Introduction

Q. Please state your name and business address.

A. My name is Gregory E. Abel, and my business address is 666 Grand Avenue, Suite 2900, Des Moines, Iowa, 50309.

Q. By whom are you employed and in what capacity?

A. I am employed by MidAmerican Energy Holdings Company ("MEHC" or "Company"), an Iowa-based company that is privately held and engaged primarily in the production and delivery of energy. I serve as president and chief operating officer of MEHC. In addition, I serve as chief executive officer of CE Electric UK, a company that distributes electricity to some 3.6 million customers in England; as chief executive officer of MidAmerican Funding, LLC, the holding company for an integrated utility that provides natural gas and electric service to 1.3 million customers in the Midwestern United States; and as chief executive officer of Kern River Gas Transmission Company ("Kern River" or "Kern") and Northern Natural Gas Company ("Northern Natural Gas" or "Northern"), both interstate natural gas pipeline companies in the United States.

Q. Please summarize your education and business experience.

A. I hold a Bachelor's of Commerce degree, with honors, from the University of Alberta, and I received a Chartered Accountancy designation in Canada in 1988. I am also a member of the Canadian and Alberta Institutes of Chartered Accountants.

I have more than twenty years of experience in senior corporate management and public accounting. I serve on the board of directors of MEHC and HomeServices of America, Inc. ("HomeServices"). The latter company is based in Minneapolis, Minnesota, and it is the second-largest full-service independent residential real estate brokerage firm in the United States. I also serve on the board and the executive committee of the Greater Des Moines Partnership, and am a member of the Iowa Business Council. I serve on the Wells Fargo Iowa community board of directors, and the executive board of the Mid-Iowa Council of the Boy Scouts of America.

Before joining the Company in 1992, I worked for Price Waterhouse, where I was responsible for auditing and public financing services as well as consulting on filings with the Securities and Exchange Commission for multinational, publicly-traded companies.

Q. What position will you hold with PacifiCorp after the transaction is closed?

A. I will serve as chairman of the PacifiCorp board of directors.

Summary of Testimony

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

A. The purpose of my testimony is as follows:

- to describe MEHC and its affiliates,
- to describe the transaction,
- to explain the reasons for MEHC's proposed purchase of PacifiCorp,
- to demonstrate that the transaction will benefit PacifiCorp's customers, employees and communities, and
- to describe PacifiCorp's operations once the transaction is completed.

Q. Please summarize your testimony.

A. My testimony describes MEHC and its affiliates, including MidAmerican Energy Company ("MEC"), a regulated electric and gas utility serving 1.3 million residential, commercial and industrial customers in Iowa, Illinois, South Dakota and Nebraska. I also describe the transaction which, if approved by state and federal regulators, will result in PacifiCorp's regulated electric business (and associated coal-mining operations and companies created to handle environmental remediation and management of deforestation carbon credits) becoming a new, ring-fenced, business platform under MEHC ("the transaction").

My testimony also provides evidence of the benefits to PacifiCorp's customers, employees, and communities if the transaction is approved. In my testimony and that of other MEHC's witnesses, we are offering more than 60 commitments to the 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 ("DSM") study. In addition to these readily quantifiable benefits, MEHC is committing to $1.3 billion of infrastructure investment in PacifiCorp's system.

MEHC is poised to deploy significant amounts of capital to ensure PacifiCorp can develop and maintain the infrastructure needed to provide reliable and economic electric service. To ensure that PacifiCorp customers receive these benefits, MEHC is committing investment dollars to specific projects, including the following: (1) more than $350 million for three transmission projects that increase transfer capabilities between PacifiCorp's east and west control areas, increase the deliverability of wind energy, and provide PacifiCorp and its customers with greater flexibility and opportunity to consider alternatives to planned generation capacity additions; (2) more than $800 million to reduce emissions from existing coal units; (3) more than $140 million for other transmission and distribution projects to reduce outage risk; and (4) a $1 million system-wide study of potential additional energy efficiency and DSM programs with study costs borne by MEHC shareholders.

Specifically, the benefits of the transaction include the following MEHC and PacifiCorp commitments, which I detail later in my testimony:

- **$78 million investment in a Path C transmission upgrade to increase the transfer capability between PacifiCorp's east and west control areas and increase wind energy deliverability;**
- **$196 million investment in a transmission line from Mona to Oquirrh to increase import capability into the Wasatch Front;**
- **$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 across 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;**
- **a utility own/operate option for consideration in renewable energy RFPs;**
- **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;**
- **consideration of reduced-emissions coal technologies such as IGCC and super-critical;**
- **reduction in sulfur hexafluoride emissions;**
- **$812 million investment to implement an emissions reduction plan for existing coal-fueled generation which, when coupled with reduced-emissions coal technology for new coal-fueled generation, would be expected to reduce PacifiCorp's SO_2 emissions rate by more than 50%, to reduce the NO_x emissions rate by more than 40%, to reduce the mercury emissions rate by nearly 40% and to avoid an increase in the CO_2 emissions rate;**
- **$1 million shareholder-funded system-wide study designed to further DSM and energy efficiency programs where cost effective;**
- **uniform application of the commitments from the prior PacifiCorp transaction in all six states; and**

- **a two-year extension of the customer service standards and performance guarantees.**

On behalf of MEHC shareholders, I am also making a commitment of MEHC's resources and involvement, in cooperation with the PacifiCorp states, in other transmission projects beneficial to the region.

In addition to the foregoing commitments, customers can expect benefits that will result from (i) MEHC's commitment to PacifiCorp's investment in energy infrastructure in years to come; and (ii) the financial and business stability associated with domestic ownership of PacifiCorp as part of a holding company with regulated operations in ten contiguous states.

Q. Who else will be providing testimony on behalf of MEHC?

A. MEHC will also offer testimony from the following witnesses:

- Brent E. 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.

- Patrick J. Goodman, MEHC's Chief Financial Officer, 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 MEHC's largest investor, Berkshire Hathaway Inc. ("Berkshire Hathaway").

- Thomas B. Specketer, MEC's Vice President of U.S. Regulatory Accounting and Controller, will testify about the formation of a service company to provide certain common services 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.

- Jeffery J. Gust, MEC's Vice President of Energy Supply Management, 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.

In addition to each of the above-mentioned MEHC witnesses, Judi Johansen, President and CEO of PacifiCorp, will testify regarding PacifiCorp's support for the transaction and the reasons for the sale of PacifiCorp by Scottish Power plc ("ScottishPower").

MEHC And Its Business Activities

Q. Please explain the business activities of MEHC.

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

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

- **MidAmerican Energy Company** is a vertically integrated electric and natural gas utility headquartered in Des Moines, Iowa. MEC provides regulated electric service to approximately 605,000 customers in Iowa, 84,000 customers in Illinois, and 3,700 customers in South Dakota. Regulated gas service is provided to approximately 526,000 customers in Iowa, 66,000 customers in Illinois, 75,000 customers in South Dakota, and 4,600 customers in Nebraska. Competitive gas and electric service is provided in several states, including Illinois, to approximately 3,200 customers.

- **CalEnergy Generation** is a world leader in renewable energy, owning and operating a total of 14 geothermal power plants in the western United States and the Philippines. The business platform consists of separate entities which also own and operate natural gas generating stations in Arizona, Illinois, Texas and New York, as well as an innovative hydroelectric plant and irrigation project in the Philippines. CalEnergy is currently evaluating the development of one of the largest single geothermal projects (215 MW) in the world in the Imperial Valley of California.

- **Kern River Gas Transmission Company** is a natural gas pipeline company headquartered in Salt Lake City, Utah. Its interstate pipeline facilities comprise nearly 1,700 miles from Wyoming to southern California.

- **Northern Natural Gas Company** is a natural gas pipeline company headquartered in Omaha, Nebraska. Its pipeline system comprises more than 16,500 miles of pipeline from Texas to the upper Midwest. The combined pipeline capacity of Kern and Northern is nearly 6.2 billion cubic feet per day, or approximately 10 percent of all the natural gas consumed in the U.S.

- **CE Electric UK Funding plc** owns two electricity distribution businesses that serve 3.7 million customers across approximately 10,000 square miles of northeast England. The company also has a contracting subsidiary that engineers power projects for large commercial and industrial customers.

- **HomeServices of America, Inc.** is the second-largest residential real estate brokerage company in the United States and is a leader in each of the 24 top markets its associates serve. The company has 18,500 sales associates in 18 states and generated more than $60 billion in residential real estate sales in 2004.

Additional information about MEHC is provided in the testimony of MEHC witness Mr. Goodman.

Q. What previous acquisitions has MEHC undertaken in the energy industry?

A. MEHC and its predecessors in interest have undertaken the following acquisitions: Chevron Corporation interests in Utah (Roosevelt Holt Springs), Oregon and Nevada (Desert Peak and undeveloped geothermal properties) (IPP – geothermal, 1991); Bonneville Pacific Corporation interests in Yuma, Arizona (IPP – gas-fired generation, 1992); Union Oil Company of California interests in Northern California (Glass Mountain) (IPP – geothermal, 1993); Magma Power Company (U.S. & Philippines IPP – geothermal, 1995); Edison Mission Energy interests in Southern California (IPP – geothermal, 1996); Falcon Seaboard Resources, Inc. (IPP – gas-fired generation, 1996); Northern Electric plc (British electric and gas distribution utility, 1997); Kiewit Diversified Group's interests in the Philippines and Indonesia, as well as its 30 percent interest in Northern Electric plc (1997); MEC (1999); and Yorkshire Electricity (British electric distribution utility, 2002). In 2002, MEHC entered a new sector of the energy industry with acquisitions of the Kern River and Northern Natural interstate natural gas pipeline companies.

Q. Has MEHC sold off any of its business units?

A. No. MEHC is a long-term investor. We carefully assess the operations, assets and management of potential acquisitions before we enter into a transaction. We do not enter into speculative transactions, and we do not acquire companies in anticipation of quick profits and a quick sale. Instead, MEHC looks for opportunities to deploy capital in long-term investments where we believe the results of such investments will be fair to customers, employees and shareholders. Thus, even our divestiture of individual assets has been relatively rare.

The Acquisition Of Pacificorp

Q. Please describe MEHC's proposed acquisition of PacifiCorp.

A. On May 23, 2005, ScottishPower and PacifiCorp Holdings, Inc., its wholly owned subsidiary directly holding PacifiCorp's common stock, reached a definitive agreement with MEHC providing for the sale of all PacifiCorp common stock to MEHC for a value of approximately $9.4 billion. This amount is comprised 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 acquisition is subject to customary closing conditions, including approval of the transaction by the shareholders of ScottishPower and receipt of required state and federal regulatory approvals.

The sale of PacifiCorp's common stock to MEHC will also include transfer of control of certain PacifiCorp subsidiaries that are associated with the regulated business. MEHC is not acquiring PPM or other businesses that are not associated with the regulated utility business. These latter businesses will remain with ScottishPower.

Upon completion of the transaction, PacifiCorp will be an indirect, wholly-owned subsidiary of MEHC as illustrated in the organizational chart provided with the testimony of MEHC witness Mr. Goodman, as Exhibit PPL/402. Mr. Goodman will also provide testimony concerning the financial aspects of the acquisition. Once acquired by MEHC, I expect PacifiCorp to be operated much as it is today, and it will continue to be headquartered in Portland, Oregon.

Q. Please describe the reasons for MEHC's proposed acquisition of PacifiCorp.

A. MEHC has identified the energy industry as a preferred area for investment of a significant amount of its capital resources in the coming years, including capital made available by Berkshire Hathaway. In MEHC's experience, investments in the regulated energy business provide opportunities for fair and reasonable returns if operated with a focus upon the objectives of customer satisfaction, reliable service, employee safety, environmental stewardship and regulatory/legislative credibility. MEHC does not expect great returns from the regulated business, but we do expect the opportunity to earn reasonable returns if the foregoing objectives are achieved.

The proposed acquisition of PacifiCorp advances MEHC's goal of owning and operating a portfolio of high-quality energy businesses with a strong emphasis on the objectives that I mentioned. We view PacifiCorp as a good company owning sound assets, but with a need for extensive investment if reliable service is to be maintained.

It is projected that PacifiCorp's service territories will require investment of at least $1 billion per year for at least the next five years to assure reliable electric service. ScottishPower has indicated that this business profile does not match well with its investors' expectations for regular dividends and returns on investment. In contrast, MEHC's business strategy of long-term holding of assets fits well with PacifiCorp's profile, and as a consequence, the proposed transaction offers significant benefits for PacifiCorp customers, employees and communities.

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

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

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

Q. One of the financial commitments included in Mr. Gale's Exhibit PPL/301, and discussed in Mr. Goodman's testimony, involves a pledge not to seek recovery in retail rates of the premium paid by MEHC to acquire PacifiCorp, with one exception identified in their testimony. How do you expect to be compensated for the acquisition premium if it is not recovered in rates?

A. MEHC shareholders understand that they may not earn a return on the acquisition premium, and they have accepted that risk. However, MEHC shareholders believe the price negotiated for the transaction is fair for the value received, if PacifiCorp is able to earn its authorized return.

MEHC shareholders expect to own PacifiCorp for a long time. MEHC also expects to be able to help PacifiCorp achieve its authorized return by operating PacifiCorp according to the five objectives that I previously identified customer satisfaction, reliable service, employee safety, environmental stewardship and regulatory/legislative credibility. MEHC believes that by doing so it can mitigate the impact of not recovering the acquisition premium in rates.

Benefits Of The Transaction

Q. How will approval of this transaction benefit PacifiCorp's customers?

A. Approval of the transaction will provide benefits not only to PacifiCorp's customers but also to the public and to PacifiCorp employees.

MEHC has reviewed PacifiCorp's capital forecasts, which require annual investment of at least $1 billion for the next five years for generation, transmission, distribution, and environmental improvements. MEHC has the ability and willingness to deploy the capital necessary to accomplish the capital investments in a cost-effective and timely manner. This provides a benefit of greater certainty, because the ability and willingness of ScottishPower to make these investments was less certain.

On behalf of MEHC and PacifiCorp, I am offering new commitments which will provide benefits to PacifiCorp customers, employees and communities. The commitments, which are included for convenience of future reference on Exhibit PPL/101, are as follows:

- **<u>Transmission Investment:</u>** MEHC and PacifiCorp have identified incremental transmission projects that enhance reliability, facilitate the receipt of renewable resources, or enable further system optimization. Subject to permitting and the availability of materials, equipment and rights-of-way, MEHC and PacifiCorp commit to use their best efforts to achieve the following transmission system infrastructure improvements[1]:
    - **Path C Upgrade (~$78 million) –** Increase Path C capacity by 300 MW (from S.E. Idaho to Northern Utah). This project:
        - enhances reliability because it increases transfer capability between the east and west control areas,
        - facilitates the delivery of power from wind projects in Idaho, and
        - provides PacifiCorp with greater flexibility and the opportunity to consider additional options regarding planned generation capacity additions.
    - **Mona - Oquirrh (~$196 million) –** Increase the import capability from Mona into the Wasatch Front (from Wasatch Front South to Wasatch Front North). This project would enhance the ability to import power from new resources delivered at or to Mona, and to import from Southern California by “wheeling” over the Adelanto DC tie. This project:

[1] While MEHC has immersed itself in the details of PacifiCorp’s business activities in the short time since the announcement of the transaction, it is possible that upon further review a particular investment might not be cost-effective or optimal for customers. If that should occur, MEHC pledges to propose an alternative to the Commission with a comparable benefit.

        - enhances reliability by enabling the import of power from Southern California entities during emergency situations,
        - facilitates the acceptance of renewable resources, and
        - enhances further system optimization since it enables the further purchase or exchange of seasonal resources from parties capable of delivering to Mona.
    - **Walla Walla - Yakima or Mid-C (~$88 million)** – Establish a link between the "Walla Walla bubble" and the "Yakima bubble" and/or reinforce the link between the "Walla Walla bubble" and 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.

- **<u>Other Transmission and Distribution Matters:</u>** 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.

- **<u>Reduced Cost of Debt:</u>** 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 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.

- **Future Generation Options:** In Exhibit PPL/301, MEHC and PacifiCorp adopt a commitment to source future PacifiCorp generation resources consistent with the then current rules and regulations of each state. In addition to that commitment, for the next ten years, MEHC and PacifiCorp commit that they will submit as part of any RFPs --including renewable energy RFPs --a 100 MW or more utility "own/operate" proposal for the particular resource. It is not the intent or objective that such proposals be favored over other options. Rather, the option for PacifiCorp to own and operate the resource which is the subject of the RFP will enable comparison and evaluation of that option against other alternatives. In addition to providing regulators and interested parties with an additional viable option for assessment, it can be expected that this commitment will enhance PacifiCorp's ability to increase the proportion of cost-effective renewable energy in its generation portfolio, based upon the actual experience of MEC and the "Renewable Energy" commitment offered below.

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

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

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

- **Coal Technology:** MEHC supports and affirms PacifiCorp's commitment to consider utilization of advanced coal-fuel technology such as super-critical or IGCC technology when adding coal-fueled generation.

- **Greenhouse Gas Emission Reduction:** MEHC and PacifiCorp commit to participate in the Environmental Protection Agency's SF_6 Emission Reduction Partnership for Electric Power Systems. Sulfur hexafluoride (SF_6) is a highly potent greenhouse gas used in the electric industry for insulation and current interruption in electric transmission and distribution equipment. Over a 100-year period, SF_6 is 23,900 times more effective at trapping infrared radiation than an equivalent amount of CO_2, making it the most highly potent, known greenhouse gas. SF_6 is also a very stable chemical, with an atmospheric lifetime of 3,200 years. As the gas is emitted, it accumulates in the atmosphere in an essentially un-degraded state for many centuries. Thus, a relatively small amount of SF_6 can have a significant impact on global climate change. Through its participation in the SF_6 partnership, PacifiCorp will commit to an appropriate SF_6 emissions reduction goal and annually report its estimated SF_6 emissions. This not only reduces greenhouse gas emissions, it saves money and improves grid reliability. Since 1999, EPA's SF_6 partner companies have saved $2.5 million from the avoided gas loss alone. Use of improved SF_6 equipment and management practices helps protect system reliability and efficiency.

- **Emission Reductions from Coal-Fueled Generating Plants:** Working with the affected generation plant joint owners and with regulators to obtain required approvals, MEHC and PacifiCorp commit to install the equipment likely to be necessary under future emissions control scenarios at a cost of approximately $812 million. These investments would commence as soon as feasible after the close of the transaction. While additional expenditures may ultimately be required as future emission reduction requirements become better defined, MEHC believes these investments in emission control equipment are reasonable and environmentally beneficial. The execution of an emissions reduction plan for the existing PacifiCorp coal-fueled facilities, combined with the use of reduced-emissions coal technology for new coal-fueled generation, is expected to result in a significant decrease in the emissions rate of PacifiCorp's coal-fueled generation fleet. The investments to which MEHC is committing are expected to result in a decrease in the SO_2 emissions rates of more than 50%, a decrease in the NO_x emissions rates of more than 40%, a reduction in the mercury emissions rates of almost 40%, and no increase expected in the CO_2 emissions rate.

