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IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE** )  
**APPLICATION OF ROCKY** ) **CASE NO. PAC-E-07-05**  
**MOUNTAIN POWER FOR** )  
**APPROVAL OF CHANGES TO ITS** ) **Direct Testimony of Bruce N. Williams**  
**ELECTRIC SERVICE SCHEDULES** )  
)

**ROCKY MOUNTAIN POWER**

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**CASE NO. PAC-E-07-05**

**June 2007**

1 **Q. Please state your name, business address and present position with the**  
2 **Company (also referred to as Rocky Mountain Power).**

3 A. My name is Bruce N. Williams. My business address is 825 NE Multnomah,  
4 Suite 1900, Portland, Oregon 97232. I am the Vice President and Treasurer for  
5 the Company.

6 **Qualifications**

7 **Q. Please briefly describe your education and business experience.**

8 A. I received a Bachelor of Science degree in Business Administration with a  
9 concentration in Finance from Oregon State University in June 1980. I also  
10 received the Chartered Financial Analyst designation upon passing the  
11 examination in September 1986. I have been employed by the Company for 22  
12 years. My business experience has included financing of the Company's electric  
13 operations and non-utility activities, investment management, and investor  
14 relations.

15 **Q. Please describe your present duties.**

16 A. I am responsible for the Company's treasury, credit risk management, pension  
17 and other investment management activities. In this proceeding, I am responsible  
18 for the preparation of the Company's embedded cost of debt and preferred equity,  
19 and the testimony related to capital structure.

20 **Purpose of Testimony**

21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. I will first present a financing overview of the Company. Next, I will discuss the  
23 planned amounts of common equity, debt, and preferred stock to be included in

1 the Company's capital structure. I will then analyze the embedded cost of debt  
2 and preferred stock supporting Rocky Mountain Power's electric operations in the  
3 state of Idaho as of March 2007, with anticipated changes through December  
4 2007. This analysis includes the known and measurable changes to the debt and  
5 preferred stock portfolios and capital contributions from our parent company.

6 **Q. What financial information is your analysis based on?**

7 A. The historical test period used in this case is the twelve months ending December  
8 2006, updated with known and measurable changes. To match Rocky Mountain  
9 Power's cost as closely as possible with customers' rates, the capital structure  
10 applied in this case is the Company's actual capital structure as of March 31,  
11 2007, with known and measurable changes occurring through December 31,  
12 2007. This time period captures significant transactions between the end of the  
13 historical test period and the beginning of the rate effective period. Rocky  
14 Mountain Power believes it is appropriate to include these transactions in this  
15 proceeding as it reflects ongoing capital costs to fund operations. As I discuss  
16 later, I propose changes to remove long-term debt and preferred stock that will  
17 mature or is subject to mandatory redemption prior to December 31, 2007.

18 **Q. What is the overall cost of capital that Rocky Mountain Power is proposing**  
19 **in this proceeding?**

20 A. Rocky Mountain Power is proposing an overall cost of capital of 8.52 percent.  
21 This cost includes the return on equity recommendation from Dr. Sam Hadaway  
22 and the following capital structure and costs:

1 **Rocky Mountain Power**

2 **Overall Cost of Capital**

3

4	Component	Percent of Total	Cost	Weighted Average
5	Long Term Debt	49.1%	6.26%	3.07%
6	Preferred Stock	0.5%	5.41%	.03%
7	Common Stock Equity	<u>50.4%</u>	10.75%	<u>5.42%</u>
8		100.0%		8.52%

9 **Financing Overview**

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

11 A. The Company finances the cash flow requirements of its regulated utility  
12 operations through a mix of debt and equity securities designed to provide a  
13 competitive cost of capital and predictable capital market access.

14 **Q. How does the Company meet its debt and preferred equity financing  
15 requirements?**

16 A. The Company relies on a mix of first mortgage bonds, other secured debt, tax  
17 exempt debt and preferred stock to meet its long-term debt and preferred stock  
18 financing requirements. The Company has concluded the majority of its long-  
19 term financing utilizing secured first mortgage bonds issued under the Mortgage  
20 Indenture dated January 9, 1989. Exhibit No. 7 shows that, as of December 31,  
21 2007, the Company will have approximately \$3.8 billion of first mortgage bonds  
22 outstanding, with an average cost of 6.55 percent and average remaining maturity  
23 of 16 years. Presently, all outstanding first mortgage bonds bear interest at fixed

1 rates. Proceeds from the issuance of the first mortgage bonds (and other financing  
2 instruments) are used to finance the combined utility operations across the  
3 Company's six-state service territory.

4 Another important source of financing has been the tax-exempt financing  
5 associated with certain qualifying equipment at power generation plants. Under  
6 arrangements with local counties and other tax-exempt entities, the Company  
7 borrows the proceeds and guarantees the repayment of the long-term debt in order  
8 to take advantage of their tax-exempt status in financings. As of December 31,  
9 2007, the Company's tax-exempt portfolio will be \$738 million in principal  
10 amount which had an average cost of 4.74 percent at March 31, 2007 (which  
11 includes the cost of issuance and credit enhancement).

## 12 **Capital Structure**

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

15 **A.** As a regulated utility, Rocky Mountain Power has a duty and an obligation to  
16 provide adequate, efficient, just and reasonable service to customers in its Idaho  
17 service territory while balancing cost and risk. In order to fulfill this obligation,  
18 Rocky Mountain Power must make significant capital expenditures for plant and  
19 network maintenance, power generation and delivery infrastructure, clean air  
20 investments, hydro re-licensing and other activities. Through its planning  
21 process, the Company determined the amounts of new financing needed to  
22 support these activities and calculated the required equity and debt ratios required  
23 to maintain our current 'A-' credit rating for senior secured debt. These

1 determinations are then reflected in the Company's budget.

2 **Q. Have the Company's recent actions and budgets reflected an expectation that**  
3 **the capital structure will include an increase in equity?**

4 A. Yes. Following the acquisition by MidAmerican Energy Holdings Company on  
5 March 21, 2006, the Company has received a total of \$215 million of cash capital  
6 contributions from its direct parent company, PPW Holdings, LLC. Similarly, the  
7 Company's 2007 budget includes additional cash equity contributions of \$150  
8 million prior to June 30, 2007.

9 **Q. Why does the Company's budget reflect the need for additional equity in the**  
10 **capital structure?**

11 A. The budget reflects the cost increases described in this case, including fuel, net  
12 power costs, certain labor related costs, investment in major supply side  
13 resources, thermal plant maintenance, hydro re-licensing and clean air  
14 requirements. These cost increases, coupled with the increasingly more rigorous  
15 expectations of the credit rating agencies for credit metrics and balance sheet  
16 strength, mean that additional equity will be required along with improved  
17 business results and other considerations to support the Company's current 'A-'  
18 credit rating from Standard & Poor's, its 'A3' rating from Moody's Investors  
19 Service ("Moody's"), and to prevent Fitch Ratings from further downgrades, with  
20 the last downgrade occurring in January 2006.

21 **Q. How does this projected capital structure match up to comparable electric**  
22 **utilities?**

23 A. The projected capital structure is consistent with the comparable group that Dr.

1 Hadaway has selected in his estimate of return on equity. Both the Company and  
2 the group of comparable companies show an increasing percentage of common  
3 equity in their capital structures. The Value Line estimate of common equity ratio  
4 for the comparable group averages 50.0 percent.

5 **Q. Please describe the changes to the Company's levels of debt financing.**

6 A. Through the period ending December 31, 2007, the balance of the outstanding  
7 long-term debt will change through maturities, principal amortization and sinking  
8 fund requirements. Based upon the long-term debt series outstanding on March  
9 31, 2007, I have calculated the reduction to the outstanding balances for  
10 maturities, principal amortization and sinking fund requirements, which are  
11 scheduled to occur during the period ending December 31, 2007. The total long-  
12 term debt maturities and principal amortized over this period is \$119.9 million.  
13 The resulting \$4.5 billion of long-term debt is consistent with the Company's  
14 budget and is necessary to fund our ongoing operations. At this time the  
15 Company has no plans to issue additional long-term debt prior to December 31,  
16 2007.

17 **Q. Please describe the changes to the Company's level of preferred equity**  
18 **financing.**

19 A. For preferred stock, I started with the balance outstanding at March 31, 2007, and  
20 made a reduction of \$37.5 million of preferred stock to reflect the final sinking  
21 fund requirement of the \$7.48 No Par Serial Preferred stock series that will occur  
22 on June 15, 2007.

1 **Q. Is the proposed capital structure consistent with the Company's current**  
2 **credit rating?**

3 A. Yes. This planned capital structure is intended to enable the Company to deliver  
4 its budgeted capital expenditures while maintaining credit ratios that support the  
5 continuance of its current 'A-' credit rating.

6 **Q. What is the relationship between a strong credit rating and customer**  
7 **benefits?**

8 A. The credit rating assigned to a utility by the credit rating agencies directly affects  
9 the price the utility pays to attract the capital necessary to support its current and  
10 future operating needs. A strong credit rating directly benefits customers by  
11 reducing immediate and future borrowing costs related to the financing needed to  
12 support regulatory operations.

13 During periods of capital market disruptions, higher-rated companies are  
14 more likely to have continuous, uninterrupted access to capital. This is not  
15 always the case with lower-rated companies, which during such periods may find  
16 themselves either unable to secure capital or able to secure capital only on  
17 unfavorable terms and conditions.

18 In addition, higher-rated companies have greater access to the long-term  
19 markets for power and fuel purchases and sales. Such access provides these  
20 companies with more alternatives when attempting to meet the current and future  
21 load requirements of their customers. Finally, a company with strong ratings will  
22 often avoid having to meet costly collateral requirements that are typically  
23 imposed on lower-rated companies when securing power or fuel in these markets.

1 **Q. Is the Company subject to rating agency debt imputation associated with**  
2 **Purchased Power Agreements?**

3 A. Yes. Rating agencies and financial analysts consider Purchased Power  
4 Agreements to be debt-like and will impute debt and related interest when  
5 calculating financial ratios.

6 For example, Standard & Poor's will adjust published results and add in  
7 debt and interest resulting from purchase power agreements when assessing the  
8 Company's creditworthiness. They do so in order to obtain a more accurate  
9 assessment of a company's financial commitments and fixed payments. Exhibit  
10 No. 8 is the May 12, 2003 publication by Standard & Poor's detailing its view of  
11 the debt aspects of purchase power agreements which was refined by their March  
12 30, 2007 publication (Exhibit No. 9).

13 **Q. How does this impact Rocky Mountain Power?**

14 A. During a recent ratings review, Standard & Poor's evaluated the Company's  
15 purchase power agreements and other related long-term commitments. Following  
16 this review, Standard & Poor's added approximately \$537 million of additional  
17 debt and related interest expense to our leverage and coverage tests due to  
18 PacifiCorp's purchase power agreements.

19 **Financing Cost Calculation**

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

22 A. I calculated the embedded costs of debt and preferred stock using the  
23 methodology relied upon in the Company's previous rate filings in Idaho and

1 elsewhere.

2 **Q. Please explain the cost of debt calculation.**

3 A. I calculated the cost of debt by issue, based on each debt series' interest rate and  
4 net proceeds at the issuance date, to produce a bond yield to maturity for each  
5 series of debt. It should be noted that in the event a bond was issued to refinance  
6 a higher cost bond, the pre-tax premium and unamortized costs, if any, associated  
7 with the refinancing were subtracted from the net proceeds of the bonds that were  
8 issued. The bond yield was then multiplied by the principal amount outstanding of  
9 each debt issue, resulting in an annualized cost of each debt issue. Aggregating  
10 the annual cost of each debt issue produces the total annualized cost of debt.  
11 Dividing the total annualized cost of debt by the total principal amount of debt  
12 outstanding produces the weighted average cost for all debt issues. This is the  
13 Company's embedded cost of long-term debt.

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

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

1 **Embedded Cost of Long-Term Debt**

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

3 A. Exhibit No. 7 shows the embedded cost of long-term debt at March 31, 2007,  
4 adjusted for the known and measurable changes discussed above to be 6.26  
5 percent.

6 **Embedded Cost of Preferred Stock**

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

8 A. Exhibit No. 10 shows the embedded cost of preferred stock at March 31, 2007,  
9 adjusted for the known and measurable changes discussed above to be 5.41  
10 percent.

