

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

PacifiCorp,	)	
Complainant,	)	
	)	
v.	)	
	)	
Reliant Energy Services, Inc.	)	Docket No. EL02-80-000
Morgan Stanley Capital Group Inc.	)	EL02-81-000
Williams Energy Marketing & Trading Co.	)	EL02-82-000
El Paso Merchant Energy, L.P.,	)	EL02-83-000
	)	
Respondents.	)	(consolidated)

**PREPARED REBUTTAL TESTIMONY OF  
BRUCE N. WILLIAMS  
ON BEHALF OF PACIFICORP**

1 **Q. Are you the same Bruce Williams who has previously filed Direct**  
2 **Testimony in this proceeding?**

3 A. Yes, I am. My Direct Testimony in this proceeding is set forth in Exhibit PAC-40.

4  
5 **Q. What is the purpose of your Rebuttal Testimony?**

6 A. My Rebuttal Testimony will address the following areas:

- 7 • To respond to Thomas F. Boland's assessment of the economic impact of the  
8 Summer 2002 Contracts to PacifiCorp, as set forth in his Direct Testimony on  
9 behalf of El Paso Merchant Energy, L.P. ("EPME") and Reliant Energy Services,  
10 Inc. ("RES"), as set forth in Exhibit EPME-24.
- 11 • To respond to comments in the Direct and Answering Testimony of FERC Staff  
12 witness Mr. Daniel L. Poffenberger, as set forth in Exhibit S-6.

13

14 **Q. On pages 11-12 of his Direct Testimony on behalf of EPME and RES,**  
15 **Thomas F. Boland maintains that the combined total of the contracts at**  
16 **issue in this proceeding do not represent a significant portion of**  
17 **PacifiCorp's portfolio and suggests that, consequently, the overall**  
18 **economic impact of these contracts to PacifiCorp is not significant. Do**  
19 **you agree with Mr. Boland's assessment?**

20 A. No. As Dr. Weaver has testified, the out-of-market costs of these contracts are  
21 approximately \$53 million on a total company basis. Dr. Weaver further testified  
22 that the Summer 2002 Contracts have had a negative cash flow impact on  
23 PacifiCorp of \$61.9 million. That is, as a result of the contracts at issue,

1 PacifiCorp has paid almost \$62 million in power purchase costs in excess of the  
2 amounts being recovered in rates during the quarter ended September 30, 2002.  
3 During this same period of time, PacifiCorp's earnings on common stock totaled  
4 \$29.7 million. Clearly, the cost of the contracts at issue is significant.

5  
6 **Q. In your Direct Testimony, you describe the impact that the power crisis had**  
7 **on PacifiCorp's financial situation. Are there other indicia of financial harm**  
8 **to the Company?**

9 A. Yes. In my Direct Testimony, I explain that the power crisis experienced in the  
10 West during the years 2000 and 2001 had a significant impact on PacifiCorp's  
11 financial situation as demonstrated by the impairment of PacifiCorp's cash flow,  
12 the downgrading of PacifiCorp's credit ratings, and PacifiCorp's difficulties in  
13 accessing the current capital markets. In addition, PacifiCorp has been  
14 negatively impacted by the unprecedented dysfunctional markets in existence at  
15 the time the Summer 2002 Contracts were entered into as it has not paid any  
16 dividends to its common shareholder since the quarter ended March 31, 2002.  
17 This period without a dividend to its common shareholder is now over six months.  
18 In addition, PacifiCorp has no plans to pay a dividend to its common shareholder  
19 prior to its fiscal year end of March 31, 2003.

20  
21 **Q. Does PacifiCorp have a history of missing dividend payments to its**  
22 **shareholders?**

23 A. No. PacifiCorp has traditionally paid dividends to its shareholders every quarter.

1 This is the first time that I am aware of in the Company's history that common  
2 dividends payments have not been paid.

3

4 **Q. Are these missed dividend payments the result of the adverse impacts to**  
5 **PacifiCorp from the western power crisis?**

6 A. Yes. The cash flow impairment that I have testified to has resulted in PacifiCorp  
7 not being in a position to pay dividends.

8

9 **Q. On pages 5-6 of your Direct Testimony, you discuss the downgrading of**  
10 **PacifiCorp by credit agencies. Were any of these actions related to the**  
11 **contracts at issue in this proceeding?**

12 A. Yes. As I testified previously, both Moody's and Standard & Poor's downgraded  
13 PacifiCorp's debt securities in November 2001 – after the contracts at issue were  
14 entered into. In its November 2001 downgrades, Moody's cited concerns about  
15 future cash flows being impacted by the above market purchased power costs  
16 incurred by PacifiCorp. Standard & Poor's stated that its rating downgrade  
17 related to PacifiCorp's substantially-weakened debt protection measures that are  
18 more consistent with a single "A minus" rating – a rating which largely results  
19 from continuing difficulties relating to PacifiCorp's above market fuel and  
20 purchased power costs. While the credit agencies were not aware specifically of  
21 these contracts or their details, the credit agencies knew at the time of the  
22 downgrades in November 2001 that PacifiCorp would be experiencing high  
23 purchased power costs in the future.