- **Energy Efficiency and DSM Management:** MEHC and PacifiCorp commit to conducting a company-defined third-party market potential study of additional DSM and energy efficiency opportunities within

PacifiCorp's service areas. The objective of the study will be to identify opportunities not yet identified by the company and, if and where possible, to recommend programs or actions to pursue those opportunities found to be cost-effective. The study will focus on opportunities for deliverable DSM and energy efficiency resources rather than technical potentials that may not be attainable through DSM and energy efficiency efforts. The findings of the study will be reported back to DSM advisory groups, commission staffs, and other interested stakeholders and will be used by the Company in helping to direct ongoing DSM and energy efficiency efforts. The study will be completed within one year after the closing on the transaction, and MEHC shareholders will absorb the first $1 million of the costs of the study.

PacifiCorp further commits to meeting its portion of the NWPPC's energy efficiency targets for Oregon, Washington and Idaho, as long as the targets can be achieved in a manner deemed cost-effective by the affected states.

In addition, MEHC and PacifiCorp commit that PacifiCorp and MEC will annually collaborate to identify any incremental programs that might be cost-effective for PacifiCorp customers. The Commission will be notified of any additional cost-effective programs that are identified.

- **Customer Service Standards:** MEHC and PacifiCorp commit to extend, through 2011, the commitment in Exhibit PPL/301 regarding customer service guarantees and performance standards as established in each jurisdiction, a two-year extension.

- **Community Involvement and Economic Development:** MEHC has significant experience in assisting its communities with economic development efforts. MEHC plans to continue PacifiCorp's existing economic development practices and use MEHC's experience to maximize the effectiveness of these efforts.

- **Corporate Presence:** MEHC understands that having adequate staffing and representation in each state is not optional. We understand its importance to customers, to regulators and to states. MEHC and PacifiCorp commit to maintaining adequate staffing and presence in each state, consistent with the provision of reliable service and cost-effective operations. In recognition of growth in Utah, my Exhibit PPL/101 contains some supplemental commitments for that state.

- **Regional Transmission:** MEHC recognizes that it can and should have a role in addressing the critical importance of transmission infrastructure to the states in which PacifiCorp serves. MEHC also recognizes that some transmission projects, while highly desirable, may not be appropriate investments for PacifiCorp and its regulated customers. Therefore,

> MEHC shareholders commit their resources and leadership to assist PacifiCorp states in the development of transmission projects upon which the states can agree. Examples of such projects would be RMATS and the proposed Frontier transmission line.

Q. Please explain MEHC's Emissions Reduction commitment in greater detail.

A. MEHC recognizes that PacifiCorp was the first utility in the region to take financial risks from greenhouse-gas emissions explicitly into account in resource planning. MEHC and PacifiCorp recognize the environmental significance of greenhouse gas emissions and criteria pollutants (e.g., sulfur dioxide, oxides of nitrogen) associated with their operations and will work with state and federal regulators on solutions. In its resource planning process, PacifiCorp will continue to assign a value for carbon emissions, which is currently $8.38/ton.

Air quality requirements throughout the United States continue to become more stringent. MEHC and PacifiCorp expect that significant emission reductions at PacifiCorp's existing coal-fueled plants will be required to meet these stringent requirements and that considerable capital investment in additional emission control equipment will be required to ensure compliance with existing and future air quality requirements, including mercury reduction requirements. MEHC believes that committing now to install new and upgraded emissions control equipment will allow PacifiCorp to take advantage of existing outage and maintenance schedules. As a consequence, PacifiCorp should be able to meet existing and anticipated emissions requirements while achieving significant cost savings, ensuring greater system reliability, and lowering the risk of exposure to wholesale markets for replacement power, as compared to waiting to install the controls at multiple facilities in a shorter period of time.

Q. What benefits will customers gain from the commitment MEHC is making to reduce air emissions?

A. PacifiCorp currently operates seven coal-fired power plants consisting of 19 separate units located at plants in Utah and Wyoming. In addition, PacifiCorp has ownership interests, but does not operate, coal-fired plants located in Arizona, Colorado and Montana. Emissions reductions at these plants will be required under existing and emerging air quality requirements to ensure compliance with environmental requirements and to improve visibility at our national parks and scenic areas. Committing now to projects that are likely to be required benefits customers by allowing this equipment to be installed in an orderly manner across PacifiCorp's large system. This ensures that projects are installed in the most efficient manner, provides greater opportunities to negotiate better contract terms and conditions that reduce cost and contract risk, and allows the projects to be implemented during planned outages in order to reduce replacement power costs. Additionally, these projects preserve the continued operation of these low-cost resources in the face of ever tighter environmental requirements for the benefit of PacifiCorp customers.

PacifiCorp's customers and the communities in its states will also directly benefit from improved environmental quality resulting from these significant emission reductions.

Q. What emission reductions of SO_2, NO_x, and mercury will be achieved with the air quality projects to which MEHC is committing?

A. In 2013, when all projects are installed, it is estimated that emissions of SO_2 and

NO_x will be reduced on an annual basis by approximately 57,000 tons and 40,000 tons, respectively, as compared to projected (2005) levels. In addition, it is estimated that mercury emissions will be reduced by over 450 pounds annually.

Q. What specific projects comprise this commitment?

A. The projects consist of the installation of scrubbers to reduce SO_2 emissions, the installation of low-NO_x burners for NO_x control, and the installation of baghouses to control particulate and mercury emissions. The projects are scheduled to be installed as indicated in the table below:

Pollution Control Equipment Commitment and Targeted In Service Dates				
Coal-Fueled Unit	SO2 - Scrubbers (1)		NOx – Low-NOx Burners	PM/Hg - Baghouses
Hunter 1	May 2009	U	May 2009	May 2009
Hunter 2	May 2010	U	May 2010	May 2010
Hunter 3	Remains at 90%	U	May 2007	
Huntington 1	November 2009	U	November 2009	November 2009
Huntington 2	January 2007*	NI	November 2006*	November 2006*
Dave Johnston 3	May 2009	NI	May 2009	
Dave Johnston 4	November 2011	NI	November 2007	November 2011
Jim Bridger 1	May 2010	U	May 2010	
Jim Bridger 2	June 2009	U		
Jim Bridger 3	June 2011	U	June 2011	
Jim Bridger 4	May 2008	U	May 2008	
Naughton 1			May 2011	
Naughton 2			May 2010	
Naughton 3	May 2012	U		May 2008
Wyodak	July 2010	U	July 2010	
Cholla 4	May 2008	NI	May 2008	May 2008
* Projects previously announced by PacifiCorp that MEHC commits to implement				

(1) U = Upgrade, NI = New Installation

Q. Please elaborate upon the Energy Efficiency and DSM commitment.

A. MEHC appreciates and supports PacifiCorp's tradition of energy efficiency leadership. Energy efficiency and DSM programs have a critical role in resource management. PacifiCorp is rightly proud of its status as the first utility in the nation to invest in energy-efficiency as a resource and its tradition of energy-efficiency progress and innovation.

MEHC expects that PacifiCorp will continue its relationships with the Northwest Energy Efficiency Alliance and the Oregon Energy Trust. PacifiCorp will also continue to work with its regulators and customers on ways to remove unintended financial barriers to cost-effective electricity savings from every source including, but not limited to, PacifiCorp's own investments. Those who value and seek energy-efficiency leadership from PacifiCorp can expect to see continued leadership and commensurate results.

PacifiCorp and MEC have each been providing customers with cost-effective (as defined by each respective state) energy efficiency and DSM programs for more than a decade. In 2004, PacifiCorp spent approximately $12 million for residential energy efficiency programs and $18.5 million for non-residential energy efficiency programs. Through Oregon's public purpose charge, another $21.5 million was invested in energy efficiency programs within PacifiCorp's service area by the Oregon Energy Trust. In the same year, MEC spent more than $7 million for residential electric energy efficiency programs, $15.2 million for non-residential electric energy efficiency programs, $13 million for gas energy efficiency programs, and $1.3 million on other energy efficiency programs and administration. Each utility has accumulated significant experience and expertise. While both utilities offer some similar programs, each also offers programs that the other does not.

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

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

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

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

Pacificorp Operations Post-Trasaction

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

A. PacifiCorp will operate very much like it does today. PacifiCorp will become a separate business platform under MEHC; it will not be merged with other platforms such as MEC. PacifiCorp will have its own management and its own board of directors.

Q. **Will PacifiCorp have its own debt?**

A. Yes.

Q. **Will PacifiCorp have its own individual business plan?**

A. Yes. MEHC business platforms are required to develop and implement their own business plans and budgets. While these plans and budgets are reviewed by MEHC in the process of allocating capital, and guidance is offered, business platforms determine their own priorities.

Q. **Do the business platforms have the ability to take their own positions on political and regulatory issues that affect the states in which they operate?**

A. Yes. However, MEHC or other business platforms may offer guidance and suggestions based upon their experiences. Indeed, one of the advantages of being a business platform in a holding company with other regulated utilities is the opportunity to share regulatory ideas and experiences. This benefit is similar to the advantage provided the Commission through its participation in the National Association of Regulatory Utility Commissioners where it has the experiences and policies of forty-nine other state regulatory agencies ("diverse laboratories") upon which to draw.

I would add that there will be occasions when MEHC adopts a position on matters of national importance. On those occasions, MEHC coordinates with each business platform on the appropriate position so as to ensure that all business platforms act consistently with a common MEHC position.

Q. Do the individual business platforms have control and responsibility for making decisions that achieve objectives such as customer satisfaction, reliable service, employee safety, environmental stewardship and regulatory/legislative credibility?

A. Yes, they do. In fact, this is required of our business platforms.

Q. Will there be other changes in the PacifiCorp board of directors, beyond those noted previously?

A. Yes. ScottishPower representatives will be replaced and some restructuring is expected.

Q. Are there any plans for a reduction in force at PacifiCorp as a result of the transaction?

A. No.

Q. Do you anticipate changing the existing labor contracts as a result of the transaction?

A. No. We will honor existing labor contracts.

Assisting Pacificorp To Achieve Its Business Plan

Q. You have indicated that MEHC will help PacifiCorp achieve its business plan and its authorized return on investment. How will you accomplish this, and can you provide any illustrative examples from MEHC's past experience?

A. I believe that MEHC offers a rather unique blend of management discipline and vision, combined with an important willingness and ability to efficiently invest capital. This is illustrated in MEHC's experience in the acquisition of Kern

River. In the 2000-2001 time frame, the California market was demanding significant pipeline expansion to satisfy new gas-fueled electric generation demand. In response to this demand, Kern executed firm transportation agreements with new shippers to more than double the existing capacity of the pipeline. Many of these shippers, in turn, had existing downstream electric generation obligations for electric service to help stabilize energy markets in the western United States. The firm transportation contracts contemplated completion of the pipeline expansion by May 2003, to coincide with the planned completion of more than 5,000 MW of new electric generation, representing $3 billion in capital investment.

Unfortunately, the Williams Pipeline Company ("Williams"), then Kern's owner, started to experience significant financial difficulties just one year after execution of the agreements and within three months of having to finance construction of the expansion. Williams saw their access to the capital markets simply evaporate at this pivotal time. Williams then owned five interstate pipeline companies, and Kern was considered the best asset of the group. Yet, Kern was the first pipeline sold, because Williams would have been unable to secure the financing to complete the expansion project. Such a failure to complete the project would have prolonged the extreme price volatility in western gas and electric markets and likely have caused litigation from shippers expecting service under their firm transportation contracts.

MEHC bought Kern in March 2002, relieving Williams of the need to undertake an eighteen month, $1.26 billion capital expansion project. Under

MEHC's ownership, Kern obtained attractive financing, finished the expansion project on time and under budget, and is now receiving a reasonable return on this investment. Completion of that project was the key to Kern's regulatory and customer commitments and current financial performance.

Q. Can you provide another example?

A. Yes. MEHC acquired Northern Natural Gas in August 2002, and within eight months there were four major incidents that revealed the Northern system had, in the past, suffered from a lack of investment. The incidents were as follows: (1) a rupture of a liquid separator at a well site in a storage field in Kansas; (2) a pipeline rupture in Minnesota; (3) a compression building explosion in Kansas; and (4) a compression building explosion in Texas. From the diverse locations, it was apparent the problem was widespread.

Northern's management, working with MEHC's leadership team, fashioned a recovery program featuring eleven "integrity initiatives" which were designed to restore integrity to, and confidence in, the Northern system. One example was our internal corrosion inspection initiative that focused on those places in the Northern system of low or no flowing gas. At these points, with the wrong combination of gas quality, there is a greater likelihood of dangerous corrosion. Northern's initiative required that it excavate the vast majority of the system's 3,600 locations of low- or no-flowing gas and then perform inspections, including ultrasonic testing, for problems. Another initiative required a top-to-bottom review of Northern's engineering standards and operating procedures.

In all, Northern spent over $50 million on the eleven initiatives over the

2003-2004 timeframe. Of this amount, Northern invested over $28 million in capital projects and incurred over $22 million in operating expenditures as part of these initiatives. The results have been very encouraging. No further major incidents have occurred, and ongoing programs have arisen out of the eleven initiatives. The expectation is that Northern will not repeat the experience of the 2002-2003 timeframe. Realizing this expectation is important to Northern's earnings potential, as a poor safety record yields customer dissatisfaction, revenue loss, and litigation expenses and losses.

Conclusion

Q. What do you conclude with respect to the proposed transaction?

A. MEHC's proposed acquisition of PacifiCorp represents a remarkable strategic fit between MEHC, which is uniquely poised to make significant cost-effective capital investment in the energy industry, and PacifiCorp, which is facing the need for huge energy infrastructure investments in order to continue to meet the demands and expectations of its electric customers.

In the testimony of MEHC's witnesses, we have offered more than 60 commitments to the 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 DSM 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. MEHC has demonstrated in its application and its testimony that it is committed to extending customer service standards and performance guarantees, investing to improve transmission and distribution reliability and import capability, investing to enhance wind power development, investing to reduce emissions from coal plants, and furthering DSM. We will continue our emphasis on employee safety. We will do all this while maintaining our focus upon 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 MEHC's most valuable asset is the integrity it has in its relationships with all of its stakeholders.

We believe this is what PacifiCorp's customers, employees and communities deserve and require. This transaction is in the interest of PacifiCorp, its customers, employees and the public.

Q. Does this conclude your testimony?

A. Yes, it does.

MidAmerican Energy Holdings Company and PacifiCorp New Commitments

- **<u>Transmission Investment:</u>** MEHC and PacifiCorp have identified incremental transmission projects that enhance reliability, facilitate the receipt of renewable resources, or enable further system optimization. Subject to permitting and the availability of materials, equipment and rights-of-way, MEHC and PacifiCorp commit to use their best efforts to achieve the following transmission system infrastructure improvements[1]:
  - **Path C Upgrade (~$78 million) –** Increase Path C capacity by 300 MW (from S.E. Idaho to Northern Utah). This project:
    - enhances reliability because it increases transfer capability between the east and west control areas,
    - facilitates the delivery of power from wind projects in Idaho, and
    - provides PacifiCorp with greater flexibility and the opportunity to consider additional options regarding planned generation capacity additions.
  - **Mona - Oquirrh (~$196 million) –** Increase the import capability from Mona into the Wasatch Front (from Wasatch Front South to Wasatch Front North). This project would enhance the ability to import power from new resources delivered at or to Mona, and to import from Southern California by "wheeling" over the Adelanto DC tie. This project:
    - enhances reliability by enabling the import of power from Southern California entities during emergency situations,
    - facilitates the acceptance of renewable resources, and
    - enhances further system optimization since it enables the further purchase or exchange of seasonal resources from parties capable of delivering to Mona.
  - **Walla Walla - Yakima or Mid-C (~$88 million) –** Establish a link between the "Walla Walla bubble" and the "Yakima bubble" and/or reinforce the link between the "Walla Walla bubble" and

[1] While MEHC has immersed itself in the details of PacifiCorp's business activities in the short time since the announcement of the transaction, it is possible that upon further review a particular investment might not be cost-effective or optimal for customers. If that should occur, MEHC pledges to propose an alternative to the Commission with a comparable benefit.

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 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.

- **Future Generation Options:** In Exhibit PPL/301, MEHC and PacifiCorp adopt a commitment to source future PacifiCorp generation resources consistent with the then current rules and regulations of each state. In addition to that commitment, for the next ten years, MEHC and PacifiCorp commit that they will submit as part of any RFPs --including renewable energy RFPs --a 100 MW or more utility "own/operate" proposal for the particular resource. It is not the intent or objective that such proposals be favored over other options. Rather, the option for PacifiCorp to own and operate the resource which is the subject of the RFP will enable comparison and evaluation of that option against other alternatives. In addition to providing regulators and interested parties with an additional viable option for assessment, it can be expected that this commitment will enhance PacifiCorp's ability to increase the proportion of cost-effective renewable energy in its generation portfolio, based upon the actual experience of MEC and the "Renewable Energy" commitment offered below.

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

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

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

- **Coal Technology:** MEHC supports and affirms PacifiCorp's commitment to consider utilization of advanced coal-fuel technology such as super-critical or IGCC technology when adding coal-fueled generation.

- **Greenhouse Gas Emission Reduction:** MEHC and PacifiCorp commit to participate in the Environmental Protection Agency's SF_6 Emission Reduction Partnership for Electric Power Systems. Sulfur hexafluoride (SF_6) is a highly potent greenhouse gas used in the electric industry for insulation and current interruption in electric transmission and distribution equipment. Over a 100-year period, SF_6 is 23,900 times more effective at trapping infrared radiation than an equivalent amount of CO_2, making it the most highly potent, known greenhouse gas. SF_6 is also a very stable chemical, with an atmospheric lifetime of 3,200 years. As the gas is emitted, it accumulates in the atmosphere in an essentially un-degraded state for many centuries. Thus, a relatively small amount of SF_6 can have a significant impact on global climate change. Through its participation in the SF_6 partnership, PacifiCorp will commit to an appropriate SF_6 emissions reduction goal and annually report its estimated SF_6 emissions. This not only reduces greenhouse gas emissions, it saves money and improves grid reliability. Since 1999, EPA's SF_6 partner companies have saved $2.5 million from the avoided gas loss alone. Use of improved SF_6 equipment and management practices helps protect system reliability and efficiency.

- **Emission Reductions from Coal-Fueled Generating Plants:** Working with the affected generation plant joint owners and with regulators to obtain required approvals, MEHC and PacifiCorp commit to install the equipment likely to be necessary under future emissions control scenarios at a cost of approximately $812 million. These investments would commence as soon as feasible after the close of the transaction. While additional expenditures may ultimately be required as future emission reduction requirements become better defined, MEHC believes these investments in emission control equipment are reasonable and environmentally beneficial. The execution of an emissions reduction plan for the existing PacifiCorp coal-fueled facilities, combined with the use of reduced-emissions coal technology for new coal-fueled generation, is expected to result in a significant decrease in the emissions rate of PacifiCorp's coal-fueled generation fleet. The investments to which MEHC is committing are expected to result in a decrease in the SO_2 emissions rates of more than 50%, a decrease in the NO_x emissions rates of more than 40%, a reduction in the mercury emissions rates of almost 40%, and no increase expected in the CO_2 emissions rate.

- **Energy Efficiency and DSM Management:** MEHC and PacifiCorp commit to conducting a company-defined third-party market potential study of additional DSM and energy efficiency opportunities within PacifiCorp's service areas. The objective of the study will be to identify opportunities not yet identified by the company and, if and where possible, to recommend programs or actions to pursue those opportunities found to be cost-effective. The study will focus on opportunities for deliverable DSM and energy efficiency resources rather than technical potentials that may not be attainable through DSM and energy efficiency efforts. The findings of the study will be reported back to DSM advisory groups, commission staffs, and other interested stakeholders and will be used by the Company in helping to direct ongoing DSM and energy efficiency efforts. The study will be completed within one year after the closing on the transaction, and MEHC shareholders will absorb the first $1 million of the costs of the study.