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

12 A. Yes.

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IDAHO PUBLIC  
UTILITIES COMMISSION

Case No. PAC-E-07-05  
Exhibit No. 7  
Witness: Bruce N. Williams

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

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Exhibit Accompanying Direct Testimony of Bruce N. Williams

Pro Forma Cost of Long-Term Debt

June 2007

**PACIFICORP**

Electric Operations

**Pro Forma Cost of Long-Term Debt Summary**

December 31, 2007

LINE NO.	DESCRIPTION	AMOUNT CURRENTLY OUTSTANDING	ISSUANCE EXPENSES	REDEMPTION EXPENSES	NET PROCEEDS TO COMPANY	ANNUAL DEBT SERVICE COST	INTEREST RATE	ALL-IN COST	ORIG LIFE	YTM	LINE NO.
1											1
2	Total First Mortgage Bonds	\$3,784,835,000	(\$34,537,272)	(\$38,145,597)	\$3,712,152,131	\$247,986,033	6.33%	6.55%	21.8	16.0	2
3											3
4	Subtotal - Pollution Control Revenue Bonds secured by FMBs	\$400,470,000	(\$10,560,810)	(\$9,550,194)	\$380,358,996	\$18,967,516	4.39%	4.74%	28.0	13.5	4
5	Subtotal - Pollution Control Revenue Bonds	\$337,900,000	(\$4,294,232)	(\$7,621,229)	\$325,984,539	\$16,046,592	4.51%	4.75%	27.8	10.2	5
6	Total Pollution Control Revenue Bonds	\$738,370,000	(\$14,855,042)	(\$17,171,423)	\$706,343,535	\$35,014,109	4.45%	4.74%	27.9	12.0	6
7											7
8	Total Cost of Long Term Debt	\$4,523,205,000	(\$49,392,314)	(\$55,317,020)	\$4,418,495,666	\$283,000,142	6.02%	6.26%	22.8	15.3	8
9											9

**PACIFICORP**  
 Electric Operations  
 Proforma Cost of Long-Term Debt Detail  
 December 31, 2017

LINE NO.	INTEREST RATE	DESCRIPTION	ISSUANCE DATE	MATURITY DATE	ORIG LIFE	YTM	PRINCIPAL AMOUNT		NET PROCEEDS TO COMPANY			MONEY TO COMPANY	ANNUAL DEBT SERVICE COST	LINE NO.
							ORIGINAL ISSUE	CURRENTLY OUTSTANDING	ISSUANCE EXPENSES	REDEMPTION EXPENSES	DOLLAR AMOUNT			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
1														1
2														2
3	8.271%	First Mortgage Bonds	04/15/92	10/01/10	18	2	\$48,972,000	\$13,200,000	\$0	\$0	\$100,000	\$100,000	8.271%	3
4	7.978%	C-U Series due thru Oct 2010	04/15/92	10/01/11	18	2	\$4,422,000	\$1,469,000	\$0	\$0	\$100,000	\$100,000	7.978%	4
5	8.493%	C-U Series due thru Oct 2011	04/15/92	10/01/12	19	3	\$19,772,000	\$7,988,000	\$0	\$0	\$100,000	\$100,000	8.493%	5
6	8.797%	C-U Series due thru Oct 2012	04/15/92	10/01/13	19	3	\$16,203,000	\$7,542,000	\$0	\$0	\$100,000	\$100,000	8.797%	6
7	8.734%	C-U Series due thru Oct 2013	04/15/92	10/01/14	20	4	\$28,218,000	\$14,492,000	\$0	\$0	\$100,000	\$100,000	8.734%	7
8	8.294%	C-U Series due thru Oct 2014	04/15/92	10/01/15	20	5	\$46,946,000	\$25,697,000	\$0	\$0	\$100,000	\$100,000	8.294%	8
9	8.635%	C-U Series due thru Oct 2015	04/15/92	10/01/16	21	5	\$18,750,000	\$11,159,000	\$0	\$0	\$100,000	\$100,000	8.635%	9
10	8.470%	C-U Series due thru Oct 2016	04/15/92	10/01/17	22	6	\$19,609,000	\$12,288,000	\$0	\$0	\$100,000	\$100,000	8.470%	10
11	8.475%	Subtotal - Amortizing FMBs			20	4	\$93,835,000	\$53,835,000	\$0	\$0	\$93,835,000	\$93,835,000	8.475%	11
12	4.300%	Series due Sep 2008	09/08/03	09/15/08	5	1	\$200,000,000	\$200,000,000	(\$1,610,660)	(\$5,967,819)	\$96,211	\$96,211	5.167%	12
13	6.900%	Series due Nov 2011	11/21/01	11/15/11	10	4	\$500,000,000	\$500,000,000	(\$5,338,849)	\$0	\$96,932	\$96,932	7.051%	13
14	5.450%	Series due Sep 2013	09/08/03	09/15/13	10	6	\$200,000,000	\$200,000,000	(\$1,654,660)	(\$5,967,819)	\$96,189	\$96,189	5.961%	14
15	4.950%	Series due Aug 2014	08/24/04	08/15/14	10	7	\$200,000,000	\$200,000,000	(\$2,170,365)	\$0	\$98,915	\$98,915	5.090%	15
16	7.000%	Series due Nov 2031	11/21/01	11/15/31	30	24	\$300,000,000	\$300,000,000	(\$3,701,310)	\$0	\$98,766	\$98,766	7.807%	16
17	5.900%	Series due Aug 2034	08/24/04	08/15/34	30	27	\$200,000,000	\$200,000,000	(\$2,614,365)	\$0	\$98,693	\$98,693	5.994%	17
18	5.250%	Series due Jun 2035	06/08/05	06/15/35	30	27	\$300,000,000	\$300,000,000	(\$3,992,021)	(\$1,295,995)	\$98,237	\$98,237	5.369%	18
19	6.100%	Series due Aug 2036	08/10/06	08/01/36	30	29	\$350,000,000	\$350,000,000	(\$3,935,488)	\$0	\$98,876	\$98,876	6.183%	19
20	5.750%	Series due Aug 2036	03/14/07	04/01/37	30	29	\$600,000,000	\$600,000,000	(\$7,740,000)	\$0	\$99,871	\$99,871	5.759%	20
21	5.979%	Subtotal - Bullet FMBs			22	19	\$2,850,000,000	\$2,850,000,000	(\$25,791,718)	(\$13,231,634)	\$2,810,976,648	\$2,810,976,648	6.154%	21
22														22
23														23
24	9.150%	Series C due Aug 2011	08/09/91	08/09/11	20	4	\$8,000,000	\$8,000,000	(\$75,327)	\$0	\$99,058	\$99,058	9.254%	24
25	8.950%	Series C due Sep 2011	08/16/91	09/01/11	20	4	\$20,000,000	\$20,000,000	(\$132,318)	\$0	\$99,339	\$99,339	9.022%	25
26	8.920%	Series C due Sep 2011	08/16/91	09/01/11	20	4	\$20,000,000	\$20,000,000	(\$188,118)	\$0	\$99,058	\$99,058	9.022%	26
27	8.950%	Series C due Sep 2011	08/16/91	09/01/11	20	4	\$25,000,000	\$25,000,000	(\$175,398)	\$0	\$99,298	\$99,298	9.026%	27
28	8.290%	Series C due Dec 2011	12/31/91	12/30/11	20	4	\$3,000,000	\$3,000,000	(\$23,040)	(\$410,784)	\$85,539	\$85,539	9.972%	28
29	8.260%	Series C due Jan 2012	01/09/92	01/10/12	20	4	\$1,000,000	\$1,000,000	(\$7,649)	(\$136,928)	\$85,542	\$85,542	9.972%	29
30	8.280%	Series C due Jan 2012	01/10/92	01/10/12	20	4	\$2,000,000	\$2,000,000	(\$13,297)	(\$273,856)	\$85,642	\$85,642	9.947%	30
31	8.250%	Series C due Feb 2012	01/15/92	02/01/12	20	4	\$3,000,000	\$3,000,000	(\$22,946)	(\$410,784)	\$85,542	\$85,542	9.925%	31
32	8.530%	Series C due Dec 2021	12/16/91	12/16/21	30	14	\$15,000,000	\$15,000,000	(\$115,202)	(\$2,053,922)	\$85,539	\$85,539	10.066%	32
33	8.375%	Series C due Dec 2021	12/31/91	12/31/21	30	14	\$5,000,000	\$5,000,000	(\$38,400)	(\$684,641)	\$85,539	\$85,539	9.889%	33
34	8.260%	Series C due Jan 2022	01/08/92	01/07/22	30	14	\$5,000,000	\$5,000,000	(\$33,243)	(\$684,641)	\$85,642	\$85,642	9.745%	34
35	8.270%	Series C due Jan 2022	01/09/92	01/10/22	30	14	\$4,000,000	\$4,000,000	(\$30,594)	(\$547,712)	\$85,542	\$85,542	9.768%	35
36	8.766%	Subtotal - Series C MTNs			23	6	\$111,000,000	\$111,000,000	(\$885,533)	(\$5,203,268)	\$104,941,200	\$104,941,200	9.354%	36
37														37
38	8.130%	Series E due Jan 2013	01/20/93	01/22/13	20	5	\$10,000,000	\$10,000,000	(\$75,827)	(\$671,687)	\$92,525	\$92,525	8.939%	38
39	8.050%	Series E due Sep 2022	09/18/92	09/18/22	30	15	\$15,000,000	\$15,000,000	(\$131,471)	(\$1,695,566)	\$87,820	\$87,820	9.258%	39
40	8.070%	Series E due Sep 2022	09/09/92	09/09/22	30	15	\$8,000,000	\$8,000,000	(\$70,118)	(\$904,302)	\$87,820	\$87,820	9.280%	40
41	8.110%	Series E due Sep 2022	09/11/92	09/09/22	30	15	\$12,000,000	\$12,000,000	(\$105,177)	(\$1,356,453)	\$87,820	\$87,820	9.325%	41
42	8.120%	Series E due Sep 2022	09/11/92	09/09/22	30	15	\$5,000,000	\$5,000,000	(\$48,238)	(\$561,887)	\$87,820	\$87,820	9.336%	42
43	8.050%	Series E due Sep 2022	09/14/92	09/14/22	30	15	\$10,000,000	\$10,000,000	(\$87,648)	(\$1,130,377)	\$87,820	\$87,820	9.258%	43
44	8.080%	Series E due Oct 2022	10/15/92	10/14/22	30	15	\$25,000,000	\$25,000,000	(\$208,198)	(\$2,061,627)	\$87,895	\$87,895	9.253%	44
45	8.080%	Series E due Oct 2022	10/15/92	10/14/22	30	15	\$25,000,000	\$25,000,000	(\$208,198)	(\$2,061,627)	\$87,895	\$87,895	9.253%	45
46	8.230%	Series E due Jan 2023	01/29/93	01/20/23	30	15	\$4,000,000	\$4,000,000	\$51,229	(\$88,989)	\$99,056	\$99,056	8.316%	46
47	8.230%	Series E due Jan 2023	01/20/93	01/20/23	30	15	\$5,000,000	\$5,000,000	(\$37,914)	(\$335,843)	\$92,525	\$92,525	8.951%	47
48	8.100%	Subtotal - Series E MTNs			29	14	\$165,000,000	\$165,000,000	(\$1,103,552)	(\$16,885,712)	\$146,860,736	\$146,860,736	9.194%	48
49														49
50	7.260%	Series F due Jul 2023	07/22/93	07/21/23	30	16	\$11,000,000	\$11,000,000	(\$100,622)	(\$89,062)	\$93,730	\$93,730	7.804%	50
51	7.260%	Series F due Jul 2023	07/22/93	07/21/23	30	16	\$27,000,000	\$27,000,000	(\$246,981)	(\$1,445,880)	\$93,730	\$93,730	7.804%	51
52	7.230%	Series F due Aug 2023	08/16/93	08/16/23	30	16	\$15,000,000	\$15,000,000	(\$137,211)	(\$268,624)	\$97,294	\$97,294	7.457%	52
53	7.240%	Series F due Aug 2023	08/16/93	08/16/23	30	16	\$30,000,000	\$30,000,000	(\$274,423)	(\$537,248)	\$97,294	\$97,294	7.467%	53



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Case No. PAC-E-07-05

Exhibit No. 8

Witness: Bruce N. Williams

IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

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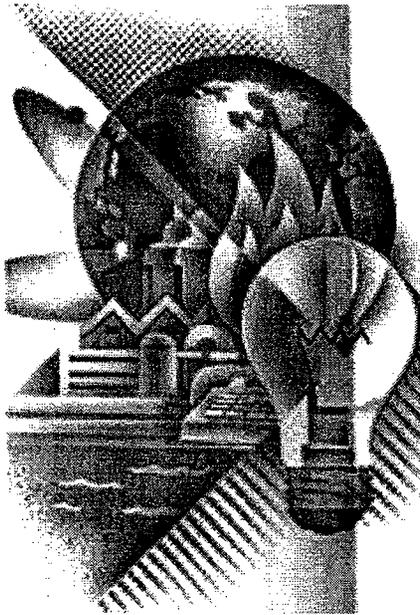
Exhibit Accompanying Direct Testimony of Bruce N. Williams

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**STANDARD  
& POOR'S**

## "Buy Versus Build": Debt Aspects of Purchased-Power Agreements

Standard & Poor's Ratings Services views electric utility purchased-power agreements (PPA) as debt-like in nature, and has historically capitalized these obligations on a sliding scale known as a "risk spectrum." Standard & Poor's applies a 0% to 100% "risk factor" to the net present value (NPV) of the PPA capacity payments, and designates this amount as the debt equivalent.

