$345,951,119	$98.843	6.185%	$21,647,500	8
9	5.750%	Series due Apr 2037	03/14/07	04/01/37	30	$600,000,000	$600,000,000	($613,216)	$0	$599,386,784	$99.898	5.757%	$34,542,000	9
10	6.250%	Series due Oct 2037	10/03/07	10/15/37	30	$600,000,000	$600,000,000	($5,877,281)	$0	$594,122,719	$99.020	6.323%	$37,938,000	10
11	6.350%	Series due Jul 2038	07/17/08	07/15/38	30	$300,000,000	$300,000,000	($3,961,333)	$0	$296,038,667	$98.680	6.450%	$19,350,000	11
12	6.000%	Series due Jan 2039	01/08/09	01/15/39	30	$650,000,000	$650,000,000	($12,309,687)	$0	$637,690,313	$98.106	6.139%	$39,903,500	12
13	4.100%	Series due Feb 2042	01/06/12	02/01/42	30	$300,000,000	$300,000,000	($3,724,911)	$0	$296,275,089	$98.758	4.173%	$12,519,000	13
14	4.125%	Series due Jan 2049	07/13/18	01/15/49	31	$600,000,000	$600,000,000	($6,984,085)	$0	$593,015,915	$98.836	4.193%	$25,158,000	14
15	4.150%	Series due Feb 2050	03/01/19	02/15/50	31	$600,000,000	$600,000,000	($7,938,771)	$0	$592,061,229	$98.677	4.227%	$25,362,000	15
16	3.300%	Series due Mar 2051	04/08/20	03/15/51	31	$600,000,000	$600,000,000	($10,127,937)	$0	$589,872,063	$98.312	3.388%	$20,328,000	16
17	2.900%	Series due June 2052	07/09/21	06/15/52	31	$1,000,000,000	$1,000,000,000	($16,599,374)	$0	$983,400,626	$98.340	2.982%	$29,820,000	17
18	5.350%	Series due Dec 2053	12/01/22	12/01/53	31	$1,100,000,000	$1,100,000,000	($13,292,772)	$0	$1,086,707,228	$98.792	5.431%	$59,741,000	18
19	5.500%	Series due May 2054	05/17/23	05/15/54	31	$1,200,000,000	$1,200,000,000	($11,540,279)	$0	$1,188,459,721	$99.038	5.565%	$66,780,000	19
20	5.100%	Series diue Feb 2029	01/05/24	02/15/29	5	$500,000,000	$500,000,000	($2,510,480)	$0	$497,489,520	$99.498	5.212%	$26,060,000	20
21	5.300%	Series diue Feb 2031	01/05/24	02/15/31	7	$700,000,000	$700,000,000	($4,856,526)	$0	$695,143,474	$99.306	5.418%	$37,926,000	21
22	5.450%	Series diue Feb 2034	01/05/24	02/15/34	10	$1,100,000,000	$1,100,000,000	($8,244,815)	$0	$1,091,755,185	$99.250	5.547%	$61,017,000	22
23	5.800%	Series diue Jan 2055	01/05/24	01/15/55	31	$1,500,000,000	$1,500,000,000	($22,445,179)	$0	$1,477,554,821	$98.504	5.906%	$88,590,000	23
24	5.093%	Pro Forma Series due 2030	03/15/25	03/15/30	5	$600,000,000	$480,000,000	($2,707,200)	$0	$477,292,800	$99.436	5.223%	$25,070,400	24
25	5.676%	Pro Forma Series due 2035	03/15/25	03/15/35	10	$600,000,000	$480,000,000	($3,595,200)	$0	$476,404,800	$99.251	5.776%	$27,724,800	25
26	5.971%	Cur Mat LT Debt Series (repriced)	12/31/25	12/31/55	30		$271,360,000	($2,848,070)	$0	$268,511,930	$98.950	6.047%	$16,409,139	26
27	**5.092%**	**Subtotal - Bullet FMBs**			**24**		**$14,531,360,000**	**($160,284,665)**	**($1,295,995)**	**$14,369,779,340**		**5.181%**	**$752,858,339**	27
28														28
29	**5.092%**	**Total First Mortgage Bonds**			**24**		**$14,531,360,000**	**($160,284,665)**	**($1,295,995)**	**$14,369,779,340**		**5.181%**	**$752,858,339**	29
30														30
31			**REACQ**	**ORG MAT**										31
32			**DATE**	**DATE**										32
33		8.375% Series A QUIDS	11/17/00	06/30/35									$107,887	33
34		8.55% Series B QUIDS	11/17/00	12/31/25									$84,084	34
35		**Long-Term Debt Reacquisition, without refunding amortization**											**$191,971**	35
36														36
37	**5.092%**	**Total Long-Term Debt**			**24**		**$14,531,360,000**	**($160,284,665)**	**($1,295,995)**	**$14,369,779,340**		**5.182%**	**$753,050,310**	37
38														38

Docket No. UE 433
Exhibit PAC/302
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

PACIFICORP

Exhibit Accompanying Direct Testimony of Nikki L. Kobliha

Cost of Preferred Stock

February 2024

PACIFICORP
Electric Operations
Cost of Preferred Stock
12 Months Ended December 31, 2025

Line No.	Description of Issue	Issuance Date	Call Price	Annual Dividend Rate	Shares O/S	Total Par or Stated Value O/S	Net Premium & (Expense)	Net Proceeds to Company	% of Gross Proceeds	Cost of Money	Annual Cost	Line No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
1	**Serial Preferred, $100 Par Value**											1
2	7.00% Series	(a)	None	7.000%	18,046	$1,804,600	(b)	$1,804,600	100.000%	7.000%	$126,322	2
3	6.00% Series	(a)	None	6.000%	5,930	$593,000	(b)	$593,000	100.000%	6.000%	$35,580	3
4												4
5	**Total Cost of Preferred Stock**			**6.753%**	**23,976**	**$2,397,600**	**$0**	**$2,397,600**		**6.753%**	**$161,902**	5
6												6
7												7
8	(a) These issues replaced an issue of The California Oregon Power Company as a result of the merger of that Company into Pacific Power & Light Co.											8
9	(b) Original issue expense/premium has been fully amortized or expensed.											9
10												10