PacifiCorp further commits to meeting its portion of the NWPPC's energy efficiency targets for Oregon, Washington and Idaho, as long as the targets can be achieved in a manner deemed cost-effective by the affected states.

In addition, MEHC and PacifiCorp commit that PacifiCorp and MEC will annually collaborate to identify any incremental programs that might be cost-effective for PacifiCorp customers. The Commission will be notified of any additional cost-effective programs that are identified.

- **Customer Service Standards:** MEHC and PacifiCorp commit to extend, through 2011, the commitment in Exhibit PPL/301 regarding customer service guarantees and performance standards as established in each jurisdiction, a two-year extension.

- **Community Involvement and Economic Development:** MEHC has significant experience in assisting its communities with economic development efforts. MEHC plans to continue PacifiCorp's existing economic development practices and use MEHC's experience to maximize the effectiveness of these efforts.

- **Corporate Presence (All States)**: MEHC understands that having adequate staffing and representation in each state is not optional. We understand its importance to customers, to regulators and to states. MEHC and PacifiCorp commit to maintaining adequate staffing and presence in each state, consistent with the provision of reliable service and cost-effective operations.

  Utah Specific Commitments
  - PacifiCorp and MEHC commit to maintaining sufficient operations and front line staffing to provide adequate and reliable service in recognition of the level of load and customer growth in Utah.
  - PacifiCorp and MEHC commit to increasing the number of corporate and senior management positions in Utah to better reflect the relative size of Utah's retail load compared to the retail loads of the other states. Positions to be examined will include, but not be limited to, engineering, purchasing, information technology, land rights, legal, commercial transactions and asset management.
  - PacifiCorp and MEHC will authorize the top management personnel located in Utah to make decisions regarding interpretation of customer service policies and tariffs pertaining to Utah customers.
  - The Chairman of the Board of PacifiCorp and the President of PacifiCorp will meet at least annually with the Utah Public Service

Commission to discuss (1) corporate presence status, plans and commitments, and (2) customer service issues.

- **Regional Transmission:** MEHC recognizes that it can and should have a role in addressing the critical importance of transmission infrastructure to the states in which PacifiCorp serves. MEHC also recognizes that some transmission projects, while highly desirable, may not be appropriate investments for PacifiCorp and its regulated customers. Therefore, MEHC shareholders commit their resources and leadership to assist PacifiCorp states in the development of transmission projects upon which the states can agree. Examples of such projects would be RMATS and the proposed Frontier transmission line.

Introduction

Q. Please state your name and business address.

A. My name is Judi Johansen, and my business address is 825 NE Multnomah St, Suite 2000, Portland, OR 97232.

Q. By whom are you employed and in what capacity?

A. I am employed by PacifiCorp as CEO and President. I also serve on the Board of Directors of Scottish Power plc ("ScottishPower").

Q. Please summarize your education and business experience.

A. I have a bachelor's degree in political science from Colorado State University and a law degree from Northwestern School of Law at Lewis & Clark College in Portland, Oregon. I have over 15 years experience at an executive level within the utility industry. Prior to joining PacifiCorp in December 2000, I was the administrator and chief executive officer for Bonneville Power Administration (BPA). Within BPA I served a number of different senior roles including vice president for generation supply with executive oversight of power supply, scheduling, trading, short-term sales and federal and non-federal projects. In addition to my roles at BPA, I have held the role of vice president of business development with Avista Energy, was a partner in the law firm Gordon, Thomas and Honeywell, and served as staff attorney for the Public Power Council, a trade association of Northwest consumer-owned electric utilities.

Q. What position will you hold with PacifiCorp after the transaction is closed?

A. I will be the President of PacifiCorp.

Summary of Testimony

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

A. The purpose of my testimony is to provide a broad overview of PacifiCorp's business activities, to briefly discuss why ScottishPower is selling PacifiCorp to MidAmerican Energy Holdings Company ("MEHC") and to explain why PacifiCorp supports the proposed acquisition by MEHC as serving the public interest.

Overview

Q. Please describe the nature of PacifiCorp's business.

A. PacifiCorp is an integrated, investor-owned public utility providing electric service to customers in California, Idaho, Oregon, Utah, Washington and Wyoming. PacifiCorp is a wholly-owned subsidiary of ScottishPower which is headquartered in Glasgow, Scotland.

Q. Is ScottishPower selling PacifiCorp as a consequence of poor operational performance?

A. No. Since the completion of the merger in 1999, and sticking closely to a strategy of focusing on the core regulatory business, PacifiCorp has steadily improved its operational performance.

Q. Could you provide some examples of these operational improvements?

A. Yes. Since the merger we have made steady progress in a number of areas including customer service, the environment, safety, asset performance, and risk management.

Q. Please describe the customer service improvements.

A. With respect to customer service, one of the primary standards by which we judge call center performance is the service measure that deals with answering calls within a specified number of seconds. We have verified that our targeted performance of 80 percent of calls answered within 30 seconds remains at the highest end of service levels provided by other U.S. electric utilities.

Since the 1999 merger, our Customer Guarantee Program has been highly successful in backing our service to customers with a promise to pay. The guarantees highlight key areas of day-to-day performance such as restoration of power, new service connection, investigation of bill or meter problems, providing notice of planned interruptions and keeping appointments. During 2004/5, with approximately 3 million opportunities to serve customers annually under our guarantee program we succeeded 99.9 percent of the time in meeting our commitments.

Our commitment to service was also recognized recently when, for the second year in a row, we were awarded first place in a TQS survey of large electric customers.

Q. Please describe the Company's environmental record.

A. With regard to the environment, and with the support and guidance given to us by our Environmental Forum, we have:

- implemented environmental management systems at our owned plants;
- commenced an emissions abatement project at the Huntington #2 plant that, when fully operational in 2007, will reduce emissions of sulfur

dioxide by 95 percent, particulate emissions by 80 percent, and emissions of nitrogen oxide by 40 percent;

- signed up over 25,000 customers to purchase renewable power through our Blue Sky program;
- pioneered the use of a carbon adder in resource procurement;
- added wind capacity of 108 MW and over 70 MW of DSM; and
- developed avian protection measures to reduce bird mortality.

In recognition of these achievements, we have recently won environmental awards for our pricing programs, public-private partnerships and environmental reports.

Q. Please describe the Company's record with respect to safety.

A. We have continued to improve our employee and public safety records. Underpinning this improvement has been the implementation of numerous new initiatives including wellness programs, ergonomics training and improved communications. Regarding public safety, the Associated Electric & Gas Insurance Services (AEGIS) recently honored PacifiCorp by publicly recognizing the company as a top tier performer.

Q. Please describe the Company's operational performance.

A. We have delivered our merger commitment of a 10 percent reduction in System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI), in some states a year early. This has been achieved through initiatives such as the centralization of our asset management function and the introduction of an asset risk and prioritization tool.

Although we have seen increased levels of forced outages as our plants continue to grow older, the overall equivalent availability performance of our generation fleet remains high when compared to the rest of the sector. In addition, our mining business continues to deliver some of the lowest cost coal in the U.S on a delivered basis.

Q. Please describe the Company's record with respect to risk management.

With respect to risk management, and as part of a ScottishPower group-wide program, we were one of the early adopters of a much stronger risk management program. We continue to invest in systems, in particular in our commercial and trading business, aimed at reducing our risk exposure within the commodity markets.

Q. Has PacifiCorp's financial performance played a major role in the decision taken by ScottishPower to sell it to MEHC?

A. Yes. While PacifiCorp's U.S. GAAP Earnings Before Interest and Tax (EBIT) has shown steady growth since 2000-2001, a major disappointment for ScottishPower and its shareholders has been the inability of PacifiCorp to earn its allowed return on equity. We believe this is due to a combination of two main issues:

- the negative impact of volatility in our fundamentals, primarily in the areas of load, hydro and thermal availability; and
- an inability to match the growing cost of our capital investment program with additional revenues generated through either general rate cases or contributions from load growth.

Q. Could you please explain the main investment requirements facing PacifiCorp going forward?

A. Like many U.S. utilities, in the years ahead, PacifiCorp will face cost pressures from the substantial new capital investment and forecast increases in operating costs. These pressures fall within the following general areas:

- addition of new generation and transmission to meet PacifiCorp's resource needs across both the East and West side of the network;
- replacement/maintenance of existing generation, transmission and distribution assets that are reaching points of maturity, or even the end of their operational lives;
- rising commodity costs (including oil, gas, coal and steel) caused by global shifts in supply and demand;
- replacement of low-cost, long-term wheeling and wholesale purchases/sales contracts;
- new environmental capital and operating costs linked to implementation of clean air, hydro re-licensing and potential CO_2 initiatives;
- rising pension and benefits costs; and
- attracting and retaining key skilled personnel combined with an aging workforce.

Q. Are these costs solely attributable to system load growth?

A. No. A significant proportion of these cost increases result either from structural shifts in the variable cost to serve, (e.g., rising commodity costs/expiration of wholesale contracts) or are increases in fixed costs due to both the need to meet our environmental obligations and a requirement to replace a significant proportion of our transmission and distribution assets that are reaching the end of their operational lives.

Q. What level of capital expenditure will be needed to fund these issues?

A. We believe that at least $1 billion of capital expenditure per annum will need to be invested in PacifiCorp going forward. When combined with the lag associated with recovering rising operating costs within rates, we anticipate a reduction in cash availability that will restrict our ability to provide dividend growth, and adequate shareholder returns, over the short to medium term.

Q. What average state price increases are implied by these cost increases?

A. We have already shared estimated cost projections with our states through our Multi State Process. While we cannot fully predict the exact impacts (these estimates are based on one forecast view of our future fundamental curves), we believe that PacifiCorp's rates, even taking into account revenue from load growth, will have to rise annually across all our jurisdictions by over 4 percent for the foreseeable future.

Q. How will this additional revenue requirement be recovered?

A. Irrespective of this transaction, PacifiCorp will need to evaluate all options on how to improve our overall earned regulated returns. General rate cases remain our current mechanism for recovering prudently incurred costs from customers. However, we continue to examine other recovery mechanisms successfully deployed by other companies and their commissions, such as Power Cost Adjustment Mechanisms (PCAMs) and approaches using Alternative Forms of

Regulation (AFOR). Going forward, our intent will be to continue to work with our key stakeholders to establish appropriate mechanisms that fairly balance risk between customers and PacifiCorp while helping to provide rate certainty and allowing us to fund our ongoing performance improvements.

Q. How might these investment issues financially impact PacifiCorp under its current ownership?

A. ScottishPower equity is predominately held by UK shareholders who value the company on the basis of future dividend growth and a predictable, steady growth in earnings. Although ScottishPower has the capacity to fund PacifiCorp's investment requirement going forward, having a predominately U.K. shareholder base raises two significant challenges for ScottishPower:

- PacifiCorp's investment program will continue to be a significant cash draw on ScottishPower, reducing its ability to fund other, higher return business opportunities and grow future dividends to shareholders; and
- U.K. investors, and its principal financial analysts, having experienced the consequences of the power crisis and the recent revisions to PacifiCorp's earnings outlook, perceive a high level of risk with PacifiCorp.

Q. Why is ScottishPower selling PacifiCorp to MEHC?

A. In November 2004, the ScottishPower Board of Directors commenced a strategic review of PacifiCorp as a result of its performance and the significant investment it required in the immediate future. The review concluded that the scale and timing of the capital investment required in PacifiCorp and the likely profile of returns from that investment meant that shareholders' best interests were served by the sale of PacifiCorp to MEHC on the terms and conditions contained in the sales purchase agreement.

Q. What strategic advantage would MEHC offer PacifiCorp and its customers?

A. For specifics on the net customer benefits that will result from the transaction, please refer to MEHC witness Abel's testimony. In general terms, however, I believe MEHC provides advantages that include:

- access to significant amounts of new capital that will be required to fund a sustained investment cycle;
- an ability to take a longer term view of the required risk adjusted return than a typical electric utility equity investor; and
- access to, while subject to market conditions, attractively priced debt resulting from MEHC's relationship with Berkshire Hathaway.

Q. Why is the proposed transaction in the public interest?

A. There are five key factors that I believe ensure that this transaction serves the public interest:

- ScottishPower has announced its intention to sell PacifiCorp. In contrast, MEHC has communicated a business strategy of owning utility businesses for the long term. MEHC already owns a vertically integrated U.S. utility and will support PacifiCorp's investment needs thereby allowing it to continue its focus on customer service, safety and operational excellence;
- MEHC's willingness to invest, coupled with a solid track record in utility operations, will help PacifiCorp maintain its relative low-cost competitive position for customers in the face of its significant future investment needs;

- MEHC and PacifiCorp have very similar operating philosophies and characteristics, which facilitates a smooth transition and long-term success within the MEHC portfolio;
- MEHC fully supports PacifiCorp's strategy of maintaining a local presence and the development of its business consistent with current policy and practices; and
- MEHC intends to retain PacifiCorp's current management team. This team, when combined with capabilities of MEHC, will be able to continue its track record of operational improvements.

Q. How have you reached these conclusions?

A. My conclusions are based upon MEHC's track record of proven success and the values it has in common with PacifiCorp. MEHC has made considerable investments at a reasonable cost to maintain and enhance the energy infrastructure in the United States. Those investments recognize the importance of diverse sources of electricity including significant renewable resources and expenditures for energy efficiency. We both value the importance of customer service as evidenced by strong customer satisfaction results. We care deeply about the safety of our employees through the ongoing safety training that is part of our culture. We appreciate the responsibilities of regulators, and strive to keep them informed. We both recognize the importance of respecting the environment in our decision making process. Accordingly, I believe this transaction presents a unique opportunity for PacifiCorp and is in the best interest of PacifiCorp's customers and key stakeholders.

Q. Does this conclude your direct testimony?

A. Yes.

Introduction

Q. Please state your name and business address.

A. My name is Brent E. Gale. My business address is 666 Grand Avenue, Suite 2600, Des Moines, Iowa 50309.

Q. By whom are you employed and in what position?

A. I am Senior Vice President, Legislation & Regulation, for MidAmerican Energy Company ("MEC"), a subsidiary and business platform of MidAmerican Energy Holdings Company ("MEHC").

Q. Please describe the responsibilities of your current position.

A. My primary responsibilities for MEC include U.S. regulatory and legislative strategic planning, state legislative relations, federal and state regulatory relations, rates, regulated cost of service, rate design, utility acquisitions, representation of MEC's interest in North America regarding electric and gas industry restructuring, and providing advice and assistance to MEHC regarding federal legislative policy.

Q. Please describe your background.

A. I received a B.A. degree from Drake University in 1972 and a J.D. degree, also from Drake, in 1976. After graduation I joined one of MEC's predecessor companies, holding positions of attorney, general counsel and vice president-general counsel. After the formation of MEC, I held the positions of vice president-regulatory law & analysis and vice president-legislation & regulation.

I am licensed to practice law in all state courts of Iowa, before the federal court for the Southern District of Illinois and before the District of Columbia

Circuit. I am a member of the Iowa State Bar Association, the EEI Legal Committee, the EEI Energy Delivery and Public Policy Executive Advisory Committee, the boards of the Illinois Energy Association, the Illinois Institute for Regulatory Policy Studies, and the New Mexico State Center for Public Utilities.

During my career, I have spoken before numerous consumer, industry, and national and international regulatory conferences, most recently upon the topics of renewable energy, alternative regulation, electric restructuring, and generation portfolio diversity.

I have also participated extensively in the negotiation and drafting of electric and gas legislation in several states and at the federal level. I have previously testified before the Iowa Utilities Board, Illinois Commerce Commission and in the courts of Iowa and Illinois.

Summary of Testimony

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

A. The purpose of my testimony is as follows:

- to provide evidence that the transaction will be in the public interest and to sponsor some of the commitments that are being offered to protect the interests of consumers;
- to identify the similarities between PacifiCorp and MEC;
- to discuss the experience of MEC as evidence of how a regulated utility can be expected to operate as a subsidiary of MEHC; and
- to discuss the various shareholder, state and federal approvals required for completion of the transaction.

Q. Please summarize your testimony.

A. My testimony provides evidence that the transaction is in the public interest and will not harm the ability of PacifiCorp to provide adequate and reliable service to its customers in all states that it is privileged to serve. This evidence includes the pro-active offer by MEHC and PacifiCorp to adopt a uniform set of transaction commitments based upon the commitments in all states from PacifiCorp's prior transaction. My testimony also includes a detailed discussion of MEC's experience as an MEHC subsidiary and the similarities between MEC and PacifiCorp.

The Transaction is in the Public Interest

Q. You have said that MEHC's acquisition of PacifiCorp will be in the public interest and that commitments will be undertaken to ensure that customers are protected. What is the basis for your statement?

A. My reasoning is based upon the following:

- As part of my testimony, MEHC and PacifiCorp will adopt a uniform set of commitments that are based upon the commitments undertaken by PacifiCorp as a part of the prior merger transaction; these uniform commitments will be extended to all six states, not just the states that requested a particular commitment in the previous PacifiCorp transaction.

- Also as part of my testimony, in recognition of the differences among the states, MEHC and PacifiCorp will offer to continue several state-specific commitments undertaken by PacifiCorp in the previous transaction.

- As part of MEHC witness Mr. Abel's testimony, MEHC and PacifiCorp will offer numerous new commitments involving generation options, transmission investment, clean air investment, energy efficiency, customer service and other important matters.

- PacifiCorp will become a separate business platform under MEHC, with its own business plan, its own management, its own state policies, and the responsibility for making decisions that achieve the objectives identified in the testimony of MEHC witness Mr. Abel (i.e., customer satisfaction, reliable service, employee safety, environmental stewardship, and regulatory/legislative credibility).

- The many similarities between MEC and PacifiCorp will facilitate an easy transition of PacifiCorp as a separate subsidiary of MEHC.

- MEC's operations, as a subsidiary of MEHC, provide demonstrable evidence that PacifiCorp will have the ability to continue its emphasis on key utility performance areas such as: customer service; safety; integrated resource planning; a balanced mix of generating resources, including renewable generation; use of energy efficiency and demand-side management ("DSM"); investment in environmental emission control technology; and collaborative processes.

MECH and PacifiCorp Commitments

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

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

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

Section I of Exhibit PPL/301 identifies commitments that address customer service, regulatory oversight, financial integrity, revenue requirements impact, the environment, communities, employees and planning. The commitments in Section I will be applied uniformly to all six states. We are applying these commitments uniformly to simplify administration for everyone involved, including PacifiCorp, and to ensure equitable treatment of customers in all six states. The pro-active adoption of these commitments by MEHC is important evidence that there will be no harm to the public interest from the transaction.

Moreover, MEHC believes the uniform application of the commitments in Exhibit PPL/301 to all states also provides evidence of benefits from the transaction. MEHC understands that no single state was previously provided all of these commitments. Thus, with the uniform application of these commitments in all states, each state will be receiving commitments that previously were not applicable to it. In other words, each state is receiving new benefits and protections for customers and the public.