While determination of the appropriate risk factor takes several variables into consideration, including the economics of the power and regulatory treatment, the overwhelming factor in selecting a risk factor has been a distinction in the likelihood of payment by the buyer. Specifically, Standard & Poor's has divided the PPA universe into two broad categories: take-or-pay contracts (TOP; hell or high water) and take-and-pay contracts (TAP; performance based). To date, TAP contracts have been treated far more leniently (e.g., a lower risk factor is applied) than TOP contracts since failure of the seller to deliver energy, or perform, results in an attendant reduction in payment by the buyer. Thus, TAP contracts were deemed substantially less debt-like. In fact, the risk factor used for many TAP obligations has been as low as 5% or 10% as opposed to TOPs, which have been typically at least 50%.

Standard & Poor's originally published its purchased-power criteria in 1990, and updated it in 1993. Over the past decade, the industry underwent significant changes related to deregulation and acquired a history with regard to the performance and reliability of third-party generators. In general, independent generation has performed well; the likelihood of nondelivery—and thus release from the payment obligation—is low. As a result, Standard & Poor's believes that the distinction between TOPs and TAPs is minimal, the result being that the risk factor for TAPs will become more stringent. This article reiterates Standard & Poor's views on purchased power as a fixed obligation, how to quantify this risk, and the credit ramifications of purchasing power in light of updated observations.

### Why Capitalize PPAs?

Standard & Poor's evaluates the benefits and risks of purchased power by adjusting a purchasing utility's reported financial statements to allow for more meaningful comparisons with utilities that build generation. Utilities that build typically finance construction with a mix of debt and equity. A utility that leases a power plant has entered into a debt transaction for that facility; a capital lease appears on the utility's balance sheet as debt. A PPA is a similar fixed commitment. When a utility enters into a long-term PPA with a fixed-cost component, it takes on financial risk. Furthermore, utilities are typically not financially compensated for the risks

they assume in purchasing power, as purchased power is usually recovered dollar-for-dollar as an operating expense.

As electricity deregulation has progressed in some countries, states, and regions, the line has blurred between traditional utilities, vertically integrated utilities, and merchant energy companies, all of which are in the generation business. A common contract that has emerged is the tolling agreement, which gives an energy merchant company the right to purchase power from a specific power plant. (see "Evaluating Debt Aspects of Power Tolling Agreements," published Aug. 26, 2002). The energy merchant, or toller, is typically responsible for procuring and delivering gas to the plant when it wants the plant to generate power. The power plant operator must maintain plant availability and produce electricity at a contractual heat rate. Thus, tolling contracts exhibit characteristics of both PPAs and leases. However, tollers are typically unregulated entities competing in a competitive marketplace. Standard & Poor's has determined that a 70% risk factor should be applied to the NPV of the fixed tolling payments, reflecting its assessment of the risks borne by the toller, which are:

- Fixed payments that cover debt financing of power plant (typically highly leveraged at about 70%),
- Commodity price of inputs,
- Energy sales (price and volume), and
- Counterparty risk.

### Determining the Risk Factor for PPAs

Alternatively, most entities entering into long-term PPAs, as an alternative to building and owning power plants, continue to be regulated utilities. Observations over time indicate the high likelihood of performance on TAP commitments and, thus, the high likelihood that utilities must make fixed payments. However, Standard & Poor's believes that vertically integrated, regulated utilities are afforded greater protection in the recovery of PPAs, compared with the recovery of fixed tolling charges by merchant generators. There are two reasons for this. First, tariffs are typically set by regulators to recover costs. Second, most vertically integrated utilities continue to have captive customers and an obligation to serve. At a minimum, purchased power, similar to capital costs and fuel costs, is included in tariffs as a cost of service.

As a generic guideline for utilities with PPAs included as an operating expense in base tariffs, Standard & Poor's believes that a 50% risk factor is appropriate for long-term commitments (e.g. tenors greater than three years). This risk factor assumes adequate regulatory treatment, including recognition of the PPA in tariffs; otherwise a higher risk factor could be adopted to indicate greater risk of recovery. Standard & Poor's will apply a 50% risk factor to the capacity

Feature Article

component of both TAP and TOP PPAs. Where the capacity component is not broken out separately, we will assume that 50% of the payment is the capacity payment. Furthermore, Standard & Poor's will take counterparty risk into account when considering the risk factor. If a utility relies on any individual seller for a material portion of its energy needs, the risk of nondelivery will be assessed. To the extent that energy is not delivered, the utility will be exposed to replacing this power, potentially at market rates that could be higher than contracted rates and potentially not recoverable in tariffs.

Standard & Poor's continues to view the recovery of purchased-power costs via a fuel-adjustment clause, as opposed to base tariffs, as a material risk mitigant. A monthly or quarterly adjustment mechanism would ensure dollar-for-dollar recovery of fixed payments without having to receive approval from regulators for changes in fuel costs. This is superior to base tariff treatment, where variations in volume sales could result in under-recovery if demand is sluggish or contracting. For utilities in supportive regulatory jurisdictions with a precedent for timely and full cost recovery of fuel and purchased-power costs, a risk factor of as low as 30% could be used. In certain cases, Standard & Poor's may consider a lower risk factor of 10% to 20% for distribution utilities where recovery of certain costs, including stranded assets, has been legislated. Qualifying facilities that are blessed by overarching federal legislation may also fall into this category. This situation would be more typical of a utility that is transitioning from a vertically integrated to a disaggregated distribution company. Still, it is unlikely that

no portion of a PPA would be capitalized (zero risk factor) under any circumstances.

The previous scenarios address how purchased power is quantified for a vertically integrated utility with a bundled tariff. However, as the industry transitions to disaggregation and deregulation, various hybrid models have emerged. For example, a utility can have a deregulated merchant energy subsidiary, which buys power and off-sells it to the regulated utility. The utility in turn passes this power through to customers via a fuel-adjustment mechanism. For the merchant entity, a 70% risk factor would likely be applied to such a TAP or tolling scheme. But for the utility, a 30% risk factor would be used. What would be the appropriate treatment here? In part, the decision would be driven by the ratings methodology for the family of companies. Starting from a consolidated perspective, Standard & Poor's would use a 30% risk factor to calculate one debt equivalent on the consolidated balance sheet given that for the consolidated entity the risk of recovery would ultimately be through the utility's tariff. However, if the merchant energy company were deemed noncore and its rating was more a reflection of its stand-alone creditworthiness, Standard & Poor's would impute a debt equivalent using a 70% risk factor to its balance sheet, as well as a 30% risk-adjusted debt equivalent to the utility. Indeed, this is how the purchases would be reflected for both companies if there were no ownership relationship. This example is perhaps overly simplistic because there will be many variations on this theme. However, Standard & Poor's will apply this logic as

Table 1

**ABC Utility Co. Adjustment to Capital Structure**

	Original capital structure		Adjusted capital structure	
	\$	%	\$	%
Debt	1,400	54	1,400	48
Adjustment to debt	—	—	327	11
Preferred stock	200	8	200	7
Common equity	1,000	38	1,000	34
Total capitalization	2,600	100	2,927	100

Table 2

**ABC Utility Co. Adjustment to Pretax Interest Coverage**

	Original pretax interest coverage		Adjusted pretax interest coverage	
Net income	120			
Income taxes	65	300	(300+33)	
Interest expense	115	115	(115+33)	= 2.3x
Pretax available	300			

## Feature Article

a starting point, and modify the analysis case-by-case, commensurate with the risk to the various participants.

### Adjusting Financial Ratios

Standard & Poor's begins by taking the NPV of the annual capacity payments over the life of the contract. The rationale for not capitalizing the energy component, even though it is also a nondiscretionary fixed payment, is to equate the comparison between utilities that buy versus build—i.e., Standard & Poor's does not capitalize utility fuel contracts. In cases where the capacity and energy components of the fixed payment are not specified, half of the fixed payment is used as a proxy for the capacity payment. The discount rate is 10%. To determine the debt equivalent, the NPV is multiplied by the risk factor. The resulting amount is added to a utility's reported debt to calculate adjusted debt. Similarly, Standard & Poor's imputes an associated interest expense equivalent of 10%—10% of the debt equivalent is added to reported interest expense to calculate adjusted interest coverage ratios. Key ratios affected include debt as a percentage of total capital, funds from operations (FFO) to debt, pretax interest coverage, and FFO interest coverage. Clearly, the higher the risk factor, the greater the effect on adjusted financial ratios. When analyzing forecasts, the NPV of the PPA will typically decrease as the maturity of the contract approaches.

### Utility Company Example

To illustrate some of the financial adjustments, consider the simple example of ABC Utility Co. buying power from XYZ Independent Power Co. Under the terms of the contract, annual payments made by ABC Utility start at \$90 million in 2003 and rise 5% per year through the contract's expiration in 2023. The NPV of these obligations over the life of the contract discounted at 10% is \$1.09 billion. In ABC's case, Standard & Poor's chose a 30% risk factor, which when multiplied by the obligation results in \$327 million. Table 1 illustrates the adjustment to ABC's capital structure, where the \$327 million debt equivalent is added as debt, causing ABC's total debt to capitalization to rise to 59% from 54% (48 plus 11). Table 2 shows that ABC's pretax interest cover-

age was 2.6x, without adjusting for off-balance-sheet obligations. To adjust for the XYZ capacity payments, the \$327 million debt adjustment is multiplied by a 10% interest rate to arrive at about \$33 million. When this amount is added to both the numerator and the denominator, adjusted pretax interest coverage falls to 2.3x.

### Credit Implications

The credit implications of the updated criteria are that Standard & Poor's now believes that historical risk factors applied to TAP contracts with favorable recovery mechanisms are insufficient to capture the financial risk of these fixed obligations. Indeed, in many cases where 5% and 10% risk factors were applied, the change in adjusted financial ratios (from unadjusted) was negligible and had no effect on ratings. Standard & Poor's views the high probability of energy delivery and attendant payment warrants recognition of a higher debt equivalent when capitalizing PPAs. Standard & Poor's will attempt to identify utilities that are more vulnerable to modifications in purchased-power adjustments. Utilities can offset these financial adjustments by recognizing purchased power as a debt equivalent, and incorporating more common equity in their capital structures. However, Standard & Poor's is aware that utilities have been reluctant to take this action because many regulators will not recognize the necessity for, and authorize a return on, this additional wedge of common equity. Alternatively, regulators could authorize higher returns on existing common equity or provide an incentive return mechanism for economic purchases. Notwithstanding unresponsive regulators, the burden will still fall on utilities to offset the financial risk associated with purchases by either qualitative or quantitative means. ■

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## High Commodity Prices Bode Well For Stone Energy's Cash Flow

Independent oil and gas company Stone Energy Corp. (BB/Stable/—) is poised to generate strong free cash flow in 2003 as a result of very strong commodity prices recorded during the first quarter and the likelihood that they will remain higher than average for the remainder of the year. Based on Standard & Poor's Ratings Services commodity pricing assumptions for 2003, which is \$24 per barrel for West Texas Intermediate crude oil and \$4.00 per thousand cubic feet equivalent (mcf) for Henry-Hub-traded natural gas, Stone should generate in excess of \$300 million of operating cash flow, compared with the company's projected capital spending budget of about \$240 million. Although Stone may initially use this free cash flow to pay down debt, the liberated liquidity likely will be used to fund potential acquisitions.

The ratings on Lafayette, La.-based Stone Energy reflect the challenges the company faces as a participant in the volatile, capital-intensive exploration and production segment of the oil and natural gas industry, with a short reserve life, the bulk of its assets located in high-cost regions, and somewhat aggressive financial policies. These risks are tempered by low production costs, a proven exploration staff, and a high percentage of company-operated properties.

Stone's proved reserves as of Dec. 31, 2002 were 750.8 billion cubic feet equivalent (58% gas; 24% proved undeveloped). The company's reserves are concentrated in the Gulf of Mexico and Gulf Coast (93% of Stone's total proven reserves and 95% of production), where reserves generally deplete rapidly. Stone's remaining assets are in the Rocky Mountains. Stone intends to expand these assets because of the opportunity to modestly diversify its reserve base with longer-lived properties.

Standard & Poor's expects that Stone will produce about 300 million cubic feet equivalent (mmcf) per day in 2003, compared with 286 mmcf per day in 2002, yielding a short reserve life (total proved) of about 7.1 years. Stone's short reserve life heightens the importance of consistent investment to maintain production and replace produced reserves, and could necessitate external financing to sustain production and maintain reserves if hydrocarbon prices fall to lower-than-normal levels.

