



August 17, 2005

HAND-DELIVERED

PUC Filing Center
Oregon Public Utility Commission
550 Capitol Street NE, Suite 215
Salem, OR 97301

**Re: Docket UM 1209
In the Matter of MidAmerican Energy Holdings Company
Application for Authorization to Acquire Pacific Power & Light, dba PacifiCorp**

Enclosed for filing are the following:

- (1) An original copy of revised pages to the Application; and
- (2) An original and twenty (20) copies of revised pages to certain of the prefiled direct testimony and exhibits which accompanied the Application.

As discussed at the August 2 prehearing conference in this docket, these revisions reflect the enactment of new energy legislation, the Domenici-Barton Energy Policy Act of 2005 ("Energy Act")¹ after MidAmerican Energy Holdings Company ("MEHC") and PacifiCorp filed this Application on July 15, 2005. President Bush signed the Energy Act into law on August 8, 2005. The Energy Act repeals the Public Utility Holding Company Act of 1935, as amended ("PUHCA"). The effective date of PUHCA repeal is six months after enactment of the Energy Act, February 8, 2006.

The Application and accompanying testimony specifically contemplated that PUHCA could be repealed while the transaction was pending, and described the expected impacts of such repeal on the nature and structure of the transaction. Now that the anticipated repeal of PUHCA has in fact occurred, this filing includes the necessary updates to the Application and accompanying testimony and exhibits to incorporate these impacts. Judge Smith's Ruling of August 4 required that a filing by August 22 addressing the effects of PUHCA repeal on the Application. This filing responds to this requirement.

The repeal of PUHCA results in a simpler, more streamlined transaction. The impacts include the following, which are reflected in the revised pages included in this filing:

¹ H.R. Rep. No. 109-190 (Conf. Rep.).

- No filing at the Securities and Exchange Commission (“SEC”) for approval of the transaction under PUHCA will be necessary.
- No Joint Operating Agreement (“JOA”) will be necessary, thus obviating a filing at the Federal Energy Regulatory Commission (“FERC”) for approval of the JOA under § 205 of the Federal Power Act. Although MEHC and PacifiCorp will continue to pursue acquisition of a transmission path if economically justified, it will not be necessary to secure such a path for approval of the transaction. With the elimination of the JOA and required transmission interconnection, the pre-filed direct testimony of Jeffrey J. Gust and accompanying exhibits are withdrawn.
- A services company (“ServCo”) will not be formed. Services that would have been provided by ServCo will be provided by MEHC and MEC. It will also not be necessary to follow SEC accounting for shared services.
- The ownership structure of MEHC will be simplified. The testimony of MEHC witness Goodman advises the Commission that on or shortly after February 8, 2006, Berkshire Hathaway will convert its convertible preferred stock in MEHC into common shares, increasing Berkshire Hathaway’s 9.9% voting interest in MEHC to a voting interest of approximately 83.75% (or 80.5% on a diluted basis) of the common stock of MEHC. The conversion of Berkshire Hathaway’s convertible preferred stock was described in the original Application and does not change the owners of MEHC, only their respective voting interests. This change means that MEHC will look more like a typical business where the owners’ economic interests and voting interests are the same. The conversion does not affect the PacifiCorp transaction since MEHC remains the acquiring entity.

Additionally, as Katherine McDowell indicated in her August 2, 2005 letter to Administrative Law Judge Christina Smith, PacifiCorp requested that its status in the case be converted from an “Applicant” to a party. The “Joint Application” thus changes to an “Application,” and references to “Applicants” are changed to “MEHC and PacifiCorp.” The revised pages to the Application submitted with this letter also implement these changes.²

For the convenience of the Commission and the parties, we have included a marked version of the revised pages, which shows the revisions in legislative format. An unmarked version is also included to permit easy substitution of the changed pages for the pages included in the original filing. The changed pages are marked as “**REVISED 08/17/05**” to distinguish them from those included in the original filing. The pages with revisions are as follows:

Application	Pages 1-2, 4-6, 8-9, 19-25.
Abel Direct Testimony (PPL/100)	Pages 7, 12, 16, and 23.
Abel Exhibit PPL/101	Page 2.

² In addition, the filing includes corrected pages for typographical errors.

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Gale Direct Testimony (PPL/300)	Pages 4, 8, and 29-32.
Gale Exhibit PPL/301	Pages 2-5.
Gale Exhibit PPL/307	Withdrawn
Goodman Direct Testimony (PPL/400)	Pages 3, 5, 7-8, 15, and 20-21.
Goodman Exhibit PPL/402	Page 1.
Specketer Direct Testimony (PPL/500)	Pages 1-13.
Specketer Exhibit PPL/502	Page 1.
Gust Direct Testimony (PPL/600)	Withdrawn
Gust Exhibit PPL/601	Withdrawn

Thank you for your assistance.

Sincerely,



Andrea Kelly
Managing Director

cc: Service List

CERTIFICATE OF SERVICE

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2 I hereby certify that I served the foregoing document in docket UM 1209 on the
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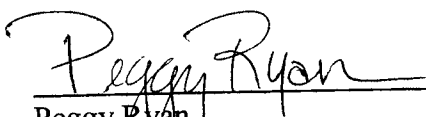
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DATED: August 17, 2005.



Peggy Ryan
Regulatory Operations Coordinator

**REVISED PAGES TO
JOINT APPLICATION**

Unmarked Version

REVISED 8/17/05

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

Docket UM 1209

In the Matter of the Application of MidAmerican Energy)
Holdings Company for an Order)
Authorizing MidAmerican Energy Holdings Company) APPLICATION
To Exercise Substantial Influence Over the Policies and)
Actions of PacifiCorp)

MidAmerican Energy Holdings Company (“MEHC” or “Applicant”) hereby requests an order of the Public Utility Commission of Oregon (“Commission”) authorizing MEHC to exercise substantial influence over the policies and actions of PacifiCorp (the “Application”).

JURISDICTION

This Application is filed pursuant to ORS 757.511, which requires the Commission’s authorization before any person may directly or indirectly exercise any substantial influence over the policies and actions of a public utility that provides heat, light or power, if such person is, or by such acquisition would become, an affiliated interest with such public utility as defined in ORS 757.015(1), (2) or (3). Pursuant to ORS 757.511(3), the Commission is required to grant approval if it finds that the proposed transaction will serve PacifiCorp’s customers in the public interest. Transactions under ORS 757.511 must satisfy a “net benefits” standard.

TIME FOR PROCESSING THE APPLICATION

MEHC and PacifiCorp agree to extend, to February 28, 2006, the 19-business day period for the Commission to issue an Order disposing of this Application, as provided in ORS 757.511(3).

MEHC and PacifiCorp respectfully request completion of all state reviews of the proposed transaction by February 28, 2006, in order to complete the acquisition on or before March 31, 2006. MEHC's proposed acquisition of PacifiCorp is an important transaction for PacifiCorp customers, employees and communities. In order to mitigate the ill effects of uncertainty associated with the sale of PacifiCorp, and expedite the delivery of important benefits, we respectfully request that the Commission schedule review of the Application in a manner that will facilitate an order by February 28, 2006.

Closing on or before March 31, 2006, will facilitate the transition of PacifiCorp's financial reporting from a fiscal year ending March 31, which is the Scottish Power plc ("ScottishPower") approach, to a calendar fiscal year consistent with MEHC's financial statements. Calendar year reporting is consistent with regulatory reporting which should enable the Commission to utilize a single year's audited financial statements rather than have regulatory reporting span across two fiscal years.

legislation (“PUHCA”) such that the conversion of preferred stock would not cause Berkshire Hathaway (or any affiliate of Berkshire Hathaway) to become regulated as a registered holding company. On or shortly after February 8, 2006, the effective date of repeal of PUHCA, Berkshire Hathaway will exercise its right to convert the zero coupon convertible preferred stock, whereupon Berkshire Hathaway’s voting interest will correspond to its ownership interest.

Persons authorized on behalf of MEHC to receive notices and communications with respect to this Application are:

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MidAmerican Energy Holdings Company
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Persons authorized on behalf of PacifiCorp to receive notices and communications with respect to this Application are:

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Joint counsel for MEHC and PacifiCorp should be served as follows:

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Data Requests

Data requests for MEHC and PacifiCorp should be addressed in the following manner with copies to joint counsel:

By email (preferred): datarequest@pacificorp.com

By fax: (503) 813-6060

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 800
Portland, Oregon 97232

MEHC Electronic Document Room

MEHC has created an Electronic Document Room containing the documents listed in the attached Index, provided as Appendix 1 to this Application. These documents are intended to anticipate initial discovery needs and provide parties with a solid foundation of knowledge pertaining to MEHC and MidAmerican Energy Company (“MEC”). Provisions for quick access to the Electronic Document Room can be arranged by contacting the following representative of MEHC and MEC:

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4299 NW Urbandale Drive
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DESCRIPTION OF TRANSACTION

On May 23, 2005, ScottishPower and PacifiCorp Holdings, Inc. (“PHI”), its wholly owned subsidiary directly holding PacifiCorp’s common stock, reached a definitive agreement (“Stock Purchase Agreement”), providing for the sale of all PacifiCorp common stock, held by PHI, to MEHC for a value of approximately \$9.4 billion, consisting of approximately \$5.1 billion in cash plus approximately \$4.3 billion in net debt and preferred stock, which will remain outstanding at PacifiCorp. The Stock Purchase Agreement is included as Appendix 2.

A limited liability company referred to as PPW Holdings LLC (“Holdings”) has been established as a direct subsidiary of MEHC. Holdings will receive an equity infusion of approximately \$5.1 billion raised by MEHC through the sale of either common stock or zero coupon convertible preferred stock to Berkshire Hathaway and the issuance of long-term senior notes, preferred stock, or other securities with equity characteristics, to third parties. However, the transaction is not conditioned on such financing and if funds were not available from third parties, Berkshire Hathaway is expected to provide any required funding. Finally, Holdings will have no debt of its own for this transaction. Holdings will, as provided in the Stock Purchase Agreement, pay PHI \$5.1 billion in cash at closing in exchange for 100% of the common stock of PacifiCorp. In addition, it is projected that the approximately \$4.3 billion in net debt and preferred stock currently outstanding at PacifiCorp will remain outstanding as liabilities of PacifiCorp. The acquisition is subject to customary closing conditions, including approval of the transaction by the shareholders of ScottishPower and the receipt of required state and federal regulatory approvals.

The sale of PacifiCorp’s common stock to MEHC will also include transfer of control of the following PacifiCorp subsidiaries, which consist primarily of mining companies and companies created to handle environmental remediation and generate carbon offset credits:

Centralia Mining Company, Energy West Mining Company, Glenrock Coal Company, Interwest

continued ownership of PacifiCorp, MEHC is uniquely suited to undertake such investments. MEHC is privately held and not subject to shareholder expectations of regular, quarterly dividends and relatively fast returns on investments. MEHC's focus on significant, long-term investment in well-operated energy companies is a focus that should provide PacifiCorp customers, employees, the public and regulators with valuable stability, permitting PacifiCorp's management and employees to apply their full attention to exceeding customer expectations.

The opportunities for a successful transaction and transition are enhanced by the significant similarities between PacifiCorp and MEC, MEHC's electric utility business platform. MEHC plans to operate PacifiCorp much as it is operated today. MEHC, like PacifiCorp, has a track record for investment in a diverse mix of generation technologies (gas, coal, wind, geothermal, etc.), investment in energy efficiency, demand-side management and environmental technologies, and MEHC is accustomed to operating in a collaborative fashion when developing its energy efficiency, demand side management and environmental plans. Like PacifiCorp, MEHC is comfortable with operating in a diverse service area, with states that have opted for competitive retail electric service as well as states that have opted for the traditional model of regulated retail electric service. MEHC also shares PacifiCorp's dedication to customer service, a fact attested to by both organizations' customer satisfaction ratings. These similarities are addressed in the testimony of MEHC witness Gale.

MEHC intends to maintain separate debt ratings for PacifiCorp, and Applicant expects the transaction to have a positive impact on PacifiCorp's bond ratings and financing costs. MEHC's financial capabilities and the reaction of the credit rating agencies to the announcement of this transaction with respect to PacifiCorp's bond ratings are described below, in the "Financial Strength" section concerning MEHC.

PacifiCorp will continue to be charged for certain common services provided to it as part of a larger organization. Under MEHC's ownership, these services will be limited to management services (e.g., board of directors support, corporate tax, financial planning and analysis, financial reporting) and will be provided by MEHC, as well as MEC. In connection with this transaction, MEHC is making a commitment to cap such charges at \$9 million per annum for a five (5) year period, compared to the \$15 million PacifiCorp is projected to incur from ScottishPower in FY2006. See testimony on shared service charges from MEHC witness Specketer.

PacifiCorp's headquarters will remain in Portland, Oregon. All PacifiCorp financial books and records will be kept in Portland, Oregon, and will continue to be available to the Commission, upon request, at PacifiCorp's offices in Portland and Salt Lake City, and elsewhere in accordance with current practice. There are no plans for a reduction in workforce as a result of this transaction. MEHC will also renew and extend the commitments that have been previously made by PacifiCorp as set forth in Exhibit (BEG-1) in the testimony of MEHC witness Gale, and as discussed in the testimonies of MEHC witnesses Abel, Goodman, Gale and Specketer.

As the foregoing demonstrates, PacifiCorp's customers, communities and regulators are not likely to notice significant changes in PacifiCorp's business practices as a result of the proposed transaction. To the contrary, customers, communities, and regulators will see benefits from an owner of PacifiCorp with significant financial strength, expertise in utility operations and business planning, and a focus on improving reliability and business operations over the long term.

- **reduction in sulfur hexafluoride emissions;**
- **\$1 million shareholder-funded system-wide study designed to further demand-side management and energy efficiency programs where cost effective;**
- **a 2-year extension of the customer service standards and performance guarantees;**
- **a commitment of MEHC's resources and involvement, in cooperation with the PacifiCorp states, to look into transmission projects beneficial to the region such as the Rocky Mountain Area Transmission Study ("RMATS") and the Frontier transmission line project;**
- **uniform application of the commitments from the prior PacifiCorp transaction in all six states; and**
- **offering a utility own/operate option for consideration in renewable energy RFPs.**

The above-mentioned benefits will be of substantial value to PacifiCorp's customers, communities and employees in future years, as will MEHC's long-term commitment to assist PacifiCorp to meet its projected future capital needs, including long-term investment in PacifiCorp's integrated energy infrastructure.

MEHC believes the chief benefit from the proposed transaction is MEHC's willingness and ability to deploy capital to meet PacifiCorp's significant infrastructure needs. MEHC has focused on investments in the energy industry and is uniquely positioned to invest significant capital in the industry. Thus, MEHC is exceptionally well-matched to utilities, such as PacifiCorp, with a need for significant capital investment. This is particularly true when one considers the further advantage that arises from the reduced cost of debt that results from association with Berkshire Hathaway. As noted in the testimony of MEHC witness Goodman, the savings from this effect are substantial. The energy business is very capital intensive. With an owner like MEHC, that is well-positioned to undertake the efficient raising of capital, PacifiCorp will possess a key ingredient for successfully meeting its customers' current and future demands for energy. This is especially so since MEHC is free from the quarterly demand

for shareholder dividends. It is MEHC's expectation that it will be the last owner of PacifiCorp, because MEHC invests for the long term. MEHC believes this will be to the benefit of PacifiCorp's customers, communities and employees. Knowing that MEHC intends to own PacifiCorp for the long-term will, MEHC believes, enhance customer and community confidence in PacifiCorp and its energy infrastructure that is so important to economic development. MEHC's long-term focus should also enhance the confidence of PacifiCorp's employees and management, enabling them to devote their full focus on exceeding customer expectations.

OTHER REGULATORY APPROVALS

MEHC and PacifiCorp will seek approval of the Federal Energy Regulatory Commission ("FERC"), pursuant to Section 203 of the Federal Power Act ("FPA"), for the proposed transaction, inasmuch as it will result in the indirect transfer, to MEHC, of control of the "jurisdictional facilities" of PacifiCorp. PacifiCorp and MEC will also seek FERC approval,

pursuant to Section 205 of the FPA, of any revisions to their respective Open Access Transmission Tariffs.

MEHC and PacifiCorp will make notification filings pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (“HSR Act”). The proposed transaction cannot be consummated until the waiting periods prescribed in the HSR Act lapse.

As a non-operating owner of 2.5% of the Trojan nuclear power plant, which is in the later stages of decommissioning, PacifiCorp and MEHC must seek approval from the Nuclear Regulatory Commission (“NRC”) for an indirect transfer of the spent nuclear fuel license resulting from the change in control of the licensee. MEHC and PacifiCorp must assure the NRC that there will be no adverse impact on its ability to meet its financial obligations under the license and that there will be no adverse impact on the public interest, national security or the public health and safety.

MEHC and PacifiCorp will also obtain approval, from the Federal Communications Commission, of the change of control with respect to certain communication licenses held by PacifiCorp.

Finally, MEHC must obtain authority to acquire PacifiCorp from each of the six (6) states in which it provides retail electric service: Utah, Oregon, Wyoming, Washington, Idaho and California. MEHC is not required to obtain any approval in the states where MEC currently provides regulated electric or gas service: Iowa, Illinois, South Dakota and Nebraska.

After discussions with each of the representatives of each of the above regulatory agencies, we believe that the approvals can be obtained in the timeframes we have proposed.

DESCRIPTION OF THE FILING

This application is supported by testimony from the following witnesses:

- **Greg Abel**, President and COO of MEHC, will describe MEHC and its business platforms, describe the transaction, explain the reasons for MEHC's proposed purchase of PacifiCorp, demonstrate that the transaction will benefit PacifiCorp's customers, employees and communities, and describe PacifiCorp's operations once the transaction is completed.
- **Judi Johansen**, President and CEO of PacifiCorp, will testify regarding PacifiCorp's support for the transaction and the reasons for ScottishPower's sale of PacifiCorp.
- **Brent Gale**, Senior Vice President of MEC, will provide evidence that the transaction is in the public interest and will sponsor commitments to ensure there will be no harm to that interest. He will also provide testimony regarding the similarities between PacifiCorp and MEC, and the experience of MEC as a regulated utility subsidiary of MEHC.
- **Pat Goodman**, Chief Financial Officer of MEHC, will provide detail regarding MEHC's corporate structure, PacifiCorp's place within that structure, MEHC's capital structure, the financial and accounting aspects of the transaction, some of the financial and structural commitments being offered by MEHC and PacifiCorp, and the "ring fencing" protections MEHC will employ. He also will provide information regarding Berkshire Hathaway.
- **Tom Specketer**, Vice President of U.S. Regulatory Accounting and Controller of MEC, will testify about the costs of certain common services to be provided to PacifiCorp, MEC and other MEHC subsidiaries. Mr. Specketer will describe the procedures for sharing services between MEHC and its affiliates, the joint administrative services agreement applicable to MEHC and its affiliates, and the implications and benefits for PacifiCorp customers. He will also sponsor some of the regulatory oversight commitments being offered by MEHC and PacifiCorp.

OTHER INFORMATION REQUIRED BY COMMISSION RULE

Capital Structure – OAR 860-027-0200(2)

Set forth in Table 1 of the testimony of MEHC witness Goodman is a description of PacifiCorp's pro forma capital structure as of March 31, 2005. MEHC and PacifiCorp expect to maintain or strengthen PacifiCorp's capital structure from that shown in Table 1 during the twelve (12) months after the proposed transaction is completed. PacifiCorp is expected to have its own long-term and short-term debt.

Bond Ratings – OAR 860-027-0200(3)

As discussed, above, in the "Plan for Operating PacifiCorp" section of this Application, MEHC and PacifiCorp anticipate that the impact of the transaction on the bond ratings and capital costs of PacifiCorp will be positive.

Affiliated Interests and Organization Structure – OAR 860-027-0200(4)

A list of MEHC's principal operating subsidiaries and an explanation of the organizational structure under which MEHC intends to operate its businesses is contained in the testimony of MEHC witnesses Abel and Goodman, and in an exhibit to MEHC witness Goodman's testimony.

Allocations – OAR 860-027-0200(5)

MEHC and PacifiCorp expect that the only corporate overhead, common costs that will be charged to PacifiCorp will relate to management and corporate administrative services. MEHC is making a commitment to cap the allocation of corporate overhead charges at \$9 million per annum for a five (5) year period. This represents a reduction of \$6 million from the current cross-charge allocation PacifiCorp is projected to incur from ScottishPower in FY2006.

Planned Changes – OAR 860-027-0200(6)

MEHC has not yet identified specific plans for any changes that would have a significant impact on the policies, management, operations or rates of PacifiCorp except, as related in the testimony of MEHC witness Abel, Mr. Abel will become Chairman of the PacifiCorp Board of Directors. Moreover, the composition of the Board will likely change, as ScottishPower representatives will be replaced and some restructuring is expected. MEHC's general capital plan for PacifiCorp is discussed, above, in the "Plan for Operating PacifiCorp" section of this Application and in the testimony of PacifiCorp witness Johansen.