1 **Q. Does PacifiCorp's cash flow crisis still exist?**

2 A. Yes. I had testified previously that the exorbitant prices contained in the Summer  
3 2002 contracts at issue contributed to a cash flow crisis for PacifiCorp. This cash  
4 flow crisis still exists. Again, both Moody's and Standard & Poor's have  
5 downgraded PacifiCorp's debt securities because of PacifiCorp's weakened  
6 financial condition. As Dr. Weaver testified in his Direct Testimony in this  
7 proceeding, it is uncertain what portion of these costs PacifiCorp will be able to  
8 recover through retail rate recovery. To date, Moody's and Standard & Poor's  
9 have not upgraded PacifiCorp's ratings.

10

11 **Q. Do the 10-K disclosure forms filed by PacifiCorp with the Securities and**  
12 **Exchange Commission ("SEC") for the fiscal year ended March 31, 2001**  
13 **and the 10-Q disclosure forms for the quarter ended June 30, 2001 state**  
14 **that the causes of the west-wide power price increases during 2001 were**  
15 **due to market power or market manipulation on wholesale prices?**

16 A. No. As discussed in PacifiCorp's Response to STAFF/PAC 2-18, there is more  
17 information known today – as opposed to what was known as of March 31, 2001  
18 and June 30, 2001 – about market power and/or market manipulation in the  
19 western markets. This additional information suggests that other than verifiable  
20 natural factors (such as poor hydro conditions and unexpected generation  
21 outages) resulted in the exorbitant prices during the relevant time period. Dr.  
22 Bidwell discusses these factors in his Direct and Answering Testimony. The  
23 information provided to the SEC in 10-K and 10-Q Forms is intended to disclose

1 material information about PacifiCorp to its investors, and such information is  
2 factually verified at the time of disclosure. Non-verifiable disclosures about the  
3 causes of the volatile west-wide electricity prices would have been speculative at  
4 the time and as such, not the type of information commonly disclosed in such  
5 Forms. Instead, the Forms properly disclosed the impact of the unprecedented  
6 and excessive west-wide electricity prices on PacifiCorp and its financial results.  
7

8 **Q. In his Direct and Answering Testimony, FERC Staff witness Daniel L.**  
9 **Poffenberger refers to PacifiCorp's improved operational performance, as**  
10 **set forth in ScottishPower's 2002/03 Half Year Results Report. How do you**  
11 **respond?**

12 **A.** Mr. Poffenberger's assessment of this ScottishPower report does not provide the  
13 complete picture. While PacifiCorp's performance has improved in the six-month  
14 period ended September 30, 2002, this improvement reflects the progress that  
15 has been made from an extremely low level in the prior period. In other words,  
16 the bar for measuring PacifiCorp's performance was low because of the financial  
17 problems resulting from the dysfunctional western markets – including the unjust  
18 and unreasonable prices contained in the Summer 2002 Contracts.

19 **Q. At pages 22-23 of his Direct and Answering Testimony, Mr. Poffenberger**  
20 **examines Interim Testimony you gave before the Wyoming Public Service**  
21 **Commission in August 2001. Based on this Interim Testimony, Mr.**  
22 **Poffenberger concludes that PacifiCorp was experiencing financial**

1 **difficulties before the Summer 2002 contracts were entered into. How do**  
2 **you respond to Mr. Poffenberger's conclusion?**

3 A. In my Interim Testimony before the Wyoming Commission, I discussed  
4 PacifiCorp's insufficient cash flow for the previous 15 months and the various  
5 downgrades of ScottishPower in early 2001 due to PacifiCorp's poor financial  
6 performance. This is fully consistent with my Direct Testimony in this  
7 proceeding. However, I also indicated in my Direct Testimony that the Summer  
8 2002 Contracts contributed to and exacerbated PacifiCorp's cash flow crisis – the  
9 effects of which are still being experienced. The contribution and impact of the  
10 Summer 2002 Contracts on PacifiCorp's financial difficulties is missing from Mr.  
11 Poffenberger's analysis.

12

13 **Q. Does that conclude your Rebuttal Testimony?**

14 A. Yes, it does.