Stone somewhat compensates for its short reserve life through its acreage position, demonstrated exploration skills, and maintenance of capital available for acquisitions. Although Stone did not fully replace reserves in 2002 (replacing 79% of production), Stone's management believes that this is an anomaly because Stone generally replaces its reserves through a combination of drilling and complimentary acquisitions. During 2002, Stone did not complete any material acquisitions. Over the past five years (1998 through 2002), Stone on average replaced 171% of its production at an average cost of \$2.50 per mcf, with 124% provided through the drillbit and the balance through acquisitions. Stone's average

all-sources finding and development costs are high compared with onshore operators, because of the higher capital costs associated with working in coastal waters. However, the economics of Stone's Gulf of Mexico properties may be better than lower-cost onshore operators because of premium realized prices and the fast-producing nature of the properties. These factors also contribute to low unit cash production costs; in 2003, Stone is expected to maintain its highly competitive lease operating and general and administrative expenses of about 60 cents per mcf and 10 cents per mcf, respectively.

Stone's capital structure is adequate for the rating category, even after considering the incurrence of about \$300 million of acquisition-related debt in 2001. As of Dec. 31, 2002, total debt-to-total capital was 43%, when compared with 22% in 2000. In 2003, improvement in debt leverage is expected from increased retained earnings. Cash flow and profitability measures in 2003 should improve markedly because of strong hydrocarbon prices. Furthermore, the company has reduced the risks to its cash flow of pricing declines through attractively priced commodity price hedging (about 30% of production). For the medium term, even in a low commodity price environment, Stone should be capable of delivering EBITDA interest coverage of more than 9x and funds from operations in excess of 50%. In 2003, assuming a NYMEX natural gas price of \$24 per barrel for West Texas Intermediate crude oil and \$4.00 per mcf for Henry-Hub-traded natural gas, Stone should generate more than \$300 million of operating cash flow, which should fully fund the company's projected capital spending budget of about \$240 million.

As of March 10, 2003, Stone's liquidity consisted of cash balances and short-term investments of \$28 million and about \$161 million available on its \$350 million (\$300 million borrowing base) unsecured facility. These sources should provide the company with adequate near-term liquidity as the company does not intend to outspend internal cash flow and has no near-term debt maturities until December 2004, when the credit facility matures.

Full availability of Stone's revolving credit facility is likely because the company is easily outperforming its financial covenants that include a maximum consolidated debt-to-EBITDA ratio of 3.25x.

The stable outlook reflects Standard & Poor's expectations for Stone to pursue production growth funded with internally generated funds and, when possible, reduce leverage to a more appropriate level for Stone's production profile. Stone is expected to remain acquisitive, but such transactions should be financed conservatively. ■

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## Survey of State Regulators Reveals Focus on U.S. Utilities' Financial Strength

A recently completed survey of state regulators by RKS Research & Consulting on behalf of Standard & Poor's Ratings Services revealed significant shifts in regulator priorities since the previous survey of January 2001. The feedback from the interviews, which polled 47 different jurisdictions, placed financial issues as the most important consideration for regulators, followed by federal-state jurisdictional disputes, and generation and transmission resource adequacy. Other topics included reliability and power quality issues, service obligations, and subsidization of affiliate transactions. Regarding concerns over the next five to 10 years, respondents focused on jurisdictional clarity and resource adequacy, which would indicate that financial concerns are expected to dissipate in this time frame. Two years ago, the primary issues noted by regulators were considerably different: the development of distributed generation and service reliability led the list, followed by transmission issues.

The responses indicate that utilities' financial profiles matter greatly to state regulators, at least in the short term. Regulators overwhelmingly stated that utilities need to maintain strong financial profiles. In fact, regulators highlighting this concern increased threefold, and more than a third expressed extreme concern for utilities' financial health, compared with less than 10% in 2001. Along with this position was the view by almost half of the respondents that utilities had weakened during the past three years, particularly those in the Midwest and the West. Reasons cited for this included the economic downturn, bad investment decisions, holding company/affiliate transactions, and the fallout from the California and Enron Corp. crises. However, about half of the Northeastern state regulators believe that utilities have actually strengthened, reflecting the conversion of many utilities to basically lower-risk transmission and distribution companies. Not surprisingly, only half of all commissioners said they had as much confidence in the integrity of utility financial statements compared with a few years ago. Interestingly, a measurable number—17%—indicated a higher confidence level in financial statement quality; 26% have less confidence.

State regulators clearly expect to be more involved in monitoring utilities in their jurisdictions. However, while utilities' financial conditions, and more specifically, their insulation from nonregulated activities, ranked first among the

most pressing issues, opinion is evenly divided regarding whether current laws provide the appropriate enabling authority for regulators to ensure that utilities are not adversely affected by unregulated affiliates.

Other issues of note include:

- Deep jurisdictional disputes with the FERC over Standard Market Design (SMD). The majority consider SMD fatally flawed, and that it will lead to wide inequities between high- and low-cost electricity regions. Respondents highlighted inflexibility, cost-shifting among states, and whether any compelling need for SMD actually exists. A majority also expressed doubt that the proposal would ever deliver the promised results.
- Broad agreement that restructuring has stalled, along with increasing support for a return to cost-of-service regulation.
- Concerns that regional transmission systems are less than fully adequate.
- A plurality that is opposed to the repeal of the Public Utility Holding Company Act, especially by those states that do not provide retail choice.

Standard & Poor's views regulators' heightened concern, and their cognizance of the fact that unregulated parents' and affiliates' business pursuits have negatively affected utilities' credit quality, as encouraging. However, the general sense that current laws and regulations limit regulators' abilities to intervene tends to neutralize the value of such recognition. Indeed, Standard & Poor's has witnessed certain states, such as Minnesota, Arizona, and Kansas, becoming engaged in overseeing the financial activities and decisions of their utilities. While utilities and their parents may remain focused on a "back-to-basics" strategy, it is not clear that over the longer term such a strategy will hold. If it fails, and in a few years the industry is again diversifying its strategy to attract higher P/E ratios, regulators may be left on the sidelines again to wonder what happened to their regulated utilities. ■

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*(Ordering information for copies of the Standard & Poor's 2003 Survey of State Regulators is available from Richard Claeys, RKS-West at dclaeys@rksresearch.com or at (1) 408-867-6430.)*

## News Comments

### Laclede Group's and Unit's Ratings Are Lowered; Outlook Stable

 On May 5, Standard & Poor's Ratings Services lowered its long-term corporate credit ratings on parent The Laclede Group Inc.'s and Laclede Gas Co. to 'A' from 'A+'.

Standard & Poor's also affirmed its 'A-1' short-term corporate credit rating and commercial paper ratings on Laclede Gas. The outlook is stable.

St. Louis, Mo.-based Laclede Group has about \$260 million of outstanding long-term debt.

The rating action reflects subpar financial measurements relative to former credit quality. The financial weakness can be traced primarily to several successive warmer-than-normal winters and higher debt leverage.

Notwithstanding recent financial improvement, including the refinancing of Laclede Group's \$45 million bridge loan with hybrid preferred-stock securities (to which Standard & Poor's accords some equity treatment) and resolution of several regulatory issues, the company's prospective consolidated financial condition is expected to approach levels that are suitable for the revised rating.

Standard & Poor's believes that ratings stability reflects expectations for financial improvement, solid competitive standing, flexible supply position, abundant storage capacity, a stable customer base, and prospects for modest rate relief. These attributes are somewhat offset by Laclede Group's support of riskier unregulated affiliates. ■

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### Sierra Pacific Power's Water Facilities Bond Rating Is Raised to 'BB'

  On May 5, Standard & Poor's Ratings Services raised its rating on Sierra Pacific Power Co.'s \$80 million Washoe County water facilities refunding revenue bonds to 'BB' from 'B'.

The upgrade reflects the backing of the previously unsecured bonds by Sierra Pacific Power's general and refunding bonds as part of the current remarketing.

The tax-exempt bonds, for which Sierra Pacific Power is the obligor, mature in 2036, but are remarketed periodically to reset interest rates. The company will set rates for only

one year because Sierra Pacific Power has only short-term authority to issue general and refunding bonds.

Reno, Nevada-based Sierra Pacific Power had \$1.02 billion in debt outstanding as of Dec. 31, 2002. Its 'B+' corporate credit rating reflects the consolidated credit profile of Sierra Pacific Resources and its utility subsidiaries, Nevada Power Co. and Sierra Pacific Power. The rating factors in the adverse regulatory environment in Nevada; operating risk from Nevada Power's dependence on wholesale markets for over 50% of its energy requirements; and the substantially weakened financial profile resulting from the disallowance in 2002 by the Public Utility Commission of Nevada (PUCN) of \$434 million in deferred-power costs for Nevada Power and \$56 million for Sierra Pacific Power. The recent federal court decision denying Nevada Power's request to recover the \$437 million disallowed by the PUCN did not affect ratings because Standard & Poor's had not factored into the current ratings any positive outcome from the litigation.

The negative outlook reflects the risk of an adverse ruling either by the PUCN on Nevada Power's pending deferred cost recovery case or by the court on the Enron Corp. lawsuit. Enron is demanding payment of about \$300 million in marked-to-market profits on power supply contracts with Nevada Power that Enron terminated following Nevada Power's downgrade in April 2002. ■

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### Empresa Electrica Guacolda Ratings Are Affirmed; Off Watch

 On May 2, Standard & Poor's Ratings Services affirmed its 'BBB-' corporate credit rating on Chilean power generator Empresa Eléctrica Guacolda S.A. (Guacolda), and removed the rating from CreditWatch with negative implications. The outlook is stable. The rating was originally placed on CreditWatch on April 3, 2003 due to high refinancing risk.

The rating action follows the company's announcement that it has successfully placed \$150 million in senior amortizing secured loan participation certificates with final maturity in 2013. Proceeds were mainly applied to refinance its \$87 million net debt maturities on April 30, 2003, and to prepay its \$48.8 outstanding debt with Mitsubishi Corp.

The new \$150 million facility significantly reduces Guacolda's refinancing risk and leaves a debt structure much more in accordance with the company's cash flow projections.

Although cash reserves are low, Guacolda does not face important capital expenditures or large capital amortizations in the next two to three years. Guacolda has been applying

## News Comments

excess cash flows to debt reduction in recent years—total financial debt has decreased to \$192 million as of December 2002 from \$215 million as of December 2001. However, Guacolda's leverage remains at high levels (62.9% as of December 2002), mainly due to the devaluation of the Chilean peso. ■

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## Spanish Utilities Gas Natural, Iberdrola Ratings Are Affirmed; Off Watch

 On May 6, Standard & Poor's Ratings Services affirmed its 'A+' long-term and 'A-1' short-term corporate credit ratings on Spanish utilities Gas Natural SDG S.A. and Iberdrola S.A., and removed the long-term ratings on both from CreditWatch, where they were placed on March 10, 2003. The affirmation follows the withdrawal of Gas Natural's takeover bid for Iberdrola. The outlook for both companies is stable.

Gas Natural's board announced the withdrawal of its tender offer for Iberdrola after the bid was rejected by the Spanish energy industry advisory body, Comision Nacional de Energia.

Also, Gas Natural stated that it would continue to pursue organic growth in line with its 2007 strategic plan. The utility aims to retain its roughly 70% share of the Spanish gas supply market, which is likely to experience increasing competition from electric utilities. In addition, Gas Natural targets a 10% market share in electricity supply, and plans to establish 4,800 MW of new gas-fired installed capacity by 2007. However, the utility's undiversified portfolio leaves it exposed to gas prices.

While Gas Natural's financial profile continues to provide headroom for debt-financed acquisitions, it also implies some event risk as the company may pursue larger-than-expected acquisitions, as reflected by its offer for Iberdrola.

Iberdrola, however, will continue to benefit from its strong market position, while targeting a 20% market share in gas supply. The company's strong business profile is partially offset by a considerable weakening in its financial profile caused by its ambitious 2002 growth strategy. ■

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## Enel's and Subs' Ratings Are Affirmed; Off Watch, Outlook Negative

 On May 2, Standard & Poor's Ratings Services affirmed its 'A+' long-term ratings on Italy's largest electric utility Enel SpA and its subsidiaries Camuzzi Gazometri SpA, Enel Investment Holding B.V., and Camuzzi Finance S.A. The ratings were removed from CreditWatch, where they were placed on March 21, 2003. The outlook is negative. The resolution of the CreditWatch listing follows Standard & Poor's review of Enel's new business plan and future strategies. At the same time, the 'A-1' short-term corporate credit ratings on Enel and Camuzzi were affirmed.

The ratings on Enel reflect its stable cash flow from regulated activities, strong position, and robust financial profile. Offsetting its credit strengths are the higher credit risks associated with the company's electricity generation operations, increasing exposure to competitive pressure in the core electricity and gas markets, and substantial investment in the telecom industry.

Enel's financial profile deteriorated in 2002 as a consequence of higher-than-expected debt. This mainly resulted from its wholly owned telecom subsidiary, Wind, not being floated. Although Enel's financial performance is forecast to recover, Standard & Poor's does not expect Enel's debt to decrease materially in the short term.