Asset Disposition – OAR 860-027-0200(7)

MEHC has no plans to sell, exchange, pledge or otherwise transfer any of PacifiCorp's physical assets being acquired in the proposed transaction. Any sale of PacifiCorp's utility jurisdictional assets would be subject to Commission approval pursuant to ORS 757.480.

Affiliated Interests – OAR 860-027-0200(8)

Other than as described above in connection with MEHC's agreement concerning shared corporate services (addressed by MEHC witness Specketer), and other than those set forth in MEHC witness Specketer's testimony, MEHC is not aware of any existing or proposed affiliated interest contracts between MEHC, or any of its subsidiaries, and PacifiCorp.

CONCLUSION

MEHC has made more than 60 commitments to the public interest, customers and states served by PacifiCorp. Included in these commitments are reductions in PacifiCorp's costs totaling more than \$36 million over five years and more than \$75 million over a longer period. MEHC shareholders will also absorb \$1 million of

costs of a system-wide demand side management study. In addition to these readily quantifiable benefits, MEHC is committing to \$1.3 billion of infrastructure investment in PacifiCorp's system.

MEHC looks forward to being able to invest in the future of PacifiCorp, focusing upon our identified objectives of customer satisfaction, reliable service, employee safety, environmental stewardship and regulatory/legislative credibility. This application and testimony demonstrate that it is committed to extending customer service standards and performance guarantees, investing to improve transmission reliability and import capability, investing to enhance wind power development, investing to reduce emissions from coal plants, and furthering demand side management and energy efficiency. This will be done while maintaining our focus on exceeding customer expectations. Lastly, but perhaps most importantly, we believe that regulators and legislators in the states MEHC currently is privileged to serve will agree that perhaps the most valuable asset MEHC brings to the areas it serves is integrity in its relationship with all of its stakeholders. We believe this is what PacifiCorp's customers, employees and communities deserve and require.

WHEREFORE, Applicant respectfully requests that the Commission authorize MEHC to acquire the power to exercise substantial influence over the policies and actions of PacifiCorp.

Dated: August 17, 2005

MIDAMERICAN ENERGY HOLDINGS COMPANY and PACIFICORP

By _____
Katherine A. McDowell
Stoel Rives LLP
Joint Counsel for MEHC and PacifiCorp

**REVISED PAGES TO
JOINT APPLICATION**

Marked Version

REVISED 8/17/05

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

Docket UM 1209

In the Matter of the Application of MidAmerican Energy)
Holdings Company and PacifiCorp for an Order) **JOINT**
Authorizing MidAmerican Energy Holdings Company) **APPLICATION**
To Exercise Substantial Influence Over the Policies and)
Actions of PacifiCorp)

MidAmerican Energy Holdings Company (“MEHC” or “Applicant”) and PacifiCorp (sometimes hereinafter jointly referred to as “Applicants”) hereby requests an order of the Public Utility Commission of Oregon (“Commission”) authorizing MEHC to exercise substantial influence over the policies and actions of PacifiCorp (the “Application”).

JURISDICTION

This Application is filed pursuant to ORS 757.511, which requires the Commission’s authorization before any person may directly or indirectly exercise any substantial influence over the policies and actions of a public utility that provides heat, light or power, if such person is, or by such acquisition would become, an affiliated interest with such public utility as defined in ORS 757.015(1), (2) or (3). Pursuant to ORS 757.511(3), the Commission is required to grant approval if it finds that the proposed transaction will serve PacifiCorp’s customers in the public interest. Transactions under ORS 757.511 must satisfy a “net benefits” standard.

TIME FOR PROCESSING THE APPLICATION

MEHC and PacifiCorp agree to extend, to February 28, 2006, the 19-business day period for the Commission to issue an Order disposing of this Application, as provided in ORS 757.511(3).

MEHC and PacifiCorp respectfully request completion of all state reviews of the proposed transaction by February 28, 2006, in order to complete the acquisition on or before March 31, 2006. MEHC's proposed acquisition of PacifiCorp is an important transaction for PacifiCorp customers, employees and communities. In order to mitigate the ill effects of uncertainty associated with the sale of PacifiCorp, and expedite the delivery of important benefits, we respectfully request that the Commission schedule review of the Application in a manner that will facilitate an order by February 28, 2006.

Closing on or before March 31, 2006, will facilitate the transition of PacifiCorp's financial reporting from a fiscal year ending March 31, which is the Scottish Power plc ("ScottishPower") approach, to a calendar fiscal year consistent with MEHC's financial statements. Calendar year reporting is consistent with regulatory reporting which should enable the Commission to utilize a single year's audited financial statements rather than have regulatory reporting span across two fiscal years.

~~In connection with the Applicants' request for a Commission order by February 28, 2006, it is noteworthy that the Securities and Exchange Commission ("SEC") will not act in advance of approvals from the respective state public utility commissions. The SEC's policy in this respect is founded on their desire to avoid pressuring the states to act in a particular manner, to avoid rendering decisions on theoretical transactions, and to avoid impacting share prices and value by having an extended period between approval and closing. Thus, ruling on the Application should not be delayed in the hope that doing so would permit the SEC to rule first, and Applicants respectfully ask the Commission not to delay its ruling on the Application on this ground.~~

legislation (“PUHCA”) such that the conversion of preferred stock would not cause Berkshire Hathaway (or any affiliate of Berkshire Hathaway) to become regulated as a registered holding company. On or shortly after February 8, 2006, the effective date of repeal of PUHCA, MEHC anticipates that Berkshire Hathaway will exercise its right to convert the zero coupon convertible preferred stock ~~in the event this circumstance occurs~~, whereupon Berkshire Hathaway’s voting interest ~~will~~ will correspond to its ownership interest.

Persons authorized on behalf of MEHC to receive notices and communications with respect to this Application are:

Douglas L. Anderson
Senior Vice President & General Counsel
MidAmerican Energy Holdings Company
302 S. 36th Street, Suite 400
Omaha, Nebraska 68131
Phone: (402) 231-1642
Fax: (402) 231-1658
danderson@midamerican.com

Mark C. Moench
Senior Vice President – Law
MidAmerican Energy Holdings Company
~~201 South Main, Suite 2300~~ 2755 E. Cottonwood Parkway, Suite 300
Salt Lake City, Utah ~~84111~~ 84117-0400
Phone: (801) ~~220937-4460~~ 220937-446059
Fax: (801) 937-~~44496155~~
mcmoench@midamerican.com

Persons authorized on behalf of PacifiCorp to receive notices and communications with respect to this Application are:

Andrea L. Kelly
Managing Director – Strategy
PacifiCorp
825 NE Multnomah, Suite 956
Portland, Oregon 97232
Phone: (503) 813-6043
Fax: (503) 813-5205
andrea.kelly@pacificorp.com

Joint counsel for MEHC and PacifiCorp ~~the Applicants~~ should be served as follows:

Katherine A. McDowell
Stoel Rives LLP
900 SW 5th Avenue, Suite 1700
Portland, Oregon 97204
Phone: (503) 294-9602
Fax: (503) 220-2480
kamcdowell@stoel.com

Data Requests

Data requests for MEHC and PacifiCorp ~~the Applicants~~ should be addressed in the following manner with copies to joint Applicants' counsel:

By email (preferred): datarequest@pacificorp.com

By fax: (503) 813-6060

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 800
Portland, Oregon 97232

MEHC Electronic Document Room

MEHC has created an Electronic Document Room containing the documents listed in the attached Index, provided as Appendix 1 to this Application. These documents are intended to anticipate initial discovery needs and provide parties with a solid foundation of knowledge pertaining to MEHC and MidAmerican Energy Company ("MEC"). Provisions for quick access to the Electronic Document Room can be arranged by contacting the following representative of MEHC and MEC:

Charles ("Chuck") R. Montgomery
MidAmerican Energy Company
4299 NW Urbandale Drive
Urbandale, Iowa 50322
Phone: (515) 281-2976
Fax: (515) 242-4398
crmontgomery@midamerican.com

DESCRIPTION OF TRANSACTION

On May 23, 2005, ScottishPower and PacifiCorp Holdings, Inc. (“PHI”), its wholly owned subsidiary directly holding PacifiCorp’s common stock, reached a definitive agreement (“Stock Purchase Agreement”), providing for the sale of all PacifiCorp common stock, held by PHI, to MEHC for a value of approximately \$9.4 billion, consisting of approximately \$5.1 billion in cash plus approximately \$4.3 billion in net debt and preferred stock, which will remain outstanding at PacifiCorp. The Stock Purchase Agreement is included as Appendix 2.

A limited liability company referred to as PPW Holdings LLC (“Holdings”) has been established as a direct subsidiary of MEHC. Holdings will receive an equity infusion of approximately \$5.1 billion raised by MEHC through the sale of either common stock or zero coupon convertible preferred stock to Berkshire Hathaway and the issuance of long-term senior notes, preferred stock, or other securities with equity characteristics, to third parties. However, the transaction is not conditioned on such financing and if funds were not available from third parties, Berkshire Hathaway is expected to provide any required funding. Finally, Holdings will have no debt of its own for this transaction. Holdings will, as provided in the Stock Purchase Agreement, pay PHI \$5.1 billion in cash at closing in exchange for 100% of the common stock of PacifiCorp. In addition, it is projected that the approximately \$4.3 billion in net debt and preferred stock currently outstanding at PacifiCorp will remain outstanding as liabilities of PacifiCorp. The acquisition is subject to customary closing conditions, including approval of the transaction by the shareholders of ScottishPower and the receipt of required state and federal regulatory approvals.

The sale of PacifiCorp’s common stock to MEHC will also include transfer of control of the following PacifiCorp subsidiaries, which consist primarily of mining companies and

geothermal, etc.), investment in energy efficiency, demand-side management and environmental technologies, and MEHC is accustomed to operating in a collaborative fashion when developing its energy efficiency, demand side management and environmental plans. Like PacifiCorp, MEHC is comfortable with operating in a diverse service area, with states that have opted for competitive retail electric service as well as states that have opted for the traditional model of regulated retail electric service. MEHC also shares PacifiCorp's dedication to customer service, a fact attested to by both organizations' customer satisfaction ratings. These similarities are addressed in the testimony of MEHC witness Gale.

MEHC intends to maintain separate debt ratings for PacifiCorp, and ~~the Applicants~~ expects the transaction to have a positive impact on PacifiCorp's bond ratings and financing costs. MEHC's financial capabilities and the reaction of the credit rating agencies to the announcement of this transaction with respect to PacifiCorp's bond ratings are described below, in the "Financial Strength" section concerning MEHC.

PacifiCorp will continue to be charged for certain common services provided to it as part of a larger organization. Under MEHC's ownership, these services will be limited to management services (e.g., board of directors support, corporate tax, financial planning and analysis, financial reporting) and will be provided by a ~~service company ("ServCo") subsidiary of MEHC~~, as well as MEC. In connection with this transaction, MEHC is making a commitment to cap such charges at \$9 million per annum for a five (5) year period, compared to the \$15 million PacifiCorp is projected to incur from ScottishPower in FY2006. See testimony on shared service charges from MEHC witness Specketer.

PacifiCorp's headquarters will remain in Portland, Oregon. All PacifiCorp financial books and records will be kept in Portland, Oregon, and will continue to be available to the

- **\$88 million investment in a transmission link between Walla Walla and Yakima or Vantage to enhance the ability to accept wind energy;**
- **\$75 million investment in the Asset Risk Program;**
- **\$69 million investment in local transmission risk projects in all states;**
- **at least a 10 basis point reduction for five years (\$6.3 million) in the cost of PacifiCorp's issuances of long-term debt;**
- **at least a \$30 million reduction (over five years) in corporate overhead costs;**
- **consideration of reduced-emissions coal technologies such as IGCC and super-critical;**
- **affirmation of PacifiCorp's goal of 1400 MW of cost-effective renewable resources, including 100 MW of new wind energy within one year of the close of the transaction and up to 400 MW of new wind energy after the transmission line projects are completed;**
- **reduction in sulfur hexafluoride emissions;**
- **\$1 million shareholder-funded system-wide study designed to further demand-side management and energy efficiency programs where cost effective;**
- **a 2-year extension of the customer service standards and performance guarantees;**
- **a commitment of MEHC's resources and involvement, in cooperation with the PacifiCorp states, to look into transmission projects beneficial to the region such as the Rocky Mountain Area Transmission Study ("RMATS") and the Frontier transmission line project;**
- **uniform application of the commitments from the prior PacifiCorp transaction in all six states; and**
- **offering a utility own/operate option for consideration in renewable energy RFPs.**

The above-mentioned benefits will be of substantial value to PacifiCorp's customers, communities and employees in future years, as will MEHC's long-term commitment to assist PacifiCorp ~~to meet~~execute on its projected future capital needs, including long-term investment in PacifiCorp's integrated energy infrastructure.

MEHC believes the chief benefit from the proposed transaction is MEHC's willingness and ability to deploy capital to meet PacifiCorp's significant infrastructure needs. MEHC has focused on investments in the energy industry and is uniquely positioned to invest significant capital in the industry. Thus, MEHC is exceptionally well-matched to utilities, such as PacifiCorp, with a need for significant capital investment. This is particularly true when one considers the further advantage that arises from the reduced cost of debt that results from association with Berkshire Hathaway. As noted in the testimony of MEHC witness Goodman, the savings from this effect are substantial. The energy business is very capital intensive. With an owner like MEHC, that is well-positioned to undertake the efficient raising of capital, PacifiCorp will possess a key ingredient for successfully meeting its customers' current and future demands for energy. This is especially so since MEHC is free from the quarterly demand for shareholder dividends. It is MEHC's expectation that it will be the last owner of PacifiCorp, because MEHC invests for the long term. MEHC believes this will be to the benefit of PacifiCorp's customers, communities and employees. Knowing that MEHC intends to own PacifiCorp for the long-term will, MEHC believes, enhance customer and community confidence in PacifiCorp and its energy infrastructure that is so important to economic development. MEHC's long-term focus should also enhance the confidence of PacifiCorp's employees and management, enabling them to devote their full focus on exceeding customer expectations.

OTHER REGULATORY APPROVALS

~~Authorization from the SEC will be required both for MEHC's acquisition of PacifiCorp, and for MEHC's operation as a registered utility holding company under PUHCA. Repeal of PUHCA is in legislation currently before a joint House-Senate conference committee of the U.S. Congress; however repeal is not necessary for completion of the transaction.~~

~~Based on discussions with SEC staff and the assessments of legal counsel, we expect the transaction to be authorized by the SEC under the terms and precedents of PUHCA. We believe the acquisition will satisfy the standards under Section 10 of PUHCA that require a utility acquisition to be for reasonable and fair consideration, to not unduly concentrate control of public utilities, to not unduly complicate the capital structure of utility systems, and to tend towards the development of an integrated public utility system. See the testimony of MEHC witness Gale for further details.~~

MEHC and PacifiCorp will seek approval of the Federal Energy Regulatory Commission (“FERC”), pursuant to Section 203 of the Federal Power Act (“FPA”), for the proposed transaction, inasmuch as it will result in the indirect transfer, to MEHC, of control of the “jurisdictional facilities” of PacifiCorp. PacifiCorp and MEC will also seek FERC approval, pursuant to Section 205 of the FPA, of: ~~(i) any revisions to their respective Open Access Transmission Tariffs; and (ii) their Joint Operating Agreement which will govern certain transactions between PacifiCorp and MEC, and which will establish the process for PacifiCorp- MEC analysis of opportunities to increase efficiencies.~~

~~ScottishPower will file with the SEC for deregistration and sale approval under Sections 5(d) and 12(d) of PUHCA.~~

MEHC and PacifiCorp will make notification filings pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (“HSR Act”). The proposed transaction cannot be consummated until the waiting periods prescribed in the HSR Act lapse.

As a non-operating owner of 2.5% of the Trojan nuclear power plant, which is in the later stages of decommissioning, PacifiCorp and MEHC must seek approval from the Nuclear Regulatory Commission (“NRC”) for an indirect transfer of the spent nuclear fuel license

resulting from the change in control of the licensee. MEHC and PacifiCorp The applicants must assure the NRC that there will be no adverse impact on its ability to meet its financial obligations under the license and that there will be no adverse impact on the public interest, national security or the public health and safety.

MEHC and PacifiCorp will also obtain approval, from the Federal Communications Commission, of the change of control with respect to certain communication licenses held by PacifiCorp.

Finally, MEHC must obtain authority to acquire PacifiCorp from each of the six (6) states in which it provides retail electric service: Utah, Oregon, Wyoming, Washington, Idaho and California. MEHC is not required to obtain any approval in the states where MEC currently provides regulated electric or gas service: Iowa, Illinois, South Dakota and Nebraska.

After discussions with each of the representatives of each of the above regulatory agencies, we believe that the approvals can be obtained in the timeframes we have proposed.

DESCRIPTION OF THE FILING

This application is supported by testimony from the following witnesses:

- **Greg Abel**, President and COO of MEHC, will describe MEHC and its business platforms, describe the transaction, explain the reasons for MEHC's proposed purchase of PacifiCorp, demonstrate that the transaction will benefit PacifiCorp's customers, employees and communities, and describe PacifiCorp's operations once the transaction is completed.
- **Judi Johansen**, President and CEO of PacifiCorp, will testify regarding PacifiCorp's support for the transaction and the reasons for ScottishPower's sale of PacifiCorp.
- **Brent Gale**, Senior Vice President of MEC, will provide evidence that the transaction is in the public interest and will sponsor commitments to ensure there will be no harm to that interest. He will also provide testimony regarding the similarities between PacifiCorp and MEC, and the experience of MEC as a regulated utility subsidiary of MEHC.

- **Pat Goodman**, Chief Financial Officer of MEHC, will provide detail regarding MEHC's corporate structure, PacifiCorp's place within that structure, MEHC's capital structure, the financial and accounting aspects of the transaction, some of the financial and structural commitments being offered by MEHC and PacifiCorp, and the "ring fencing" protections MEHC will employ. He also will provide information regarding Berkshire Hathaway.
- **Tom Specketer**, Vice President of U.S. Regulatory Accounting and Controller of MEC, will testify about the costs of formation of a service company to provide certain common services to be provided to PacifiCorp, MEC and other MEHC subsidiaries. Mr. Specketer will describe ~~the service company~~, the procedures for sharing services between MEHC and its affiliates, the joint administrative services agreement applicable to MEHC and its affiliates, and the implications and benefits for PacifiCorp customers. He will also sponsor some of the regulatory oversight commitments being offered by MEHC and PacifiCorp.
- ~~Jeff Gust, Vice President of Energy Supply Management of MEC, will testify regarding the transmission path that is planned to connect PacifiCorp with MEC and the Joint Operating Agreement that will govern certain aspects of the use of that transmission path.~~

OTHER INFORMATION REQUIRED BY COMMISSION RULE

Capital Structure – OAR 860-027-0200(2)

Set forth in Table 1 of the testimony of MEHC witness Goodman is a description of PacifiCorp's pro forma capital structure as of March 31, 2005. MEHC and PacifiCorp Applicants expect to maintain or strengthen PacifiCorp's capital structure from that shown in Table 1 during the twelve (12) months after the proposed transaction is completed. PacifiCorp is expected to have its own long-term and short-term debt.

Bond Ratings – OAR 860-027-0200(3)

As discussed, above, in the "Plan for Operating PacifiCorp" section of this Application, MEHC and PacifiCorp anticipate that the impact of the transaction on the bond ratings and capital costs of PacifiCorp will be positive.

Affiliated Interests and Organization Structure – OAR 860-027-0200(4)

A list of MEHC's principal operating subsidiaries and an explanation of the organizational structure under which MEHC intends to operate its businesses is contained in the testimony of MEHC witnesses Abel and Goodman, and in an exhibit to MEHC witness Goodman's testimony.

Allocations – OAR 860-027-0200(5)

MEHC and PacifiCorp Applicants expect that the only corporate overhead, common costs that will be charged to PacifiCorp will relate to management and corporate administrative services. MEHC is making a commitment to cap the allocation of corporate overhead charges at \$9 million per annum for a five (5) year period. This represents a reduction of \$6 million from the current cross-charge allocation PacifiCorp is projected to incur from ScottishPower in FY2006.

Planned Changes – OAR 860-027-0200(6)

MEHC has not yet identified specific plans for any changes that would have a significant impact on the policies, management, operations or rates of PacifiCorp except, as related in the testimony of MEHC witness Abel, Mr. Abel will become Chairman of the PacifiCorp Board of Directors. Moreover, the composition of the Board will likely change, as ScottishPower representatives will be replaced and some restructuring is expected. MEHC's general capital plan for PacifiCorp is discussed, above, in the "Plan for Operating PacifiCorp" section of this Application and in the testimony of PacifiCorp witness Johansen.

Asset Disposition – OAR 860-027-0200(7)

MEHC has no plans to sell, exchange, pledge or otherwise transfer any of PacifiCorp's physical assets being acquired in the proposed transaction. Any sale of PacifiCorp's utility jurisdictional assets would be subject to Commission approval pursuant to ORS 757.480.