While I am sponsoring all of the commitments in Exhibit PPL/301, MEHC witnesses Mr. Goodman and Mr. Specketer in their testimony discuss some of the regulatory oversight, revenue requirements and the financial commitments in greater detail. The commitments that they discuss are identified in my Exhibit PPL/301.

Q. Where do you address the state-specific commitments by MEHC and PacifiCorp related to the prior transaction?

A. These state-specific commitments are in Section II of Exhibit PPL/301. These commitments reflect MEHC's understanding of commitments previously made by PacifiCorp that reflect unique or state-specific issues.

Q. What is the purpose of the provisions in Section III of that Exhibit?

A. These are administrative provisions that previously applied in one or more states. We believe these should be applied uniformly in all states to simplify administration and to ensure equitable application of the commitments in all jurisdictions.

Similarities between PacifiCorp and MEC

Q. Why do you believe the similarities between PacifiCorp and MEC provide evidence that the proposed transaction will be in the public interest and not harm the interests of consumers?

A. There are several reasons. First, the existence of these similarities means that MEHC has experience with the types of issues and risks that confront PacifiCorp. Second, the existence of the similarities means that MEC and PacifiCorp have experiences and advice that can be shared to enable them to better pursue the objectives of customer satisfaction, reliable service, employee safety, environmental stewardship and regulatory/legislative credibility. Third, the similarities suggest compatible corporate cultures that should facilitate PacifiCorp's transition to a business platform of MEHC. Fourth, in meetings with interested parties prior to the filing of this testimony, one of the most frequently offered comments was to the effect that it was one thing to "talk the talk" but most were interested in whether PacifiCorp, under MEHC, would "walk the walk." MEC's operation as a business platform under MEHC provides demonstrable evidence of how that company has "walked the walk."

Q. What are some of the similarities between PacifiCorp and MEC that you deem significant?

A. The most significant of the similarities are as follows:

- The utilities operate in contiguous states.
- Wholesale transactions, interconnections and positive relationships with non-jurisdictional (public power and cooperative) utilities are important to the conduct and financial health of the business.
- The presence of the non-jurisdictional utilities creates unique challenges and opportunities for transmission planning, coordination and operation.
- A demonstrable focus upon customer satisfaction is indicated by independent survey results.
- A willingness to utilize renewable energy technologies has been demonstrated where the utilization is cost-effective for customers and there is an opportunity for a fair return to shareholders.
- A willingness to make significant investments in infrastructure improvements has been demonstrated where the investments are cost-effective for customers and there is an opportunity for a fair return to shareholders.
- Investments in DSM and energy efficiency programs are made to the full extent determined to be cost-effective by applicable state standards.
- Collaborative processes are employed to develop environmental, DSM and energy efficiency programs.
- Low-sulfur, Western-basin coals are the only coals used for generation and provide more than 80% of the energy serving bundled retail customers.
- Coal shipping options are the Burlington Northern and Union Pacific railroads.
- The delivered cost of coal is among the lowest in the United States.
- Wind, natural gas and hydro are included in the regulated generation portfolio, with the percentage of wind capacity projected to comprise a significant portion of the portfolio by 2010, if cost-effective.
- There is a demonstrable commitment to employee safety.
- There is a need to plan for and deal with adverse weather conditions impacting the reliability of the delivery systems to the extent economical

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

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

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

MidAmerican Energy Company

Q. Please provide some historical background on MEC.

A. MEC and its predecessor corporations (e.g., Iowa Power Inc., Iowa-Illinois Gas and Electric Company, Iowa Public Service Company and their respective predecessors) have electric service in Iowa, Illinois and South Dakota for approximately 100 years. MEC is the product of a merger between Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company in 1995. Midwest Power Systems Inc., in turn, was the result of a prior merger between Iowa Power Inc. and Iowa Public Service Company[1] in 1992. In 1999, MEC was acquired by CalEnergy Company Inc. (subsequently known as "MidAmerican Energy Holdings Company" or "MEHC"), and in 2000, MEHC and an investor group comprised of Berkshire Hathaway Inc, Walter Scott, Jr. (a director of MEHC), David Sokol (Chairman and Chief Executive Officer of 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.

Greg Abel (President and Chief Operating Officer of MEHC), closed on a definitive agreement and plan of merger whereby the investor group, together with certain of Mr. Scott's family members and family trusts and corporations, acquired all of the outstanding common stock of MEHC.

Q. Where and how does MEC provide electric service?

A. MEC provides electric service in Iowa, Illinois and South Dakota, and is the largest utility in Iowa. It provides service to more than 690,000 electric customers and more than 670,000 natural gas customers in a 10,600 square-mile area from Sioux Falls, South Dakota to the Quad Cities area of Iowa and Illinois. The largest communities served by MidAmerican are Des Moines, Cedar Rapids, Sioux City, Waterloo, Iowa City and Council Bluffs, Iowa; the Quad Cities area of Iowa and Illinois; and Sioux Falls, South Dakota. I have provided a map of the areas served by MEC in my Exhibit PPL/302.

After MEC's 360.5 MW wind project is completed in 2005, and its 790 MW Council Bluffs Energy Center Unit No. 4 is also completed in 2007, the company will meet the needs of its electric customers with more than 6,100 megawatts of generating capability: approximately 59 percent fueled by coal; 26 percent by natural gas and oil; 8 percent by wind, hydroelectric and biomass; and 7 percent by nuclear. MEC has majority ownership in four of the five jointly-owned coal-fueled generating stations in Iowa, and a forty percent ownership in the fifth. Exhibit PPL/303 shows the locations of MEC's base-load generating facilities. In Exhibit PPL/304, I have provided some basic facts and figures related to MEC's performance.

Customer Service

Q. Would it be reasonable for the Commission to expect no diminution in PacifiCorp's performance in the area of customer service as a consequence of the transaction?

A. Based on MEC's experience, the transaction will not diminish PacifiCorp's performance in this area. MEC has a strong track record of success in satisfying its customers. In both 2004 and 2005, MEC's electric business customers ranked MEC first in the Midwest for overall customer satisfaction, according to the J.D. Power and Associates study. In 2004, the J. D. Power and Associates residential electric study results placed MEC in a tie for first place in the Midwest on overall customer satisfaction, and the residential gas study placed MEC in a tie for second place in the Midwest on overall customer satisfaction.

The following performance factors were included in the respective customer satisfaction studies: Communications with Customers (Business Study); Power Quality and Reliability (Business and Residential Studies); Billing and Payment (Business and Residential Studies); Customer Service (Business and Residential Studies); Company Image (Business and Residential Studies); Price (Business Study); and Price and Value (Residential Study).

Q. Please describe MEC's relationship with its major customer stakeholders.

A. Our largest 800 customers are assigned energy consultants who are capable of assisting customers with unique needs such as energy efficiency, power quality, gas transportation and metering. MEC's interruptible credit program, which offers customers an opportunity to achieve price reductions, has been popular among larger customers, with 197 MW of load control currently enrolled. MEC also works constructively with its largest customers to ensure the rates they pay are based on their costs of service and appropriately reflect any benefits that the customers bring to the retail system (e.g., interruptibility, co-generation). In 2004, our large commercial and industrial customers rated us second in the nation on overall customer satisfaction in the TQS Research Inc. study.

Energy Efficiency and DSM

Q. Please discuss MEC's experience with energy efficiency programs and DSM programs.

A. MEC and its predecessors have offered cost-effective, energy efficiency and DSM programs in Iowa for more than fifteen (15) years. MEC is represented on the boards of the Consortium for Energy Efficiency and the Peak Load Management Alliance and is a member of the Midwest Energy Efficiency Alliance. Similar to PacifiCorp, MEC has received numerous state and federal awards for its programs. MEC estimates that customer demand has been reduced by some 220 MW through DSM programs and some 180 MW from energy efficiency programs. Further, customer annual energy requirements have been reduced by some 500,000 MWh as a result of the DSM and energy efficiency programs. These impacts are taken into account in MEC's resource planning analyses.

Q. Does MEC have state approved energy efficiency plans?

A. Yes. MEC's plans are reviewed and approved by Iowa regulators, usually every three to five years. Through the review and approval process, the Iowa regulators determine which programs proposed by MEC meet the tests for cost-effectiveness, as discussed below. MEC's actual plan expenditures have exceeded budget for several years due to the success of and demand for the programs. For example, in 2004 MEC's actual plan expenditures compared to budgeted plan expenditures were $35.1 million (actual) and $31.3 million (budgeted), respectively. In 2003, MEC's actual versus budgeted expenditures were $31.2 million versus $20.1 million, respectively. A comparison, on a program-by-program basis, for these same years is provided in my Exhibit PPL/305.

MEC utilizes a collaborative process to determine which energy efficiency and DSM programs it will offer for consideration by regulators. The company's most recent collaborative process involved roughly a dozen different parties. In order to be included in MEC's plan, programs must pass a feasibility screening process that incorporates a societal test. The societal test is an economic test that compares the present value of the costs and the benefits over the useful life of an energy efficiency program or DSM program from a societal perspective. Exceptions to the requirement to pass the cost-benefit tests are provided by rule for low-income and tree-planting programs. MEC's plans have included all programs that were identified as feasible and cost effective.

Q. You mentioned MEC's Iowa programs. What about Illinois and South Dakota?

A. These states previously have not been as interested as Iowa in energy efficiency and DSM programs being offered by regulated utilities. However, that may change in Illinois as regulators, at the Governor's request, are considering whether to allow such programs. MEC is an active participant in the Illinois process and is encouraging the state to allow it to extend its Iowa programs to Illinois consumers.

Environmental Actions

Q. What has been the experience of MEHC and MEC regarding environmental stewardship?

A. MEHC is committed to responsible stewardship of the environment and, in 2000, adopted a policy of "Environmental RESPECT" that guides its corporate commitment to the environment. MEHC is a world leader in geothermal energy development and believes that good environmental management is a good business practice. Once again this is revealed in MEC's performance.

Q. Does MEC have a plan to address future air emission reduction requirements?

A. Yes. MEC in 2001 helped the state of Iowa develop and adopt an energy and environmental policy reflected in House File 577. Pursuant to that law, regulated utilities such as MEC develop, through a collaborative process, a multi-year plan and budget for managing regulated emissions from their coal-fueled facilities in a cost-effective manner. Mandatory participants in the review and approval process for that plan and budget are the Iowa Utilities Board, the Iowa Office of Consumer Advocate and the Iowa Department of Natural Resources. To be approved, the plan and budget must: (1) meet applicable state environmental requirements; (2) be expected to achieve cost-effective compliance with applicable state environmental requirements and federal ambient air quality standards; and (3) reasonably balance costs, environmental requirements, economic development potential, and reliability of the electric generation and transmission systems. The state agencies concerned with environmental matters and utility rates are involved in the collaborative process with the result that the reasonableness and prudence of the environmental plan is determined prior to its implementation.

Q. Does MEC have an approved environmental plan?

A. Yes. MEC filed its first multi-year environmental plan and budget with the Iowa Utilities Board and the Iowa Department of Natural Resources in April 2002. That plan addressed MEC's projected air emission reductions considering legislative and regulatory proposals at the time, and described a coordinated long-range plan to achieve those air emissions reductions. The plan proposed specific actions to be taken at each MEC coal-fueled facility and related costs and timing for each action through the year 2010. The Iowa Utilities Board approved the plan on July 17, 2003, covering the period April 1, 2002 to April 1, 2004, and adopted a process to review the plan every two years. MEC filed its most recent plan on April 1, 2004, and that plan was approved by the Iowa Utilities Board on October 4, 2004. This plan covers the period from April 1, 2004 through December 31, 2006.

Q. Did the plan approved by the Iowa Utilities Board include the addition of emissions controls?

A. Yes. MEC's approved initial plan (2002 – 2004) called for installing six neural networks at Council Bluffs Energy Center Unit No. 3, George Neal Energy Center

Unit Nos. 1-4, and Riverside Generating Station Unit No. 5 during the period ending March 31, 2004. All six neural networks were installed during the 2002-2004 plan period. The current approved plan (2004-2006) continues the addition of NO_X controls with the installation of low NO_X burners and overfire air at Council Bluffs Energy Center Unit Nos. 1-3, George Neal Energy Center Unit Nos. 1-4, and Louisa Generating Station. Low NO_X burners have been installed so far at the Neal 3 and Louisa units, with work continuing on the remaining units through 2007.

Q. Was MEC required to make these reductions in NO_X emissions?

A. No. MEC has voluntarily moved forward to reduce the NOx emissions from its facilities. Doing so voluntarily, in advance of required reductions, affords MEC the advantages of (1) being able to appropriately plan the installation of equipment during the respective units' normal outage time and duration; (2) achieving cost savings by aggregating the projects into a single contract to take advantage of volume discounts; and (3) achieving NO_X reductions earlier, allowing impacted states to begin realizing benefits sooner than a just-in-time installation would provide.

Q. Will these voluntary NO_x reductions make a significant difference in the MEC NO_X emissions?

A. Yes. Prior to this voluntary initiative, the MEC coal-fueled facilities had an average rate of NO_X emissions of 0.41 lbs/mmbtu. By the latter part of 2007, with the completion of the low NO_X burner installations, MEC is projected to be at an average NO_X emissions rate from the coal-fired facilities of 0.21 lbs/mmbtu.

This is a 49 percent reduction in NO_X emissions that will benefit all impacted states.

Q. In addition to the NOx controls, do you anticipate any near-term reductions in SO_2 and mercury?

A. Yes. MEC has analyzed the Clean Air Interstate and Clean Air Mercury rules as promulgated by EPA, and MEC will seek approval in July 2005 for an environmental plan that includes the installation of a scrubber and baghouse at Louisa Generating Station. In addition, in 2003 MEC was the first company to commit to the installation of an activated carbon injection system for the control of emissions at the new Council Bluffs Energy Center Unit No. 4, which is scheduled to come on-line in June 2007.

Q. Do you anticipate seeking approval for additional emission controls as a part of the environmental plan process?

A. Yes. Although compliance with the reduction requirements can be achieved by installing controls or meeting the emission reduction obligations by obtaining sufficient allowances to cover the annual emissions or some combination of the two compliance mechanisms, I anticipate that MEC as a part of the environmental planning process will seek approval for significant investments in controls between now and 2018.

Q. Is equivalent environmental planning required of MEC in other states where it provides service?

A. There are no equivalent requirements in MEC's other states, but all impacted states benefit from MEC's Iowa-approved environmental activities.

Renewable Generation

Q. How do you expect the transaction to affect PacifiCorp's commitment to renewable generation resources?

A. I expect that PacifiCorp's commitment in this area will be undiminished and perhaps even strengthened by MEC's experience with owning and operating wind energy facilities and MEHC's experience owning and operating geothermal facilities. MEHC and MEC are leaders in the ownership of renewable resources, particularly geothermal (MEHC) and wind in a regulated portfolio (MEC).

Q. How much geothermal generation does MEHC own?

A. Worldwide, MEHC has 14 geothermal facilities in California and the Philippines. It also owns and operates an innovative hydro-electric and irrigation project in the Philippines and is evaluating the development of one of the largest geothermal projects (215 MW) in the world in California.

Q. What is MEC's experience with wind and renewable resources?

A. MEC is in the midst of constructing a 360.5 MW wind project, one of the largest land-based wind projects in the world. This project was undertaken without a state mandate. The project will occupy two sites in Iowa to obtain wind resource diversity. In 2004, MEC placed 160.5 MW of the project into service, and another 200 MW will be placed into service by the end of 2005. The sites were developed in coordination with two developers, enXco, Inc. and Clipper Windpower Development Company, Inc. MEC owns and operates the project as part of its regulated portfolio. The all-in cost of the wind energy, with the federal production tax credit, is projected to be about three (3) cents per kWh over the life of the facilities.

In addition, MEC purchases or owns another 127.6 MW of capacity from renewable energy sources, including: wind (112.5 MW purchased capacity), hydro (3.6 MW of owned capacity), and biomass (11.5 MW of purchased capacity). MEC and another utility are also owners of Ottumwa Generating Station where supplementing Powder River Basin coal with switch grass is being tested.

Once MEC's wind farm construction is completed, and after completion of its new Council Bluffs Energy Center Unit No. 4, renewable energy in MEC's generation portfolio will equal approximately 8 percent of nameplate capacity and 5 percent of energy production, assuming a 34 percent annual average capacity factor at the MEC-owned wind project.

Resource Selection

Q. Based on MEC's experience, how can the transaction be expected to affect PacifiCorp's resource planning process?

A. MEHC expects its energy business platforms to follow the planning method preferred in the states where it operates. Obviously, there are limitations to such an approach. For instance, if the preferred resource planning methods, state-to-state, become so incompatible as to make efficient resource planning infeasible, some effort would need to be undertaken to harmonize the various methodologies.

I have some familiarity with PacifiCorp's resource planning process, and I am aware that it has received acclaim for its level of stakeholder input. PacifiCorp's process is recognized as a good, sound approach to resource planning. MEHC supports PacifiCorp's continued use of this process for its state jurisdictions.

Q. Do MEHC and MEC prefer one variety of generation resource above others?

A. No. In recent years, MEHC business platforms have invested in a broad range of generation technologies, including coal, gas, geothermal and wind. As explained below, MEC is completing its investments in gas combined-cycle generation, super-critical western-coal-fired generation and wind generation, all pursuant to a state policy encouraging a diverse portfolio of generation. MEC also utilizes the wholesale market when prudent and cost-effective, as demonstrated by its multi-year power purchase agreements (e.g., a 250 MW purchase from the Nebraska Public Power District).

Q. Does MEC utilize integrated resource planning?

A. Yes, in Iowa. As I have testified, energy efficiency and DSM programs are reviewed and approved by the Iowa Utilities Board. All programs determined to be cost-effective must be implemented before supply options are considered. The supply options are reviewed in separate siting and rate-making principles proceedings before commencement of construction. Integrated planning occurs in the sense that supply options are only considered after taking into account the effects of the utility's energy efficiency and DSM programs. I recognize, however, that there are varying degrees of integration used in different jurisdictions within the United States, and the meaning of "integrated resource planning" may vary significantly.

Generation and Transmission Operations

Q. Please provide some insight into MEHC's philosophy regarding operation of a utility's generation facilities.

A. Again, I will point to our experience at MEC. MEC has decades of experience operating traditional generation facilities and owning such facilities jointly with other utilities, including investor-owned, municipal and cooperative utilities. Refer for example to Exhibit PPL/306. MEC has some of the lowest cost coal-fueled plants in the nation. *Power* magazine, a publication for the electric generation industry, recently named MEC's Iowa-based electric plants among the best in the nation. *Power* annually ranks the country's top plants, and MEC had four among the top 22 coal-fueled plants in the category of lowest-cost producers.

MEC's experience in cooperative relationships with other utilities, public and private, and in the safe and efficient operation of base-load generating plants matches well with that of PacifiCorp. Again, our MEC experience attests to the fact that MEHC's ownership of PacifiCorp will result in a continuation of the good practices for which PacifiCorp is known.

Q. Has MEC invested in nuclear generation?

A. By virtue of a predecessor corporation's investment, MEC has a 25 percent ownership interest in both units at Quad Cities Nuclear Power Station, for a total of 437 MW of accredited capacity. The units are operated by the owner of the remaining 75 percent of the units, Exelon Generation Company, LLC ("Exelon"). In 2004, Exelon obtained license renewals from the Nuclear Regulatory Commission, permitting operation of both Quad Cities units through December

14, 2032. These two units represent MEC's only ownership interest in nuclear generation.