Funds from operations to net debt is expected to remain strong at more than 25% over the medium term.

Uncertainties and execution risks surrounding possible exit solutions have prolonged Enel's financial support for Wind, with a further €1 billion capital injection forecast over the next 12 months. Enel's exposure to the volatile telecom sector will shrink after it sells its interest in Wind, but Standard & Poor's does not believe that this is likely in the short term.

The negative outlook reflects the uncertainty regarding the group's telecom operations and the likelihood that Enel will have to support Wind in the short-to-medium term. In addition, the company's credit quality is expected to decline beyond the short term as market liberalization progresses and competitive pressure increases. Any debt-funded acquisitions, expansion into higher-risk activities, or a lower-than-forecast performance by the consolidated businesses could accelerate a lowering of the long-term ratings to 'A'. ■

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## News Comments

### Petrozuata Finance Ratings Is Affirmed; Off Watch

 On May 5, Standard & Poor's Ratings Services affirmed its 'B' rating on Petrozuata Finance Inc.'s \$1 billion bonds and removed it from CreditWatch, where it was placed with negative implications on Dec. 10, 2002. The outlook is stable. The bonds are guaranteed by Petrolera Zuata, Petrozuata C.A.

Petrozuata is a heavy oil production and upgrading project in Venezuela that is owned by Conoco Venezuela Holding (50.1%), a subsidiary of ConocoPhillips, and PDVSA Petroleo (49.9%), a subsidiary of Petroleos de Venezuela S.A. (PDVSA).

The removal of the CreditWatch listing is due mainly to the project's ability to restart and stabilize operations and to make offshore debt payments without exposure to foreign exchange controls. The removal is further supported by the outlook for Venezuela and PDVSA, which was revised to stable on April 16, 2003, by Standard & Poor's because of the government's improving liquidity and a reduction, albeit limited, in economic and political pressures.

The Petrozuata project restarted upgrader operations in early March 2003 following the redelivery of natural gas and hydrogen feedstocks by PDVSA Gas and third parties supplied by PDVSA Gas. Petrozuata reports that its current operations are in line with 2003 business forecasts.

The stable outlook reflects Petrozuata's current production above or at pro forma rates and general expectations that the project will continue to receive sufficient feedstocks from PDVSA Gas to support production and will not be subject to foreign exchange controls. The outlook could change to negative if the project's ability to maintain steady production becomes questionable, or if the credit outlook for the Venezuela or PDVSA worsens.

The outlook could be revised to positive if the outlook on PDVSA and the government improves. ■

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## Last Week's Rating Reviews

### Ratings Activity: April 30 to May 7

	Action	To	From	Date
Enel SpA	Outlook revised	Negative	Watch Neg	May 2
Iberdrola S.A.	Outlook revised	Stable	Watch Neg	May 6
Laclede Group Inc.	Rating lowered	A	A+	May 5
Laclede Gas Co.	Rating lowered	A	A+	May 5
Petrozuata Finance Inc.	Outlook revised	Stable	Watch Neg	May 5

## Did You Know?

### World Energy Consumption and Regional Carbon Dioxide Emissions in 2001

Region	Consumption (quadrillion BTUs)	Emissions (mil. metric tons carbon equivalent)
Industrialized countries	211.5	3,179
Eastern Europe/Former Soviet Union	53.3	856
Asia	85	1,640
Middle East	20.8	354
Africa	12.4	230
Central and South America	20.9	263
Total	403.9	6,522

Source: Energy Information Administration/International Energy Outlook 2003.

## Last Week's Financing Activity

### New Debt and Preferred Stock Issues, and New Shelf Registrations

April 30 to May 7

Company	Rating	Outlook	Issue registered date	Amount issued/reg (mil. \$)	Coupon rate (%)	Security type	Maturity date	Price	BP spread over Treasury	Underwriter
<b>Electric &amp; Water</b>										
AES Corp.	B+	Negative	May 2, 2003	600	9	Senior Secured Notes	May 15, 2015	100	496	Citigroup
Alabama Power Co.	A	Stable	May 2, 2003	250	3.125	Drawdown	May 1, 2008	—	—	Barclays Capital
Appalachian Power Co.	BBB	Stable	April 30, 2003	200	—	Unsecured Notes	—	—	—	Bank One Capital Markets
Arizona Public Service Co.	BBB	Stable	May 6, 2003	200	—	Drawdown	May 1, 2033	—	—	Lehman/Bank of America Securities
Arizona Public Service Co.	BBB	Stable	May 6, 2003	300	—	Drawdown	May 1, 2015	—	—	Lehman/Bank of America Securities
Duke Energy Corp.	A-	Negative	May 1, 2003	700	—	Drawdown	2023	—	—	Citigroup/JP Morgan
Empire District Electric Co.	BBB-	Stable	April 30, 2003	100	—	Credit Agreement	April 17, 2005	—	—	—
Entergy Arkansas Inc.	BBB+	Stable	May 2, 2003	150	5.4	First Mortgage Bonds	May 1, 2018	—	—	—
Wisconsin Electric Power Co.	A-	—	May 2, 2003	300	4.5	Drawdown	May 15, 2013	—	—	JP Morgan/BancOne Capital Markets
Wisconsin Electric Power Co.	A-	—	May 2, 2003	335	5.625	Drawdown	May 15, 2033	—	—	JP Morgan/BancOne Capital Markets

#### Gas

None

#### Oil & Gas

None

#### Project Finance

None

#### Telecommunications

None

bp—Basis point. All shelf ratings except medium-term note programs are preliminary until drawn down.

## Duke Energy's \$700 Million Senior Notes Are Rated 'A-'

 On May 2, Standard & Poor's Ratings Services assigned its 'A-' senior unsecured debt rating to Duke Energy Corp.'s \$700 million convertible senior notes due 2023. The outlook is negative.

Charlotte, N.C.-based Duke Energy had \$22.5 billion in consolidated debt outstanding (including current maturities) as of Dec. 31, 2002.

The proposed note issue is a drawdown from Duke Energy's existing \$1.5 billion shelf registration.

Standard & Poor's negative outlook on Duke Energy reflects the need to review the company's progress on its asset sale strategy, as well as updated financial projections, to determine the likelihood and timing of financial improvement. Duke Energy will need to improve funds from operations (FFO) interest coverage and FFO to total debt beyond 4x and 16%, respectively, to maintain current ratings.

Standard & Poor's also said that the FERC's investigations of energy traders continues to be a concern.

At the drawdown, the shelf registration had \$1.3 billion available. Duke Energy plans to use the proceeds for various

corporate needs, which may include the reduction of outstanding commercial paper.

The notes are senior unsecured obligations of the corporation. The noteholders can convert their holdings to common shares of Duke Energy if certain conditions are met. Given that there is no mandatory conversion, Standard & Poor's views the notes as being fully debt-like. ■

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## Wisconsin Electric Power's \$635 Million Debt Issue Is Rated 'A-'

 On May 5, Standard & Poor's Ratings Services assigned its 'A-' rating to Wisconsin Electric Power Co.'s \$635 million of senior unsecured debentures due in 2013 and 2033. Proceeds will be used to retire existing callable debt of various maturities. The outlook is stable.

Milwaukee, Wisc.-based Wisconsin Energy Corp., parent of Wisconsin Electric Power, and its other subsidiaries had

## Last Week's Financing Activity

about \$3.9 billion of debt outstanding as of March 31, 2003.

Standard & Poor's stable outlook for Wisconsin Energy reflects the company's focus on its core utility business, which is expected to remain strong and provide the majority of the cash flows. However, the ratings or outlook could change due to further weakening of financial measures during the construction phase of its Power the Future (PTF) program if interest rates rise or project costs supercede original estimates.

Standard & Poor's also noted that the company is subject to refinancing risk when it will need to raise permanent financing for PTF projects, which could also adversely affect the ratings and outlook.

Wisconsin Energy's PTF program is the company's plan to build new nonregulated generation to meet Wisconsin Electric Power's expected energy demand for the next 10 years. ■

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## North Carolina Eastern Municipal Power's Bonds Are Rated 'BBB'

 On May 2, Standard & Poor's Ratings Services assigned its 'BBB' rating to North Carolina Eastern Municipal Power Agency's \$294.1 million power system revenue bonds series 2003D-E, based on the agency's significant debt burden, relatively high wholesale power costs and resultant uncompetitive member retail rates, and credit quality implications resulting from the presence of economically depressed regions in its service territory.

These risks are mitigated by the strong take-or-pay contracts provided, which contractually obligate member cities to pay agency debt service; the financial oversight and political support provided by the Local Government Commission of North Carolina; and the limited prospects for any North Carolina deregulation.

The outlook is stable, reflecting the strength of the existing legal structure provided by the contracts and the Local Government Commission of North Carolina's oversight, the lack of deregulation, and the recently renewed supplemental agreement with Carolina Power & Light Co.

Proceeds of the bonds and certain other available money will be used to refund existing power system revenue bonds.

North Carolina Eastern's weak business profile of 'B' on Standard & Poor's 10-point scale takes into account the agency's high fixed costs and the overall average credit quality of the member cities, which include the very poor

economics and demographics of some of the smaller participants. Some display shrinking populations, high unemployment, and per capita income levels well below the national average. These trends heighten Standard & Poor's credit concerns.

North Carolina Eastern is a joint-action agency that provides wholesale power to 32 member cities under take-or-pay contracts. The bonds are payable from member revenues collected by the agency. ■

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## Medco Energi's Proposed \$200 Million Notes Are Rated 'B+'



On May 5, Standard & Poor's Ratings Services assigned its 'B+' rating to Indonesian oil and gas company P.T. Medco Energi Internasional Tbk.'s proposed senior unsecured notes issue of about \$200 million. The notes are due 2010, and puttable by noteholders in 2008. The notes will be issued by subsidiary MEI Euro Finance Ltd. and will be guaranteed by Medco. The rating on the notes, therefore, reflects the corporate credit rating on Medco. Proceeds from the new debt will be used primarily to fund Medco's acquisition of petroleum assets in 2003 and its intensive exploration, development, and production program.

In addition, Medco is offering to exchange its existing \$100 million 10% senior unsecured notes due March 2007 for the proposed notes due 2010. Those exchange offer notes that are tendered will form a single series with the proposed note issue, and will have the same rating.

The additional debt of about \$200 million is consistent with Standard & Poor's expectations of Medco's capital structure, whereby total debt to capital could rise to 50% to 60% (from about 16% at Dec. 31, 2002) in the near-to-medium term, depending on the implementation of planned development activities and acquisition opportunities.

Medco's rating reflects the company's short proved-reserves life index of 4.8 years, which explains the company's plans to acquire producing oil blocks in 2003, in addition to developing its substantial gas reserves, to add to its proved reserves base and production volumes. With reserves declining due to the maturity of Medco's fields, the company is also expected to incur significant capital costs and face various execution risks to convert its substantial probable reserves into proved reserves.

Production and proved reserves growth remain highly dependent on gas sales contracts, or the development of

## Last Week's Financing Activity

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gas infrastructure in Indonesia, to absorb the company's large uncommitted gas reserves.

Although the policy direction in Indonesia is largely positive, the full operational effects of expected changes remain to be seen.

Uncertainty in the regulatory environment will continue in the near-to-medium term. Medco does, however, enjoy some insulation from sovereign debt risks. Despite its own difficulties, the Indonesian government in recent years has not sought to impose a debt moratorium or interfere with local companies accessing the foreign exchange markets to service their foreign currency obligations. Furthermore, Medco enjoys some insulation from currency instability and weaknesses in the Indonesian banking system as its oil prices and revenues are in U.S. dollars, which are deposited mainly in offshore bank accounts.

The rating on Medco also reflects the company's favorable cost structure and production track record. The large size of Medco's operating areas, low labor costs, and proximity to oil and gas supply infrastructure contribute to its better-than-average cost structure. Lifting cost in 2002 was about \$2.89 per barrel of oil equivalent (boe), compared with

the global average of \$4 to \$5 per boe. The company's three-year rolling average finding and development costs were moderately low at \$2.69 per boe. Medco also has moderate, although increasingly aggressive, debt leverage and strong credit measures. Its credit ratios will weaken in the near-to-medium term, when the company assumes greater debt to fund its acquisition of petroleum assets and drilling rigs in 2003, and its intensive drilling program.

The rating also assumes that 2003 petroleum asset acquisition costs will be between \$150 million and \$180 million, can immediately contribute to the company's proved reserves base, and that corresponding production volumes can be realized in a timely manner.

Securing long-term gas sales contracts would allow the company to certify its probable gas reserves into proved reserves. This could result in a modest improvement in Medco's overall credit quality, if coupled with an improving country risk environment. ■

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## Utility Credit Rankings

The following list contains Standard & Poor's Ratings, Outlooks, and Business Profiles for utilities. This list, dated May 7, 2003, reflects the most current ratings, rankings, and outlooks. It is arranged by corporate credit rating categories. Within corporate credit rating categories, issuers are grouped by Outlooks; and within Outlook categories, issuers are listed by RELATIVE STRENGTH, with the first being the strongest, and the last being the weakest.