Affiliated Interests – OAR 860-027-0200(8)

Other than as described above in connection with MEHC's agreement concerning shared corporate services (addressed by MEHC witness Specketer), ~~and the draft Joint Operating Agreement (addressed by MEHC witness Gust), and~~ other than those set forth in MEHC witness Specketer's testimony, MEHC is not aware of any existing or proposed affiliated interest contracts between MEHC, or any of its subsidiaries, and PacifiCorp.

CONCLUSION

MEHC has made more than 60 commitments to the public interest, customers and states served by PacifiCorp. Included in these commitments are reductions in PacifiCorp's costs totaling more than \$36 million over five years and more than \$75 million over a longer period. MEHC shareholders will also absorb \$1 million of costs of a system-wide demand side management study. In addition to these readily quantifiable benefits, MEHC is committing to \$1.3 billion of infrastructure investment in PacifiCorp's system.

MEHC looks forward to being able to invest in the future of PacifiCorp, focusing upon our identified objectives of customer satisfaction, reliable service, employee safety, environmental stewardship and regulatory/legislative credibility. This application and testimony demonstrate that it is committed to extending customer service standards and performance guarantees, investing to improve transmission reliability and import capability, investing to enhance wind power development, investing to reduce emissions from coal plants, and furthering

demand side management and energy efficiency. This will be done while maintaining our focus on exceeding customer expectations. Lastly, but perhaps most importantly, we believe that regulators and legislators in the states MEHC currently is privileged to serve will agree that perhaps the most valuable asset MEHC brings to the areas it serves is integrity in its relationship with all of its stakeholders. We believe this is what PacifiCorp's customers, employees and communities deserve and require.

WHEREFORE, ~~the~~ Applicants respectfully requests that the Commission authorize MEHC to acquire the power to exercise substantial influence over the policies and actions of PacifiCorp.

Dated: July 15, 2005

MIDAMERICAN ENERGY HOLDINGS COMPANY and PACIFICORP

By _____
Katherine A. McDowell
Stoel Rives LLP
Joint Counsel for MEHC and PacifiCorp

**REVISED PAGES TO ABEL
DIRECT TESTIMONY (PPL/100)**

Unmarked Version

REVISED 8/17/05

- 1 • Thomas B. Specketer, MEC’s Vice President of U.S. Regulatory
2 Accounting and Controller, will testify about the costs of certain common
3 services to be provided to PacifiCorp, MEC and other MEHC subsidiaries.
4 Mr. Specketer will describe the procedures for sharing services between
5 MEHC and its affiliates, the joint administrative services agreement
6 applicable to MEHC and its affiliates, and the implications and benefits
7 for PacifiCorp customers. He will also sponsor some of the regulatory
8 oversight commitments being offered by MEHC and PacifiCorp.
9

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15
16 In addition to each of the above-mentioned MEHC witnesses, Judi Johansen,
17 President and CEO of PacifiCorp, will testify regarding PacifiCorp’s support for
18 the transaction and the reasons for the sale of PacifiCorp by Scottish Power plc
19 (“ScottishPower”).

20 **MEHC And Its Business Activities**

21 **Q. Please explain the business activities of MEHC.**

22 A. MEHC is a privately-held global company engaged primarily in the production
23 and delivery of energy from a variety of fuel sources – including coal, natural gas,
24 geothermal, hydroelectric, nuclear, wind and biomass. MEHC has access to
25 significant financial and managerial resources through its relationship with
26 Berkshire Hathaway. The other three owners of MEHC are Walter Scott, Jr.
27 (including family interests), David Sokol (Chairman and CEO of MEHC) and me.

28 MEHC’s global assets total approximately \$20 billion, and its 2004 revenues
29 totaled \$6.6 billion. MEHC’s six major business platforms are as follows:

1 fits well with PacifiCorp's profile, and as a consequence, the proposed transaction
2 offers significant benefits for PacifiCorp customers, employees and communities.

3 MEHC is uniquely suited to undertake the infrastructure investments
4 PacifiCorp faces in the coming years since it is privately-held and not subject to
5 shareholder expectations of regular, quarterly dividends and relatively high
6 returns on investments. MEHC's investors are focused on increasing value
7 through significant, long-term investment in well-operated energy companies that
8 offer predictable, reasonable returns.

9 MEHC's business strategy should provide PacifiCorp customers,
10 employees, communities, and regulators with valuable stability. Indeed, they
11 would be justified in expecting that MEHC will be the last owner of PacifiCorp.
12 As a result, PacifiCorp's management and employees will be able to focus on
13 exceeding customer expectations.

14 The opportunities for a successful transaction and transition are enhanced
15 by the significant similarities between PacifiCorp and MEC. As discussed by
16 MEHC witness Gale, the utilities' similarities include: comparable service
17 territories (e.g., multi-state areas with relatively low population density and few
18 large urban centers); a mix of retail-access and traditionally regulated utility
19 business; a focus on customer satisfaction and employee safety; use of renewable
20 energy technologies; use of low-sulfur, Western-basin coals; a long history of
21 providing DSM and energy efficiency programs; and use of collaborative
22 processes to develop environmental, DSM and energy efficiency programs.

1 over the post-acquisition five-year period. MEHC witness Goodman will
2 testify regarding this benefit in greater detail.

- 3
- 4 • **Corporate Overhead Charges:** MEHC commits that the corporate
5 charges to PacifiCorp from MEHC and MEC will not exceed \$9 million
6 annually for a period of five years after the closing on the proposed
7 transaction. (In FY2006, ScottishPower's net cross-charges to PacifiCorp
8 are projected to be \$15 million.) MEHC witness Specketer testifies
9 regarding this benefit in greater detail.

 - 10 • **Future Generation Options:** In PPL __.1(BEG-1), MEHC and
11 PacifiCorp adopt a commitment to source future PacifiCorp generation
12 resources consistent with the then current rules and regulations of each
13 state. In addition to that commitment, for the next ten years, MEHC and
14 PacifiCorp commit that they will submit as part of any RFPs --including
15 renewable energy RFPs --a 100 MW or more utility "own/operate"
16 proposal for the particular resource. It is not the intent or objective that
17 such proposals be favored over other options. Rather, the option for
18 PacifiCorp to own and operate the resource which is the subject of the
19 RFP will enable comparison and evaluation of that option against other
20 alternatives. In addition to providing regulators and interested parties with
21 an additional viable option for assessment, it can be expected that this
22 commitment will enhance PacifiCorp's ability to increase the proportion
23 of cost-effective renewable energy in its generation portfolio, based upon
24 the actual experience of MEC and the "Renewable Energy" commitment
25 offered below.

 - 26 • **Renewable Energy:** MEHC reaffirms PacifiCorp's commitment to
27 acquire 1400 MW of new cost-effective renewable resources, representing
28 approximately 7% of PacifiCorp's load. MEHC and PacifiCorp commit to
29 work with developers and bidders to bring at least 100 MW of cost-
30 effective wind resources in service within one year of the close of the
31 transaction.
32
33

34 MEHC and PacifiCorp expect that the commitment to build the Walla-
35 Walla and Path C transmission lines will facilitate up to 400 MW of
36 renewable resource projects with an expected in-service date of 2008 -
37 2010. MEHC and PacifiCorp commit to actively work with developers to
38 identify other transmission improvements that can facilitate the delivery of
39 wind energy in PacifiCorp's service area.
40

41 In addition, MEHC and PPW commit to work constructively with states to
42 implement renewable energy action plans so as to enable achievement of
43 PacifiCorp's 1400 MW commitment.
44
45

1 The commitments by MEHC and PacifiCorp, coupled with the continued
2 ability of PacifiCorp management to make state policy and business decisions,
3 will allow PacifiCorp to continue its efforts to expand energy efficiency system-
4 wide, and take advantage of its increased financial resources to upgrade its current
5 institutional capacities to acquire cost-effective savings.

6 **Q. Are there other benefits that will accrue to customers as a result of the**
7 **proposed transaction?**

8 A. Yes. Benefits also result from making the commitments contained in Exhibit
9 PPL/301 uniform across all states. With the exception of a few state-specific
10 commitments noted in that exhibit, the commitments will be applied in all six
11 states. This will enable regulators to have a consistent and readily identifiable set
12 of commitments and simplify administration for PacifiCorp. Because the
13 previous commitments were not uniform across the states, uniform application of
14 the commitments will mean that every state will be receiving some additional
15 commitments that were not previously applicable to it.

16 We also believe that the benefit of MEHC's long-term ability and
17 willingness to invest in energy infrastructure is significant and real but not readily
18 capable of quantification. Similarly, the stability of ownership of MEHC and
19 Berkshire Hathaway provides security for customers, employees and the states
20 served.

21 **PacifiCorp Operations Post-Transaction**

22 **Q. How will PacifiCorp operate after completion of the transaction?**

23 A. PacifiCorp will operate very much like it does today. PacifiCorp will become a

**REVISED PAGE TO ABEL
EXHIBIT PPL/101**

Unmarked Version

REVISED 8/17/05

the Mid-Columbia (at Vantage). Either of these projects presents opportunities to enhance PacifiCorp's ability to accept the output from wind generators and balance the system cost effectively in a regional environment.

- **Other Transmission and Distribution Matters:** MEHC and PacifiCorp make the following commitments to improve system reliability:
 - investment in the Asset Risk Program of \$75 million over the three years, 2007-2009,
 - investment in local transmission risk projects across all states of \$69 million over eight years after the close of the transaction,
 - O & M expense for the Accelerated Distribution Circuit Fusing Program across all states will be increased by \$1.5 million per year for five years after the close of the transaction, and
 - extension of the O&M investment across all states for the Saving SAIDI Initiative for three additional years at an estimated cost of \$2 million per year.

MEHC and PacifiCorp will also support the Bonneville Power Administration in its development of short-term products such as conditional firm and redispatch products. PacifiCorp will also initiate a process to collaboratively design similar products at PacifiCorp.

- **Reduced Cost of Debt:** MEHC believes that PacifiCorp's incremental cost of long-term debt will be reduced as a result of the proposed transaction, due to the association with Berkshire Hathaway. Historically, MEHC's utility subsidiaries have been able to issue long-term debt at levels below their peers with similar credit ratings. MEHC commits that over the next five years it will demonstrate that PacifiCorp's incremental long-term debt issuances will be at a yield ten basis points below its similarly rated peers. If it is unsuccessful in demonstrating that PacifiCorp has done so, PacifiCorp will accept up to a ten (10) basis point reduction to the yield it actually incurred on any incremental long-term debt issuances for any revenue requirement calculation effective for the five-year period subsequent to the approval of the proposed acquisition. It is projected that this benefit will yield a value roughly equal to \$6.3 million over the post-acquisition five-year period. MEHC witness Goodman will testify regarding this benefit in greater detail.
- **Corporate Overhead Charges:** MEHC commits that the corporate charges to PacifiCorp from MEHC and MEC will not exceed \$9 million annually for a period of five years after the closing on the proposed transaction. (In FY2006, ScottishPower's net cross-charges to PacifiCorp are projected to be \$15 million.) MEHC witness Specketer testifies regarding this benefit in greater detail.

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- 1 • PacifiCorp will become a separate business platform under MEHC, with
2 its own business plan, its own management, its own state policies, and the
3 responsibility for making decisions that achieve the objectives identified
4 in the testimony of MEHC witness Mr. Abel (i.e., customer satisfaction,
5 reliable service, employee safety, environmental stewardship, and
6 regulatory/legislative credibility).
7
- 8 • The many similarities between MEC and PacifiCorp will facilitate an easy
9 transition of PacifiCorp as a separate subsidiary of MEHC.
10
- 11 • MEC's operations, as a subsidiary of MEHC, provide demonstrable
12 evidence that PacifiCorp will have the ability to continue its emphasis on
13 key utility performance areas such as: customer service; safety; integrated
14 resource planning; a balanced mix of generating resources, including
15 renewable generation; use of energy efficiency and demand-side
16 management ("DSM"); investment in environmental emission control
17 technology; and collaborative processes.
18

19 MEHC and PacifiCorp Commitments

20
21 **Q. Please explain the uniform set of commitments you referenced.**

22 A. MEHC and PacifiCorp have reviewed the commitments required by the six states
23 in the Scottish Power plc ("ScottishPower") transaction. We have also met with
24 numerous groups that may have an interest in this transaction and asked them to
25 identify the risks and concerns that they have at this time.

26 Exhibit PPL/301 responds to the risks and concerns addressed in the
27 previous PacifiCorp transaction and to many of the risks and concerns that have
28 been raised in the meetings with interested groups. This Exhibit identifies
29 MEHC's and PacifiCorp's commitments to address these risks and concerns. The
30 new commitments sponsored by MEHC witness Mr. Abel address other concerns
31 expressed in the meetings with interested groups. MEHC and PacifiCorp propose
32 that the commitments in this Exhibit and those in MEHC witness Mr. Abel's
33 Exhibit PPL/101, supersede prior commitments and apply upon the close of the

1 and practicable; such conditions include ice, floods, tornados, storms and
2 snow.

- 3 • Regulated delivery and electric supply services are provided in multiple
4 state jurisdictions, with at least one state having competitive retail electric
5 supply access.
- 6 • The economy of the service area is significantly tied to the land
7 (agriculture, forestry, and mining).
- 8 • On the whole, the area served has a comparatively low-density population
9 except for a few major population centers.

10
11 The maps attached to Exhibit PPL/302 provide some additional information
12 regarding the similarities.

MidAmerican Energy Company

13 **Q. Please provide some historical background on MEC.**

14 A. MEC and its predecessor corporations (e.g., Iowa Power Inc., Iowa-Illinois Gas
15 and Electric Company, Iowa Public Service Company and their respective
16 predecessors) have been providing electric service in Iowa, Illinois and South
17 Dakota for approximately 100 years. MEC is the product of a merger between
18 Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company in
19 1995. Midwest Power Systems Inc., in turn, was the result of a prior merger
20 between Iowa Power Inc. and Iowa Public Service Company¹ in 1992. In 1999,
21 MEC was acquired by CalEnergy Company Inc. (subsequently known as
22 “MidAmerican Energy Holdings Company” or “MEHC”), and in 2000, MEHC
23 and an investor group comprised of Berkshire Hathaway Inc, Walter Scott, Jr. (a
24 director of MEHC), David Sokol (Chairman and Chief Executive Officer of
25 MEHC), and

¹ The utilities’ parent holding companies (non-registered, exempt holding companies), Iowa Resources Inc. and Midwest Energy Company, were previously merged in 1990 creating a new holding company (also a non-registered, exempt holding company) called Midwest Resources Inc.

1 increase in the percentage discussed in PacifiCorp witness Johansen's testimony.
2 Please also note the commitment, Revenue Requirements Impacts B, of Exhibit
3 PPL/301.

4 **Review and Approval of the Transaction**

5 **Q. Please describe the various reviews and/or approvals of the transaction that**
6 **MEHC anticipates.**

7 A. Following are the shareholder and regulatory reviews anticipated with respect to
8 the proposed transaction:

- 9 • approval of the shareholders of ScottishPower;
- 10 • approval and/or waiver from the public utility commissions in the states of
11 California, Idaho, Oregon, Utah, Washington, and Wyoming;
- 12 • approval of the transfer of the Trojan spent fuel storage license by the U.S.
13 Nuclear Regulatory Commission;
- 14 • approval of the transfer of jurisdictional facilities by the Federal Energy
15 Regulatory Commission ("FERC") under Section 203 of the Federal
16 Power Act;
- 17 • approval by FERC of revisions to the open access transmission tariffs of
18 PacifiCorp and MEC under Section 205 of the Federal Power Act;
- 19 • review of the proposed transaction by the U.S. Department of Justice
20 under the Hart-Scott-Rodino Act; and
- 21 • approval by the Federal Communications Commission of the change of
22 control with respect to certain communication licenses held by PacifiCorp.

1 **Market Monitor and Transmission Services Coordinator**

2 **Q. Please describe the Market Monitor Proposal that MEHC has put forward in**
3 **connection with its proposed acquisition of PacifiCorp.**

4 A. Under the proposal, MEC and PacifiCorp would each contract with a market
5 monitor to assure nondiscrimination in the management of each company's
6 transmission systems commencing on the day of the closing of the acquisition. A
7 market monitor is an independent organization retained to review, on an after-the-
8 fact basis, transmission system operations necessary to ensure the transmission
9 provider does not favor its wholesale merchant function or any energy affiliate.
10 The market monitor would review and report to the FERC on such matters as the
11 utility's performance of the following transmission functions:

- 12 • generation dispatch and potential impacts on constrained facilities,
- 13 • actions to relieve constrained facilities,
- 14 • derating of transmission facilities, and
- 15 • ratings and other data used for total transfer capability calculations.

16 **Q. What are the expected costs to PacifiCorp of the market monitor?**

17 A. Bids for the market monitor services have not yet been solicited. However, we
18 estimate that the on-going costs to PacifiCorp will be about \$200,000 annually.

19 **Q. Does the market monitor proposal impact the development of Grid West?**

20 A. No. The efforts are complementary. For example, it is possible that some market
21 monitor services may be provided as an early service by Grid West. When Grid
22 West is fully operational it should obviate the need for a market monitor for
23 PacifiCorp, since Grid West would be providing non-discriminatory transmission
24 services to multiple parties including PacifiCorp.

1 **Q. Will Grid West also serve MEC?**

2 A. No, at least not for the foreseeable future. Subject to regulatory approval, MEC is
3 planning to enter into a contract with an outsource provider of transmission
4 services to be known as the transmission service coordinator (“TSC”). The TSC
5 initially will administer or oversee only MEC’s transmission assets. However,
6 MEC is working with other utilities located to its west that currently are not part
7 of any regional transmission organization to consider having them also use the
8 TSC. Ultimately, the TSC may provide transmission services to an area abutting
9 that of Grid West. At such time, it may be appropriate to put into place a seams
10 agreement between the TSC and Grid West to enhance transmission system
11 coordination among transmission users in the states served by PacifiCorp and
12 MEC.

13 **Proposed Schedule**

14 **Q. When does MEHC expect to complete the process of obtaining all of the**
15 **foregoing approvals and reviews?**

16 A. We very much want to complete all of the state approvals by February 28, 2006,
17 in time to close on the transaction on or before March 31, 2006. This is an
18 important transaction for PacifiCorp customers, employees and communities. In
19 order to mitigate the ill effects of uncertainty and expedite the delivery of
20 important benefits, we respectfully request that the Commission act in a manner
21 that will facilitate an order by February 28, 2006.

22 Closing on that date will also facilitate the transition of PacifiCorp’s
23 financial reporting from a fiscal year ending March 31 as used by Scottish Power
24 to a calendar fiscal year consistent with how MEHC companies report their

1 financial statements. Such calendar year reporting is also consistent with
2 regulatory reporting, which should enable regulators to utilize a single year's
3 audited financial statements rather than have regulatory reporting span two fiscal
4 years.

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

6 **A.** Yes, it does.

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EXHIBIT PPL/301**

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- G. PacifiCorp and MEHC will not cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and shall comply with the Commission's then-existing practice with respect to such matters. (Witness Specketer)
- H. Due to PUHCA repeal, neither Berkshire Hathaway nor MEHC will be registered public utility holding companies under PUHCA. Thus, no waiver by Berkshire Hathaway or MEHC of any defenses to which they may be entitled under *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir.), cert. denied sub nom. *Arcadia v. Ohio Power Co.*, 506 U.S. 981 (1992) ("*Ohio Power*"), is necessary to maintain the Commission's regulation of MEHC and PacifiCorp. However, while PUHCA is in effect, Berkshire Hathaway and MEHC waive such defenses.. (Witness Specketer)
- I. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of MEHC and PacifiCorp following approval of the transaction will be held in a separate company(ies) other than PacifiCorp, the entity for utility operations. Ring-fencing provisions (i.e., measures providing for separate financial and accounting treatment) will be provided for each of these diversified activities, including but not limited to provisions protecting the regulated utility from the liabilities or financial distress of MEHC. This condition will not prohibit the holding of diversified businesses. (Witness Goodman)
- J. PacifiCorp or MEHC will notify the Commission subsequent to MEHC's board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of MEHC; or (2) the change in effective control or acquisition of any material part or all of PacifiCorp by any other firm, whether by merger, combination, transfer of stock or assets.
- K. Within 30 days of receiving all necessary state and federal regulatory approvals of the final corporate and affiliate cost allocation methodology, a written document setting forth the final corporate and affiliate cost methodology will be submitted to the Commission. On an on-going basis, the Commission will also be notified of anticipated or mandated changes to the corporate and affiliate cost allocation methodologies. (Witness Specketer)
- L. Any proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads, required by law or rule to be submitted to the Commission for approval, will comply with the following principles:
- (a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by MEHC or any of its affiliates, MEHC must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent.