Q. Will PacifiCorp be exposed to any additional risk as a consequence of MEC's ownership of nuclear facilities and nuclear decommissioning obligation?

A. No. MEC is ring-fenced. PacifiCorp will be ring-fenced as well.

Q. PacifiCorp will need to construct transmission infrastructure as well as generation infrastructure. What does MEHC's track record suggest with respect to such endeavors?

A. MEHC has recent experience with the construction of transmission facilities through its MEC operations. This experience demonstrates a commitment to working well with regulators and the public in siting and locating vital transmission assets. I believe this to be consistent with PacifiCorp's approach.

Q. Please relate MEC's recent experience with transmission.

A. MEC has decades of experience operating its transmission system. Again, MEC jointly owns many such facilities with other utilities, both investor-owned and publicly-owned. Most recently, MEC obtained franchise authority in December 2004 to construct a 122-mile, 345 kV transmission line to integrate its new Council Bluffs Energy Center Unit No. 4 with the grid. The new generating plant will be in service in 2007; the transmission line is due to be in service in 2006. The capital investment in the interconnection facilities and the system additions totals approximately $170 million. The new line itself represents approximately $128 million of investment. MEC was required to use eminent domain authority with respect to only one landowner, having reached voluntary accommodations for over 430 easements required along the 122-mile route.

Regional Transmission Memberships

Q. The Federal Energy Regulatory Commission continues to promote oversight of utility transmission by an independent entity. What has MEHC's approach been with respect to this subject?

A. MEHC's approach has been similar to that of PacifiCorp, in that both companies' efforts have focused upon trying to design solutions that accommodate private and public utilities while balancing costs and benefits.

Q. What has been MEC's experience?

A. MEC's approach has been one of caution. MEC has determined that existing RTO membership options (e.g., MISO and PJM) have not been in the best interests of its customers due to the costs of such membership and the penalties for ending membership. Given the existence of numerous publicly-owned utilities in Iowa and states to the north and west of Iowa, MEC is particularly concerned that unless those entities are also participants, the potential benefits will be limited.

MEC previously sought to address this concern by joining the effort to create TRANSLink, an independent transmission company that would encompass both investor-owned and publicly-owned entities. Although the TRANSLink proposal addressed many of the difficult issues surrounding regional operation and pricing of transmission, the Minnesota Public Service Commission and the Iowa Utilities Board in 2003 expressed concerns regarding costs and benefits. The proposal was subsequently tabled. Since that time, MEC has continued to monitor potential costs and benefits of other alternatives. I will outline the current alternative that MEC is pursuing in my testimony regarding regulatory approvals for this transaction.

Regulatory Experience

Q. Based on MEC's experience, what will MEHC ownership mean for PacifiCorp's regulatory relationships?

A. As reflected in MEC's relationships, MEHC seeks positive, constructive working relationships with the regulators who monitor its utility operations. MEHC will be committed to the same kind of relationships with PacifiCorp's regulators.

Q. How is MEC's relationship with its state regulators?

A. MEC understands the role of the public utility commission and has decades of successful experience working within the regulatory framework. MEC takes seriously the need to maintain its regulatory credibility. For example, in Iowa, the company has worked very cooperatively and successfully within the regulatory process. Through settlements in the previous five years, MEC has sited and received rate-making principles orders in advance of construction for roughly $2 billion in energy infrastructure and environmental investment.

Q. What is MEC's experience with regulatory treatment of affiliates?

A. In Iowa, MEC makes an annual filing that reflects its affiliate transactions in the prior year. This filing includes a copy of the written agreements that govern its affiliate transactions. In Illinois, MEC is required to obtain prior approval of affiliate transactions unless they fall within the "ordinary course of business" or other enumerated exemptions. For several years, MEC has had an Intercompany

Administrative Services Agreement ("IASA") that governs the provision of routine services between MEC and its affiliates. This IASA has been reviewed and approved by Iowa and Illinois regulators. MEHC witness Specketer provides a copy of the IASA with his testimony and explains its operation.

On the whole, our experience with affiliate transactions has been uncomplicated. I would note, however, that we have a pending proceeding in Illinois wherein the Illinois Commerce Commission staff examined MEHC's transfer of two new gas turbines to MEC in 2001 for the Greater Des Moines Energy Center ("GDMEC"). MEC did not seek prior approval of the transaction because MEC believed the law and regulations exempted the transaction from the need for approval. A hearing examiner for the Illinois Commerce Commission determined the exemption was not available. In an effort to resolve the matter without further litigation, MEC has proposed to Iowa and Illinois regulators that the portion of GDMEC that would have been allocated to Illinois be allocated to Iowa. The Iowa Office of Consumer Advocate supports this approach, and this resolution is proceeding through the regulatory process.

Operations in States with Retail Access

Q. PacifiCorp's service territory includes both a state that operates on a model of competitive electric supply ("retail access") and states that operate on a model of traditional regulated electric service. Based on MEC's experience, how will the transaction affect PacifiCorp's view of this kind of mixed service area?

A. Based on MEC's experience, the transaction should have no impact in that regard since MEC also has experience serving in states with and without retail access. MEHC and MEC support the right of a state to determine whether or not to implement retail access.

Illinois has offered electric retail choice since 1999, following enactment of a law in 1997. Thus, MEC operates in two states (Iowa and South Dakota) that do not have electric retail access and one state (Illinois) that does. This makes MEC's experience similar to PacifiCorp's in that both utilities need to be able to conduct their utility businesses in states with varying positions regarding retail choice.

Q. Has MEC been supportive of retail access for electric customers?

A. MEC has been supportive of retail access in Illinois and participated in drafting the 1997 restructuring legislation in that state. Since the law's passage, MEC has supported several implementation measures designed to promote effective competition in Illinois.

In Iowa, MEC took a leadership role in advancing retail access legislation, but Iowa elected not to pursue retail access. MEC's response was to work with Iowa's Governor, lawmakers, regulators and consumers to develop an energy and environmental policy for the state, using the regulatory model Iowa prefers. Again, MEHC expects its energy business platforms to operate on either model, regulated or competitive, depending on the state's preference.

Serving Communities

Q. What will MEHC's ownership of PacifiCorp mean for the communities that PacifiCorp serves?

A. Based on MEC's experience, they can expect a continued focus on good service and good corporate citizenship.

Q. What efforts does MEC's undertake in the area of community leadership?

A. A key effort is MEC's Community Contact Program, which relies on the volunteer efforts of some 170 MEC employees who represent MEC in approximately 225 communities in Iowa, Illinois and South Dakota. These employees advise MEC of community needs and represent MEC in the community. Each of the 170 employees has a small discretionary budget from which grants are awarded in their communities. In addition, these employees participate in community meetings (e.g., city council) and relay community needs that MEC may be able to satisfy (e.g., moving poles, digging holes, providing in-kind contributions to volunteer fire departments, sponsoring floats in community parades, sponsoring local events, etc.). These 170 employees also provide MEC support for community activities such as local environmental clean-up efforts and tree planting projects on Earth Day and Arbor Day. They also serve as channels for communicating any community complaints about MEC's quality of service. As a result, the city councils in these 225 communities know who to contact regarding concerns with MEC.

MEC is also actively engaged in the annual United Way campaigns of the twenty communities it serves that have such campaigns. MEC actively encourages its employees to contribute to such campaigns and matches employee contributions dollar for dollar, up to a maximum value of $436,000. MEC also promotes employee involvement in local Rotary, Chamber, Kiwanis and economic development organizations.

In addition to MEHC's corporate gift-matching program, MEHC shareholders fund an innovative program called Global Days of Service. This program encourages employees to volunteer time for charitable and educational organizations through a shareholder contribution to the organizations based upon employee hours volunteered. Employees simply keep track of the number of hours spent in volunteer work for charitable groups [501(c)(3) IRS designation] and for educational institutions worldwide. Employees submit a form listing the number of hours (over eight) they have volunteered. At the end of the program year, the shareholder contribution amount is divided among qualifying organizations based upon the volunteer hours worked.

Q. Does MEC support economic development in the communities it serves?

A. Yes. Refer to the letters in Exhibit PPL/306 for examples of confirmation.

Delivery of Transaction Benefits

Q. Please describe how you envision the delivery of the benefits of the transaction to PacifiCorp customers.

A. MEHC expects the benefits of the transaction to be delivered to all customers in all jurisdictions via rate case proceedings and using PacifiCorp's recently established multi-state allocation protocol when appropriate.

Q. What impact would the transaction have on the degree of regulatory oversight this Commission has over PacifiCorp?

A. It would have no impact. The Commission will continue to exercise the same degree of regulatory oversight over PacifiCorp as it does today.

Q. Will MEHC offer rate credits, rate reductions or rate freezes as a part of the benefits of the proposed transaction?

A. No. We believe the demonstrable benefits of the transaction discussed in the testimonies should be more than sufficient to satisfy the standards for the acquisition.

Moreover, rate credits are simply a proxy for capturing the costs and benefits of a transaction between rate proceedings. In the case of PacifiCorp, such a proxy is unnecessary given the planned rate proceedings. These rate proceedings will incorporate new investment into rate base and any cost reductions in cost-of-service.

Finally, PacifiCorp is currently failing to earn its allowed return. Providing rate credits, reductions or freezes under such conditions would simply worsen PacifiCorp's financial performance. This could precipitate ratings downgrades and higher financing costs. Going forward, as PacifiCorp strengthens the infrastructure, investment and rate treatment of that investment must be implemented in a manner that is fair to customers, employees and shareholders.

Q. What impact will the commitments made by MEHC and PacifiCorp have upon the rate increases projected by PacifiCorp?

A. We do not expect that the commitments that we are offering will cause an increase in the percentage discussed in PacifiCorp witness Johansen's testimony. Please also note the commitment, Revenue Requirements Impacts B, of Exhibit PPL/301.

Review and Approval of the Transaction

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

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

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

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

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

Q. Is this transaction contingent upon repeal of PUHCA?

A. No.

Q. Do you expect the proposed acquisition to be authorized by the SEC under PUHCA?

A. Yes. 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 we can demonstrate that 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.

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

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

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

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

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

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

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

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

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

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

Market Monitor and Transmission Services Coordinator

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

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

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

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

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

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

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

Q. Will Grid West also serve MEC?

A. No, at least not for the foreseeable future. Subject to regulatory approval, MEC is planning to enter into a contract with an outsource provider of transmission services to be known as the transmission service coordinator ("TSC"). The TSC initially will administer or oversee only MEC's transmission assets. However, MEC is working with other utilities located to its west that currently are not part of any regional transmission organization to consider having them also use the

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

Proposed Schedule

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

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

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

In connection with this request, I would note that the SEC has told us that it 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 its approval and closing. Thus, I would respectfully ask the Commission not to delay its ruling on the acquisition in the hope that the SEC will rule first.

Q. Does this conclude your testimony?

A. Yes, it does.

MEHC Adoption of ScottishPower's Prior Commitments

I. Commitments Applicable to All Jurisdictions

Customer Service

A. MEHC and PacifiCorp affirm the continuation of the existing customer service guarantees and performance standards in each jurisdiction through 2009.

B. Penalties for noncompliance with performance standards and customer guarantees shall be paid as designated by the Commission and shall be excluded from results of operations. PacifiCorp will abide by the Commission's decision regarding payments.

Regulatory Oversight

A. PacifiCorp will maintain its own accounting system, separate from MEHC's accounting system. 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, Oregon, Salt Lake City, Utah, and elsewhere in accordance with current practice. (Witness Goodman)

B. MEHC and PacifiCorp will provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between PacifiCorp and its affiliated interests. (Witness Goodman)

C. MEHC, PacifiCorp and all affiliates will make their employees, officers, directors, and agents available to testify before the Commission to provide information relevant to matters within the jurisdiction of the Commission.

D. 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. (Witness Specketer)

E. MEHC and PacifiCorp will comply with all existing Commission statutes and regulations regarding affiliated interest transactions, including timely filing of applications and reports. (Witness Specketer)

F. 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. (Witness Specketer)

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. 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), 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) and otherwise comply with state laws, regulations and orders that pertain to procurement of new generation resources.

II. State Specific Commitments

Utah

Customer Service

A. PacifiCorp will report call-handling results during wide-scale outages against average answer speeds, hold times and busy indications.

Regulatory Oversight

A. MEHC and PacifiCorp will provide notification of and file for Commission approval of the divestiture, spin-off, or sale of any integral PacifiCorp function. This condition does not limit any jurisdiction the Commission may have.

B. PacifiCorp or MEHC will notify the Commission prior to implementation of plans by PacifiCorp or MEHC: (1) to form an affiliate for the purpose of transacting business with PacifiCorp's regulated operations; (2) to commence new business transactions between an existing affiliate and PacifiCorp; or (3) to dissolve an affiliate which has transacted substantial business with PacifiCorp.

Idaho

Customer Service

A. MEHC/PacifiCorp will continue to make a dedicated Irrigation Specialist available in Rexburg and Shelley in the Idaho service territory. The Irrigation Hotline will continue to be available daily from 7 AM to 7 PM, with the number published in the phone directory.

B. Water Rights agreements will be abided by MEHC.

Oregon

Regulatory Oversight

A. MEHC and PacifiCorp agree to the following provisions with respect to information requests and resolution of disputes related to information requests: (1) PacifiCorp and MEHC will provide Staff, upon request, access to books and records of PacifiCorp and MEHC to the extent they contain information specifically related to PacifiCorp, including Board of Director's Minutes. This commitment will not be deemed to be a waiver of PacifiCorp’s or MEHC’s right to seek a protective order for the information or to object to a request as overbroad, unduly burdensome or outside the scope of the Commission's jurisdiction. (2) In the event of a dispute regarding an information request, an Administrative Law Judge of the Commission shall resolve the dispute by making a determination whether or not the requested documents would be reasonably expected to lead to the discovery of admissible evidence.

Corporate Presence

A. The corporate headquarters of PacifiCorp will remain in Oregon.

Washington

Customer Service

A. MEHC and PacifiCorp agree that during the 15-day period to investigate and report back to customers regarding billing and metering problems, it will not take action by initiating collection remedies or disconnecting.

Wyoming

Customer Service

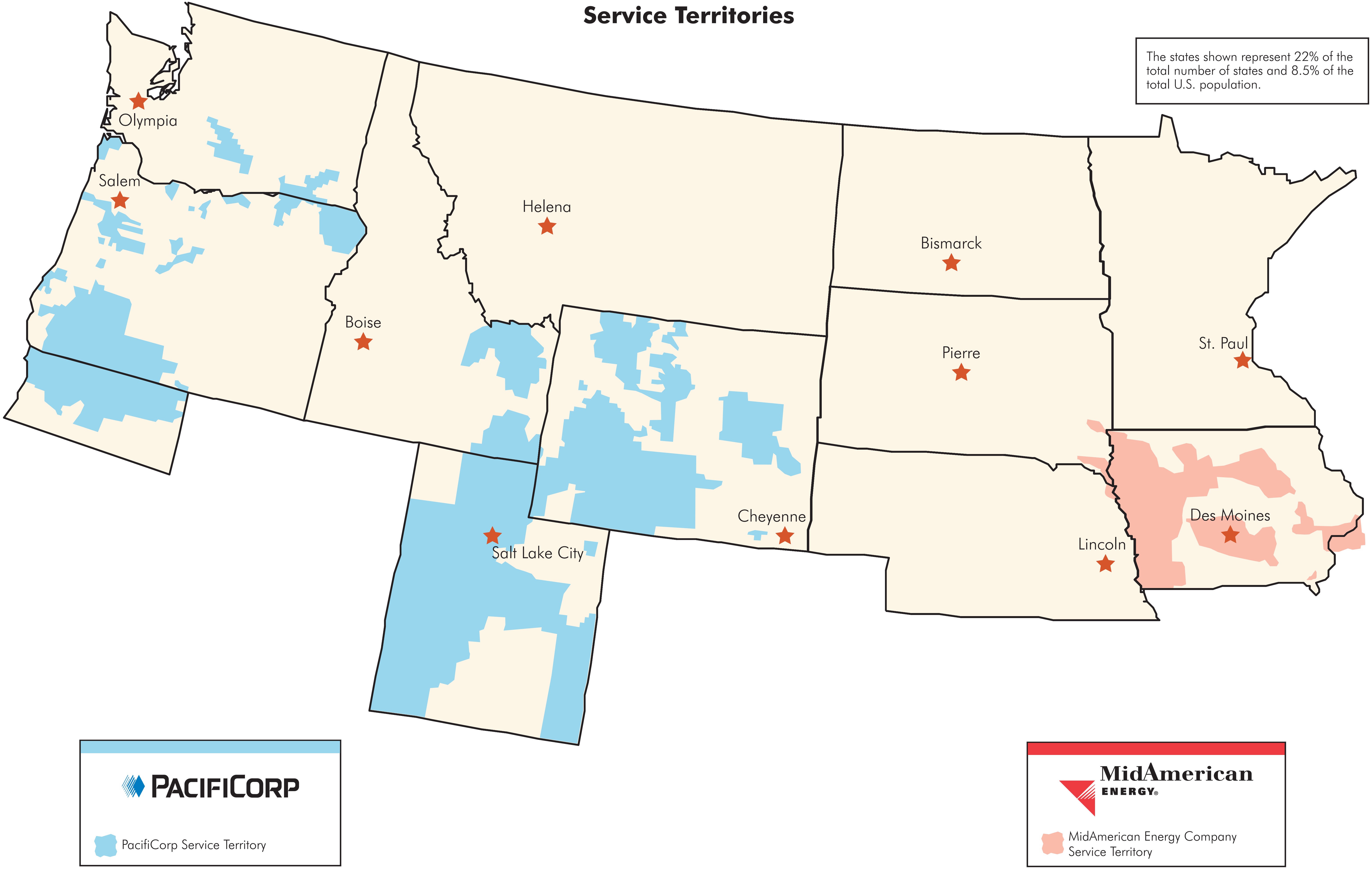
A. Penalties for noncompliance with performance standards and customer guarantees that are not paid to customers will be paid to EnergyShare of Wyoming.