A Standard & Poor's rating Outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate to longer term. In determining a rating Outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An Outlook is not necessarily a precursor of a rating change or future CreditWatch action. "Positive" indicates that a rating may be raised; "Negative" means a rating may be lowered;

"Stable" indicates that ratings are not likely to change; and "Developing" means ratings may be raised or lowered. N.M. means not meaningful.

Utility business profiles are categorized from 1 (strong) to 10 (weak). In order to determine a utility's business profile, Standard & Poor's analyzes the following qualitative business or operating characteristics typical of a utility: markets and service area economy; competitive position; fuel and power supply; operations; asset concentration; regulation; and management. Telecommunications companies have not been assigned business profiles. Issuer credit ratings, shown as long-term rating/outlook or CreditWatch/short-term rating, are local and foreign currency unless otherwise noted. A dash "—" indicates not rated. An asterisk "\*" indicates that the utility was reviewed this week and its ranking position was updated.

## U.S. Electric/Gas/Water Companies

Company	Corporate Credit Rating	Bus. Prof.	Company	Corporate Credit Rating	Bus. Prof.
Baton Rouge Water Works Co. (The)	AA/Stable/—	2	Alabama Power Co.	A/Stable/A-1	4
Madison Gas & Electric Co.	AA/Negative/A-1+	5	Gulf Power Co.	A/Stable/—	4
Nicor Gas Co.	AA/CW-Neg/A-1+	2	Georgia Power Co.	A/Stable/A-1	4
Nicor Inc.	AA/CW-Neg/A-1+	3	Savannah Electric & Power Co.	A/Stable/—	4
Washington Gas Light Co.	AA-/Stable/A-1+	3	Southern Co.	A/Stable/A-1	4
WGL Holdings Inc.	AA-/Stable/A-1+	3	Equitable Resources Inc.	A/Stable/A-1	5
Wisconsin Public Service Corp.	AA-/Stable/A-1	4	Atlantic City Sewerage Co.	A/Stable/—	3
Southern California Water Co.	A+/Stable/—	3	Questar Corp.	A/Negative/A-1	5
Southern California Gas Co.	A+/Stable/A-1	2	Boston Gas Co.	A/Negative/—	3
San Diego Gas & Electric Co.	A+/Stable/A-1	5	Colonial Gas Co.	A/Negative/—	3
American States Water Co.	A+/Stable/—	3	KeySpan Generation LLC	A/Negative/—	4
California Water Service Co.	A+/Stable/—	3	KeySpan Corp.	A/Negative/A-1	4
Consolidated Edison Co. of New York Inc.	A+/Stable/A-1	3	Florida Power & Light Co.	A/Negative/A-1	4
Consolidated Edison Inc.	A+/Stable/A-1	3	FPL Group Inc.	A/Negative/—	5
Orange and Rockland Utilities Inc.	A+/Stable/A-1	3	FPL Group Capital	A/Negative/A-1	7
Rockland Electric Co.	A+/Stable/—	4	Piedmont Natural Gas Co. Inc.	A/CW-Neg/—	3
Otter Tail Corp.	A+/Stable/A-1	6	IDACORP Inc.	A-/Positive/A-2	5
Questar Pipeline Co.	A+/Negative/—	3	Idaho Power Co.	A-/Positive/A-2	4
Elizabethtown Water Co.	A+/Negative/—	3	Northern Natural Gas Co.	A-/Positive/—	3
KeySpan Energy Delivery New York	A+/Negative/—	2	Midwest Independent Transmission		
KeySpan Energy Delivery Long Island	A+/Negative/—	2	System Operator Inc.	A-/Positive/—	3
Pennsylvania Suburban Water Co.	A+/CW-Neg/—	2	Peoples Energy Corp.	A-/Stable/A-2	4
Central Hudson Gas & Electric Co.	A/Positive/—	3	Peoples Gas Light & Coke Co.	A-/Stable/A-2	3
New Jersey Natural Gas Co.	A/Positive/A-1	2	North Shore Gas Co.	A-/Stable/A-2	3
American Transmission Co.	A/Stable/A-1	2	Virginia Electric & Power Co.	A-/Stable/A-2	4
Aquarion Co.	A/Stable/—	3	Wisconsin Gas Co.	A-/Stable/A-2	3
BHC Co.	A/Stable/—	2	Wisconsin Electric Power Co.	A-/Stable/A-2	4
Middlesex Water Co.	A/Stable/—	3	Wisconsin Natural Gas Co.	A-/Stable/—	3
Colonial Pipeline Co.	A/Stable/A-1	3	Atlanta Gas Light Co.	A-/Stable/—	2
Northwest Natural Gas Co.	A/Stable/A-1	3	Alabama Gas Corp.	A-/Stable/—	2
ONEOK Inc.	A/Stable/A-1	5	Energen Corp.	A-/Stable/—	6
Massachusetts Electric Co.	A/Stable/A-1	3	AGL Resources Inc.	A-/Stable/—	3
Narragansett Electric Co.	A/Stable/A-1	3	Public Service Co. of North Carolina Inc.	A-/Stable/A-1	3
New England Power Co.	A/Stable/A-1	3	South Carolina Electric & Gas Co.	A-/Stable/A-1	4
Niagara Mohawk Power Corp.	A/Stable/—	4	SCANA Corp.	A-/Stable/—	4
National Grid USA	A/Stable/A-1	3	PPL Electric Utilities Corp.	A-/Stable/A-2	4
NSTAR	A/Stable/A-1	3	Baltimore Gas & Electric Co.	A-/Stable/A-2	3
Boston Edison Co.	A/Stable/A-1	3	PECO Energy Co.	A-/Stable/A-2	4
Commonwealth Electric Co.	A/Stable/—	3	Commonwealth Edison Co.	A-/Stable/A-2	4
NSTAR Gas Co.	A/Stable/—	3	Exelon Generation Co. LLC	A-/Stable/A-2	8
Cambridge Electric Light Co.	A/Stable/—	3	Exelon Corp.	A-/Stable/A-2	6
Buckeye Partners L.P.	A/Stable/—	4	Sempra Energy	A-/Stable/A-2	5
*Laclede Gas Co.	A/Stable/A-1	3	Constellation Energy Group Inc.	A-/Stable/A-2	6
*Laclede Group Inc.	A/Stable/—	3	Delmarva Power & Light Co.	A-/Stable/A-2	3
MidAmerican Energy Co.	A/Stable/A-1	4	Union Electric Co.	A-/Stable/A-1	4
WPS Resources Corp.	A/Stable/A-1	5	Central Illinois Public Service Co.	A-/Stable/—	3
Mississippi Power Co.	A/Stable/A-1	4	Central Illinois Light Co.	A-/Stable/—	4
			CILCORP Inc.	A-/Stable/—	4
			AmerenEnergy Generating Co.	A-/Stable/—	7

Utility Credit Rankings

U.S. Electric/Gas/Water Companies continued

Company	Corporate Credit Rating	Bus. Prof.	Company	Corporate Credit Rating	Bus. Prof.
Ameren Corp.	A-/Stable/A-2	5	Progress Energy Florida Inc.	BBB+/Negative/A-2	4
Louisville Gas & Electric Co.	A-/Stable/A-2	4	Progress Energy Carolinas Inc.	BBB+/Negative/A-2	5
Kentucky Utilities Co.	A-/Stable/A-2	4	Florida Progress Corp.	BBB+/Negative/—	5
LG&E Energy Corp.	A-/Stable/—	6	Progress Energy Inc.	BBB+/Negative/A-2	5
LG&E Capital Corp.	A-/Stable/A-2	8	Connecticut Natural Gas Corp.	BBB+/Negative/—	3
AmerenEnergy Generating Co.	A-/Stable/—	7	Southern Connecticut Gas Co.	BBB+/Negative/—	3
Indiana Gas Co. Inc.	A-/Negative/—	2	Central Maine Power Co.	BBB+/Negative/—	3
Kem River Gas Transmission Co.	A-/Negative/—	4	New York State Electric & Gas Corp.	BBB+/Negative/A-2	3
Southern Indiana Gas & Electric Co.	A-/Negative/—	4	Energy East Corp.	BBB+/Negative/—	3
Vectren Utility Holdings	A-/Negative/A-2	4	Rochester Gas & Electric Corp.	BBB+/Negative/—	5
Vectren Corp.	A-/Negative/—	4	RGS Energy Group Inc.	BBB+/Negative/—	5
PacifiCorp Holdings Inc.	A-/Negative/—	4	Questar Market Resources Inc.	BBB+/Negative/—	8
PacifiCorp	A-/Negative/A-2	4	ALLETE Inc.	BBB+/CW-Dev/A-2	6
Wisconsin Power & Light Co.	A-/Negative/A-2	4	Northern States Power Wisconsin	BBB+/CW-Dev/—	4
Atmos Energy Corp.	A-/Negative/A-2	4			
Montana-Dakota Utilities Co.	A-/Negative/—	4	TEPPCO Partners L.P.	BBB/Stable/—	4
MDU Resources Group Inc.	A-/Negative/A-2	6	TE Products Pipeline Co. L.P.	BBB/Stable/—	4
Northern Border Pipeline Co.	A-/Negative/—	3	Florida Gas Transmission Co.	BBB/Stable/—	2
Northern Border Partners L.P.	A-/Negative/—	3	NUI Utilities Inc.	BBB/Stable/—	3
Duke Energy Corp.	A-/Negative/A-2	5	Arizona Public Service Co.	BBB/Stable/A-2	4
Duke Capital Corp.	A-/Negative/A-2	6	Pinnacle West Capital Corp.	BBB/Stable/A-2	5
Texas Eastern Transmission L.P.	A-/Negative/—	4	Kinder Morgan Inc.	BBB/Stable/A-2	5
Market Hub Partners Storage L.P.	A-/Negative/—	7	AEP Texas Central Co. (formerly Central Power & Light)	BBB/Stable/—	2
PanEnergy Corp.	A-/Negative/—	4	AEP Texas North Co. (formerly West Texas Utilities Co.)	BBB/Stable/—	2
United Water New Jersey	A-/CW-Neg/—	3	AEP Resources Inc.	BBB/Stable/—	7
United Waterworks	A-/CW-Neg/—	3	Appalachian Power Co.	BBB/Stable/—	3
NOVA Gas Transmission Ltd.	A-/CW-Neg/—	2	Columbus Southern Power Co.	BBB/Stable/—	2
TransCanada Pipelines Ltd.	A-/CW-Neg/—	2	Indiana Michigan Power Co.	BBB/Stable/—	4
			Kentucky Power Co.	BBB/Stable/—	3
South Jersey Gas Co.	BBB+/Stable/—	3	Ohio Power Co.	BBB/Stable/—	2
PEPCO Holdings Inc.	BBB+/Stable/A-2	4	Public Service Co. of Oklahoma	BBB/Stable/—	3
Cascade Natural Gas Corp.	BBB+/Stable/—	3	Southwestern Electric Power Co.	BBB/Stable/—	3
UGI Utilities Inc.	BBB+/Stable/—	4	American Electric Power Co. Inc.	BBB/Stable/A-2	5
Kinder Morgan Energy Partners L.P.	BBB+/Stable/A-2	4	Public Service Electric & Gas Co.	BBB/Stable/A-2	3
Connecticut Light & Power Co.	BBB+/Stable/—	4	PSEG Power LLC	BBB/Stable/—	7
Western Massachusetts Electric Co.	BBB+/Stable/—	4	Public Service Enterprise Group Inc.	BBB/Stable/A-2	6
Public Service Co. of New Hampshire	BBB+/Stable/—	5	PSEG Energy Holdings, Inc.	BBB/Stable/—	8
Northeast Utilities	BBB+/Stable/—	5	Entergy Arkansas Inc.	BBB/Stable/—	6
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	4	Entergy Louisiana Inc.	BBB/Stable/—	6
OGE Energy Corp.	BBB+/Stable/A-2	5	Entergy Mississippi Inc.	BBB/Stable/—	7
Wisconsin Energy Corp.	BBB+/Stable/A-2	5	Entergy New Orleans Inc.	BBB/Stable/—	7
Transok Inc.	BBB+/Stable/—	6	Entergy Corp.	BBB/Stable/—	6
Enogex Inc.	BBB+/Stable/—	6	Hawaiian Electric Industries Inc.	BBB/Stable/A-2	6
Consolidated Natural Gas Co.	BBB+/Stable/A-2	5	Duke Energy Field Services LLC	BBB/Stable/A-2	6
Dominion Resources Inc.	BBB+/Stable/A-2	5	Black Hills Power Inc.	BBB/Stable/—	5
Michigan Consolidated Gas Co.	BBB+/Stable/A-2	3	Black Hills Corp.	BBB/Stable/A-2	7
Detroit Edison Co.	BBB+/Stable/A-2	6	Potomac Capital Investment Corp.	BBB/Stable/—	7
MCN Energy Enterprises Inc.	BBB+/Stable/—	8	Empire District Electric Co.	BBB/Stable/A-2	5
DTE Enterprises	BBB+/Stable/—	6	Great Plains Energy Inc.	BBB/Stable/—	6
DTE Energy Co.	BBB+/Stable/A-2	6	Kansas City Power & Light Co.	BBB/Stable/A-2	6
Cinergy Corp.	BBB+/Stable/A-2	5	Southern Union Co.	BBB/Stable/—	4
Cincinnati Gas & Electric Co.	BBB+/Stable/—	4	Dayton Power & Light Co.	BBB/Stable/A-2	4
PSI Energy Inc.	BBB+/Stable/—	4	DPL Inc.	BBB/Stable/A-2	6
National Fuel Gas Co.	BBB+/Stable/A-2	6	Centerpoint Energy Inc.	BBB/Stable/—	5
Union Light Heat & Power Co.	BBB+/Stable/—	4	Centerpoint Energy Houston Electric LLC	BBB/Stable/—	5
Hawaiian Electric Co. Inc.	BBB+/Stable/A-2	6	Centerpoint Energy Resources Corp.	BBB/Stable/—	5
Maui Electric Co. Ltd.	BBB+/Stable/—	6	TXU U.S. Holdings	BBB/Negative/—	5
Hawaiian Electric Light Co. Inc.	BBB+/Stable/—	6	Oncor Electric Delivery Co.	BBB/Negative/—	5
Potomac Electric Power Co.	BBB+/Stable/A-2	3	TXU Energy Co. LLC	BBB/Negative/—	5
Connecticut	BBB+/Stable/—	4	TXU Gas Co.	BBB/Negative/—	5
Atlantic City Electric Co.	BBB+/Stable/A-2	3	TXU Corp.	BBB/Negative/—	5
Kaneb Pipe Line Operating Partnership L.P.	BBB+/Stable/—	5	PacifiCorp Group Holdings Co.	BBB/Negative/—	4
Portland General Electric Co.	BBB+/Developing/A-2	4	Jersey Central Power & Light Co.	BBB/Negative/—	4
Interstate Power & Light Co.	BBB+/Negative/A-2	5	Pennsylvania Electric Co.	BBB/Negative/—	5
Alliant Energy Corp.	BBB+/Negative/A-2	5			
Alliant Energy Resources Inc.	BBB+/Negative/—	8			