- (b) Cost allocations to PacifiCorp and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to specific subsidiaries whenever possible and shared or indirect costs will be allocated based upon the primary cost-driving factors.
- (c) MEHC will have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp.
- (d) An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.
- (e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the MEHC group.
- (f) Any corporate cost allocation methodology used for rate setting, and subsequent changes thereto, will be submitted to the Commission for approval if required by law or rule. (Witness Specketer)

Financial Integrity

- A. PacifiCorp will maintain separate debt and, if outstanding, preferred stock ratings. PacifiCorp will maintain its own corporate credit rating, as well as ratings for each long-term debt and preferred stock (if any) issuance. (Witness Goodman)
- B. MEHC and PacifiCorp will exclude all costs of the transaction from PacifiCorp's utility accounts. Within 90 days following completion of the transaction, MEHC will provide a preliminary accounting of these costs. Further, MEHC will provide the Commission with a final accounting of these costs within 30 days of the accounting close. (Witness Goodman)
- C. The premium paid by MEHC for PacifiCorp will be recorded in the accounts of the acquisition company and not in the utility accounts of PacifiCorp. MEHC and PacifiCorp will not propose to recover the acquisition premium in PacifiCorp's regulated retail rates; provided, however, that if the Commission in a rate order issued subsequent to the closing of the transaction reduces PacifiCorp's retail revenue requirement through the imputation of benefits (other than those benefits committed to in this transaction) accruing from the acquisition company (PPW Holdings LLC), Berkshire Hathaway, or MEHC, MEHC and PacifiCorp will have the right to propose upon rehearing and in subsequent cases a symmetrical adjustment to

Environment

- A. PacifiCorp will continue its Blue Sky tariff offering in all states.
- B. PacifiCorp will continue its commitment to gather outside input on environmental matters, such as through the Environmental Forum.
- C. PacifiCorp will continue to have environmental management systems in place that are self-certified to ISO 14001 standards at all PacifiCorp operated thermal generation plants.

Communities

- A. MEHC will maintain the existing level of PacifiCorp's community-related contributions, both in terms of monetary and in-kind contributions.
- B. MEHC will continue to consult with regional advisory boards to ensure local perspectives are heard regarding community issues.

Employees

- A. MEHC will honor existing labor contracts with all levels of staff.
- B. MEHC and PacifiCorp will make no changes to employee benefit plans for at least two (2) years following the effective date of the Stock Purchase Agreement.

Planning

- A. PacifiCorp will continue to produce Resource Plans every two years, according to the then current schedule and the then current Commission rules.
- B. When acquiring new generation resources in excess of 100 MW, PacifiCorp and MEHC will issue Requests for Proposals (RFPs) or otherwise comply with state laws, regulations and orders that pertain to procurement of new generation resources.

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DIRECT TESTIMONY (PPL/400)**

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1 remaining subsidiaries of PHI, including PPM Energy, Inc., will remain with
2 ScottishPower.

3 **MEHC Corporate Structure**

4 **Q. Please discuss MEHC's corporate structure and PacifiCorp's place in that**
5 **structure.**

6 A. Upon completion of the transaction, PacifiCorp will be an indirect wholly-owned
7 subsidiary of MEHC as illustrated in the simplified MEHC organizational chart
8 provided with my testimony as Exhibit PPL/402. This structure will help
9 facilitate the implementation of the "ring-fencing" concept that is addressed later
10 in my testimony.

11 **MEHC Capital Structure**

12 **Q. Please describe MEHC's capital structure.**

13 A. Table 1 below illustrates the pre-transaction capitalizations of MEHC and
14 PacifiCorp, followed by the pro forma, combined capitalization of MEHC after
15 the proposed transaction occurs. At this point I would direct your attention to the
16 MEHC capitalization prior to the acquisition. It can be seen that MEHC's
17 stockholder's equity is composed of five items:

- 18 • zero coupon convertible preferred stock,
- 19 • common stock,
- 20 • additional paid-in capital,
- 21 • retained earnings, and
- 22 • accumulated other comprehensive loss, net.

Table 1
MidAmerican Energy Holdings Company
Unaudited Pro forma Consolidated Long-Term Capitalization
As of March 31, 2005
(In millions)

	MEHC		PacifiCorp	Pro Forma Adjustments	MEHC Pro Forma	
Long-term Debt:						
Parent company senior debt	\$ 2,773.1	19.9%	\$ -	\$ 1,709.8	(1) \$ 4,482.9	19.7%
Parent company subordinated debt(2)	1,586.4	11.4%	-	-	1,586.4	7.0%
Subsidiary and project debt	6,358.8	45.8%	3,629.0	-	9,987.8	43.9%
Total long-term debt	10,718.3	77.1%	3,629.0	1,709.8	16,057.1	70.6%
Preferred securities of subsidiaries	89.3	0.6%	52.5	41.3	(3) 183.1	0.8%
Stockholders' equity:						
Zero coupon convertible preferred stock, no par value	-	-	-	-	-	-
Preferred stock, \$100 stated value	-	-	41.3	(41.3)	(3) -	-
Common stock, no par value	-	-	-	-	-	-
Additional paid-in capital	1,950.7	-	2,894.1	(2,894.1)	(4) 5,370.4	-
				3,419.7	(1)	
Retained earnings	1,309.3	-	446.4	(446.4)	(4) 1,309.3	-
Accumulated other comprehensive loss, net	(166.3)	-	(4.7)	4.7	(4) (166.3)	-
Total stockholders' equity	3,093.7	22.3%	3,377.1	42.6	6,513.4	28.6%
Total long-term capitalization	\$ 13,901.3	100.0%	\$ 7,058.6	\$ 1,793.7	\$ 22,753.6	100.0%

For the purposes of the pro forma long-term capitalization table, it has been assumed that the acquisition was completed on March 31, 2005. Consequently, the total long-term capitalization of PacifiCorp does not reflect the following:

- the additional equity investment by ScottishPower in PacifiCorp of \$500.0 million during the fiscal year ended March 31, 2006;
- expected dividends, totaling \$214.8 million, to be paid to ScottishPower by PacifiCorp for the fiscal year ending March 31, 2006;
- expected earnings, debt issuances and debt retirements of PacifiCorp for the fiscal year ending March 31, 2006; and
- expected earnings, debt issuance and debt retirement of MEHC and its current subsidiaries for the period ending March 31, 2006.

Certain reclassifications have been made to PacifiCorp's historical presentation in order to conform to MEHC's historical presentation.

(1) Pursuant to terms of the Stock Purchase Agreement, MEHC will pay ScottishPower \$5.1 billion in cash in exchange for 100% of PacifiCorp's common stock. The total estimated purchase price of the acquisition is as follows (in millions):

Common stock or zero coupon convertible non-voting preferred stock of MEHC	\$ 3,419.7
Long-term senior unsecured debt of MEHC	1,709.8
Total estimated purchase price	\$ 5,129.5

(2) Parent company subordinated debt consists of the following at March 31, 2005:

Berkshire trust preferred securities	\$ 1,289.2
Other trust preferred securities	297.2
Total parent company subordinated debt	\$ 1,586.4

(3) Pursuant to the terms of the Stock Purchase Agreement, PacifiCorp's preferred stock which is classified in PacifiCorp's March 31, 2005 balance sheet as part of stockholder's equity will remain outstanding. For purposes of the pro forma capitalization table the preferred stock, totaling \$41.3 million, was reclassified to preferred securities of subsidiaries.

(4) Represents the pro forma adjustments to eliminate the historical stockholders' equity of PacifiCorp.

Table 2			
Credit Ratings – July 2005			
	Standard & Poor's	Moody's Investor Service	FitchRatings
Berkshire Hathaway	AAA	Aaa	AAA
MidAmerican Energy Holdings Company	BBB-	Baa3	BBB
MidAmerican Energy Company	A-	A3	A-
Northern Natural Gas Company	A-	A3	A-
Kern River Gas Transmission Co.	A-	A3	A-
Northern Electric Distribution Ltd	BBB+	A3	A-
Yorkshire Electricity Distribution plc	BBB+	A3	A-

1 **Financing and Mechanics of the Transaction**

2 **Q. Please describe the steps that will be taken to effectuate the transaction.**

3 A. A limited liability company ("LLC"), PPW Holdings LLC, has been established
4 as a direct subsidiary of MEHC. This LLC will receive, as an equity infusion,
5 \$5.1 billion raised by MEHC through the sale of either common stock or zero
6 coupon convertible preferred stock to Berkshire Hathaway and the issuance of
7 long-term senior notes, preferred stock, or other securities with equity
8 characteristics to third parties. However, the LLC will have no debt of its own.
9 The LLC will, as provided in the Stock Purchase Agreement, pay PHI \$5.1 billion
10 in cash, at closing, in exchange for 100 percent of the common stock of
11 PacifiCorp. In addition, it is projected that approximately \$4.3 billion in net debt
12 and preferred stock of PacifiCorp will remain outstanding as obligations of
13 PacifiCorp.

14 Prior to the expected closing date of March 31, 2006, ScottishPower has

1 agreed to make \$500 million in additional capital contributions to PacifiCorp, and
2 PacifiCorp is expected to pay \$214.8 million of dividends to ScottishPower.
3 Provision for additional capital contributions have been made in the Stock
4 Purchase Agreement if the acquisition has not closed by that date.

5 **Q. Please describe how the acquisition of PacifiCorp by MEHC will be financed.**

6 A. As described above, MEHC expects to fund the transaction with the proceeds
7 from an investment by Berkshire Hathaway of approximately \$3.4 billion in either
8 common stock or zero coupon non-voting convertible preferred stock of MEHC
9 and the issuance by MEHC to third parties of approximately \$1.7 billion of long-
10 term senior notes, preferred stock, or other securities with equity characteristics.
11 However, the transaction is not conditioned on such financing and if funds were
12 not available from third parties, Berkshire Hathaway is expected to provide any
13 required funding. The pro forma capital structure of MEHC after the acquisition
14 is shown in Table 1 above, assuming \$1.7 billion of long-term debt is issued by
15 MEHC. The pro forma schedule is unaffected if, ultimately, either common stock
16 or zero coupon convertible preferred stock is issued. The timing and composition
17 of these financings are flexible and subject to modification as market conditions
18 change. It is not anticipated that there would be any restrictive covenants
19 associated with the proposed financing different from those typical of an
20 investment grade financing.

21 **Q. Are you aware of any benefits to PacifiCorp due to MEHC's relationship**
22 **with Berkshire Hathaway?**

23 A. MEHC believes that PacifiCorp's cost of debt will benefit from the acquisition
24 due to the association with MEHC's largest investor, Berkshire Hathaway.

25 Historically, MEHC's utility subsidiaries have been able to issue long-term debt

		the accounting close.
C	Premium Paid	The premium paid by MEHC for PacifiCorp will be recorded in the accounts of the acquisition company and not in the utility accounts of PacifiCorp. MEHC and PacifiCorp will not propose to recover the acquisition premium in PacifiCorp's regulated retail rates; provided, however, that if the Commission in a rate order issued subsequent to the closing of the transaction reduces PacifiCorp's retail revenue requirement through the imputation of benefits (other than those benefits committed to in this transaction) accruing from the acquisition company (PPW Holdings LLC), Berkshire Hathaway, or MEHC, MEHC and PacifiCorp will have the right to propose upon rehearing and in subsequent cases a symmetrical adjustment to recognize the acquisition premium in retail revenue requirement.
D	Rating Agency Presentations	MEHC and PacifiCorp will provide the Commission with unrestricted access to all written information provided to credit rating agencies that pertains to PacifiCorp.
E	Minimum Common Equity Ratio	PacifiCorp will not make any distribution to PPW Holdings LLC or MEHC that will reduce PacifiCorp's common equity capital below 40 percent of its total capital without Commission approval. PacifiCorp's total capital is defined as common equity, preferred equity and long-term debt. Long-term debt is defined as debt with a term of one year or more. The Commission and PacifiCorp may reexamine this minimum common equity percentage as financial conditions or accounting standards change, and may request that it be adjusted.
F	Capital Requirements to Meet Obligation to Serve	The capital requirements of PacifiCorp, as determined to be necessary to meet its obligation to serve the public, will be given a high priority by the Board of Directors of MEHC and PacifiCorp.
G	Assuming Liabilities/Pledging Assets	PacifiCorp will not, without the approval of the Commission, assume any obligation or liability as guarantor, endorser, surety or otherwise for MEHC or its affiliates, provided that this condition will not prevent PacifiCorp from assuming any obligation or liability on behalf of

1 recapitalization, winding-up or termination or a merger, consolidation or sale of
2 all or substantially all of MEHC's assets.

3 **Q. Please describe the rights Berkshire Hathaway will have upon conversion of**
4 **the zero coupon convertible preferred stock of MEHC.**

5 A. Upon conversion Berkshire Hathaway would have the rights of a common
6 stockholder and the ability to elect nine of the ten members of MEHC's board of
7 directors. The additional \$3.4 billion of common shares associated with the
8 PacifiCorp transaction (or zero coupon convertible preferred stock, if issued and
9 then converted) will increase Berkshire Hathaway's proportion of ownership but
10 would otherwise not affect any of the rights Berkshire Hathaway had without the
11 additional investment.

12 **Q. Why have you provided this information regarding Berkshire Hathaway's**
13 **conversion rights?**

14 A. On or shortly after the effective date of repeal of PUHCA, Berkshire Hathaway
15 will exercise its conversion rights. This will create a technical change in control
16 of MEHC. Although the conversion will occur prior to the close of this
17 transaction, MEHC and PacifiCorp wish to provide the Commission with this
18 notice of the conversion which is associated with the repeal of PUHCA.

19 **Q. What regulatory approvals are required to allow Berkshire Hathaway to**
20 **convert its convertible preferred stock investment in MEHC to common**
21 **equity?**

22 A. Approvals are required from FERC, the Nuclear Regulatory Commission, the
23 Iowa Utilities Board and the Illinois Commerce Commission. A filing will also
24 be required with the U.S. Department of Justice/Federal Trade Commission

1 pursuant to the Hart-Scott-Rodino Act. As of the date of this testimony, all filings
2 had been made except the Hart-Scott-Rodino. All required approvals are
3 expected before year-end 2005.

4 **Q. Will Berkshire Hathaway have any involvement in the day to day operations**
5 **of PacifiCorp, either before or after conversion?**

6 A. No, it will not. Prior to conversion, Mr. Scott and associated family interests had
7 the right to elect a majority of the members of the MEHC Board of Directors, and
8 Berkshire Hathaway had the right to elect 20% of the Board. Neither Mr. Scott
9 nor Berkshire Hathaway had any influence or involvement in the day-to-day
10 operations of the business units of MEHC. That is not expected to change when
11 Berkshire Hathaway is able to elect a majority of the Board.

12 **Q. After the conversion, will MEHC (or PacifiCorp if this proposed transaction**
13 **is approved) be required to borrow funds from Berkshire Hathaway?**

14 A. Neither MEHC nor PacifiCorp is or will be required to borrow from Berkshire
15 Hathaway. However, MEHC may choose to request debt or equity funds from
16 Berkshire Hathaway, for example, if it pursues additional acquisitions.

17 As a general rule, subsidiaries of MEHC (including PacifiCorp if this
18 proposed transaction is approved) are expected to operate autonomously from
19 MEHC and Berkshire Hathaway. This includes arranging their own financing and
20 being responsible for maintaining and/or improving their credit standing.

21 **Conclusion**

22 **Q. Does this conclude your direct testimony?**

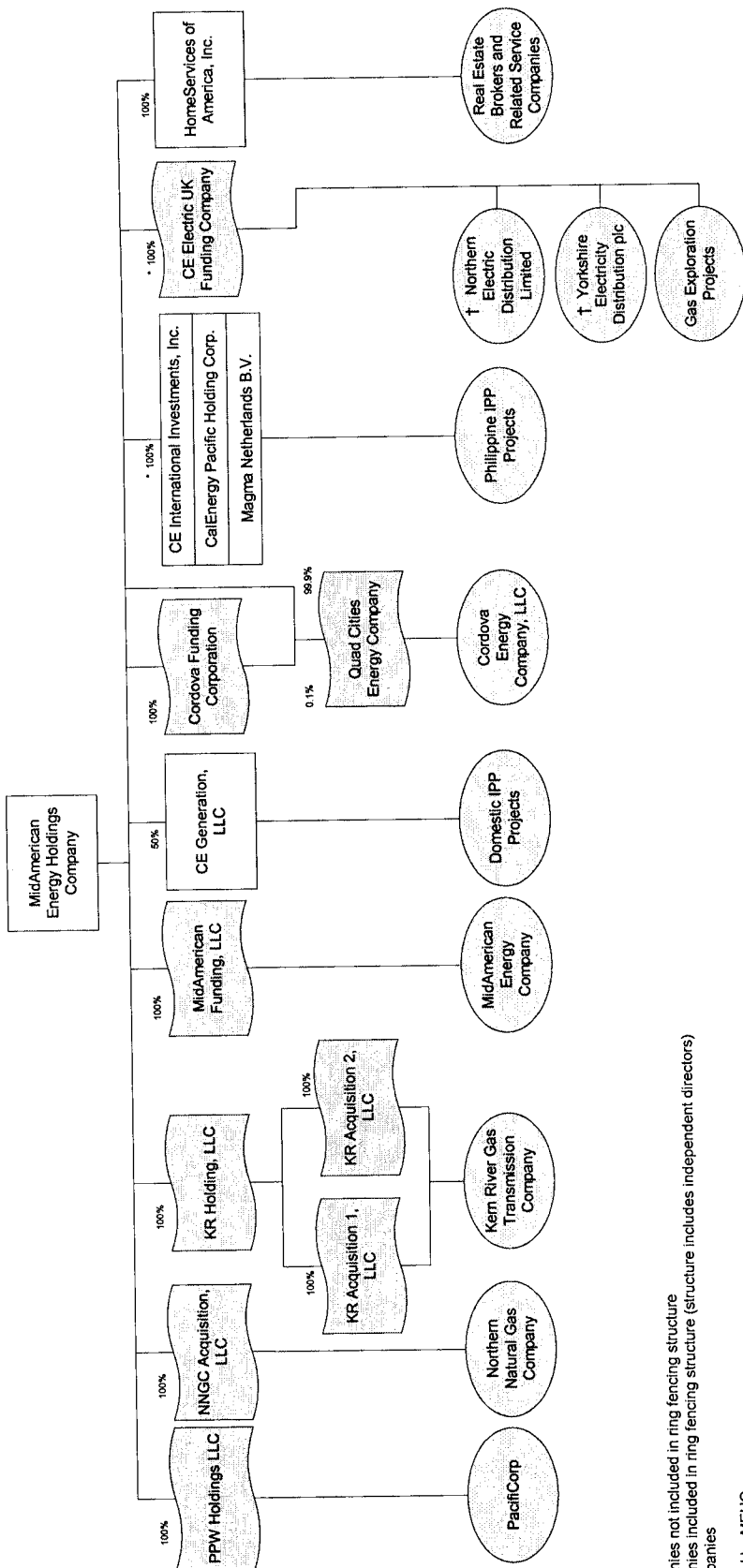
23 A. Yes, it does.

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EXHIBIT PPL/402**

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Simplified MEHC Organizational Structure – Post PacifiCorp Acquisition



□ Holding companies not included in ring fencing structure
 ▭ Holding companies included in ring fencing structure (structure includes independent directors)
 ○ Operating companies
 * Indirectly owned by MEHC
 † Subject to UK regulatory ring fencing

**REVISED PAGES TO SPECKETER
DIRECT TESTIMONY (PPL/500)**

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1 **Q. Please state your name, employer, and business address.**

2 A. My name is Thomas B. Specketer, MidAmerican Energy Company (“MEC”), 666
3 Grand Avenue, Suite 2900, Des Moines, Iowa 50309.

4 **Q. What is your position in the company and your previous work experience?**

5 A. I am currently vice president U.S. regulatory accounting and MEC controller. My
6 primary duties include responsibility for all accounting, financial reporting,
7 regulatory reporting, tax and budgeting activities for MEC, and regulatory
8 accounting oversight for all domestic regulated entities in the MidAmerican
9 Energy Holdings Company (“MEHC”) group. I have been employed by MEC, or
10 one of its predecessor companies, for over 25 years. During this time, I have held
11 various staff and managerial positions within the accounting, tax and finance
12 organizations.

13 **Q. What is your educational background and your involvement in professional
14 associations?**

15 A. I received a Bachelor of Science degree in mathematics from Morningside
16 College. In addition to formal education, I have also attended various
17 educational, professional and electric industry related seminars during my career
18 at MEC. I am a member of Edison Electric Institute’s Chief Accounting Officers
19 Committee and a past member of the Tax Executives Institute, Iowa Association
20 of Tax Representatives and Institute of Management Accountants.