III. Administrative Commitments

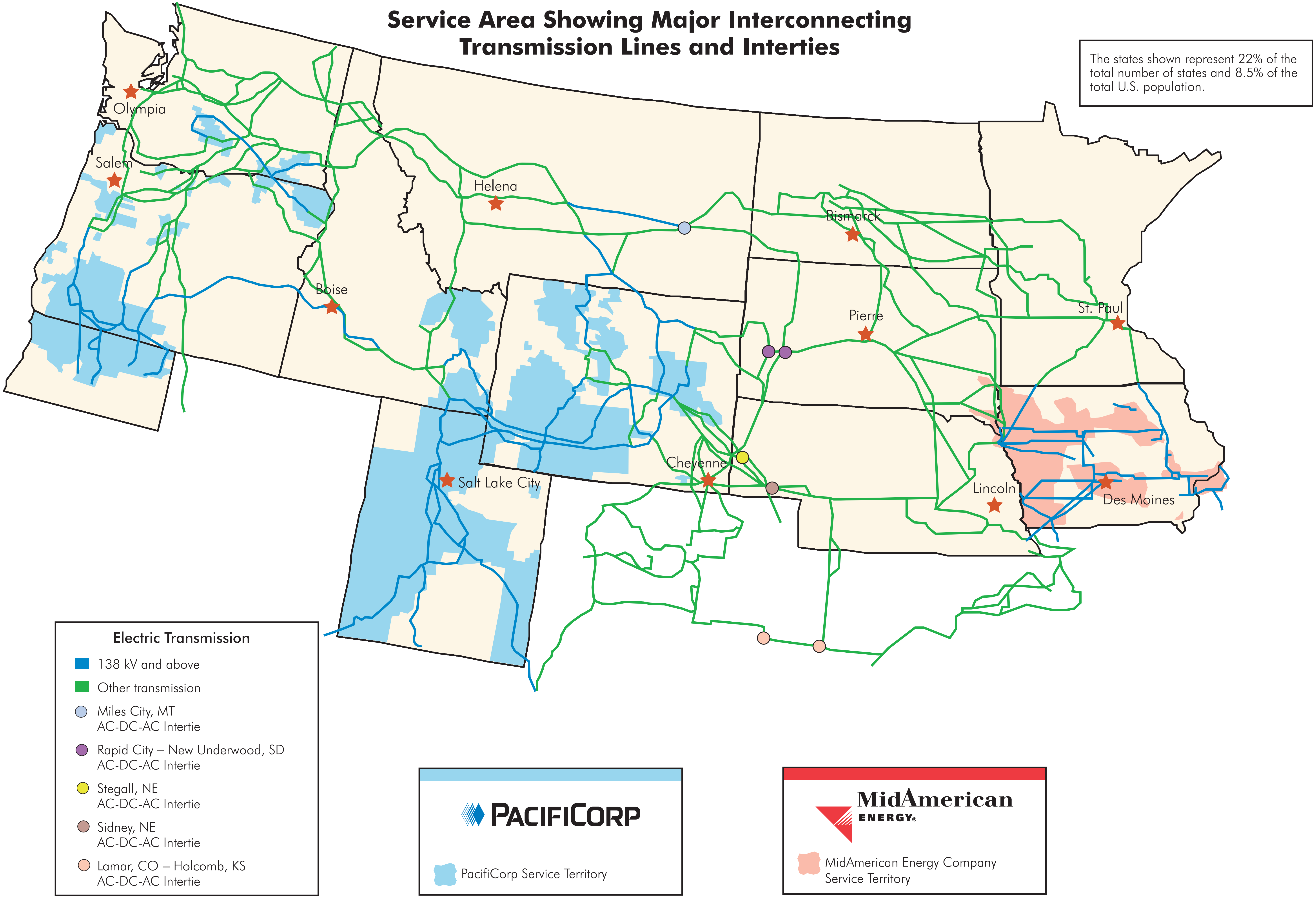
A. Nothing in these acquisition commitments shall be interpreted as a waiver of PacifiCorp's or MEHC's rights to request confidential treatment for information that is the subject of any commitments.

B. Unless otherwise specified by Commission regulations, the Commission shall give MEHC and PacifiCorp written notification of any violation by either company of the commitments made in this application. If such failure is corrected within ten (10) business days for failure to file reports, or five (5) business days for other violations, the Commission shall take no action. MEHC or PacifiCorp may request, for cause, an extension of these time periods. If MEHC or PacifiCorp fails to correct such violations within the specified time frames, as modified by any Commission-approved extensions, the Commission may seek to assess penalties for violation of a Commission order, against either MEHC or PacifiCorp, but not both, as allowed under state laws and regulations.

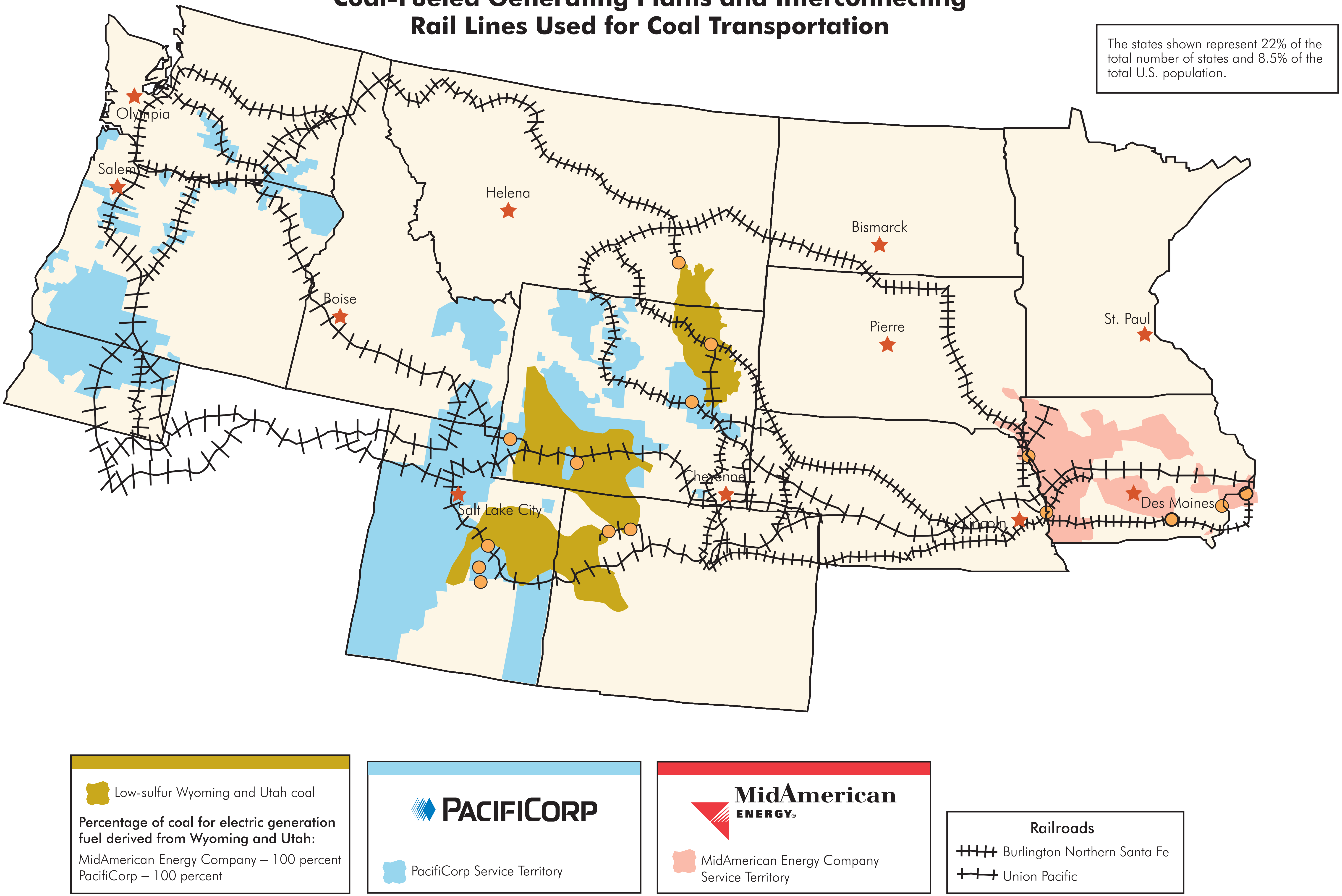
Service Territories



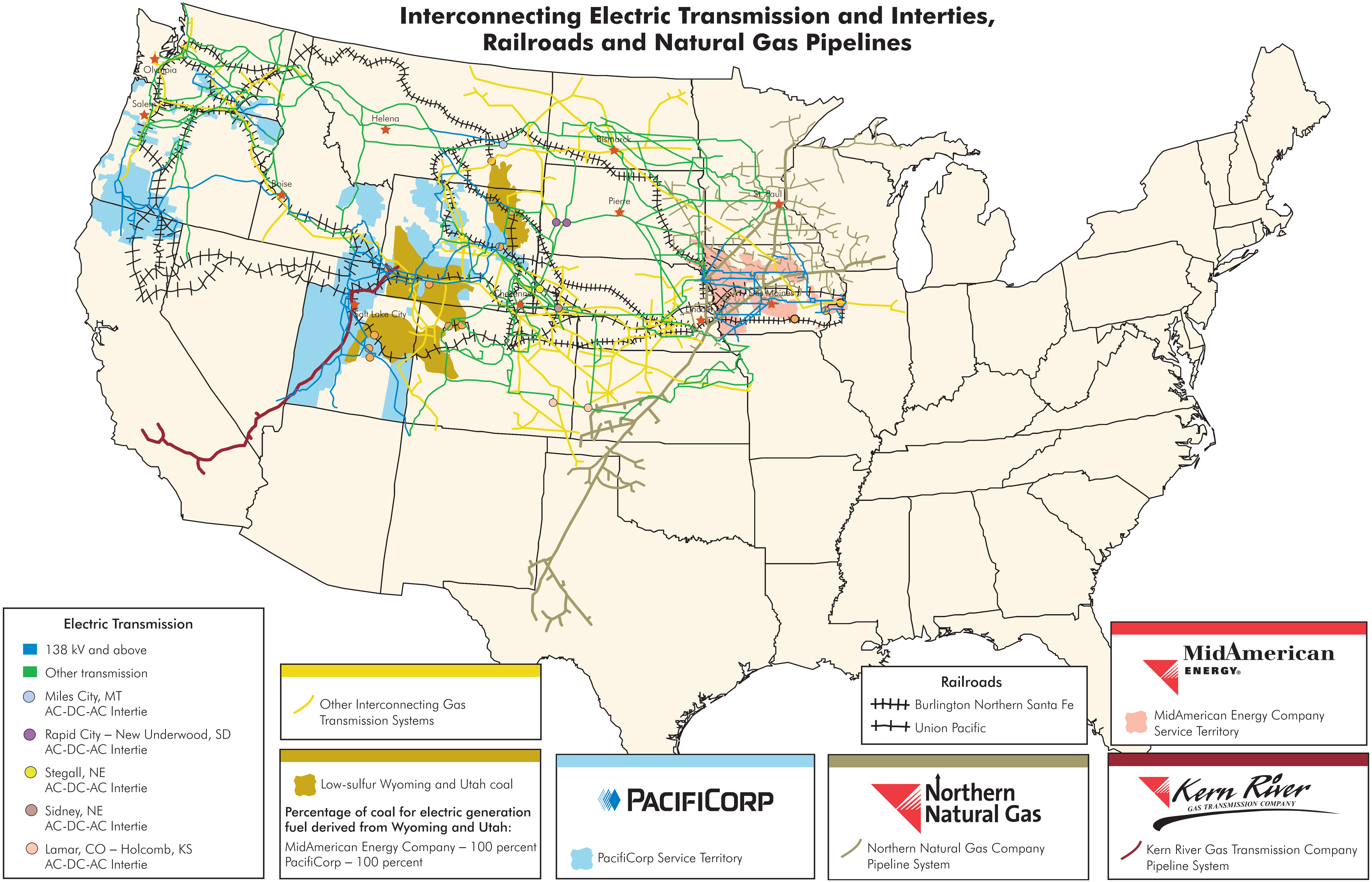
Service Area Showing Major Interconnecting Transmission Lines and Interties



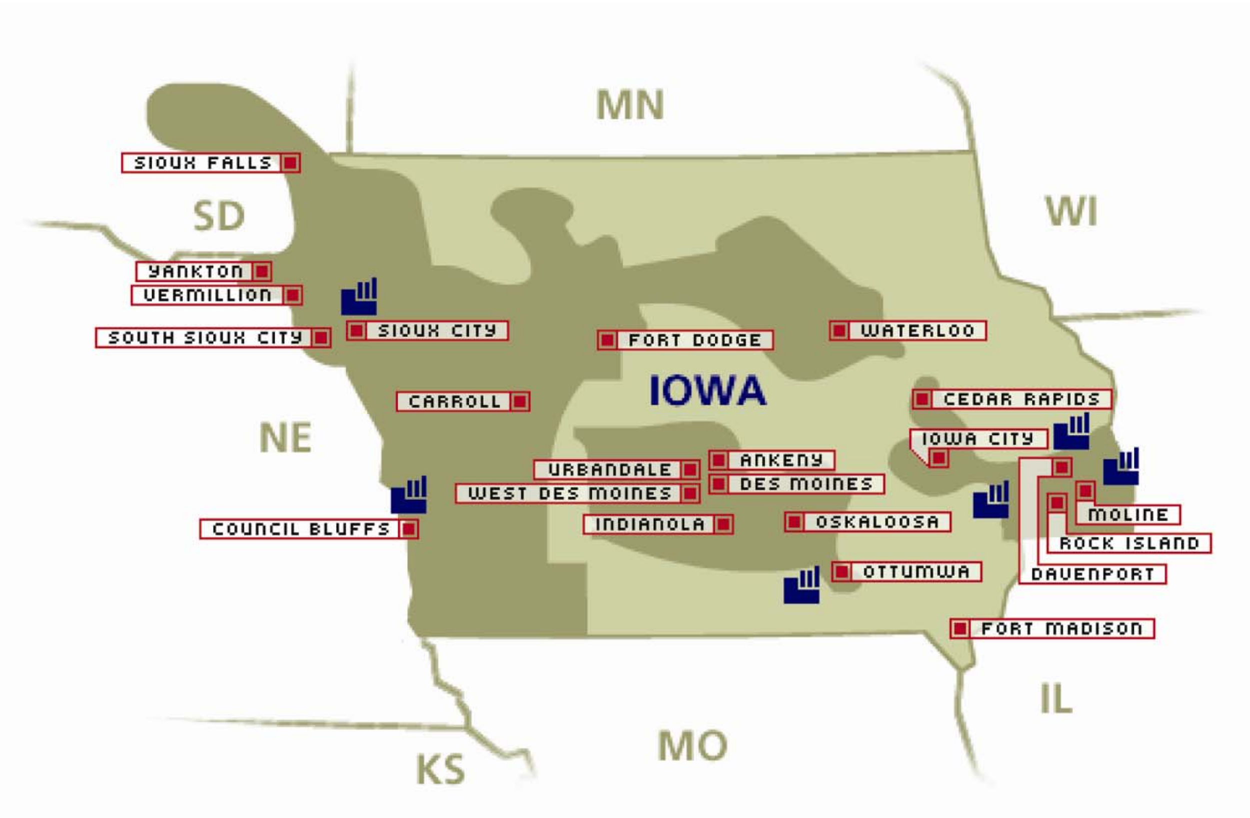
Coal-Fueled Generating Plants and Interconnecting Rail Lines Used for Coal Transportation



Interconnecting Electric Transmission and Interties, Railroads and Natural Gas Pipelines



MEC Service Areas and Base Load Generating Facilities



Base load generating facilities are currently located at or near

- Sioux City, IA
- Council Bluffs, IA
- Ottumwa, IA
- Bettendorf, IA (immediately north of Davenport, IA)
- Muscatine, IA
- Cordova, IL

MEC Electric Operations Facts

Facts at a Glance

Electric Operations (year-end 2004):

Total retail customers:	**697,611**
Iowa:	609,725
Illinois:	84,166
South Dakota:	3,720
Residential:	602,218
Small general service:	81,047
Large general service:	1,302
Other retail:	13,044

Average price per kilowatt-hour (residential)	$0.0860
Average price per kilowatt-hour (retail)	$0.0613
Average price per kilowatt-hour (industrial)	$0.0404
Average annual revenue per customer (residential)	$766
Average annual revenue per customer (retail)	$1,579
Accredited net generating capacity in MW (owned)	4,481
Accredited net generating capacity in MW (purchased)	416
Total accredited net generating capacity in MW (owned and purchased)	4,897
Record summer peak load in MW – Aug. 20, 2003	3,935

MidAmerican Energy Company
EEP-95-3 2003 Actual and Planned Spending

	Plan	Actual	Variance	% Variance
A/C Load Control	$ 2,062,141	$ 2,662,251	$ 600,110	29.10%
Efficiency Plus	$ 1,072,360	$ 2,467,936	$ 1,395,576	130.14%
House Call/Energy Fitness	$ 882,434	$ 3,487,377	$ 2,604,943	295.20%
Low Income	$ 529,099	$ 1,090,458	$ 561,359	106.10%
Smart Home	$ 2,518,061	$ 6,245,821	$ 3,727,760	148.04%
C & I New Construction	$ 1,252,543	$ 3,650,564	$ 2,398,021	191.45%
C/I HVAC&R	$ 231,425	$ 576,038	$ 344,613	148.91%
C/I Direct Incentive	$ 97,761	$ 477,173	$ 379,412	388.10%
C/I Lighting	$ 261,428	$ 976,568	$ 715,140	273.55%
Interruptible Curtailment	$ 8,203,775	$ 6,746,128	$ (1,457,647)	-17.77%
C/I Custom	$ 80,392	$ 368,461	$ 288,069	358.33%
Ind. Process Optimization	$ 49,553	$ 828,978	$ 779,425	1572.91%
Early HVAC Retirement	$ 1,382,870	$ 318	$ (1,382,552)	-99.98%
Trees	$ 100,000	$ 243,707	$ 143,707	143.71%
Assessments	$ 1,398,351	$ 1,425,153	$ 26,802	1.92%
	$20,122,193	$31,246,931	$11,124,738	55.29%

MidAmerican Energy Company
EEP-03-1 2004 Actual & Planned Spending

	Plan	Actual	Variance	% Variance
Residential Load Management	$ 2,941,000	$ 2,911,490	$ (29,510)	-1.00%
Residential Equipment	$ 3,295,000	$ 2,838,210	$ (456,790)	-13.86%
Residential Audit	$ 2,457,000	$ 2,874,890	$ 417,890	17.01%
Low Income	$ 2,075,000	$ 1,368,728	$ (706,272)	-34.04%
Residential New Construction	$ 4,132,000	$ 6,923,559	$ 2,791,559	67.56%
Commercial New Construction	$ 3,885,000	$ 3,959,724	$ 74,724	1.92%
Nonresidential Equipment	$ 1,350,000	$ 2,285,604	$ 935,604	69.30%
Nonresidential Custom	$ 400,000	$ 633,354	$ 233,354	58.34%
Nonresidential Load Management	$ 6,685,000	$ 7,814,356	$ 1,129,356	16.89%
Small Commercial Energy Audit	$ 645,000	$ 345,162	$ (299,838)	-46.49%
Nonresidential Energy Analysis	$ 669,000	$ 407,275	$ (261,725)	-39.12%
Efficiency Bid	$ 939,000	$ 666,568	$ (272,432)	-29.01%
Trees	$ 400,000	$ 503,991	$ 103,991	26.00%
Assessments	$ 1,477,000	$ 1,607,859	$ 130,859	8.86%
	$31,350,000	$35,140,770	$ 3,790,770	12.09%

LETTERS FROM

MUNICIPAL UTILITIES

AND PUBLIC POWER DISTRICTS

Nebraska Public Power District

"Always there when you need us"

W. J. Fehrman
President & CEO
Phone (402) 563-5558
Fax (402) 563-5145
wjfehrm@nppd.com

Received
MAY 25 2005
David L. Sokol

May 24, 2005

Mr. David L. Sokol
Chairman and Chief Executive Officer
MidAmerican Energy Holdings Company
302 South 36th Street, Suite 400
Omaha, Nebraska 68131-3845

Dear David:

Congratulations and best wishes regarding your recent announcement of the acquisition of Pacificorp. NPPD appreciates the long-standing and positive relationship we have with MidAmerican. MidAmerican's willingness to work collaboratively with public power entities in the areas of transmission and generation planning and joint ownership are important to us.