Utility Credit Rankings

U.S. Electric/Gas/Water Companies continued

Company	Corporate Credit Rating	Bus. Prof.	Company	Corporate Credit Rating	Bus. Prof.
Metropolitan Edison Co.	BBB/Negative/—	5	Southern California Edison Co.	BB/CW-Dev/—	8
Ohio Edison Co.	BBB/Negative/—	6	Consumers Energy Co.	BB/Negative/—	6
Cleveland Electric Illuminating Co.	BBB/Negative/—	6	CMS Energy Corp.	BB/Negative/—	6
Toledo Edison Co.	BBB/Negative/—	6	Tucson Electric Power Co.	BB/CW-Neg/—	6
Pennsylvania Power Co.	BBB/Negative/—	6			
FirstEnergy Corp.	BBB/Negative/—	6	Ferrelgas Partners L.P.	BB-/Stable/—	7
Southwestern Energy Co.	BBB/Negative/—	8	West Penn Power Co.	BB-/CW-Neg/—	2
Cleco Power LLC	BBB/Negative/A-3	5	Potomac Edison Co.	BB-/CW-Neg/—	2
Cleco Corp.	BBB/Negative/A-3	6	Monongahela Power Co.	BB-/CW-Neg/—	2
Duquesne Light Co.	BBB/Negative/A-3	4	Allegheny Energy Inc.	BB-/CW-Neg/—	5
DQE Inc.	BBB/Negative/A-3	5	Allegheny Generating Co.	BB-/CW-Neg/—	7
Tampa Electric Co.	BBB/Negative/A-2	4	Allegheny Energy Supply Co. LLC	BB-/CW-Neg/—	7
TECO Energy Inc.	BBB/Negative/A-3	5			
Teco Finance Inc.	BBB/Negative/—	8	Heating Oil Partners L.P.	B+/Stable/—	3
NISource Inc.	BBB/Negative/A-2	4	Sierra Pacific Power Co.	B+/Negative/—	5
Columbia Energy Group	BBB/Negative/—	4	Nevada Power Co.	B+/Negative/—	6
Bay State Gas Co.	BBB/Negative/—	3	Sierra Pacific Resources	B+/Negative/—	5
Northern Indiana Public Service Co.	BBB/Negative/—	5	El Paso Natural Gas Co.	B+/Negative/—	4
Noark Pipeline Finance LLC	BBB/Negative/—	6	Tennessee Gas Pipeline Co.	B+/Negative/—	4
PPL Corp.	BBB/Negative/—	5	ANR Pipeline Co.	B+/Negative/—	4
PPL Energy Supply LLC	BBB/Negative/A-2	5	Colorado Interstate Gas Co.	B+/Negative/—	3
Duke Energy Trading and Marketing LLC	BBB/Negative/—	8	El Paso CGP Co.	B+/Negative/—	6
Xcel Energy Inc.	BBB/CW-Dev/A-3	6	Southern Natural Gas Co.	B+/Negative/—	4
Northern States Power Co.	BBB/CW-Dev/A-3	4	El Paso Corp.	B+/Negative/—	6
Southwestern Public Service Co.	BBB/CW-Dev/A-3	4	El Paso Tennessee Pipeline Co.	B+/Negative/—	4
Public Service Co. of Colorado	BBB/CW-Dev/A-3	4	Transcontinental Gas Pipe Line Corp.	B+/CW-Neg/—	3
			Texas Gas Transmission Corp.	B+/CW-Neg/—	4
Green Mountain Power Corp.	BBB-/Stable/—	7	The Williams Companies Inc.	B+/CW-Neg/—	6
El Paso Electric Co.	BBB-/Stable/—	6	Northwest Pipeline Corp.	B+/CW-Neg/—	3
Entergy Gulf States Inc.	BBB-/Stable/—	6	Aquila Inc.	B+/CW-Neg/—	6
System Energy Resources Inc.	BBB-/Stable/—	7	Aquila Merchant Services Inc.	B+/CW-Neg/—	9
Puget Sound Energy Inc.	BBB-/Stable/A-3	4			
Washington Natural Gas Co.	BBB-/Stable/A—	5	Reliant Energy Mid-Atlantic Power Holdings LLC	B/CW-Dev/—	7
Puget Energy Inc.	BBB-/Stable/—	5	Reliant Resources Inc.	B/CW-Dev/—	7
Central Vermont Public Service Corp.	BBB-/Stable/—	6	Orion Power Holdings Inc.	B/CW-Dev/—	7
Texas-New Mexico Power Co.	BBB-/Stable/—	5	Illinois Power Co.	B/CW-Neg/—	6
Public Service Co. of New Mexico	BBB-/Stable/—	6	Dynegy Holdings Inc.	B/CW-Neg/—	6
SEMCO Energy Inc.	BBB-/Negative/—	4	Illinova Corp.	B/CW-Neg/—	7
Southwest Gas Corp.	BBB-/Negative/—	4	Dynegy Inc.	B/CW-Neg/—	7
			Mirant Americas Generation Inc.	B/CW-Neg/—	7
AmeriGas Partners L.P.	BB+/Stable/—	7	Mirant Corp.	B/CW-Neg/—	7
Western Gas Resources Inc.	BB+/Stable/—	7	Mirant Americas Energy Marketing L.P.	B/CW-Neg/—	8
Avista Corp.	BB+/Stable/—	5			
Kansas Gas & Electric Co.	BB+/Developing /—	6	Edison International	B-/Developing/—	8
Westar Energy Inc.	BB+/Developing/—	6			
Indianapolis Power & Light Co.	BB+/Negative/—	4	PG&E Gas Transmission-Northwest	CCC/CW-Neg/—	2
IPALCO Enterprises Inc.	BB+/Negative/—	4			
El Paso Energy Partners L.P.	BB+/CW-Neg/—	6	PG&E Energy Trading Holdings Co.	C/CW-Neg/—	8
Northwestern Corp.	BB+/CW-Neg/—	6			
Northwestern Energy Montana	BB+/CW-Neg/—	6	NRG Energy Inc.	D/—/—	9
			Pacific Gas & Electric Co.	D/—/D	9
Transwestern Pipeline Co.	BB/CW-Pos/—	5			
CMS Panhandle Pipeline Cos.	BB/CW-Pos/—	4			

## Utility Credit Rankings

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### U.S. Telecommunications Companies

<u>Company</u>	<u>Corporate Credit Rating</u>	<u>Company</u>	<u>Corporate Credit Rating</u>
SBC Communications Inc.	AA-/CW-Neg/A-1+	AT&T Wireless Services Inc.	BBB/Stable/A-2
BellSouth Corp.	A+/Stable/A-1	Citizens Communications Co.	BBB/Negative/A-2
Cingular Wireless LLC	A+/Stable/A-1	Sprint Corp.	BBB-/Stable/A-3
Verizon Communications Inc.	A+/Stable/—	PanAmSat Corp.	B+/CW-Pos/—
Cellco Partnership (d/b/a Verizon Wireless)	A+/Stable/—	Owest Communications International Broadwing Inc.	B-/Developing/— B-/Negative/—
ALLTEL Corp.	A-/Negative/A-1	Williams Communications Group	D/—/—
Telephone & Data Systems Inc.	A-/Negative/—		
CenturyTel Inc.	BBB+/Stable/A-2		
Intelsat Ltd.	BBB+/Stable/A-2		
AT&T Corp.	BBB+/Negative/A-2		

## Utility Credit Rankings

### International Companies

Company	Corporate Credit Rating	Bus. Prof.	Company	Corporate Credit Rating	Bus. Prof.
<b>Europe/Middle East/Africa</b>			<b>Asia/Pacific</b>		
Electricite de France	AA-/Negative/A-1+	4.5	Singapore Power Ltd.	AAA/Stable/—	3.5
E.ON AG	AA-/Stable/A-1+	N.A.	Tokyo Electric Power Co. Inc.	AA-/Negative/A-1+	3.5
*Iberdrola S.A.	A+/Stable/A-1	4	SPI PowerNet Pty Ltd.	A+/Positive/A-1	1.5
Acea SpA	A+/Negative/A-1	3	CLP Power Hong Kong Ltd.	A+/Stable/A-1	3.5
RWE AG	A-/Negative/A-1	4.5	Powercor Australia LLC	A-/Stable/A-2	3.5
*ENEL SpA	A-/Negative/A-1	4.5	United Energy Ltd.	A-/CW-Neg/A-2	4.5
National Grid Co. PLC	A/Stable/A-1	3	Korea Electric Power Corp.	Foreign currency	
Verbundgesellschaft	A/Stable/—	4.5		A-/Stable/A-2	5
Endesa S.A.	A-/Negative/A-1	5	Tenaga Nasional Berhad	BBB/Stable/—	6
United Utilities PLC	A-/Positive/A-2	3	TXU Electricity Ltd.	BBB/Stable/A-2	N.A.
South Western Electricity PLC	A-/Stable/A-2	3	Contact Energy Ltd.	BBB/Stable/A-2	6.5
PowerGen UK PLC	A-/Stable/A-1	6	Huaneng Power Inc.	Foreign currency	
Innogy PLC	A-/Negative/A-2	6		BBB/Stable/—	6
ScottishPower UK PLC	A-/Negative/A-2	3.5	Electricity Generating Authority of Thailand	Local currency	
CEZ AS	BBB+/Positive/—	5.5		BBB+/Stable/—	6
Public Power Corp. of Greece	BBB+/Stable/—	5	National Thermal Power Corp. (NTPC)	Foreign currency	
WPD Holdings U.K.	BBB+/Negative/A-2	N.A.		BB/Negative/—	6
Israel Electric Corp. Ltd.	Foreign currency		Tata Power Co. Ltd	Foreign currency	
	BBB+/Negative/—	3.5		BB/Negative/—	5
ESKOM Holding Ltd.	Local currency		Manila Electric Co.	Foreign currency	
	A-/Positive/—	5.5		B-/Negative/—	6
	Foreign currency				
	BBB-/Positive/—	8			
Mosenergo (AO)	B-/Positive/—	8			
British Energy PLC	SD/—/—	6			
<b>Latin America</b>			<b>Gas Credit Rankings</b>		
Comision Federal de Electricidad (CFE)	Local currency		<b>Europe/Middle East/Africa</b>		
	BBB+/Stable/—	5	Gasunie (N.V. Nederlandse)	AAA/Negative/A-1+	N.A.
	Foreign currency		Gaz de France	AAA/CW-Neg/A-1+	2.5
	BBB-/Stable/—		Transco PLC	A/Stable/A-1	N.A.
	BBB-/Negative/—	4.5	Centrica PLC	A/Stable/A-1	N.A.
Energis S.A.			<b>Latin America</b>		
Companhia de Eletricidade do Rio de Janeiro (CERJ)	Local currency		Metrogas S.A.	D/—/—	6
	BB-/Negative/—	7	<b>Asia/Pacific</b>		
	Foreign currency		Osaka Gas Co. Ltd.	AA-/Negative/A-1+	3.5
	B+/Stable/—		Australian Gas Light Co. (The)	A/Stable/A-1	3
	B/Negative/—	5.5	<b>Water Credit Rankings</b>		
AES Gener S.A.			<b>Europe/Middle East/Africa</b>		
Empresa Electrica del Norte Grande S.A. (Edelnor S.A.)	CC/CW-Pos/—	9.5	Thames Water PLC	A+/Negative/A-1	2.5
Compania de Transporte de Energia Electrica de Alta Tension SA (Transener)	D/—/—	4.5	Suez S.A.	A-/Stable/A-2	5
			<b>Asia/Pacific</b>		
			Sydney Water Ltd.	Local currency	
				AAA/Stable/A-1+	2.5
				Foreign currency	
				AA+/Stable/A-1+	