21 **Q. Please describe the purpose of your testimony.**

22 A. The chief purpose of my testimony is to provide an overview of the process by
23 which shared services costs will be distributed to PacifiCorp and other MEHC
24 subsidiaries after completion of the proposed transaction. Therefore, my

1 testimony will address the allocation methodologies expected to be employed, the
2 service agreement that will govern the shared services to be rendered, and the
3 expected costs to PacifiCorp of shared services under MEHC ownership, in
4 contrast to those PacifiCorp experienced under Scottish Power plc
5 (“ScottishPower”) ownership. Additionally, I will address other accounting
6 issues pertinent to this transaction that may be of interest to the Commission and
7 sponsor some of the commitments in MEHC witness Mr. Gale’s Exhibit PPL/301.

8 **Accounting Changes**

9 **Q. Please discuss accounting changes brought about by this transaction.**

10 A. PacifiCorp will operate very much as it does today. Upon the closing of the
11 transaction, however, it is MEHC’s intent to transition PacifiCorp to a calendar
12 year-end in contrast to its present March 31 fiscal year-end. The change in year-
13 end will assure greater consistency in information supplied to PacifiCorp’s
14 various regulatory bodies and investors, and assure that financial information
15 provided to MEHC is on a basis consistent with other MEHC subsidiaries.

16 **Shared Services Costs**

17 **Q. What cost changes will occur as a result of this transaction?**

18 A. As mentioned previously, PacifiCorp will operate very much as it does today and,
19 accordingly, most costs incurred by PacifiCorp will not change as a result of this
20 transaction. One exception is the cost of corporate shared services. With the
21 change in ownership, PacifiCorp will no longer incur shared services costs from
22 ScottishPower, but will incur costs of a similar nature from MEHC and MEC.

- 1 **Q. Why are these shared corporate services being provided by MEHC?**
- 2 A. If the Public Utility Holding Company Act of 1935 had remained in effect, shared
3 corporate services would have been provided by a new service company. With
4 the repeal of that law, there is no need to form a new company. The people who
5 are MEHC employees providing shared corporate services can continue to remain
6 holding company employees. MEHC will have the same systems in place that a
7 service company would have had to ensure that costs are captured and properly
8 billed and/or allocated to all entities in the MEHC group that benefit from the
9 services provided, including MEHC, PacifiCorp and MEC.
- 10 **Q. Please describe how shared costs, common to multiple subsidiaries of MEHC,
11 will be charged to PacifiCorp.**
- 12 A. Common costs of MEHC will originate in two entities: in MEHC itself, and in
13 MEC. MEC, a vertically integrated utility owned by MEHC, serves regulated and
14 unregulated electric and gas customers primarily in Iowa, Illinois, South Dakota
15 and Nebraska. MEC is described in more detail by MEHC witness Mr. Gale.
- 16 **Q. Please describe the shared corporate services that will originate at MEHC.**
- 17 A. Employees of MEHC include senior executives who provide strategic
18 management, coordination and corporate governance services to all MEHC
19 subsidiaries, including board of directors support, strategic planning, financial
20 planning and analysis, insurance, environmental compliance, financial reporting,
21 human resources, legal, tax, accounting and other administrative services.
- 22 **Q. Will any PacifiCorp employees be transferred to MEHC?**
- 23 A. No.

1 **Q. Please describe the shared services that will be provided by MEC.**

2 A. MEC employees will also coordinate certain administrative services on behalf of
3 MEHC, including budgeting and forecasting, human resources, and tax
4 compliance. Amounts to be charged to PacifiCorp from MEC are not expected to
5 exceed \$4.0 million per year.

6 **Q. Will any other incidental services between MEC and PacifiCorp be
7 provided?**

8 A. For operational reasons, such as a storm restoration, it may be necessary and
9 beneficial to send crews of one utility to the other's service territory to assist in
10 restoration efforts. In addition, other operational expertise may be requested from
11 time to time to take advantage of specific expertise that exists at each of the
12 utilities. Services such as these would also be provided at cost.

13 **Q. How will costs from these two sources (MEHC and MEC) flow to
14 PacifiCorp?**

15 A. Cost assignments to PacifiCorp will be based on generally accepted cost
16 assignment practices. As described in more detail below, direct costs for the
17 MEHC and MEC services will be billed to the entity benefiting from the service
18 provided. All other costs related to the services provided, including indirect costs,
19 will be fully allocated to MEHC and all benefiting subsidiaries.

20 **Q. Could you give an example of what you mean by direct and indirect costs?**

21 A. Direct costs arise from services that are specifically attributable to a single entity.
22 For example, if I'm researching an accounting issue for an affiliate, I would
23 directly bill that entity for the time spent researching the issue. However, the cost
24 of the reference material purchased to research accounting issues would benefit

1 more than one entity, so the cost of the reference material would be an indirect
2 cost and allocated to all entities that benefit from the materials.

3 **Q. Please describe the service agreement that will govern the shared services to**
4 **be provided.**

5 A. The services will be governed by the existing Intercompany Administrative
6 Services Agreement (“IASA”) that has been executed by MEHC and its
7 subsidiaries. The IASA is used to govern the provision of certain administrative
8 services between MEHC and affiliates. The existing IASA is attached as Exhibit
9 PPL/501. This agreement outlines the terms and conditions of the shared services
10 arrangement between MEHC and its subsidiaries, which will eventually include
11 PacifiCorp.

12 **Q. Please describe the system of accounts that will be used to capture and bill**
13 **shared costs.**

14 A. Costs and billings originating at MEHC will be accounted for using MEHC’s
15 existing system of accounts. The MEHC system of accounts provides details on
16 the type of cost activity involved and the area responsible for incurred the charge.
17 As a regulated public utility, MEC is required to use and account for costs using
18 the FERC uniform system of accounts. In addition to the FERC primary
19 accounts, MEC utilizes an additional three-digit “sub-account” field to provide
20 more descriptive detail of the type of cost activity involved. Both MEHC and
21 MEC utilize a responsibility center field in the code block to establish budgetary
22 control of amounts charged and provide an audit trail to the department originally
23 incurring the charges. Other segments of the code block used by MEC capture
24 cost elements (descriptive of the nature of costs, e.g., labor, payables, etc.) and

1 project numbers. Both the MEHC and MEC code blocks accommodate a high
2 degree of flexibility and capability in tracking and reporting costs.

3 **Q. How will MEC segregate shared costs from costs it incurs on its own behalf**
4 **or directly on behalf of other MEHC subsidiaries?**

5 A. A separate “business unit” will be established within MEC’s accounting system
6 which will be structured to capture the costs of functions providing shared
7 services. Expenses originating in this “business unit” will allocate to all
8 benefiting MEHC entities, instead of merely to MEC operations, to the extent that
9 costs are not directly billed to MEC or to other MEHC subsidiaries. MEC has
10 employed this kind of accounting system in order to allocate costs for state
11 jurisdictional reporting purposes, and this methodology has been utilized in Iowa,
12 Illinois, and South Dakota for a number of years as the basis for rate filings. The
13 allocation process utilizes well-established controls, and an audit trail is
14 maintained such that all costs subject to allocation can be specifically identified
15 back to their origin.

16 **Q. On what basis will shared services be charged?**

17 A. Shared services, whether directly billed or allocated, will be charged at fully
18 loaded actual cost. This means that only the actual cost of providing the service,
19 with no markup for profit, will be charged. Labor, for example, will include such
20 items as loadings for benefits, paid absences and payroll taxes attributable to such
21 labor for actual time spent providing the service. Non-labor costs will be directly
22 billed or allocated at actual amounts incurred by MEHC and MEC.

1 **Q. Will this result in any cross-subsidization between MEHC entities?**

2 A. No. To the contrary, billing at cost will eliminate any potential cross-
3 subsidization between entities and ensure that only actual costs are reflected in
4 rates charged to both MEC customers and PacifiCorp customers.

5 **Q. Will MEHC own assets used for shared services?**

6 A. Yes, it will own assets used for providing shared services. Assets used for shared
7 services will be billed based on utilization of the asset, at an amount that recovers
8 the fixed costs of the asset.

9 **Q. Will MEHC earn a profit on any shared services it provides?**

10 A. No, MEHC will not earn profits on such services. All such shared services costs
11 incurred by MEHC will be directly charged when the benefiting organization can
12 be specifically identified, and any residual indirect amounts will be allocated each
13 month to all benefiting subsidiaries. Shared services costs incurred by MEC on
14 behalf of MEHC subsidiaries will also be fully allocated, to the extent not directly
15 charged.

16 **Q. Will any costs remain at MEHC?**

17 A. Yes. Costs attributable to activities not appropriately billed or allocated to MEHC
18 subsidiaries, such as general merger and acquisition costs, and interest expense of
19 MEHC, will be paid for and remain at MEHC. MEHC's share of indirect costs
20 will also remain at MEHC.

21 **Q. Will any costs, other than the shared costs mentioned above, be charged to**
22 **PacifiCorp from any other affiliates of MEHC?**

23 A. It is not expected that any significant administrative costs will originate from any
24 MEHC affiliate other than MEC. However, when specific expertise is needed or

1 available from other MEHC business platforms, the IASA provides the flexibility
2 for any member of the MEHC group to request services at cost from other entities
3 in the group. Services of this nature are situation-specific and not expected to be
4 recurring.

5 In addition, normal course of business transactions negotiated at arms-
6 length or subject to tariff provisions, such as the existing contracts between
7 PacifiCorp and MEHC subsidiaries to purchase gas transportation service from
8 Kern River Gas Transmission Company and steam from Intermountain
9 Geothermal Company for PacifiCorp's Blundell plant, may be initiated by
10 PacifiCorp. These services would continue to be subject to the applicable state or
11 federal regulatory approvals, including existing tariffs.

12 **Q. What allocation methodology will be used to allocate MEHC and MEC**
13 **shared costs not directly billed to MEHC entities?**

14 A. Indirect costs of MEHC and MEC, allocable to MEHC and all subsidiaries, will
15 be allocated using a two-factor formula comprised of assets and payroll, each
16 equally weighted. Within thirty (30) days of receiving all necessary state and
17 federal regulatory approvals of the proposed transaction, a final cost allocation
18 methodology will be submitted to the Commissions. On an ongoing basis, the
19 Commission will be notified of anticipated or mandated changes to this cost
20 allocation methodology. Of course, as specified in commitment 7(f) in Table 1
21 later in my testimony, the Commission will determine the appropriate corporate
22 cost allocation for establishing rates.

1 **Q. Why is the two-factor formula appropriate?**

2 A. This allocation methodology is based on the formula presently approved for use
3 by MEC and MEHC to allocate indirect common corporate costs. Further, it is
4 consistent with the IASA that will govern these services, and it has been utilized
5 by MEC for a number of years as the basis for rate filings in each of the states it
6 operates. These regulators have recognized that a single allocation factor to
7 allocate common corporate costs is not reasonable.

8 **Q. How does the two-factor formula compare to the three-factor formula used
9 by PacifiCorp?**

10 A. The factors produce similar results. Estimated costs allocated to PacifiCorp using
11 the two-factor formula are not expected to be materially different than costs
12 allocated using the three-factor formula.

13 **Q. Will PacifiCorp's inter-jurisdictional cost allocation methodology change as
14 a result of the MEHC purchase transaction?**

15 A. No. The methodology described above will only be used to allocate shared
16 services costs from MEHC and MEC. PacifiCorp's current methods for assigning
17 costs jurisdictionally will not change as a result of the transaction.

18 **Q. What is the expected impact on PacifiCorp costs of the shared services
19 charges from MEHC and MEC?**

20 A. Shared services charges to PacifiCorp are expected to decrease from historical
21 amounts billed to PacifiCorp from ScottishPower. Exhibit PPL/502 presents an
22 analysis of historical shared services costs from ScottishPower and expected
23 shared services costs upon MEHC's acquisition of PacifiCorp. Net cross-charges
24 to be paid by PacifiCorp to ScottishPower for the fiscal year ending March 31,

1 2006, are projected to be \$15.0 million. MEHC estimates that its shared costs to
2 PacifiCorp would have totaled \$9.6 million for the same period. MEHC is
3 making a commitment that such costs will not exceed \$9 million per year for five
4 (5) years following the close of this transaction.

5 **Q. Will PacifiCorp continue to provide services to its direct subsidiaries?**

6 A. Yes, such services will continue under existing service agreements.

7 **Q. Please summarize this portion of your testimony regarding the shared**
8 **services acquisition commitments that MEHC is undertaking in connection**
9 **with the proposed transaction.**

10 A. Shared services costs will be direct billed or allocated to PacifiCorp, MEHC and
11 other subsidiaries, primarily from MEHC or MEC. To the extent costs are not
12 directly billed and need to be allocated, a two-factor allocator consisting of assets
13 and labor, each equally weighted, will be used to allocate the costs to each entity
14 benefiting from the type of cost incurred. The IASA will govern the shared
15 services to be provided by MEHC or MEC. MEHC is making a commitment that
16 shared services costs from MEHC and MEC will not exceed \$9 million per year
17 for five (5) years following the close of the transaction.

18 **Commitments**

19 **Q. Are you providing support for some of the commitments in MEHC witness**
20 **Mr. Gale's Exhibit PPL/301?**

21 A. Yes. I am sponsoring the following financial and structural commitments that
22 MEHC is undertaking with respect to the proposed transaction.

23

Table 1 Financial and Structural Commitments that MEHC is Undertaking in Connection with the Proposed Transaction		
	Regulatory Oversight	
D	Accounting Records	The Commission or its agents may audit the accounting records of MEHC and its subsidiaries that are the bases for charges to PacifiCorp, to determine the reasonableness of allocation factors used by MEHC to assign costs to PacifiCorp and amounts subject to allocation or direct charges. MEHC agrees to cooperate fully with such Commission audits.
E	Affiliate Transactions	MEHC and PacifiCorp will comply with all existing Commission statutes and regulations regarding affiliated interest transactions, including timely filing of applications and reports.
F	Affiliate Transactions	PacifiCorp will file on an annual basis an affiliated interest report including an organization chart, narrative description of each affiliate, revenue for each affiliate and transactions with each affiliate.
G	Cross-subsidization	PacifiCorp and MEHC will not cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and shall comply with the Commission's then-existing practice with respect to such matters.
H	Affiliate Transactions	Due to PUHCA repeal, neither Berkshire Hathaway nor MEHC will be registered public utility holding companies under PUHCA. Thus, no waiver by Berkshire Hathaway or MEHC of any defenses to which they may be entitled under <i>Ohio Power Co. v. FERC</i> , 954 F.2d 779 (D.C. Cir.), cert. denied sub nom. <i>Arcadia v. Ohio Power Co.</i> , 506 U.S. 981 (1992) (" <i>Ohio Power</i> "), is necessary to maintain the Commission's regulation of MEHC and PacifiCorp. However, while PUHCA is in effect, Berkshire

		Hathaway and MEHC waive such defenses.
K	Cost Allocations	Within 30 days of receiving all necessary state and federal regulatory approvals of the final corporate and affiliate cost allocation methodology, a written document setting forth the final corporate and affiliate cost methodology will be submitted to the Commission. On an on-going basis, the Commission will also be notified of anticipated or mandated changes to the corporate and affiliate cost allocation methodologies.
L	Cost Allocations	<p>Any proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads required by law or rule to be submitted to the Commission for approval, will comply with the following principles:</p> <ul style="list-style-type: none"> (a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by MEHC or any of its affiliates, MEHC must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent. (b) Cost allocations to PacifiCorp and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to specific subsidiaries whenever possible and shared or indirect costs will be allocated based upon the

		<p>primary cost-driving factors.</p> <p>(c) MEHC will have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp.</p> <p>(d) An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.</p> <p>(e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the MEHC group.</p> <p>(f) Any corporate cost allocation methodology used for rate setting, and subsequent changes thereto, will be submitted to the Commission for approval if required by law or rule.</p>
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1 **Q. Does this conclude your testimony?**

2 **A. Yes it does.**

**REVISED PAGE TO SPECKETER
EXHIBIT PPL/502**

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Exhibit PPL/502
Specketer

MidAmerican Energy Holdings Company
Projected Shared Services Costs to PacifiCorp
(000's)

<u>Description</u>	<u>MEHC</u>	<u>MEC</u>	<u>Total</u>
Salaries, benefits and bonuses	\$ 3,057	\$ 1,220	\$ 4,277
Other employee compensation	1,933	655	2,587
Outside services	453	715	1,168
Travel costs, incl. corporate aircraft	420	983	1,403
Other	51	80	131
Total	<u>\$ 5,913</u>	<u>\$ 3,652</u>	<u>\$ 9,566</u>
Expected Net Scottish Power charges for Fiscal Year 2006			15,000
			<u><u>\$ (5,434)</u></u>

**REVISED PAGES TO ABEL
DIRECT TESTIMONY (PPL/100)**

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- 1 • Thomas B. Specketer, MEC’s Vice President of U.S. Regulatory
2 Accounting and Controller, will testify about the costs of formation of a
3 service company to provide certain common services to be provided to
4 PacifiCorp, MEC and other MEHC subsidiaries. Mr. Specketer will
5 describe ~~the service company~~, the procedures for sharing services between
6 MEHC and its affiliates, the joint administrative services agreement
7 applicable to MEHC and its affiliates, and the implications and benefits
8 for PacifiCorp customers. He will also sponsor some of the regulatory
9 oversight commitments being offered by MEHC and PacifiCorp.
- 10 • ~~Jeffery J. Gust, MEC’s Vice President of Energy Supply Management,~~
11 ~~will testify regarding the transmission path that is planned to connect~~
12 ~~PacifiCorp with MEC and the Joint Operating Agreement that will govern~~
13 ~~certain aspects of the use of that transmission path.~~

14
15
16 In addition to each of the above-mentioned MEHC witnesses, Judi Johansen,
17 President and CEO of PacifiCorp, will testify regarding PacifiCorp’s support for
18 the transaction and the reasons for the sale of PacifiCorp by Scottish Power plc
19 (“ScottishPower”).

20 **MEHC And Its Business Activities**

21 **Q. Please explain the business activities of MEHC.**

22 A. MEHC is a privately-held global company engaged primarily in the production
23 and delivery of energy from a variety of fuel sources – including coal, natural gas,
24 geothermal, hydroelectric, nuclear, wind and biomass. MEHC has access to
25 significant financial and managerial resources through its relationship with
26 Berkshire Hathaway. The other three owners of MEHC are Walter Scott, Jr.
27 (including family interests), David Sokol (Chairman and CEO of MEHC) and me.

28 MEHC’s global assets total approximately \$20 billion, and its 2004 revenues
29 totaled \$6.6 billion. MEHC’s six major business platforms are as follows:

1 fits well with PacifiCorp's profile, and as a consequence, the proposed transaction
2 offers significant benefits for PacifiCorp customers, employees and communities.

3 MEHC is uniquely suited to undertake the infrastructure investments
4 PacifiCorp faces in the coming years since it is privately-held and not subject to
5 shareholder expectations of regular, quarterly dividends and relatively high
6 returns on investments. MEHC's investors are focused on increasing value
7 through significant, long-term investment in well-operated energy companies that
8 offer predictable, reasonable returns.

9 MEHC's business strategy should provide PacifiCorp customers,
10 employees, communities, and regulators with valuable stability. Indeed, they
11 would be justified in expecting that MEHC will be the last owner of PacifiCorp.
12 As a result, PacifiCorp's management and employees will be able to focus on
13 exceeding customer expectations.

14 The opportunities for a successful transaction and transition are enhanced
15 by the significant similarities between PacifiCorp and MEC. As discussed by
16 MEHC witness Gale, the utilities' similarities include: comparable service
17 territories (e.g., multi-state areas with relatively low population density and few
18 large urban centers); a mix of retail-access and traditionally regulated utility
19 business; a focus on customer satisfaction and employee safety; use of renewable
20 energy technologies; use of low-sulfur, Western-basin coals; a long history of
21 providing DSM and energy efficiency programs; and use of collaborative
22 processes to develop environmental, DSM and energy efficiency programs.

1 over the post-acquisition five-year period. MEHC witness Goodman will
2 testify regarding this benefit in greater detail.

- 3
- 4 • **Corporate Overhead Charges:** MEHC commits that the corporate
5 charges to PacifiCorp from ~~MEHC the service company~~ and MEC will not
6 exceed \$9 million annually for a period of five years after the closing on
7 the proposed transaction. (In FY2006, ScottishPower's net cross-charges
8 to PacifiCorp are projected to be \$15 million.) MEHC witness Specketer
9 testifies regarding this benefit in greater detail.
- 10
- 11 • **Future Generation Options:** In PPL __.1(BEG-1), MEHC and
12 PacifiCorp adopt a commitment to source future PacifiCorp generation
13 resources consistent with the then current rules and regulations of each
14 state. In addition to that commitment, for the next ten years, MEHC and
15 PacifiCorp commit that they will submit as part of any RFPs --including
16 renewable energy RFPs --a 100 MW or more utility "own/operate"
17 proposal for the particular resource. It is not the intent or objective that
18 such proposals be favored over other options. Rather, the option for
19 PacifiCorp to own and operate the resource which is the subject of the
20 RFP will enable comparison and evaluation of that option against other
21 alternatives. In addition to providing regulators and interested parties with
22 an additional viable option for assessment, it can be expected that this
23 commitment will enhance PacifiCorp's ability to increase the proportion
24 of cost-effective renewable energy in its generation portfolio, based upon
25 the actual experience of MEC and the "Renewable Energy" commitment
26 offered below.
- 27
- 28 • **Renewable Energy:** MEHC reaffirms PacifiCorp's commitment to
29 acquire 1400 MW of new cost-effective renewable resources, representing
30 approximately 7% of PacifiCorp's load. MEHC and PacifiCorp commit to
31 work with developers and bidders to bring at least 100 MW of cost-
32 effective wind resources in service within one year of the close of the
33 transaction.