We're excited about the potential benefits the acquisition may provide, especially as it relates to the opportunity to further develop a transmission model that can help address the critical issues we face throughout our respective service areas. We look forward to working with your team in that regard.

Sincerely,

William J. Fehrman
President & CEO
Nebraska Public Power District

CEDAR FALLS UTILITIES
The Power of Service.

May 26, 2005

Mr. David Sokol
Chairman and CEO
MidAmerican Energy Holdings Company
302 South 36th Street, Suite 400
Omaha, Nebraska 68131-3845

Dear Mr. Sokol:

On behalf of Cedar Falls Utilities, I want to express our best wishes to your organization as you move forward with the acquisition of Pacificorp.

As you know, Cedar Falls Utilities has enjoyed a long history of successful cooperation and partnerships with MEC and its predecessor companies. One of the most significant early partnerships brought about the ground-breaking joint ownership of Council Bluffs #3 and the related 345 KV transmission line.

By working together, MEC predecessor Iowa Power and CFU were able to overcome political, legislative and industry challenges. Today, CB#3 remains one of the most successful economic generating units in the U.S. The joint ownership model forged by Iowa Power and CFU was soon copied by Iowa Public Service at Neal 4, Iowa Illinois at Ottumwa, and others.

Our companies have cooperated in a unique joint dispatch arrangement since 1979. In 1984, CFU purchased some Neal 4 generating capacity from IPS. The purchase kept the unit within the IPS dispatch group family to the benefit of both organizations. At this time, a significant joint effort to solve transmission bottlenecks at Quad Cities West is close to being finalized. Next month our Board is expected to give final approval for our sale of energy and capacity to the City of Hudson, again benefiting both CFU and MEC. We have also identified areas for possible future cooperation on various transmission and dispatch issues.

Many more examples of cooperation could be cited. At every opportunity for more than 30 years, our message to FERC and the Iowa Utilities Board has been that MEC is an honorable friend and partner. Most recently, we have commended MEC's efforts to offer every municipal utility in Iowa an opportunity to control its own power supply through joint ownership of Council Bluffs #4. Our Electric Utility is taking advantage of this important opportunity.

We look forward to continuing our productive partnership with MEC as your company expands through this important acquisition.

Sincerely,

James R. Krieg

James R. Krieg,
General Manager/CEO

cc: Todd Raba

Utility Parkway, P.O. Box 769 • Cedar Falls, Iowa 50613 • PH: 319-266-1761 • Fax: 319-266-8158 • www.cfunet.net

Muscatine Power and Water
3205 Cedar Street • Muscatine, Iowa 52761-2204
563/263-2631

Jay D. Logel
General Manager

May 31, 2005

Mr. David L. Sokol
Chairman & CEO
MidAmerican Energy Holdings Co.
Suite 400
302 S. 36th St.
Omaha, NE 68131-3845

Dear David:

Congratulations on your announced intent to acquire PacifiCorp. I am certain the customers, employees, and other utilities that come in contact with PacifiCorp will be well served by the new ownership.

I have no doubt that MidAmerican will apply the same attitude of cooperation and support for municipal utilities and other potential partners in serving the utility needs of customers in the PacifiCorp areas.

Please let me know if we can be of service to you in any small way as we go forward.

Sincerely,

Jay D Logel

cc: Todd Raba, MEC

ECONOMIC DEVELOPMENT LETTERS

IOWA life | changing

July 12, 2005

Mr. Todd Raba
President
MidAmerican Energy Company
666 Grand Ave., P.O. Box 657
Des Moines, IA 50303-0657

Dear Todd:

Congratulations on the recent announcement that MidAmerican Energy Holdings Company intends to acquire PacifiCorp from Scottish Power. MidAmerican Energy Company has been an outstanding partner with the State of Iowa on economic development for decades, and I wish you the best of luck in completing this transaction. Given your strong focus on improving the economic conditions in your service territory, I'm sure you will bring an added level of economic development expertise to the six states in which PacifiCorp operates.

I look forward to continuing the strong relationship between MidAmerican Energy Company and the Iowa Department of Economic Development. Please let me know if there is anything I can do to assist your ongoing economic development efforts. Again, good luck completing the transaction involving PacifiCorp.

Sincerely,

Mary Lawyer

Mary Lawyer
Acting Director

MKL/klm

IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT

Michael T. Blouin, Director • 200 East Grand Avenue, Des Moines, Iowa 50309 USA • Phone: 515.242.4700 • Fax: 515.242.4809 • www.iowalifechanging.com

South Dakota Department of Tourism and State Development

July 11, 2005

Mr. Todd Raba, President
MidAmerican Energy Company
666 Grand Avenue, P.O. Box 657
Des Moines, Iowa 50303-0657

Dear Todd:

Congratulations on the recent announcement that MidAmerican Energy Holdings Company will be acquiring PacificCorp. MidAmerican Energy Company has been an outstanding partner with the State of South Dakota on numerous development projects. I wish you the best of luck in completing this transaction. Given your strong focus on improving the economic vitality in the footprint of your service area, I know that you will be a strong partner for development in the six states in which PacificCorp operates.

MidAmerican Energy has provided leadership not only to the utility industry but also to the ongoing development of a vibrant business environment in southeastern South Dakota. Again, good luck completing the PacificCorp transaction, and I look forward to many more years of a successful partnership.

Sincerely,

James D. Hagen
Secretary

Office of Tourism
Governor's Office of Economic Development
Tribal Government Relations
711 E. Wells Ave. / Pierre, SD 57501-3369
Phone: 605-773-3301 / Fax: 605-773-3256
travelsd.com / sdgreatprofits.com / sdtribalrelations.com

South Dakota Arts Council
800 Governors Dr. / Pierre, SD 57501-2294
Phone: 605-773-3131 or 1-800-423-6665 in S.D.
Fax: 605-773-6962
sdac@state.sd.us / sdarts.org

South Dakota State Historical Society
900 Governors Dr. / Pierre, SD 57501-2217
Phone: 605-773-3458 / Fax: 605-773-6041
sdhistory.org

South Dakota Housing Development Authority
PO Box 1237 / Pierre, SD 57501-1237
Phone: 605-773-3181 / Fax: 605-773-5154
sdhda.org

South Dakota
GREAT FACES. GREAT PLACES.

CITY OF MOLINE ILLINOIS

Mayor
Donald P. Welvaert

619 - 16 Street
Moline, Illinois 61265

Phone: (309) 797-0434
Fax: (309) 797-0479

June 29, 2005

Todd Raba, President
MidAmerican Energy Company
666 Grand Avenue
Des Moines, IA 50303

Dear Mr. Raba:

I would like to write in encouragement of the announced purchase of PacifiCorp by MidAmerican Energy Holding Company. MidAmerican has been a strong partner in the redevelopment of Moline's core. I believe the communities of PacifiCorp will benefit from having MidAmerican's management commitment to community success.

MidAmerican Energy has been a steadfast supporter of our public/pirate partnership. Renew Moline, since its inception over 15 years ago. This partnership has completely transformed our old core industrial area into a modern tourism destination point and a premier and office employment center in the broader two state region of western Illinois and eastern Iowa. Nearly $300 million has been invested in new buildings and public facilities in that time. It would not have happened without Renew Moline and Renew Moline would not have happened without your continued financial support as well as the ongoing participation of your economic development staff. .

I've learned how important it is for MidAmerican's economic development programs to be built on strong community partnerships. I do not know what the PacifiCorp economic development program is like, but if it ends up like MidAmerican's then those communities will have a "winner" for a utility.

Good luck in your acquisition.

Sincerely,

CITY OF MOLINE, ILLINOIS

Don Welvaert

Donald P. Welvaert
Mayor

The Voice of Iowa Business Since 1903.

June 13, 2005

Mr. Todd Raba, President
MidAmerican Energy Company
666 Grand Avenue
PO Box 657
Des Moines, IA 50303-0657

Dear Mr. Raba:

I was pleased to read about MidAmerican Energy Holding Company's recently announced acquisition of PacifiCorp. Based on our Association's experience with MidAmerican Energy Company, I'm sure PacifiCorp's businesses will be pleased with the strong partnership its new owners will be able to provide to them.

For many years, MidAmerican has been a vital and important business in Iowa. Your company has shown a strong and continuing commitment to improving the state's business environment. MidAmerican's commitment is further demonstrated by your ability to deliver electric rate stability to our members. That is a critical economic development tool for Iowa.

The three major generation-construction projects MidAmerican has initiated in the past two years have also added jobs in the state. When completed, they will help assure that Iowa businesses have adequate and reliable energy sources which will allow them to grow into the future.

MidAmerican Energy has provided leadership not only to the Association of Business and Industry, but also to the ongoing development of a vibrant business environment in Iowa. I look forward to many more years of a successful partnership between our two organizations.

Sincerely,

Jim Aipperspach

James D. Aipperspach
President

ASSOCIATION OF BUSINESS AND INDUSTRY
904 Walnut Street • Suite 100 • Des Moines, Iowa 50309-3503
515-280-8000 • 800-383-4224 • Fax 244-8907 • Email abi@iowaabi.org • www.iowaabi.org

THE greater DES MOINES
partnership

June 14, 2005

Todd Raba, President
MidAmerican Energy Company
666 Grand Avenue
P.O. Box 657
Des Moines, IA 50303-0657

Dear Mr. Raba:

Congratulations on MidAmerican Energy Holdings Company's recently announced acquisition of PacifiCorp! I am confident the communities and businesses served by PacifiCorp will see the same commitment to partnership that we experience with MidAmerican Energy Company here in the Des Moines area.

For many years, MidAmerican has supported the efforts of the Greater Des Moines Partnership. Besides participating in and supporting traditional chamber of commerce activities, your employees are always there when we need them – as leaders in our Choose Des Moines Communities and our Downtown Community Alliance. Together, we have successfully attracted new businesses and expanded many of our existing businesses in the Des Moines area. None of this could have been accomplished without MidAmerican Energy Company.

I look forward to many more years of a successful partnership between our two organizations.

Sincerely,

Martha A. Willits

Martha A. Willits
President & CEO

The Partnership Building • 700 Locust St. • Suite 100
Des Moines, IA 50309 • tel 515-286-4950 • fax 515-286-4974
www.desmoinesmetro.com

Mid Iowa Growth Partnership

UNITING OUR AREA IN ECONOMIC DEVELOPMENT

**Calhoun * Hamilton * Hardin
Humboldt * Kossuth * Palo Alto
Pocahontas * Webster * Wright**

July 7, 2005

Mr. Todd Raba, President
MidAmerican Energy Company
666 Grand Avenue
Des Moines, IA 50303

Dear Mr. Raba:

I read with interest of your announcement to PacifiCorp by MidAmerican Energy Holding Company. I want to take this time to write my thoughts about MidAmerican Energy Company as I see it for economic development in rural areas. I'm doing this in hopes that you can use these comments in some way to benefit your acquisition.

Our organization covers a nine county area in north central Iowa. Fostering economic development in such an area today is challenging to say the least. Over the years, though, MidAmerican Energy has been an outstanding partner in helping guide us. Your economic development team comes to our aid whenever called because we know that we can count on their professionalism in whatever our undertaking. Here are just a couple examples. Your staff helped finance and facilitate a county-wide economic development strategy then, brought it to the local community for implementation. When the Iowa Department of Economic Development announced a regional marketing initiative, MidAmerican was among the first businesses to step forward and commit to sharing the required local matching fund. Furthermore, your team committed to help guide us in the development of this new and exciting initiative.

In short, we just know that we can count on MidAmerican Energy to be a full partner with us. We know that your staff works in a broad range of communities and for them to take the time to work with us in small-town rural Iowa is truly appreciated. I believe the rural areas in the PacifiCorp area will have that same appreciation when they see what you will bring to them.

Keep up the good partnerships and good luck with your purchase.

Sincerely,

Dennis E. Bowman

Dennis Bowman
President, Mid Iowa Growth Partnership

Yankton Area Progressive Growth, Inc.

P.O. Box 588 • Yankton, South Dakota 57078 • (605) 665-9011 • Fax: 605-665-7501

July 12, 2005

Mr. Todd Raba, President
MidAmerican Energy Company
666 Grand Avenue, P O Box 657
Des Moines, IA., 50303-0657

Dear Todd:

I was very pleased to hear your recent announcement about the proposed acquisition of PacificCorp. I would like to extend my support and encouragement to you as you wind your way through the approval process.

When I served as a Yankton City Commissioner I knew that the community enjoyed an excellent relationship with MidAmerican Energy. It is my opinion that the cities in the PacificCorp service area can expect a similar experience. Your employees have always been active participants in community activities and volunteer organizations.

MidAmerican Energy has been the best of partners. Your company has gone beyond the basics of supplying energy. Whether advising local firms and home owners on how to save energy, checking out gas leaks or suspected carbon monoxide problems with tremendous response time, or planning and constructing facilities that ensure quality service and room for growth and development – your folks have proven that MidAmerican is willing to go the extra mile.

As a professional economic developer I can attest that MidAmerican supports the communities that it serves with an economic development team that rivals that of many state economic development offices. MidAmerican's economic development group partners with our community in truly meaningful ways. I am sure that the communities in PacifiCorp's service area will be equally pleased when they become your partners.

Yankton's economic development corporation (Yankton Area Progressive Growth) and I look forward to many years of partnership with MidAmerican in making Yankton a great place to live and prosper.

Sincerely,

Kurt E. Hauser

Kurt E. Hauser
President

MAYOR, THOMAS P. HANAFAN

June 13, 2005

Mr. Todd Raba, President
MidAmerican Energy
666 Grand Avenue
Des Moines, IA 50303-0657

Dear Todd:

I would like to extend my support on your company's recent announced acquisition of PacifiCorp. This must be a very exciting time for your company and at the same time full of many challenges.

Over the years, the City of Council Bluffs has had many positive experiences with MidAmerican Energy and I believe that PacifiCorp communities will quickly realize the commitment and partnership that MidAmerican Energy extends to the communities it serves. Your employees have always been counted on to be active participants in this community and we look forward to that continued support.

The City of Council Bluffs is especially appreciative of the recent investment MidAmerican Energy has chosen to make in Council Bluffs by building the new generation facility. In addition to the economic development-related benefits of the current construction project, the City is proud to be involved in your company's efforts to assure Iowa's energy future.

I would like to congratulate your company on a job well done and would like to again extend my support for your PacifiCorp acquisition.

Sincerely,

Tom Hanafan

Tom Hanafan
Mayor – City of Council Bluffs

CITY OF COUNCIL BLUFFS, IOWA - 209 PEARL STREET - 51503-4270
FAX (712) 328-2137 TTY (712) 328-0390

CITY OF WATERLOO, IOWA

CITY HALL • 715 MULBERRY ST. • WATERLOO, IA 50703 • (319) 291-4301 FAX (319) 291-4286

June 13, 2005

Mr. Dan Arens
MidAmerican Energy
260 Fairview Avenue
P.O. Box 600
Waterloo, Iowa 50704

Dear Dan:

Our community has benefited greatly from the services provided by MidAmerican Energy and I want to add my support to their acquisition of PacifiCorp.

MidAmerican Energy Company is a complete energy partner, going beyond the fundamentals of supplying natural gas and electricity. They are committed to providing outstanding service and to acting as an advocate for their customers in the ever-changing market place. The acquisition of PacifiCorp will provide a greater emphasis on customer satisfaction and efficiency.

MidAmerican Energy has been a been an outstanding corporate citizen that has partnered with the City in Waterloo in the following areas: joining in economic development facilities, planning and cooperation; providing energy audits were thousands of dollars in power costs have been saved by our municipality; and working with the City of Waterloo in the replacement of incandescent traffic lights with light emitting diodes (LED) by providing rebates to the city for each LED installed.

The City of Waterloo looks forward to our continued relationship with MidAmerican Energy and the additional opportunities the PacifiCorp acquisition will provide for the City of Waterloo and for MidAmerican customers.

Sincerely,

Tim Hurley

Tim Hurley, Mayor
City of Waterloo, Iowa

City of Davenport
Charles W. Brooke, Mayor
cwb@ci.davenport.ia.us

June 29, 2005

Mr. Todd Raba, President
MidAmerican Energy Company
666 Grand Avenue
Des Moines, IA

Dear Mr. Raba:

Congratulations on the planned purchase of PacifiCorp by MidAmerican Energy Holding Company. If you operate the PacifiCorp utility as you do MidAmerican Energy, the customers and communities there will immensely benefit.

Over the years MidAmerican Energy and its predecessor company has been a strong partner with the City of Davenport in its growth. From downtown to the fringe area, MidAmerican is consistently at the table. For example, in the downtown, without leadership from your management team, a $45m three block office and convention complex would not have occurred. On the edge of town, MidAmerican stepped up to join the City and Scott County in funding the purchase of land that is now a fully developed 220 acre industrial park. Your economic development staff continues playing a vital role in its marketing.

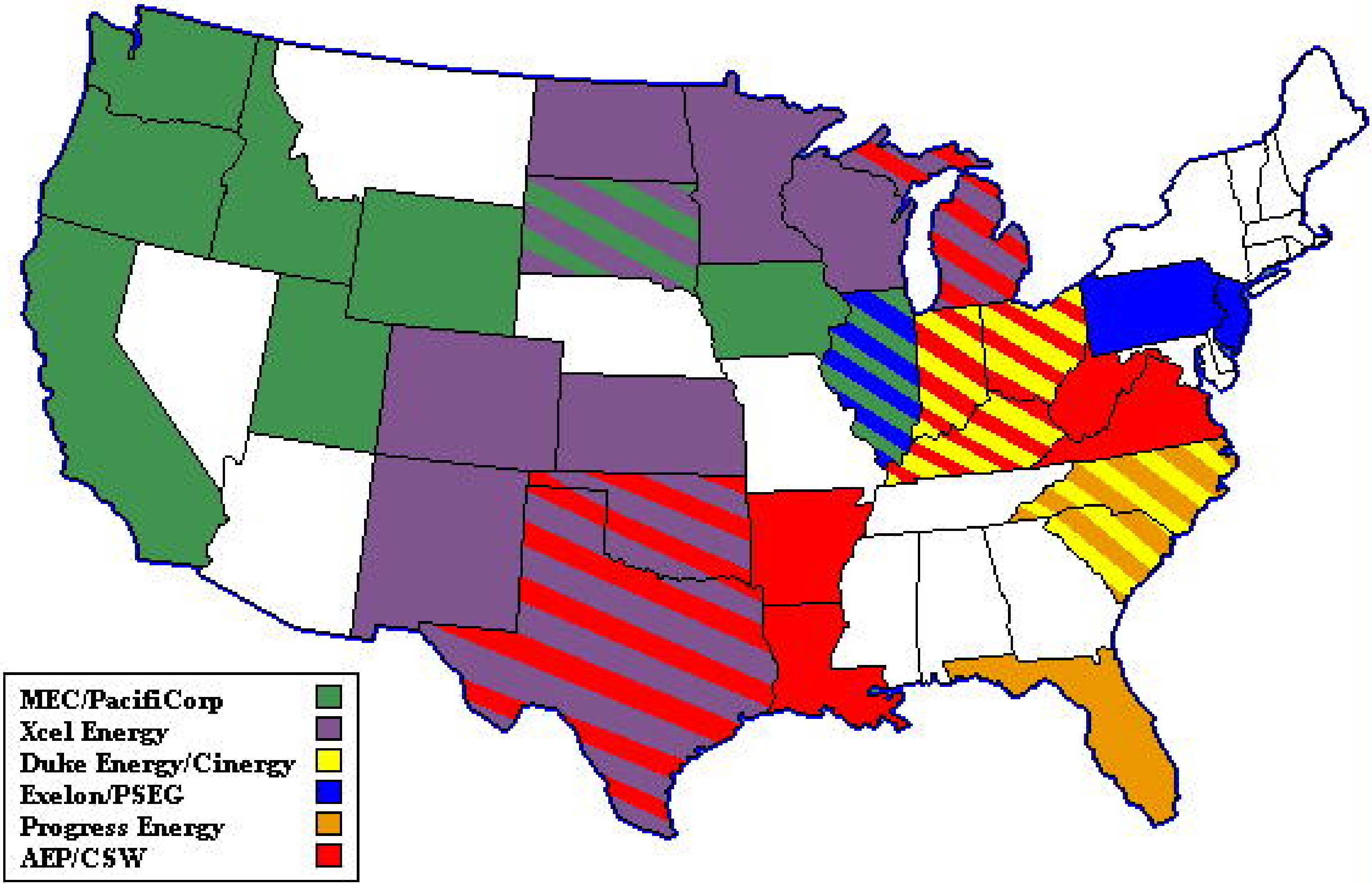
When we are considering an economic development imitative, we can count on MidAmerican to be one of our stronger partners. If you bring that philosophy to the communities and counties in the utility you are purchasing, then they will be much better for it and you will greatly prosper.