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UTILITIES COMMISSION

Case No. PAC-E-07-05

Exhibit No. 9

Witness: Bruce N. Williams

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

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Exhibit Accompanying Direct Testimony of Bruce N. Williams

Standard & Poor's Imputed Debt Calculation  
for U.S. Utilities' Power Purchase Agreements  
May 30, 2007 Publication

June 2007

**STANDARD  
& POOR'S**

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**Credit FAQ:**

## **Imputed Debt Calculation For U.S. Utilities' Power Purchase Agreements**

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In November 2006, Standard & Poor's Ratings Services invited members of the U.S. electric industry and interested parties to provide us with comments on our proposal to incorporate evergreen treatment in the debt equivalents we calculate to reflect the fixed obligations created by power purchase agreements (PPAs). Evergreen treatment would, for analytical purposes, assume an extension of the life of some short- and intermediate-term PPAs, so as to achieve comparability in the financial metrics of companies with supply arrangements of varying durations.

We received comments from every sector of the power industry--utilities, independent power producers, trade organizations, consultants, investors, and regulators. Based on the comments received, we have reached a number of conclusions regarding the application of evergreen treatment to PPAs in our analysis. We have also made a number of clarifications and refinements to our rating methodology. This discussion supplements our Nov. 1, 2006 article "Request for Comments: Imputing Debt to Purchased Power Obligations," which is available on RatingsDirect.

### **Frequently Asked Questions**

#### **How is evergreen treatment applied in Standard & Poor's credit analysis?**

Standard & Poor's adjusts reported financial metrics to capitalize portions of the costs of PPAs. The intent of these adjustments is to capture fixed PPA obligations that have debt-like attributes because they fund the recovery of third-party power suppliers' capital investments in generation assets. These fixed obligations merit inclusion in a utility's financial metrics as though they are part of a utility's permanent capital structure. Evergreen treatment would extend the tenor of short- and intermediate-term contracts to reflect the long-term obligation of electric utilities to meet their customers' demand for electricity.

We have concluded that there is a limited pool of utilities whose portfolios of existing and projected PPAs do not meaningfully correspond to long-term load serving obligations. Although evergreen treatment will be applied selectively in those cases where the portfolio of existing and projected PPAs is inconsistent with long-term load-serving obligations, a blanket application of evergreen treatment is not warranted.

The net present value (NPV) of the fixed obligations associated with a portfolio of short-term or intermediate-term contracts can lead to distortions in a utility's financial profile relative to the NPV of the fixed obligations of a utility with a portfolio of PPAs that is made up of longer-term commitments. Where there is the potential for such distortions, rating committees will consider evergreen treatment of existing PPA obligations as a scenario for inclusion in the rating analysis.

#### **What are the mechanics of PPA debt imputation and evergreen treatment?**

A starting point for calculating the debt to be imputed for PPA-related fixed obligations can be found among the "commitments and contingencies" in the notes to a utility's financial statements. An NPV is calculated for the stream of capacity payments associated with the outstanding contracts included in the

financial statements. The notes to the financial statements report capacity payments for the succeeding five years and a "thereafter" period.

While we have access to proprietary forecasts that show the detail underlying the costs that are amalgamated beyond the five-year horizon, others, for purposes of calculating an NPV, can divide the amount reported as "thereafter" by the average of the capacity payments in the preceding five years to derive an approximate tenor of the amounts combined as the sum of the obligations beyond the fifth year.

In calculating debt equivalents, we also include new contracts that will commence during the forecast period and aren't reflected in the notes to the financial statements. For this group of contracts, debt imputation will not commence until the year that energy deliveries are to begin under the anticipated contract.

#### **How is NPV calculated?**

The NPV is calculated using a discount rate equivalent to the company's average cost of debt, net of securitization debt. Once we arrive at the NPV, we apply a risk factor to reflect the benefits of regulatory or legislative cost recovery mechanisms (see "Request for Comments: Imputing Debt to Purchased Power Obligations," (cited above) for a discussion of risk factors).

#### **How does evergreen treatment alter the PPA debt adjustment?**

If evergreen treatment is warranted, we would extend the expiration of existing contracts and those that are slated to commence during the five-year horizon. Based on our analysis of several companies, we have determined that any evergreen extension of the tenor of existing contracts and anticipated contracts should extend those contracts to 12 years beyond the relevant forecast year.

To decide whether to apply evergreen treatment, we would start with an examination of actual capacity payments scheduled during the five-year horizon and the period represented as the thereafter period in the financial statements. If we conclude that the duration of PPAs is short relative to our targeted tenor, we would then add capacity payments until the targeted tenor is achieved. The price for the capacity that we add will be derived from new peaker entry economics.

We use empirical data to establish the cost of developing new peaking capacity and will reflect regional differences in our analysis. The cost of new capacity is translated into a dollars-per-kilowatt-year figure using a proxy weighted average cost of capital and a proxy capital recovery period.

#### **Does customer choice curb the need for evergreen treatment?**

Several comments submitted to us observed that over the long term there is the potential that customers may switch to third-party providers, thereby undermining the rationale for an evergreen adjustment. We acknowledge that the introduction of customer migration would alter the long-term obligation to serve. At the same time, it must be noted that our rating methodology already addresses this concern. Customer choice typically goes hand in hand with the transformation of a utility into a pure transmission and distribution system. We have previously stated that we won't impute debt for those utilities whose role—as a result of either regulatory orders or legislation—is limited to that of a conduit between suppliers and retail customers. Therefore, utilities whose customers have retail choice aren't generally exposed to debt imputation and, in turn, we won't apply evergreen treatment to their supply obligations.

#### **Have there been revisions to the analytical treatment of short-term PPAs?**

For many years, Standard & Poor's didn't calculate debt equivalents for the fixed costs of power supply arrangements whose tenor was three years or less. We recently announced our abandonment of this exception to our debt imputation criteria. However, we understand that there are some utilities that use short-term PPAs of approximately one year or less as gap fillers pending either the construction of new capacity or the execution of long-term PPA contracts. To the extent that such short-term supply arrangements represent a nominal percentage of demand and serve the purposes described above, we will neither impute debt for such contracts nor provide evergreen treatment to such contracts.

#### **Are accommodations made for PPAs that are treated as leases in the financial statements?**

Several utilities have reported that their accountants dictate that certain PPAs need to be treated as leases for accounting purposes due to the tenor of the PPA or the residual value of the asset upon the PPA's expiration. We have consistently taken the position that companies should identify those capacity charges

that are subject to lease treatment in the financial statements so that we can accord PPA treatment to those obligations, in lieu of lease treatment. That is, PPAs that receive lease treatment for accounting purposes won't be subject to a 100% risk factor for analytical purposes as though they were leases. Rather, the NPV of the stream of capacity payments associated with these PPAs will be reduced by the risk factor that is applied to the utility's other PPA commitments.

**How is the depreciation expense related to PPAs calculated?**

We noted in our November article that we now add an implied depreciation expense to funds from operations (FFO) to align the analytical treatment of PPAs with the concept of purchased power as a substitute for self-build. We observed that we calculate imputed depreciation expense in conformity with the methodology used for calculating a depreciation adjustment as an offset to debt equivalents created by leases.

The imputed depreciation expense is calculated for any given year by taking the scheduled fixed capacity payment commitment for that year and subtracting from it the implied interest expense calculated from the NPV of the stream of capacity payments associated with that year. The calculated depreciation proxy is added to FFO in the numerator as part of the calculation of both the FFO-to-interest and FFO-to-debt ratios.

**What adjustments are made for tolling contracts?**

We will assign a 100% risk factor when imputing debt to an unregulated energy company that has entered into a tolling agreement for a power plant's output. This is done because of the absence of a regulatory mechanism for the recovery of the fixed costs presented by the tolling arrangement.

**Are transmission contracts treated differently than PPAs?**

In recent years, some utilities have entered into long-term transmission contracts in lieu of building generation. In some cases, these transmission contracts provide access to specific power plants, while other transmission arrangements provide access to competitive wholesale electricity markets. We have concluded that these types of transmission arrangements represent extensions of the power plants to which they are connected or the markets that they serve. Irrespective of whether these transmission lines are integral to the delivery of power from a specific plant or are conduits to wholesale markets, we view these arrangements as exhibiting very strong parallels to PPAs as a substitute for investment in power plants. Consequently, we will impute debt for the fixed costs associated with long-term transmission contracts.

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IDAHO PUBLIC  
UTILITIES COMMISSION

Case No. PAC-E-07-05

Exhibit No. 10

Witness: Bruce N. Williams

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

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Exhibit Accompanying Direct Testimony of Bruce N. Williams

Pro Forma Cost of Preferred Stock

June 2007

**PACIFICORP**  
 Electric Operations  
 Pro Forma Cost of Preferred Stock  
 December 31, 2007

Line No.	Description of Issue (1)	Issuance Date (2)	Call Price (3)	Annual Dividend Rate (4)	Shares O/S (5)	Total Par or Stated Value O/S (6)	Net Premium & (Expense) (7)	Net Proceeds to Company (8)	% of Gross Proceeds (9)	Cost of Money (10)	Annual Cost (11)	Line No.
1	5% Preferred Stock, \$100 Par Value	(a)	110.00%	5.00%	126,243	\$12,624,300	(\$98,049)	\$12,526,251	99.2%	5.04%	\$636,156	1
2												2
3	Serial Preferred, \$100 Par Value											3
4	4.52% Series	Oct-55	103.50%	4.52%	2,065	\$206,500	(\$9,676)	\$196,824	95.3%	4.74%	\$9,793	4
5	7.00% Series	(b)	None	7.00%	18,046	\$1,804,600	(c)	\$1,804,600	100.0%	7.00%	\$126,322	5
6	6.00% Series	(b)	None	6.00%	5,930	\$593,000	(c)	\$593,000	100.0%	6.00%	\$35,580	6
7	5.00% Series	(b)	100.00%	5.00%	41,908	\$4,190,800	(c)	\$4,190,800	100.0%	5.00%	\$209,540	7
8	5.40% Series	(b)	101.00%	5.40%	65,959	\$6,595,900	(c)	\$6,595,900	100.0%	5.40%	\$356,179	8
9	4.72% Series	Aug-63	103.50%	4.72%	69,890	\$6,989,000	(\$30,349)	\$6,958,651	99.6%	4.74%	\$331,320	9
10	4.56% Series	Feb-65	102.34%	4.56%	84,592	\$8,459,200	(\$49,071)	\$8,410,129	99.4%	4.59%	\$387,990	10
11		May-95	(d)								\$67,955	11
12		Oct-95	(e)								\$84,019	12
13												13
14												14
15	<b>Total Cost of Preferred Stock</b>			<b>5.026%</b>	<b>414,633</b>	<b>\$41,463,300</b>	<b>(\$187,146)</b>	<b>\$41,276,155</b>		<b>5.41%</b>	<b>\$2,244,853</b>	15
16												16
17												17
18												18
19												19
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23												23
24												24

(a) Issue replaced 6% and 7% preferred stock of Pacific Power & Light Company and Northwestern Electric Company and 5% preferred stock of Mountain States Power Company, most of which sold in the 1920's and 1930's.  
 (b) 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.  
 (c) Original issue expense/premium has been fully amortized or expensed.  
 (d) Column 11 is the after-tax annual amortization of expenses related to the 8.375% QUIDS due 6/30/35 which were redeemed 11/20/00.  
 (e) Column 11 is the annual amortization of expenses related to the 8.55% QUIDS due 12/31/25 which were redeemed 11/20/00.