



# Oregon

Kate Brown, Governor

## Public Utility Commission

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August 31, 2020

### ***Via Electronic Filing***

OREGON PUBLIC UTILITY COMMISSION

ATTENTION: FILING CENTER

PO BOX: 1088

SALEM OR 97308-1088

**RE: Docket No. UE 374 - In the Matter of PACIFICORP, dba  
PACIFIC POWER, Request for a General Rate Revision.**

Attached is Staff Exhibit 1900 Muldoon-Enright-Dlouhy clean copy page 23.

This filing is to correct one word from equity to debt on Page 23, line 6.  
A clean copy of page 23 and errata red-line page 23 are both included  
with this filing.

*/s/ Kay Barnes*

Kay Barnes

PUC- Utility Program

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1 illustration of this presumes a 50 percent Common Equity and 50 percent LT  
2 Debt, Capital Structure.

3 **Q. Does the fact that debt costs are currently near an all-time low affect**  
4 **optimal capital structure?**

5 A. A drop in the cost of debt would make debt relatively cheaper and would shift  
6 the optimal balance of debt and equity more to the debt side.

7 **Q. If a utility's finance group targets a 50 percent equity layer in Capital**  
8 **Structure, will calculated Capital Structure stay right at that level?**

9 A. No. Issuing Common Stock in Public Markets or by other usual means can  
10 be lumpy, in that some costs are similar to issue a large amount of stock as to  
11 issue a lesser amount. But one would expect the utility that targets a  
12 50 percent common equity layer in Capital Structure to oscillate up and down  
13 around a 50 percent common equity, 50 percent LT Debt. Seven years ago,  
14 an actual 52 percent equity layer in Capital Structure was accepted because  
15 this was expected by Staff to be a temporary level that would revert to a  
16 balanced 50 percent equity layer shortly.<sup>38</sup>

17 **Q. Did PacifiCorp's Capital Structure soon revert back to a 50 percent**  
18 **equity layer?**

19 A. No. PacifiCorp is only now coming in for a GRC. In that intervening time, the  
20 2017 Tax Act was passed into law. An odd consequence of that tax cutting  
21 legislation was increased pressure on Moody's Funds from Operations (FFO)

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<sup>38</sup> See "new Regulatory Finance", "Optimal Capital Structures Table 18-7 on Page 513."

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