34 MEHC and PacifiCorp expect that the commitment to build the Walla-
35 Walla and Path C transmission lines will facilitate up to 400 MW of
36 renewable resource projects with an expected in-service date of 2008 -
37 2010. MEHC and PacifiCorp commit to actively work with developers to
38 identify other transmission improvements that can facilitate the delivery of
39 wind energy in PacifiCorp's service area.

40

41

42 In addition, MEHC and PPW commit to work constructively with states to
43 implement renewable energy action plans so as to enable achievement of
44 PacifiCorp's 1400 MW commitment.

45

1 and expertise. While both utilities offer some similar programs, each also offers
2 programs that the other does not.

3 The commitments by MEHC and PacifiCorp, coupled with the continued
4 ability of PacifiCorp management to make state policy and business decisions,
5 will allow PacifiCorp to continue its efforts to expand energy efficiency system-
6 wide, and take advantage of its increased financial resources to upgrade its current
7 institutional capacities to acquire cost-effective savings.

8 **Q. Are there other benefits that will accrue to customers as a result of the**
9 **proposed transaction?**

10 A. Yes. Benefits also result from making the commitments contained in Exhibit
11 PPL/301 uniform across all states. With the exception of a few state-specific
12 commitments noted in that exhibit, the commitments will be applied in all six
13 states. This will enable regulators to have a consistent and readily identifiable set
14 of commitments and simplify administration for PacifiCorp. Because the
15 previous commitments were not uniform across the states, uniform application of
16 the commitments will mean that every state will be receiving some additional
17 commitments that were not previously applicable to it.

18 We also believe that the benefit of MEHC's long-term ability and
19 willingness to invest in energy infrastructure is significant and real but not readily
20 capable of quantification. Similarly, the stability of ownership of MEHC and
21 Berkshire Hathaway provides security for customers, employees and the states
22 served.

23 PacifiCorp Operations Post-Transaction ~~Pacificorp Operations Post-Trasaaction~~

**REVISED PAGE TO ABEL
EXHIBIT PPL/101**

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the Mid-Columbia (at Vantage). Either of these projects presents opportunities to enhance PacifiCorp's ability to accept the output from wind generators and balance the system cost effectively in a regional environment.

- **Other Transmission and Distribution Matters:** MEHC and PacifiCorp make the following commitments to improve system reliability:
 - investment in the Asset Risk Program of \$75 million over the three years, 2007-2009,
 - investment in local transmission risk projects across all states of \$69 million over eight years after the close of the transaction,
 - O & M expense for the Accelerated Distribution Circuit Fusing Program across all states will be increased by \$1.5 million per year for five years after the close of the transaction, and
 - extension of the O&M investment across all states for the Saving SAIDI Initiative for three additional years at an estimated cost of \$2 million per year.

MEHC and PacifiCorp will also support the Bonneville Power Administration in its development of short-term products such as conditional firm and redispatch products. PacifiCorp will also initiate a process to collaboratively design similar products at PacifiCorp.

- **Reduced Cost of Debt:** MEHC believes that PacifiCorp's incremental cost of long-term debt will be reduced as a result of the proposed transaction, due to the association with Berkshire Hathaway. Historically, MEHC's utility subsidiaries have been able to issue long-term debt at levels below their peers with similar credit ratings. MEHC commits that over the next five years it will demonstrate that PacifiCorp's incremental long-term debt issuances will be at a yield ten basis points below its similarly rated peers. If it is unsuccessful in demonstrating that PacifiCorp has done so, PacifiCorp will accept up to a ten (10) basis point reduction to the yield it actually incurred on any incremental long-term debt issuances for any revenue requirement calculation effective for the five-year period subsequent to the approval of the proposed acquisition. It is projected that this benefit will yield a value roughly equal to \$6.3 million over the post-acquisition five-year period. MEHC witness Goodman will testify regarding this benefit in greater detail.
- **Corporate Overhead Charges:** MEHC commits that the corporate charges to PacifiCorp from ~~MEHC the service company~~ and MEC will not exceed \$9 million annually for a period of five years after the closing on the proposed transaction. (In FY2006, ScottishPower's net cross-charges to PacifiCorp are projected to be \$15 million.) MEHC witness Specketer testifies regarding this benefit in greater detail.

**REVISED PAGES TO GALE
DIRECT TESTIMONY (PPL/300)**

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- 1 • PacifiCorp will become a separate business platform under MEHC, with
2 its own business plan, its own management, its own state policies, and the
3 responsibility for making decisions that achieve the objectives identified
4 in the testimony of MEHC witness Mr. Abel (i.e., customer satisfaction,
5 reliable service, employee safety, environmental stewardship, and
6 regulatory/legislative credibility).
- 7
- 8 • The many similarities between MEC and PacifiCorp will facilitate an easy
9 transition of PacifiCorp as a separate subsidiary of MEHC.
- 10
- 11 • MEC's operations, as a subsidiary of MEHC, provide demonstrable
12 evidence that PacifiCorp will have the ability to continue its emphasis on
13 key utility performance areas such as: customer service; safety; integrated
14 resource planning; a balanced mix of generating resources, including
15 renewable generation; use of energy efficiency and demand-side
16 management ("DSM"); investment in environmental emission control
17 technology; and collaborative processes.
- 18

19 | **MEHC/MECH and PacifiCorp Commitments**

20

21 **Q. Please explain the uniform set of commitments you referenced.**

22 A. MEHC and PacifiCorp have reviewed the commitments required by the six states
23 in the Scottish Power plc ("ScottishPower") transaction. We have also met with
24 numerous groups that may have an interest in this transaction and asked them to
25 identify the risks and concerns that they have at this time.

26 Exhibit PPL/301 responds to the risks and concerns addressed in the
27 previous PacifiCorp transaction and to many of the risks and concerns that have
28 been raised in the meetings with interested groups. This Exhibit identifies
29 MEHC's and PacifiCorp's commitments to address these risks and concerns. The
30 new commitments sponsored by MEHC witness Mr. Abel address other concerns
31 expressed in the meetings with interested groups. MEHC and PacifiCorp propose
32 that the commitments in this Exhibit and those in MEHC witness Mr. Abel's
33 Exhibit PPL/101, supersede prior commitments and apply upon the close of the

- 1 • There is a need to plan for and deal with adverse weather conditions
2 impacting the reliability of the delivery systems to the extent economical
3 and practicable; such conditions include ice, floods, tornados, storms and
4 snow.
5 • Regulated delivery and electric supply services are provided in multiple
6 state jurisdictions, with at least one state having competitive retail electric
7 supply access.
8 • The economy of the service area is significantly tied to the land
9 (agriculture, forestry, and mining).
10 • On the whole, the area served has a comparatively low-density population
11 except for a few major population centers.

12
13 The maps attached to Exhibit PPL/302 provide some additional information
14 regarding the similarities.

MidAmerican Energy Company

15 **Q. Please provide some historical background on MEC.**

16 A. MEC and its predecessor corporations (e.g., Iowa Power Inc., Iowa-Illinois Gas
17 and Electric Company, Iowa Public Service Company and their respective
18 predecessors) have been providing electric service in Iowa, Illinois and South
19 Dakota for approximately 100 years. MEC is the product of a merger between
20 Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company in
21 1995. Midwest Power Systems Inc., in turn, was the result of a prior merger
22 between Iowa Power Inc. and Iowa Public Service Company¹ in 1992. In 1999,
23 MEC was acquired by CalEnergy Company Inc. (subsequently known as
24 “MidAmerican Energy Holdings Company” or “MEHC”), and in 2000, MEHC

¹ The utilities' parent holding companies (non-registered, exempt holding companies), Iowa Resources Inc. and Midwest Energy Company, were previously merged in 1990 creating a new holding company (also a non-registered, exempt holding company) called Midwest Resources Inc.

1 increase in the percentage discussed in PacifiCorp witness Johansen's testimony.

2 Please also note the commitment, Revenue Requirements Impacts B, of Exhibit

3 PPL/301.

4 **Review and Approval of the Transaction**

5 **Q. Please describe the various reviews and/or approvals of the transaction that**
6 **MEHC anticipates.**

7 A. Following are the shareholder and regulatory reviews anticipated with respect to
8 the proposed transaction:

- 9 • approval of the shareholders of ScottishPower;
- 10 • approval and/or waiver from the public utility commissions in the states of
11 California, Idaho, Oregon, Utah, Washington, and Wyoming;
- 12 • approval of the transfer of the Trojan spent fuel storage license by the U.S.
13 Nuclear Regulatory Commission;
- 14 • approval of the transfer of jurisdictional facilities by the Federal Energy
15 Regulatory Commission ("FERC") under Section 203 of the Federal
16 Power Act;
- 17 • approval by FERC of revisions to the open access transmission tariffs of
18 PacifiCorp and MEC ~~and approval of their joint operating agreement~~
19 under Section 205 of the Federal Power Act;
- 20 • ~~authorization by the U.S. Securities and Exchange Commission ("SEC")~~
21 ~~of MEHC's acquisition (and ScottishPower's sale) of PacifiCorp;~~
- 22 • ~~authorization by the SEC to enable MEHC and its subsidiaries to operate~~
23 ~~as a registered holding company system and engage in ongoing financing~~

1 ~~and investment activities and other transactions following registration of~~
2 ~~MEHC as a public utility holding company under the federal Public Utility~~
3 ~~Holding Company Act of 1935 ("PUHCA");~~

- 4 • review of the proposed transaction by the U.S. Department of Justice
- 5 under the Hart-Scott-Rodino Act; and
- 6 • approval by the Federal Communications Commission of the change of
- 7 control with respect to certain communication licenses held by PacifiCorp.

8 **Q. — ~~Is this transaction contingent upon repeal of PUHCA?~~**

9 **A. —** No.

10 **Q. — ~~Do you expect the proposed acquisition to be authorized by the SEC under~~**
11 **~~PUHCA?~~**

12 **A. —** ~~Yes. Based on discussions with SEC staff and the assessments of legal counsel,~~
13 ~~we expect the transaction to be authorized by the SEC under the terms and~~
14 ~~precedents of PUHCA. We believe we can demonstrate that the acquisition will~~
15 ~~satisfy the standards under Section 10 of PUHCA that require a utility acquisition~~
16 ~~to be for reasonable and fair consideration, to not unduly concentrate control of~~
17 ~~public utilities, to not unduly complicate the capital structure of utility systems,~~
18 ~~and to tend towards the development of an integrated public utility system.~~

19 ~~The consideration for the transaction was the result of arms-length~~
20 ~~bargaining. The acquisition does not create an unduly large utility company,~~
21 ~~compared to many others in the U.S., particularly in terms of number of~~
22 ~~customers served. The transaction does not result in a complicated capital~~
23 ~~structure, since the capital structure is one already accepted for MEHC.~~

1 ~~Q. How do you plan to satisfy PUHCA's requirement that PacifiCorp and MEC~~
2 ~~must be capable of interconnection and coordinated operations and be within~~
3 ~~a single area or region?~~

4 ~~A. As discussed in MEHC witness Gust's testimony, the companies plan to obtain a~~
5 ~~contract path that will permit them to transfer power between themselves. Mr.~~
6 ~~Gust also explains the joint operating agreement that will allow coordinated~~
7 ~~operations.~~

8 ~~We believe the integrated system also will satisfy the so-called single area~~
9 ~~or region requirement of PUHCA. The utilities operate in contiguous states, in~~
10 ~~contrast to many approved and pending transactions involving PUHCA registered~~
11 ~~holding companies. Refer to my Exhibit PPL/307. The PacifiCorp/MEC states~~
12 ~~form a region characterized by relatively low population density and local~~
13 ~~economies tied to the land (agriculture, forestry, and mining). The region is also~~
14 ~~characterized by a preponderance of public power entities and large transmission~~
15 ~~systems relative to load. See Exhibit PPL/302. There are other factors which~~
16 ~~support our opinion, and these will be set forth in our SEC filing which will be~~
17 ~~made available to the parties in this Docket.~~

18 ~~Q. If PUHCA is repealed, will MEHC continue to pursue the acquisition of a~~
19 ~~transmission path between PacifiCorp and MEC?~~

20 ~~A. MEHC would continue to pursue acquisition of a transmission path if it were~~
21 ~~economically justified.~~

1 ~~Q. How will the costs of the transmission services associated with the path be~~
2 ~~treated by MEHC and PacifiCorp for ratemaking?~~

3 ~~A. MEHC and PacifiCorp commit not to seek to include PacifiCorp's share of the~~
4 ~~costs of the transmission services associated with the path in PacifiCorp's rates~~
5 ~~except to the extent that benefits to customers can be shown to offset the costs.~~

6 ~~Q. MEHC's organization as a registered holding company under PUHCA will~~
7 ~~mark a change in MEHC's status. Please explain the implications of this~~
8 ~~change in status for PacifiCorp.~~

9 ~~A. After the transaction, MEHC will be a registered holding company, subject to the~~
10 ~~full regulatory regime of PUHCA. MEHC will form a shared services company~~
11 ~~("ServCo") that will perform a small number of management services for MEHC~~
12 ~~subsidiaries. MEHC witness Specketer addresses the ServCo in greater detail in~~
13 ~~his testimony. Otherwise, MEHC's status as a registered holding company will~~
14 ~~have minimal impact on PacifiCorp, which will operate as a stand-alone business~~
15 ~~platform.~~

16 **Market Monitor and Transmission Services Coordinator**

17 **Q. Please describe the Market Monitor Proposal that MEHC has put forward in**
18 **connection with its proposed acquisition of PacifiCorp.**

19 A. Under the proposal, MEC and PacifiCorp would each contract with a market
20 monitor to assure nondiscrimination in the management of each company's
21 transmission systems commencing on the day of the closing of the acquisition. A
22 market monitor is an independent organization retained to review, on an after-the-
23 fact basis, transmission system operations necessary to ensure the transmission

1 TSC. Ultimately, the TSC may provide transmission services to an area abutting
2 that of Grid West. At such time, it may be appropriate to put into place a seams
3 agreement between the TSC and Grid West to enhance transmission system
4 coordination among transmission users in the states served by PacifiCorp and
5 MEC.

6 **Proposed Schedule**

7 **Q. When does MEHC expect to complete the process of obtaining all of the**
8 **foregoing approvals and reviews?**

9 A. We very much want to complete all of the state approvals by February 28, 2006,
10 in time to close on the transaction on or before March 31, 2006. This is an
11 important transaction for PacifiCorp customers, employees and communities. In
12 order to mitigate the ill effects of uncertainty and expedite the delivery of
13 important benefits, we respectfully request that the Commission act in a manner
14 that will facilitate an order by February 28, 2006.

15 Closing on that date will also facilitate the transition of PacifiCorp's
16 financial reporting from a fiscal year ending March 31 as used by Scottish Power
17 to a calendar fiscal year consistent with how MEHC companies report their
18 financial statements. Such calendar year reporting is also consistent with
19 regulatory reporting, which should enable regulators to utilize a single year's
20 audited financial statements rather than have regulatory reporting span two fiscal
21 years.

22 ~~In connection with this request, I would note that the SEC has told us that~~
23 ~~it will not act in advance of approvals from the respective state public utility~~

1 | ~~commissions. The SEC's policy in this respect is founded on their desire to avoid~~
2 | ~~pressuring the states to act in a particular manner, to avoid rendering decisions on~~
3 | ~~theoretical transactions, and to avoid impacting share prices and value by having~~
4 | ~~an extended period between its approval and closing. Thus, I would respectfully~~
5 | ~~ask the Commission not to delay its ruling on the acquisition in the hope that the~~
6 | ~~SEC will rule first.~~

7 | **Q. Does this conclude your testimony?**

8 | A. Yes, it does.

**REVISED PAGE TO GALE
EXHIBIT PPL/301**

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- G. PacifiCorp and MEHC will not cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and shall comply with the Commission's then-existing practice with respect to such matters. (Witness Specketer)
- H. Due to PUHCA repeal, neither Berkshire Hathaway nor MEHC will be registered public utility holding companies under PUHCA. Thus, no waiver by Berkshire Hathaway or MEHC of any defenses to which they may be entitled under *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir.), cert. denied sub nom. *Arcadia v. Ohio Power Co.*, 506 U.S. 981 (1992) ("*Ohio Power*"), is necessary to maintain the Commission's regulation of MEHC and PacifiCorp. However, while PUHCA is in effect, Berkshire Hathaway and MEHC waive such defenses. PacifiCorp and MEHC will not assert in any future Commission proceeding that the provisions of the Public Utility Holding Company Act of 1935 or the related *Ohio Power v FERC* case preempt the Commission's jurisdiction over affiliated interest transactions and will explicitly waive any such defense in those proceedings. In the event that PUHCA is repealed or modified, PacifiCorp and MEHC agree not to seek any preemption under any subsequent modification or repeal of PUHCA. (Witness Specketer)
- I. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of MEHC and PacifiCorp following approval of the transaction will be held in a separate company(ies) other than PacifiCorp, the entity for utility operations. Ring-fencing provisions (i.e., measures providing for separate financial and accounting treatment) will be provided for each of these diversified activities, including but not limited to provisions protecting the regulated utility from the liabilities or financial distress of MEHC. This condition will not prohibit the holding of diversified businesses. (Witness Goodman)
- J. PacifiCorp or MEHC will notify the Commission subsequent to MEHC's board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of MEHC; or (2) the change in effective control or acquisition of any material part or all of PacifiCorp by any other firm, whether by merger, combination, transfer of stock or assets.
- K. Within 30 days of receiving all necessary state and federal regulatory approvals of the final corporate and affiliate cost allocation methodology, a written document setting forth the final corporate and affiliate cost methodology will be submitted to the Commission. On an on-going basis, the Commission will also be notified of anticipated or mandated changes to the corporate and affiliate cost allocation methodologies. (Witness Specketer)
- L. Any proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads, required by law or rule to be submitted to the Commission for approval, will comply with the following principles:

- (a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by MEHC or any of its affiliates, MEHC must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent.
- (b) Cost allocations to PacifiCorp and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to specific subsidiaries whenever possible and shared or indirect costs will be allocated based upon the primary cost-driving factors.
- (c) MEHC will have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp.
- (d) An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.
- (e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the MEHC group.
- (f) Any corporate cost allocation methodology used for rate setting, and subsequent changes thereto, will be submitted to the Commission for approval if required by law or rule. (Witness Specketer)

M. ~~In the event PUHCA is repealed, MEHC/PacifiCorp will, within 60 days of repeal, commence discussions with the Commission regarding any impact of repeal on state regulation.~~

Financial Integrity

- A. PacifiCorp will maintain separate debt and, if outstanding, preferred stock ratings. PacifiCorp will maintain its own corporate credit rating, as well as ratings for each long-term debt and preferred stock (if any) issuance. (Witness Goodman)
- B. MEHC and PacifiCorp will exclude all costs of the transaction from PacifiCorp's utility accounts. Within 90 days following completion of the transaction, MEHC will provide a preliminary accounting of these costs. Further, MEHC will provide the Commission with a final accounting of these costs within 30 days of the accounting close. (Witness Goodman)
- C. The premium paid by MEHC for PacifiCorp will be recorded in the accounts of the acquisition company and not in the utility accounts of PacifiCorp. MEHC and PacifiCorp will not propose to recover the acquisition premium in PacifiCorp's regulated retail rates; provided,

however, that if the Commission in a rate order issued subsequent to the closing of the transaction reduces PacifiCorp's retail revenue requirement through the imputation of benefits (other than those benefits committed to in this transaction) accruing from the acquisition company (PPW Holdings LLC), Berkshire Hathaway, or MEHC, MEHC and PacifiCorp will have the right to propose upon rehearing and in subsequent cases a symmetrical adjustment to recognize the acquisition premium in retail revenue requirement. (Witness Goodman)

- D. MEHC and PacifiCorp will provide the Commission with unrestricted access to all written information provided to credit rating agencies that pertains to PacifiCorp. (Witness Goodman)
- E. PacifiCorp will not make any distribution to PPW Holdings LLC or MEHC that will reduce PacifiCorp's common equity capital below 40 percent of its total capital without Commission approval. PacifiCorp's total capital is defined as common equity, preferred equity and long-term debt. Long-term debt is defined as debt with a term of one year or more. The Commission and PacifiCorp may reexamine this minimum common equity percentage as financial conditions or accounting standards change, and may request that it be adjusted. (Witness Goodman)
- F. The capital requirements of PacifiCorp, as determined to be necessary to meet its obligation to serve the public, will be given a high priority by the Board of Directors of MEHC and PacifiCorp. (Witness Goodman)
- G. PacifiCorp will not, without the approval of the Commission, assume any obligation or liability as guarantor, endorser, surety or otherwise for MEHC or its affiliates, provided that this condition will not prevent PacifiCorp from assuming any obligation or liability on behalf of a subsidiary of PacifiCorp. MEHC will not pledge any of the assets of the regulated business of PacifiCorp as backing for any securities which MEHC or its affiliates (but excluding PacifiCorp and its subsidiaries) may issue. (Witness Goodman)

Revenue Requirement Impacts

- A. MEHC and PacifiCorp, in future Commission proceedings, will not seek a higher cost of capital than that which PacifiCorp would have sought if the transaction had not occurred. Specifically, no capital financing costs should increase by virtue of the fact that PacifiCorp was acquired by MEHC.
- B. MEHC and PacifiCorp guarantee that the customers of PacifiCorp will be held harmless if the transaction between MEHC and PacifiCorp results in a higher revenue requirement for PacifiCorp than if the transaction had not occurred. However, this hold harmless provision shall not apply to incremental costs associated with cost-effective investments in renewable and thermal generation, energy efficiency programs, demand-side management programs, environmental measures, and transmission and distribution facilities approved by the Commission.

Environment

- A. PacifiCorp will continue its Blue Sky tariff offering in all states.
- B. PacifiCorp will continue its commitment to gather outside input on environmental matters, such as through the Environmental Forum.
- C. PacifiCorp will continue to have environmental management systems in place that are self-certified to ISO 14001 standards at all PacifiCorp operated thermal generation plants.

Communities

- A. MEHC will maintain the existing level of PacifiCorp's community-related contributions, both in terms of monetary and in-kind contributions.
- B. MEHC will continue to consult with regional advisory boards to ensure local perspectives are heard regarding community issues.

Employees

- A. MEHC will honor existing labor contracts with all levels of staff.
- B. MEHC and PacifiCorp will make no changes to employee benefit plans for at least two (2) years following the effective date of the Stock Purchase Agreement.

Planning

- A. PacifiCorp will continue to produce Resource Plans every two years, according to the then current schedule and the then current Commission rules.
- B. When acquiring new generation resources in excess of 100 MW, PacifiCorp and MEHC will issue Requests for Proposals (RFPs) or otherwise comply with state laws, regulations and orders that pertain to procurement of new generation resources.

**REVISED PAGES TO GOODMAN
DIRECT TESTIMONY (PPL/400)**

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1 remaining subsidiaries of PHI, including PPM Energy, Inc., will remain with
2 ScottishPower.

3 **MEHC/MECH Corporate Structure**

4 **Q. Please discuss MEHC's corporate structure and PacifiCorp's place in that**
5 **structure.**

6 A. Upon completion of the transaction, PacifiCorp will be an indirect wholly-owned
7 subsidiary of MEHC as illustrated in the simplified MEHC organizational chart
8 provided with my testimony as Exhibit PPL/402. This structure will help
9 facilitate the implementation of the "ring-fencing" concept that is addressed later
10 in my testimony.

11 **MEHC Capital/MEHC Capital Structure**

12 **Q. Please describe MEHC's capital structure.**

13 A. Table 1 below illustrates the pre-transaction capitalizations of MEHC and
14 PacifiCorp, followed by the pro forma, combined capitalization of MEHC after
15 the proposed transaction occurs. At this point I would direct your attention to the
16 MEHC capitalization prior to the acquisition. It can be seen that MEHC's
17 stockholder's equity is composed of five items:

- 18 • zero coupon convertible preferred stock,
- 19 • common stock,
- 20 • additional paid-in capital,
- 21 • retained earnings, and
- 22 • accumulated other comprehensive loss, net.

Table 1
MidAmerican Energy Holdings Company
Unaudited Pro forma Consolidated Long-Term Capitalization
As of March 31, 2005
(In millions)

	MEHC		PacifiCorp	Pro Forma Adjustments	MEHC Pro Forma
Long-term Debt:					
Parent company senior debt	\$ 2,773.1	19.9%	\$ -	\$ 1,709.8 (1)	\$ 4,482.9 19.7%
Parent company subordinated debt(2)	1,586.4	11.4%	-	-	1,586.4 7.0%
Subsidiary and project debt	6,358.8	45.8%	3,629.0	-	9,987.8 43.9%
Total long-term debt	10,718.3	77.1%	3,629.0	1,709.8	16,057.1 70.6%
Preferred securities of subsidiaries	89.3	0.6%	52.5	41.3 (3)	183.1 0.8%
Stockholders' equity:					
Zero coupon convertible preferred stock, no par value	-	-	-	-	-
Preferred stock, \$100 stated value	-	-	41.3	(41.3) (3)	-
Common stock, no par value	-	-	-	-	-
Additional paid-in capital	1,950.7	-	2,894.1	(2,894.1) (4)	5,370.4
Retained earnings	1,309.3	-	446.4	(446.4) (4)	1,309.3
Accumulated other comprehensive loss, net	(166.3)	-	(4.7)	4.7 (4)	(166.3)
Total stockholders' equity	3,093.7	22.3%	3,377.1	42.6	6,513.4 28.6%
Total long-term capitalization	\$ 13,901.3	100.0%	\$ 7,058.6	\$ 1,793.7	\$ 22,753.6 100.0%

For the purposes of the pro forma long-term capitalization table, it has been assumed that the acquisition was completed on March 31, 2005. Consequently, the total long-term capitalization of PacifiCorp does not reflect the following:

- the additional equity investment by ScottishPower in PacifiCorp of \$500.0 million during the fiscal year ended March 31, 2006;
 - expected dividends, totaling \$214.8 million, to be paid to ScottishPower by PacifiCorp for the fiscal year ending March 31, 2006; and
 - expected earnings, debt issuances and debt retirements of PacifiCorp for the fiscal year ending March 31, 2006; and
 - expected earnings, debt issuance and debt retirement of MEHC and its current subsidiaries for the period ending March 31, 2006.
- Certain reclassifications have been made to PacifiCorp's historical presentation in order to conform to MEHC's historical presentation.

(1) Pursuant to terms of the Stock Purchase Agreement, MEHC will pay ScottishPower \$5.1 billion in cash in exchange for 100% of PacifiCorp's common stock. The total estimated purchase price of the acquisition is as follows (in millions):

Common stock or zero coupon convertible non-voting preferred stock of MEHC	\$ 3,419.7
Long-term senior unsecured debt of MEHC	1,709.8
Total estimated purchase price	\$ 5,129.5

(2) Parent company subordinated debt consists of the following at March 31, 2005:

Berkshire trust preferred securities	\$ 1,289.2
Other trust preferred securities	287.2
Total parent company subordinated debt	\$ 1,586.4

(3) Pursuant to the terms of the Stock Purchase Agreement, PacifiCorp's preferred stock which is classified in PacifiCorp's March 31, 2005 balance sheet as part of stockholder's equity will remain outstanding. For purposes of the pro forma capitalization table the preferred stock, totaling \$41.3 million, was reclassified to preferred securities of subsidiaries.

(4) Represents the pro forma adjustments to eliminate the historical stockholders' equity of PacifiCorp.

Table 2 Credit Ratings – July 2005			
	Standard & Poor's	Moody's Investor Service	FitchRatings
Berkshire Hathaway	AAA	Aaa	AAA
MidAmerican Energy Holdings Company	BBB-	Baa3	BBB
MidAmerican Energy Company	A-	A3	A-
Northern Natural Gas Company	A-	A3	A-
Kern River Gas Transmission Co.	A-	A3	A-
Northern Electric Distribution Ltd	BBB+	A3	A-
Yorkshire Electricity Distribution plc	BBB+	A3	A-

1 **Financing and Mechanics of the Transaction**

2 **Q. Please describe the steps that will be taken to effectuate the transaction.**

3 A. A limited liability company ("LLC"), PPW Holdings LLC, has been established
 4 as a direct subsidiary of MEHC. This LLC will receive, as an equity infusion,
 5 \$5.1 billion raised by MEHC through the sale of either common stock or zero
 6 coupon convertible preferred stock to Berkshire Hathaway and the issuance of
 7 long-term senior notes, preferred stock, or other securities with equity
 8 characteristics to third parties. However, the LLC will have no debt of its own.
 9 The LLC will, as provided in the Stock Purchase Agreement, pay PHI \$5.1 billion
 10 in cash, at closing, in exchange for 100 percent of the common stock of
 11 PacifiCorp. In addition, it is projected that approximately \$4.3 billion in net debt
 12 and preferred stock of PacifiCorp will remain outstanding as obligations of

1 PacifiCorp.

2 Prior to the expected closing date of March 31, 2006, ScottishPower has
3 agreed to make \$500 million in additional capital contributions to PacifiCorp, and
4 PacifiCorp is expected to pay \$214.8 million of dividends to ScottishPower.
5 Provision for additional capital contributions have been made in the Stock
6 Purchase Agreement if the acquisition has not closed by that date.

7 **Q. Please describe how the acquisition of PacifiCorp by MEHC will be financed.**

8 A. As described above, MEHC expects to fund the transaction with the proceeds
9 from an investment by Berkshire Hathaway of approximately \$3.4 billion in either
10 common stock or zero coupon non-voting convertible preferred stock of MEHC
11 and the issuance by MEHC to third parties of approximately \$1.7 billion of long-
12 term senior notes, preferred stock, or other securities with equity characteristics.
13 However, the transaction is not conditioned on such financing and if funds were
14 not available from third parties, Berkshire Hathaway is expected to provide any
15 required funding. The pro forma capital structure of MEHC after the acquisition
16 is shown in Table 1 above, assuming \$1.7 billion of long-term debt is issued by
17 MEHC. The pro forma schedule is unaffected if, ultimately, either common stock
18 or zero coupon convertible preferred stock is issued. The timing and composition
19 of these financings are flexible and subject to modification as market conditions
20 change. It is not anticipated that there would be any restrictive covenants
21 associated with the proposed financing different from those typical of an
22 investment grade financing.

23 **Q. Are you aware of any benefits to PacifiCorp due to MEHC's relationship**

		MEHC will provide the Commission with a final accounting of these costs within 30 days of the accounting close.
C	Premium Paid	The premium paid by MEHC for PacifiCorp will be recorded in the accounts of the acquisition company and not in the utility accounts of PacifiCorp. MEHC and PacifiCorp will not propose to recover the acquisition premium in PacifiCorp's regulated retail rates; provided, however, that if the Commission in a rate order issued subsequent to the closing of the transaction reduces PacifiCorp's retail revenue requirement through the imputation of benefits (other than those benefits committed to in this transaction) accruing from the acquisition company (PPW Holdings LLC), <u>Berkshire Hathaway</u> , or MEHC, MEHC and PacifiCorp will have the right to propose upon rehearing and in subsequent cases a symmetrical adjustment to recognize the acquisition premium in retail revenue requirement.
D	Rating Agency Presentations	MEHC and PacifiCorp will provide the Commission with unrestricted access to all written information provided to credit rating agencies that pertains to PacifiCorp.
E	Minimum Common Equity Ratio	PacifiCorp will not make any distribution to PPW Holdings LLC or MEHC that will reduce PacifiCorp's common equity capital below 40 percent of its total capital without Commission approval. PacifiCorp's total capital is defined as common equity, preferred equity and long-term debt. Long-term debt is defined as debt with a term of one year or more. The Commission and PacifiCorp may reexamine this minimum common equity percentage as financial conditions or accounting standards change, and may request that it be adjusted.
F	Capital Requirements to Meet Obligation to Serve	The capital requirements of PacifiCorp, as determined to be necessary to meet its obligation to serve the public, will be given a high priority by the Board of Directors of MEHC and PacifiCorp.
G	Assuming Liabilities/Pledging Assets	PacifiCorp will not, without the approval of the Commission, assume any obligation or liability

		as guarantor, endorser, surety or otherwise for MEHC or its affiliates, provided that this condition will not prevent <u>PacifiCorp</u> PacifCorp from assuming any obligation or liability on behalf of a subsidiary of PacifiCorp. MEHC will not pledge any of the assets of the regulated business of PacifiCorp as backing for any securities which MEHC or its affiliates (but excluding PacifiCorp and its subsidiaries) may issue.
	Additional Net Benefit	
1	Reduced Cost of Debt	MEHC commits that over the next five years it will demonstrate that PacifiCorp's incremental long-term debt issuances will be at a yield ten (10) basis points below its similarly rated peers. If it is unsuccessful in demonstrating that PacifiCorp has done so, PacifiCorp will accept up to a ten (10) basis point reduction to the yield it actually incurred on any incremental long-term debt issuances for any revenue requirement calculation effective for the five year period subsequent to the approval of the proposed acquisition.

1 **Ring-Fencing**

2 **Q. Please describe the “ring-fencing” protections MEHC will employ to isolate**
 3 **PacifiCorp from MEHC and MEHC’s other subsidiaries.**

4 A. MEHC will utilize the LLC, identified earlier in my testimony as PPW Holdings
 5 LLC. Among the LLC’s obligations and limitations are the following. The LLC
 6 will:

- 7 • have a single purpose, that being to own the common equity of
- 8 PacifiCorp;
- 9 • have an independent director from whom assent is required to place the
- 10 LLC or PacifiCorp into bankruptcy;

1 company or as a subsidiary of a registered holding company under the Public
2 Utility Holding Company Act of 1935 and any successor legislation ("PUHCA").
3 Second, in the event of MEHC's involuntary or voluntary liquidation, dissolution,
4 recapitalization, winding-up or termination or a merger, consolidation or sale of
5 all or substantially all of MEHC's assets.

6 **Q. Please describe the rights Berkshire Hathaway will have upon conversion of**
7 **the zero coupon convertible preferred stock of MEHC?**

8 A. Upon conversion Berkshire Hathaway would have the rights of a common
9 stockholder and the ability to elect nine of the ten members of MEHC's board of
10 directors. The additional \$3.4 billion of common shares associated with the
11 PacifiCorp transaction (or zero coupon convertible preferred stock, if issued
12 and then converted) will increase Berkshire Hathaway's proportion of ownership
13 but would otherwise not affect any of the rights Berkshire Hathaway had without
14 the additional investment.

15 **Q. Why have you provided this information regarding Berkshire Hathaway's**
16 **conversion rights?**

17 A. ~~If PUHCA is repealed, MEHC anticipates~~ On or shortly after the effective date of
18 repeal of PUHCA, Berkshire Hathaway will exercise its conversion rights. This
19 will~~would~~ create a technical change in control of MEHC. Although the
20 conversion will occur prior to the close of this transaction, ~~Pursuant to the~~
21 ~~commitments in MEHC witness Mr. Gale's Exhibit PPL/301, MEHC and~~
22 PacifiCorp ~~wish to~~would provide the Commission with this notice of the
23 conversion which is associated with the repeal of PUHCA ~~this change and would~~

1 ~~seek approvals where required.~~

2 **Q. What regulatory approvals are required to allow Berkshire Hathaway to**
3 **convert its convertible preferred stock investment in MEHC to common**
4 **equity?**

5 **A. Approvals are required from FERC, the Nuclear Regulatory Commission, the**
6 **Iowa Utilities Board and the Illinois Commerce Commission. A filing will also**
7 **be required with the U.S. Department of Justice/Federal Trade Commission**
8 **pursuant to the Hart-Scott-Rodino Act. As of the date of this testimony, all filings**
9 **had been made except the Hart-Scott-Rodino. All required approvals are**
10 **expected before year-end 2005.**

11 **Q. Will Berkshire Hathaway have any involvement in the day to day operations**
12 **of PacifiCorp, either before or after conversion?**

13 **A. No, it will not. Prior to conversion, Mr. Scott and associated family interests had**
14 **the right to elect a majority of the members of the MEHC Board of Directors, and**
15 **Berkshire Hathaway had the right to elect 20% of the Board. Neither Mr. Scott**
16 **nor Berkshire Hathaway had any influence or involvement in the day-to-day**
17 **operations of the business units of MEHC. That is not expected to change when**
18 **Berkshire Hathaway is able to elect a majority of the Board. The rights that**
19 **Berkshire Hathaway has as a holder of the zero coupon convertible preferred**
20 **stock, including the fundamental transactions I discussed previously, are not**
21 **considered to be day to day operations.**

22 **Q. After the conversion, will MEHC (or PacifiCorp if this proposed transaction**
23 **is approved) be required to borrow funds from Berkshire Hathaway?**

1 A. Neither MEHC nor PacifiCorp is or will be required to borrow from Berkshire
2 Hathaway. However, MEHC may choose to request debt or equity funds from
3 Berkshire Hathaway, for example, if it pursues additional acquisitions.

4 As a general rule, subsidiaries of MEHC (including PacifiCorp if this
5 proposed transaction is approved) are expected to operate autonomously from
6 MEHC and Berkshire Hathaway. This includes arranging their own financing and
7 being responsible for maintaining and/or improving their credit standing.

8 **Conclusion**

9 **Q. Does this conclude your direct testimony?**

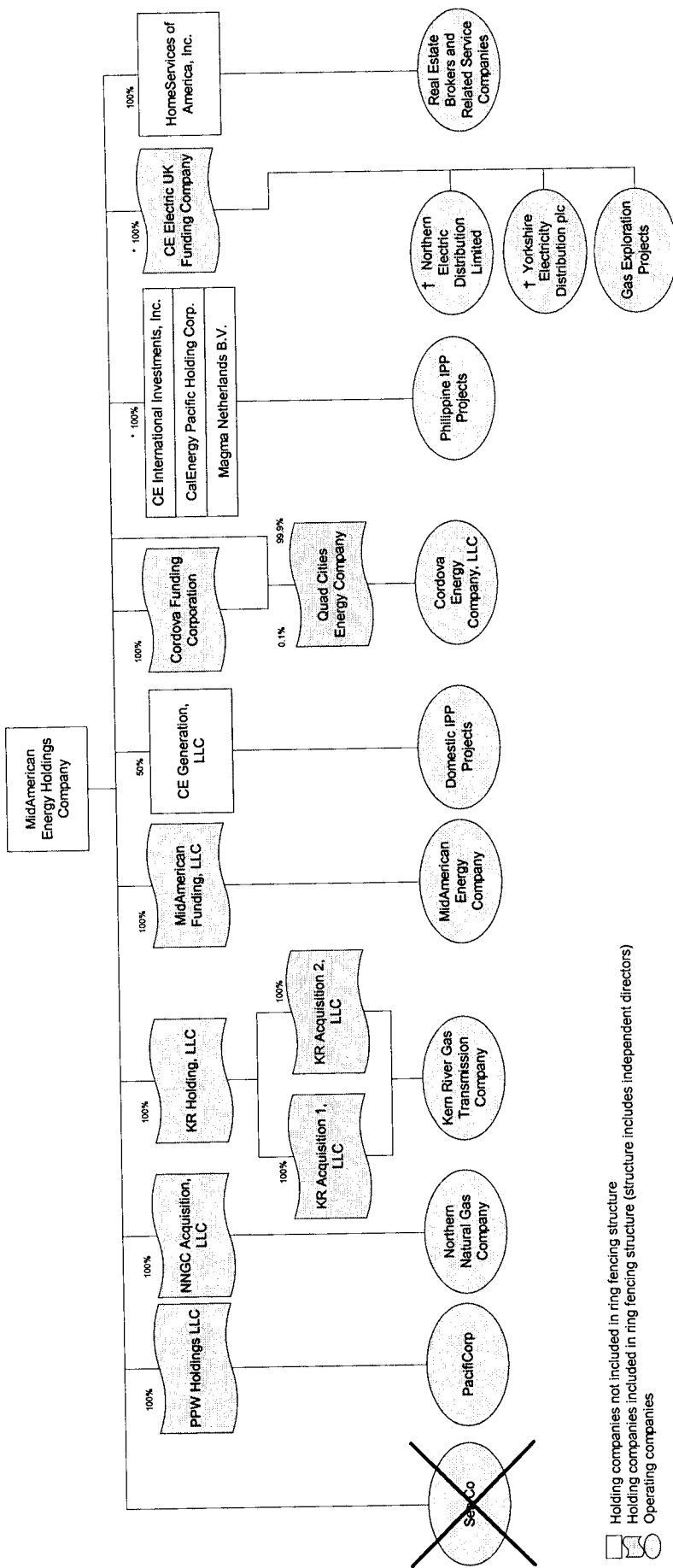
10 A. Yes, it does.




**REVISED PAGE TO GOODMAN
EXHIBIT PPL/402**

Marked Version

REVISED 8/17/05

Simplified MEHC Organizational Structure – Post PacifiCorp Acquisition



 Holding companies not included in ring fencing structure
 Holding companies included in ring fencing structure (structure includes independent directors)
 Operating companies
 * Indirectly owned by MEHC
 † Subject to UK regulatory ring fencing

**REVISED PAGES TO SPECKETER
DIRECT TESTIMONY (PPL/500)**

Marked Version

REVISED 8/17/05

1 **Q. Please state your name, employer, and business address.**

2 A. My name is Thomas B. Specketer, MidAmerican Energy Company (“MEC”), 666
3 Grand Avenue, Suite 2900, Des Moines, Iowa 50309.

4 **Q. What is your position in the company and your previous work experience?**

5 A. I am currently vice president U.S. regulatory accounting and MEC controller. My
6 primary duties include responsibility for all accounting, financial reporting,
7 regulatory reporting, tax and budgeting activities for MEC, and regulatory
8 accounting oversight for all domestic regulated entities in the MidAmerican
9 Energy Holdings Company (“MEHC”) group. I have been employed by MEC, or
10 one of its predecessor companies, for over 25 years. During this time, I have held
11 various staff and managerial positions within the accounting, tax and finance
12 organizations.

13 **Q. What is your educational background and your involvement in professional
14 associations?**

15 A. I received a Bachelor of Science degree in mathematics from Morningside
16 College. In addition to formal education, I have also attended various
17 educational, professional and electric industry related seminars during my career
18 at MEC. I am a member of Edison Electric Institute’s Chief Accounting Officers
19 Committee and a past member of the Tax Executives Institute, Iowa Association
20 of Tax Representatives and Institute of Management Accountants.

21 **Q. Please describe the purpose of your testimony.**

22 A. The chief purpose of my testimony is to provide an overview of the process by
23 which shared services costs will be distributed to PacifiCorp and other MEHC

1 subsidiaries after completion of the proposed transaction. Therefore, my
2 testimony will address the ~~creation of a shared services entity~~, allocation
3 methodologies expected to be employed, the service agreement ~~contract~~ that will
4 govern the shared services to be rendered, and the expected costs to PacifiCorp of
5 shared services under MEHC ownership, in contrast to those PacifiCorp
6 experienced under Scottish Power plc (“ScottishPower”) ownership.
7 Additionally, I will address other accounting issues pertinent to this transaction
8 that may be of interest to the Commission and sponsor some of the commitments
9 in MEHC witness Mr. Gale’s Exhibit PPL/301.

10 **Accounting Changes**

11 **Q. Please discuss accounting changes brought about by this transaction.**

12 A. PacifiCorp will operate very much as it does today. Upon the closing of the
13 transaction, however, it is MEHC’s intent to transition PacifiCorp to a calendar
14 year-end in contrast to its present March 31 fiscal year-end. The change in year-
15 end will assure greater consistency in information supplied to PacifiCorp’s
16 various regulatory bodies and investors, and assure that financial information
17 provided to MEHC is on a basis consistent with other MEHC subsidiaries.

18 **Shared Services Costs**

19 **Q. What cost changes will occur as a result of this transaction?**

20 A. As mentioned previously, PacifiCorp will operate very much as it does today and,
21 accordingly, most costs incurred by PacifiCorp will not change as a result of this
22 transaction. One exception is the cost of corporate shared services. With the
23 change in ownership, PacifiCorp will no longer incur shared services costs from

1 ScottishPower, but will incur costs of a similar nature from ~~certain subsidiaries of~~
2 MEHC and MEC.

3 **Q. Why are these shared corporate services being provided by MEHC?**

4 **A. If the Public Utility Holding Company Act of 1935 had remained in effect, shared**
5 **corporate services would have been provided by a new service company. With**
6 **the repeal of that law, there is no need to form a new company. The people who**
7 **are MEHC employees providing shared corporate services can continue to remain**
8 **holding company employees. MEHC will have the same systems in place that a**
9 **service company would have had to ensure that costs are captured and properly**
10 **billed and/or allocated to all entities in the MEHC group that benefit from the**
11 **services provided, including MEHC, PacifiCorp and MEC.**

12 **Q. Please describe how shared costs, common to multiple subsidiaries of MEHC,**
13 **will be charged to PacifiCorp.**

14 **A. Common costs of MEHC will originate in two entities: in MEHC itself, and in a**
15 **new shared services company ("ServCo") and MEC. MEC, a vertically integrated**
16 **utility owned by MEHC, serves regulated and unregulated electric and gas**
17 **customers primarily in Iowa, Illinois, South Dakota and Nebraska. MEC is**
18 **described in more detail by MEHC witness Mr. Gale.**

19 **Q. Please describe the new-shared corporate services that will originate at**
20 **MEHC company.**

21 **A. Employees of ServCo will be created as a direct subsidiary of MEHC include:**
22 **ServCo will be staffed with approximately ten (10) senior executives who of**
23 **MEHC and provide strategic management, coordination and corporate**

1 governance services to all MEHC subsidiaries, including board of directors
2 support, strategic planning, financial planning and analysis, insurance,
3 environmental compliance, financial reporting, human resources, legal, tax,
4 accounting and other administrative services.

5 **Q. Will any PacifiCorp employees be transferred to MEHC ~~the ServCo~~?**

6 A. No.

7 ~~**Q. Why is MEHC forming a ServCo?**~~

8 ~~A. MEHC is forming a ServCo to ensure that costs are captured and properly billed
9 and/or allocated to all entities in the MEHC group that benefit from the services
10 provided, including MEHC, PacifiCorp and MEC.~~

11 **Q. Please describe the shared services that will be provided by MEC.**

12 A. MEC employees will also coordinate certain administrative services on behalf of
13 MEHC, including budgeting and forecasting, human resources, and tax
14 compliance. Amounts to be charged to PacifiCorp from MEC are not expected to
15 exceed \$4.0 million per year.

16 **Q. Will any other incidental services between MEC and PacifiCorp be
17 provided?**

18 A. For operational reasons, such as a storm restoration, it may be necessary and
19 beneficial to send crews of one utility to the other's service territory to assist in
20 restoration efforts. In addition, other operational expertise may be requested from
21 time to time to take advantage of specific expertise that exists at each of the
22 utilities. Services such as these would also be provided at cost.

1 | **Q. How will costs from these two sources (~~MEHCServCo~~ and MEC) flow to**
2 | **PacifiCorp?**

3 | A. Cost assignments to PacifiCorp will be based on generally accepted cost
4 | assignment practices. As described in more detail below, direct costs for the
5 | ~~MEHCServCo~~ and MEC services will be billed to the entity benefiting from the
6 | service provided. All other costs related to the services provided, including
7 | indirect costs, will be fully allocated to MEHC and all benefiting subsidiaries.

8 | **Q. Could you give an example of what you mean by direct and indirect costs?**

9 | A. Direct costs arise from services that are specifically attributable to a single entity.
10 | For example, if I'm researching an accounting issue for an affiliate, I would
11 | directly bill that entity for the time spent researching the issue. However, the cost
12 | of the reference material purchased to research accounting issues would benefit
13 | more than one entity, so the cost of the reference material would be an indirect
14 | cost and allocated to all entities that benefit from the materials.

15 | **Q. Please describe the service agreement that will govern the shared services to**
16 | **be provided.**

17 | A. The services will be governed by the existing Intercompany Administrative
18 | Services Agreement ("IASA") that has been executed by MEHC and its
19 | subsidiaries. The IASA is used to govern the provision of certain administrative
20 | services between MEHC and affiliates. The existing IASA is attached as Exhibit
21 | PPL/501. This agreement outlines the terms and conditions of the shared services
22 | arrangement between MEHC and its subsidiaries, which will eventually include
23 | ~~the ServCo~~ and PacifiCorp.

- 1 **Q. Please describe the system of accounts that will be used to capture and bill**
2 **shared costs.**
- 3 A. Costs and billings originating at MEHCServCo will be accounted for using
4 MEHC's existing a-system of accounts. The MEHC system of accounts provides
5 details on the type of cost activity involved and the area responsible for incurred
6 the charge. prescribed by the U.S. Securities and Exchange Commission ("SEC")
7 in 17 CFR Ch. II. This system of accounts is aligned with the Federal Energy
8 Regulatory Commission's ("FERC") uniform system of accounts. As a regulated
9 public utility, MEC is required to use and account for costs using the FERC
10 uniform system of accounts. In addition to the FERC primary accounts, MEC
11 utilizes ~~Therefore, the system of accounts used to capture and bill shared costs by~~
12 ~~both the ServCo and MEC will be very similar. Such accounts will have an~~
13 ~~additional three-digit "sub-account" field to provide more descriptive detail of the~~
14 ~~type of cost activity involved. Both MEHC and MEC utilize~~ Also, a
15 responsibility center field in the code block to will establish budgetary control of
16 amounts charged and provide an audit trail to will be descriptive of the
17 department originally incurring the charges. Other segments of the code block to
18 be used by MEC will capture cost elements (descriptive of the nature of costs,
19 e.g., labor, payables, etc.) and project numbers. Both The the MEHC and MEC
20 code blocks used will accommodate a high degree of flexibility and capability in
21 tracking and reporting costs.
- 22 **Q. How will MEC segregate shared costs from costs it incurs on its own behalf**
23 **or directly on behalf of other MEHC subsidiaries?**

1 A. A separate “business unit” will be established within MEC’s accounting system
2 which will be structured to capture the costs of functions providing shared
3 services. Expenses originating in this “business unit” will allocate to all
4 benefiting MEHC entities, instead of merely to MEC operations, to the extent that
5 costs are not directly billed to MEC or to other MEHC subsidiaries. MEC has
6 employed this kind of accounting system in order to allocate costs for state
7 jurisdictional reporting purposes, and this methodology has been utilized in Iowa,
8 Illinois, and South Dakota for a number of years as the basis for rate filings. The
9 allocation process utilizes well-established controls, and an audit trail is
10 maintained such that all costs subject to allocation can be specifically identified
11 back to their origin.

12 **Q. On what basis will shared services be charged?**

13 A. Shared services, whether directly billed or allocated, will be charged at fully
14 loaded actual cost. This means that only the actual cost of providing the service,
15 with no markup for profit, will be charged. Labor, for example, will include such
16 items as loadings for benefits, paid absences and payroll taxes attributable to such
17 labor for actual time spent providing the service. Non-labor costs will be directly
18 billed or allocated at actual amounts incurred by MEHC ServCo and MEC.

19 **Q. Will this result in any cross-subsidization between MEHC entities?**

20 A. No. To the contrary, billing at cost will eliminate any potential cross-
21 subsidization between entities and ensure that only actual costs are reflected in
22 rates charged to both MEC customers and PacifiCorp customers.

23 **Q. Will MEHC ServCo own assets used for shared services?**

1 A. Yes, it will own assets used for providing shared services, ~~but will not own~~
2 ~~operating assets or investments in operating entities.~~ Assets used for shared
3 services will be ~~billed~~ charged, based on utilization of the asset, at a ~~fixed~~ an
4 amount that recovers the fixed costs of ~~amounts for depreciation, property taxes~~
5 ~~and cost of capital associated with the asset.~~

6 **Q. Will MEHC earn a profit on any shared services it provides** ~~ServCo be a for-~~
7 **profit entity?**

8 A. No, ~~MEHC~~ ServCo will not earn ~~have neither profits on such services nor losses.~~
9 All such shared services costs incurred by MEHC ServCo, ~~net of any income~~
10 ~~earned~~, will be directly charged when the benefiting organization can be
11 specifically identified, and any residual indirect amounts will be allocated each
12 month to ~~MEHC~~ and all benefiting subsidiaries. Shared services costs incurred
13 by MEC on behalf of MEHC subsidiaries will also be fully allocated, to the extent
14 not directly charged.

15 **Q. Will any costs remain at MEHC?**

16 **A. Yes. Costs attributable to activities not appropriately billed or allocated to MEHC**
17 **subsidiaries, such as general merger and acquisition costs, and interest expense of**
18 **MEHC, will be paid for and remain at MEHC. MEHC's share of indirect costs**
19 **will also remain at MEHC.**

20 **Q. Will any costs, other than the shared costs mentioned above, be charged to**
21 **PacifiCorp from any other affiliates of MEHC?**

22 A. It is not expected that any significant administrative costs will originate from any
23 MEHC affiliate other than MEC ~~the two entities discussed above.~~ However, when

1 specific expertise is needed or available from other MEHC business platforms, the
2 IASA provides the flexibility for any member of the MEHC group to request
3 services at cost from other entities in the group. Services of this nature are
4 situation-specific and not expected to be recurring.

5 In addition, normal course of business transactions negotiated at arms-
6 length or subject to tariff provisions, such as the existing contracts between
7 PacifiCorp and MEHC subsidiaries to purchase gas transportation service from
8 Kern River Gas Transmission Company and steam from Intermountain
9 Geothermal Company for PacifiCorp's Blundell plant, may be initiated by
10 PacifiCorp. These services would continue to be subject to the applicable state or
11 federal regulatory approvals, including existing tariffs.

12 ~~Q. How will ServCo be capitalized?~~

13 ~~A. The exact form of capitalization of ServCo has yet to be determined. However,~~
14 ~~the cost of all capital will be fully allocated out of ServCo to the extent that it is~~
15 ~~not charged directly through billings for the use of ServCo assets.~~

16 **Q. What allocation methodology will be used to allocate MEHC ServCo and**
17 **MEC shared costs not directly billed to MEHC entities?**

18 A. Indirect costs of MEHC ServCo and MEC, allocable to MEHC and all
19 subsidiaries, will be allocated using a two-factor formula comprised of assets and
20 payroll, each equally weighted. Within thirty (30) days of receiving all necessary
21 state and federal regulatory approvals of the proposed transaction, a final cost
22 allocation methodology will be submitted to the Commissions. On an ongoing
23 basis, the Commission will be notified of anticipated or mandated changes to this

1 cost allocation methodology. Of course, as specified in commitment 7(f) in Table
2 1 later in my testimony, the Commission will determine the appropriate corporate
3 cost allocation for establishing rates.

4 **Q. Why is the two-factor formula appropriate?**

5 A. This allocation methodology is based on the formula presently approved for use
6 by MEC and MEHC to allocate indirect common corporate costs. Further, it is
7 consistent with the IASA that will govern these services, and it has been utilized
8 by MEC for a number of years as the basis for rate filings in each of the states it
9 operates. These regulators have recognized that a single allocation factor to
10 allocate common corporate costs is not reasonable.

11 **Q. How does the two-factor formula compare to the three-factor formula used
12 by PacifiCorp?**

13 A. The factors produce similar results. Estimated costs allocated to PacifiCorp using
14 the two-factor formula are not expected to be materially different than costs
15 allocated using the three-factor formula.

16 **Q. Will PacifiCorp's inter-jurisdictional cost allocation methodology change as
17 a result of the MEHC purchase transaction?**

18 A. No. The methodology described above will only be used to allocate shared
19 services costs from MEHC ServCo and MEC. PacifiCorp's current methods for
20 assigning costs jurisdictionally will not change as a result of the transaction.

21 **Q. What is the expected impact on PacifiCorp costs of the shared services
22 charges from MEHC ServCo and MEC?**

1 A. Shared services charges to PacifiCorp are expected to decrease from historical
2 amounts billed to PacifiCorp from ScottishPower. Exhibit PPL/502 presents an
3 analysis of historical shared services costs from ScottishPower and expected
4 shared services costs upon MEHC's acquisition of PacifiCorp. Net cross-charges
5 to be paid by PacifiCorp to ScottishPower for the fiscal year ending March 31,
6 2006, are projected to be \$15.0 million. MEHC estimates that its shared costs to
7 PacifiCorp would have totaled \$9.6 million for the same period. MEHC is
8 making a commitment that such costs will not exceed \$9 million per year for five
9 (5) years following the close of this transaction.

10 **Q. Will PacifiCorp continue to provide services to its direct subsidiaries?**

11 A. Yes, such services will continue under existing service agreements.

12 **Q. Please summarize this portion of your testimony regarding the shared**
13 **services acquisition commitments that MEHC is undertaking in connection**
14 **with the proposed transaction.**

15 A. Shared services costs will be direct billed or allocated to PacifiCorp, MEHC and
16 other subsidiaries, primarily from MEHC ServCo or MEC. To the extent costs
17 are not directly billed and need to be allocated, a two-factor allocator consisting of
18 assets and labor, each equally weighted, will be used to allocate the costs to each
19 entity benefiting from the type of cost incurred. The IASA will govern the shared
20 services to be provided by ~~the~~ MEHC ServCo or MEC. MEHC is making a
21 commitment that shared services costs from MEHC ServCo and MEC will not
22 exceed \$9 million per year for five (5) years following the close of the
23 transaction.

1 **Commitments**

2 **Q. Are you providing support for some of the commitments in MEHC witness**
3 **Mr. Gale's Exhibit PPL/301?**

4 **A. Yes. I am sponsoring the following financial and structural commitments that**
5 **MEHC is undertaking with respect to the proposed transaction.**

6

Table 1 Financial and Structural Commitments that MEHC is Undertaking in Connection with the Proposed Transaction		
	Regulatory Oversight	
D	Accounting Records	The Commission or its agents may audit the accounting records of MEHC and its subsidiaries that are the bases for charges to PacifiCorp, to determine the reasonableness of allocation factors used by MEHC to assign costs to PacifiCorp and amounts subject to allocation or direct charges. MEHC agrees to cooperate fully with such Commission audits.
E	Affiliate Transactions	MEHC and PacifiCorp will comply with all existing Commission statutes and regulations regarding affiliated interest transactions, including timely filing of applications and reports.
F	Affiliate Transactions	PacifiCorp will file on an annual basis an affiliated interest report including an organization chart, narrative description of each affiliate, revenue for each affiliate and transactions with each affiliate.
G	Cross-subsidization	PacifiCorp and MEHC will not cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and shall comply with the Commission's then-existing practice with respect to such matters.

<p>H</p>	<p>Affiliate Transactions</p>	<p><u>Due to PUHCA repeal, neither Berkshire Hathaway nor MEHC will be registered public utility holding companies under PUHCA. Thus, no waiver by Berkshire Hathaway or MEHC of any defenses to which they may be entitled under <i>Ohio Power Co. v. FERC</i>, 954 F.2d 779 (D.C. Cir.), cert. denied sub nom. <i>Arcadia v. Ohio Power Co.</i>, 506 U.S. 981 (1992) ("<i>Ohio Power</i>"), is necessary to maintain the Commission's regulation of MEHC and PacifiCorp. However, while PUHCA is in effect, Berkshire Hathaway and MEHC waive such defenses. PacifiCorp and MEHC will not assert in any future Commission proceeding that the provisions of the Public Utility Holding Company Act of 1935 or the related <i>Ohio Power v. FERC</i> case preempt the Commission's jurisdiction over affiliated interest transactions and will explicitly waive any such defense in those proceedings. In the event that PUHCA is repealed or modified, PacifiCorp and MEHC agree not to seek any preemption under any subsequent modification or repeal of PUHCA.</u></p>
<p><u>IK</u></p>	<p>Cost Allocations</p>	<p>Within 30 days of receiving all necessary state and federal regulatory approvals of the final corporate and affiliate cost allocation methodology, a written document setting forth the final corporate and affiliate cost methodology will be submitted to the Commission. On an on-going basis, the Commission will also be notified of anticipated or mandated changes to the corporate and affiliate cost allocation methodologies.</p>
<p><u>JL</u></p>	<p>Cost Allocations</p>	<p>Any proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads required by law or rule to be submitted to the</p>

		<p>Commission for approval, will comply with the following principles:</p> <ul style="list-style-type: none">(a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by MEHC or any of its affiliates, MEHC must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent.(b) Cost allocations to PacifiCorp and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to specific subsidiaries whenever possible and shared or indirect costs will be allocated based upon the primary cost-driving factors.(c) MEHC will have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp.(d) An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported.
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		<p>Failure to adequately support any allocated cost may result in denial of its recovery in rates.</p> <p>(e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the MEHC group.</p> <p>(f) Any corporate cost allocation methodology used for rate setting, and subsequent changes thereto, will be submitted to the Commission for approval if required by law or rule.</p>
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1

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

3 A. Yes it does.

**REVISED PAGE TO SPECKETER
EXHIBIT PPL/502**

Marked Version

REVISED 8/17/05

REVISED 8/17/05

Exhibit PPL/502
Specketer

MidAmerican Energy Holdings Company
Projected Shared Services Costs to PacifiCorp
(000's)

<u>Description</u>	<u>ServCoMEHC</u>	<u>MEC</u>	<u>CalEnergy</u>	<u>Total</u>
Salaries, benefits and bonuses	\$ <u>2,933,057</u>	\$ 1,220	\$ 123	\$ 4,277
Other employee compensation	<u>1,893,933</u>	655	40	2,587
Outside services	453	715	—	1,168
Travel costs, incl. corporate aircraft	420	983	—	1,403
Other	51	80	—	131
Total	<u>\$ 5,750,913</u>	<u>\$ 3,652</u>	<u>\$ 163</u>	<u>\$ 9,566</u>
Expected Net Scottish Power charges for Fiscal Year 2006				15,000
			Difference	<u><u>\$ (5,434)</u></u>