Good luck in your endeavor,

Sincerely,

Charles W. Brooke, Mayor

226 West Fourth Street • Davenport, Iowa 52801
Telephone: 563-326-7701 Fax: 563-328-6726 TDD: 563-326-6145
www.cityofdavenportiowa.com
"...where the Mississippi River *Celebrates!*"


MEC/PacifiCorp
Xcel Energy
Duke Energy/Cinergy
Exelon/PSEG
Progress Energy
AEP/CSW

Introduction

Q. Please state your name and business address.

A. My name is Patrick J. Goodman, and my business address is 666 Grand Avenue, Suite 2900, Des Moines, Iowa, 50309.

Q. By whom are you employed and in what capacity?

A. I am employed by MidAmerican Energy Holdings Company ("MEHC"). I serve as senior vice president and chief financial officer of MEHC and as a director and officer of many MEHC subsidiaries.

Q. Please summarize your education and business experience.

A. After receiving a bachelors degree in accounting from the University of Nebraska at Omaha in 1989, I was employed as a senior audit associate at Price Waterhouse Coopers, then known as Coopers & Lybrand, until 1993. I then joined National Indemnity Company and was employed there until 1995 as a financial manager. After that I joined MEHC, then known as CalEnergy Company Inc. ("CalEnergy"). At MEHC, I have served in various financial positions, including senior vice president and chief accounting officer, and assumed my present position in 1999. In addition, I am also a Certified Public Accountant.

Summary of Testimony

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

A. My testimony will accomplish the following things:

- discuss the Scottish Power plc ("ScottishPower") corporate structure and identify the ScottishPower subsidiaries that MEHC is proposing to acquire;

- discuss MEHC's corporate structure and PacifiCorp's place in that structure;
- discuss MEHC's capital structure;
- describe MEHC's financing for, and the mechanics of, the proposed transaction;
- describe the financial forecast for the acquisition;
- enumerate certain financial and structural commitments that MEHC is proposing as part of the acquisition approval process;
- describe the "ring-fencing" protections MEHC will employ; and
- describe the rights of MEHC's largest investor, Berkshire Hathaway Inc. ("Berkshire Hathaway") with regard to the proposed transaction.

ScottishPower Corporate Structure

Q. Please describe your understanding of the ScottishPower corporate structure prior to the proposed acquisition of PacifiCorp by MEHC.

A. The ScottishPower corporate structure prior to the proposed acquisition is shown on Exhibit PPL/401, which is adapted from a similar illustration contained in PacifiCorp's March 31, 2005, Form 10-K report. MEHC is purchasing the company identified as PacifiCorp from PacifiCorp Holdings, Inc. ("PHI"). PacifiCorp is a vertically integrated electric utility serving retail customers in the states of California, Idaho, Oregon, Utah, Washington and Wyoming. Subsidiaries of PacifiCorp that support its electric utility operations by providing coal mining facilities and services, environmental remediation, and management of deforestation carbon credits are also being purchased by MEHC. The remaining subsidiaries of PHI, including PPM Energy, Inc., will remain with ScottishPower.

MECH Corporate Structure

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

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

MEHC Captial Structure

Q. Please describe MEHC's capital structure.

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

- zero coupon convertible preferred stock,
- common stock,
- additional paid-in capital,
- retained earnings, and
- accumulated other comprehensive loss, net.

The first two items show no entry as they are intended to record the par value of these components. However, since they are both zero par value issuances, the entire contributed value of these components is recorded in the third item, additional paid-in capital. The fourth item represents the earnings of the corporation retained and reinvested into the business. The final item represents the gain and loss on a variety of other comprehensive income items that are further identified on the Consolidated Statements of Stockholders' Equity disclosure which is on page 61 of Exhibit PPL/403, MEHC's 2004 report on Form 10-K.

The long-term debt of MEHC contains items identified as:

- Parent company senior debt,
- Parent company subordinated debt,
- Subsidiary and project debt, and
- Preferred securities of subsidiaries.

The parent company senior and subordinated debt represent the long-term debt of MEHC. The parent company subordinated debt consists of amounts issued to Berkshire Hathaway, and other amounts issued to third parties. The item identified as "Subsidiary and project debt" represents the long-term, primarily non-recourse, debt of the various subsidiaries of MEHC after being consolidated with the parent's financial statements.

The "Preferred securities of subsidiaries," contained in MEHC's consolidated capitalization, represents preferred stock issued by MEHC's subsidiaries.

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 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.
- 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):

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 stockholders' 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.

Q. To what extent has MEHC employed long-term debt in its capital structure?

A. Table 1 indicates that, on a consolidated basis, MEHC's balance sheet reflects a capital structure that is composed of approximately 77.1 percent debt. While the proportion of debt may appear relatively high, it is important to note that much of the debt on the consolidated balance sheet is issued by creditworthy non-recourse subsidiaries.

Q. What are the credit ratings that are currently assigned to MEHC by the major credit rating agencies?

A. MEHC holds an investment grade credit rating from Standard & Poor's, Moody's Investors Service, and FitchRatings. In addition, MEHC's utility subsidiaries are all creditworthy entities. MEHC's largest investor, Berkshire Hathaway, has credit ratings from each of the rating agencies that are the highest, most secure credit ratings a corporation can receive.

The individual agency ratings are shown in the table, below, for Berkshire Hathaway and for MEHC and MEHC's regulated subsidiaries senior unsecured debt. After the announcement of this transaction, FitchRatings affirmed MEHC's senior unsecured debt at BBB, with a stable outlook. Standard & Poor's placed MEHC's corporate rating and senior unsecured debt rating of BBB- on CreditWatch-Positive, and Moody's Investors Service affirmed MEHC's senior unsecured debt rating of Baa3 while noting a positive rating outlook for MEHC.

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-

Financing and Mechanics of the Transaction

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

A. A limited liability company ("LLC"), PPW Holdings LLC, has been established as a direct subsidiary of MEHC. This LLC will receive, as an equity infusion, $5.1 billion raised by MEHC through the sale of 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 LLC will have no debt of its own. The LLC will, as provided in the Stock Purchase Agreement, pay PHI $5.1 billion in cash, at closing, in exchange for 100 percent of the common stock of PacifiCorp. In addition, it is projected that approximately $4.3 billion in net debt and preferred stock of PacifiCorp will remain outstanding as obligations of PacifiCorp.

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

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

A. As described above, MEHC expects to fund the transaction with the proceeds from an investment by Berkshire Hathaway of approximately $3.4 billion in zero coupon non-voting convertible preferred stock of MEHC and the issuance by MEHC to third parties of approximately $1.7 billion of long-term senior notes, preferred stock, or other securities with equity characteristics. 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. The pro forma capital structure of MEHC after the acquisition is shown in Table 1 above, assuming $1.7 billion of long-term debt is issued by MEHC. The timing and composition of these financings are flexible and subject to modification as market conditions change. It is not anticipated that there would be any restrictive covenants associated with the proposed financing different from those typical of an investment grade financing.

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

A. MEHC believes that PacifiCorp's cost of debt will benefit from the acquisition due to the association with MEHC's largest investor, Berkshire Hathaway. Historically, MEHC's utility subsidiaries have been able to issue long-term debt at spread levels below their peers with similar ratings. Based on market data independently obtained from JP Morgan and ABN AMRO, the average interest rate savings on MidAmerican Energy Company's last ten year debt issuance was approximately 10 basis points. If this ten basis point difference is applied to the incremental long-term debt issuances contained in PacifiCorp's financial forecast, incremental interest costs might be as much as $26.7 million lower over the next ten years. Extending the same assumptions out twenty years implies possible savings totaling $71.1 million.

Market dynamics change every day based on a variety of factors, thus MEHC cannot guarantee that a 10 basis point savings on debt issuances of similar maturity will be achievable going forward indefinitely. However, MEHC is prepared to commit that over the next five years it will demonstrate that PacifiCorp can issue new long-term debt at a yield ten basis points below its similarly rated peers. If MEHC is unsuccessful in demonstrating that it has done so, MEHC will accept up to a ten basis point reduction to the yield it actually incurred on any incremental debt issuances for any PacifiCorp revenue requirement calculation effective for the five year period subsequent to the closing of the proposed acquisition. Based on PacifiCorp's financial forecast of future debt issuance, this represents a guaranteed total cost savings over the five year period of approximately $6.3 million.

Q. The Application in this proceeding notes that Standard & Poor's has placed PacifiCorp's credit rating on credit watch with negative implications, based upon Standard & Poor's view of PacifiCorp's weaker stand-alone metrics. Can you quantify the approximate impact upon PacifiCorp's incremental long-term financing costs if PacifiCorp were on a stand-alone basis and suffered a credit rating downgrade?

A. Under the assumption that PacifiCorp is a stand-alone company and it suffered a one notch credit downgrade by all three major credit rating agencies, the impact under current market conditions would be approximately 10 to 15 basis points. Over the next ten years, given PacifiCorp's financing plan and assuming market conditions stay the same, that would imply an increase in cost of approximately $26.7 million. In today's market, if only Standard and Poor's downgraded PacifiCorp (i.e., leaving the company "split rated") the impact of the downgrade would be approximately 5 basis points.

As I have previously mentioned, market dynamics are constantly changing and the spread over treasury securities of debt instruments of different credit qualities often widen and narrow as a result. Over the course of the past ten years for example, Credit Suisse First Boston indicates that the spread between the yield on BBB+ and A- public utility bonds has ranged from today's relatively tight spreads of 10 to 15 basis points to as much as 40 to 60 basis points. Thus the potential cost over the next ten years to PacifiCorp and its customers of a ratings downgrade could be multiples of the cost mentioned above.

Q. What is MEHC's current estimate of the excess of the purchase price over the book value of the PacifiCorp assets to be acquired and the liabilities to remain outstanding as of the expected closing date?

A. This figure will change as ScottishPower makes additional equity investments in PacifiCorp, as dividends are paid by PacifiCorp to ScottishPower, and as a result of any retained earnings by PacifiCorp between March 31, 2005 and the closing date of the proposed acquisition. As of the expected closing date (March 31, 2006), the excess of the purchase price over the book value of the assets to be acquired and the liabilities to remain outstanding at PacifiCorp is expected to be approximately $1.2 billion. MEHC witness Abel's testimony also addresses this premium.

Q. In and of itself, as a result of the closing of this transaction, will PacifiCorp's financial statements change?

A. No. PacifiCorp's U.S. financial statements, prepared using generally accepted accounting principles ("GAAP"), will not be impacted by the closing of this transaction. PacifiCorp will maintain its own accounting system, separate from MEHC's accounting system. The acquisition will be accounted for in accordance with GAAP. 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.

As indicated in the commitments sponsored by MEHC witness Gale in Exhibit PPL/301, 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) 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.

However, as noted by MEHC witness Thomas Specketer, upon the closing of the transaction, it is MEHC intent to transition PacifiCorp's financial reporting to a calendar year-end in contrast to its present March 31 fiscal year-end.

Q. Will the proposed transaction have any impact on the availability of PacifiCorp's books and records?

A. No. All PacifiCorp financial books and records will continue to be kept in Portland, Oregon, and will continue to be available to the Commission upon request during normal business hours at PacifiCorp's offices in Portland, Oregon, Salt Lake City, Utah, and elsewhere in accordance with current practice.

As indicated by the commitments in MEHC witness Mr.Gale's Exhibit PPL/301, MEHC and PacifiCorp will also provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between PacifiCorp and its affiliated interests.

Financial Forecast for the Acquisition

Q. Describe the financial forecast used for the purposes of reviewing the proposed acquisition.

A. In completing its due diligence review of the proposed acquisition, MEHC relied on a financial forecast provided by ScottishPower. MEHC satisfied itself that the plan provided by ScottishPower was reasonable and did not revise that plan.

Q. Describe the magnitude of the proposed capital expenditure program that has been forecasted for PacifiCorp.

A. PacifiCorp is projecting at least $1 billion per year in capital expenditures over the next five years for generation, transmission and distribution projects.

Commitments Concerning the Acquisition Approval Process

Q. Please describe the financial and structural commitments that MEHC is prepared to undertake as part of the acquisition approval process.

A. MEHC witness Mr. Gale's Exhibit PPL/301 enumerates many of the commitments that MEHC is prepared to undertake as part of the acquisition approval process. MEHC witness Abel discusses additional new commitments designed to provide benefits to retail customers of PacifiCorp. I will sponsor the commitments contained in Table 3, below.

Table 3 Commitments that MEHC is Prepared to Undertake as Part of the Acquisition Approval Process		
	Regulatory Oversight	
A	Accounting Systems	PacifiCorp will maintain its own accounting system, separate from MEHC's accounting system. 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, Oregon, Salt Lake City, Utah, and elsewhere in accordance with current practice.
B	Affiliate Transactions	MEHC and PacifiCorp will provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between PacifiCorp and its affiliated interests.
I	Non Jurisdictional Affiliates	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.
	Financial Integrity	
A	Separate Credit Ratings	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.
B	Costs of the Transaction	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.
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), 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 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.

Ring-Fencing

Q. Please describe the "ring-fencing" protections MEHC will employ to isolate PacifiCorp from MEHC and MEHC's other subsidiaries.

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

- have a single purpose, that being to own the common equity of PacifiCorp;
- have an independent director from whom assent is required to place the LLC or PacifiCorp into bankruptcy;
- require PacifiCorp to maintain separate books, financial records and employees, and will prohibit the commingling of assets;
- have a non-recourse structure which precludes liabilities of MEHC, or its

subsidiaries, from being assessed against the LLC or PacifiCorp;

- prohibit the LLC's or PacifiCorp's credit from being made available to satisfy obligations of, or to be pledged for the benefit of, any other company;
- prohibit the LLC or PacifiCorp from acquiring the obligations or securities of MEHC or any of its other affiliates except, of course, that PacifiCorp may purchase its own obligations; and
- require the consent of the independent director, and rating agency confirmation, that there will be no credit downgrade for any amendment to the above mentioned protections.

This structure, colloquially referred to as "ring-fencing," is recognized by the major rating agencies as an effective means to separate the credit quality of a parent from a subsidiary.

PacifiCorp, as a subsidiary of PPW Holdings LLC, will retain its own capital structure, its own credit rating, and through the ring-fencing structure, will be effectively isolated from any credit issues that might arise at MEHC or any of its other subsidiaries.

Description of the Rights of Berkshire Hathaway

Q. Please describe the rights Berkshire Hathaway currently has as a result of its ownership of $1.63 billion of zero coupon convertible preferred stock of MEHC.

A. Berkshire Hathaway's rights as a holder of MEHC zero coupon convertible preferred stock can be summarized as follows. The securities:

- are not mandatorily redeemable by MEHC or at the option of Berkshire Hathaway;
- participate in dividends and other distributions to common shareholders as if they were common shares but otherwise possess no dividend rights;
- have no voting rights;
- are convertible into common shares on a 1 for 1 basis, as adjusted for splits, combinations, reclassifications and other capital changes by MEHC;
- upon liquidation, would have a prior right to available proceeds up to $1 per share, after which the common stock would have a right to available proceeds up to $1 per share (subject to certain adjustments), after which the preferred stock and common stock would share ratably in any remaining proceeds; and
- the dividend and distribution arrangements previously described cannot be modified without the positive consent of Berkshire Hathaway.

Berkshire Hathaway currently holds 9.9 percent of the common shares of MEHC and 41,263,395 shares of MEHC's zero coupon convertible preferred stock. While the convertible preferred stock does not vote with the common stock in the election of directors, the convertible preferred stock gives Berkshire Hathaway the right to elect 20 percent of MEHC's Board of Directors (currently two of the ten members of the MEHC Board of Directors). Additionally, the prior approval of Berkshire Hathaway, as the holder of convertible preferred stock, is required for MEHC to undertake certain fundamental transactions (e.g., the PacifiCorp acquisition). The prior approval of Berkshire Hathaway is not required for transactions undertaken directly by MEHC subsidiaries.

Q. You stated that the zero coupon convertible preferred stock would participate in dividends or other distributions to the same extent as the common shareholders. What has been MEHC's dividend history?

A. Since the issuance of the zero coupon convertible preferred stock in March 2000, MEHC has not declared or paid a dividend to its common shareholders or to Berkshire Hathaway. Instead, earnings have been retained at the operating company level to maintain or improve credit quality and support the capital investment programs of MEHC's regulated subsidiaries.

For instance, MidAmerican Energy Company, when purchased by MEHC, in March 1999, had an equity-to-total-capital ratio of approximately 48 percent as of December 31, 1998. As of December 31, 2004, that ratio is approximately 53 percent, despite extensive capital expenditure programs undertaken by MidAmerican Energy Company.

Q. Please describe the conversion mechanism of the zero coupon convertible preferred stock of MEHC?

A. The zero coupon convertible preferred stock of MEHC is convertible into MEHC common shares at the option of Berkshire Hathaway if either of two events occurs. First, if the conversion would not cause Berkshire Hathaway (or any affiliate of Berkshire Hathaway) to become regulated as a registered holding company or as a subsidiary of a registered holding company under the Public Utility Holding Company Act of 1935 and any successor legislation ("PUHCA"). Second, in the event of MEHC's involuntary or voluntary liquidation, dissolution, recapitalization, winding-up or termination or a merger, consolidation or sale of all or substantially all of MEHC's assets.

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

A. Upon conversion Berkshire Hathaway would have the rights of a common stockholder and the ability to elect nine of the ten members of MEHC's board of directors. The additional $3.4 billion of zero coupon convertible preferred stock will increase Berkshire Hathaway's proportion of ownership but would otherwise not affect any of the rights Berkshire Hathaway had without the additional investment.

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

A. If PUHCA is repealed, MEHC anticipates Berkshire Hathaway will exercise its conversion rights. This would create a technical change in control of MEHC. Pursuant to the commitments in MEHC witness Mr. Gale's Exhibit PPL/301, MEHC and PacifiCorp would provide the Commission notice of this change and would seek approvals where required.

Q. Will Berkshire Hathaway have any involvement in the day to day operations of PacifiCorp?

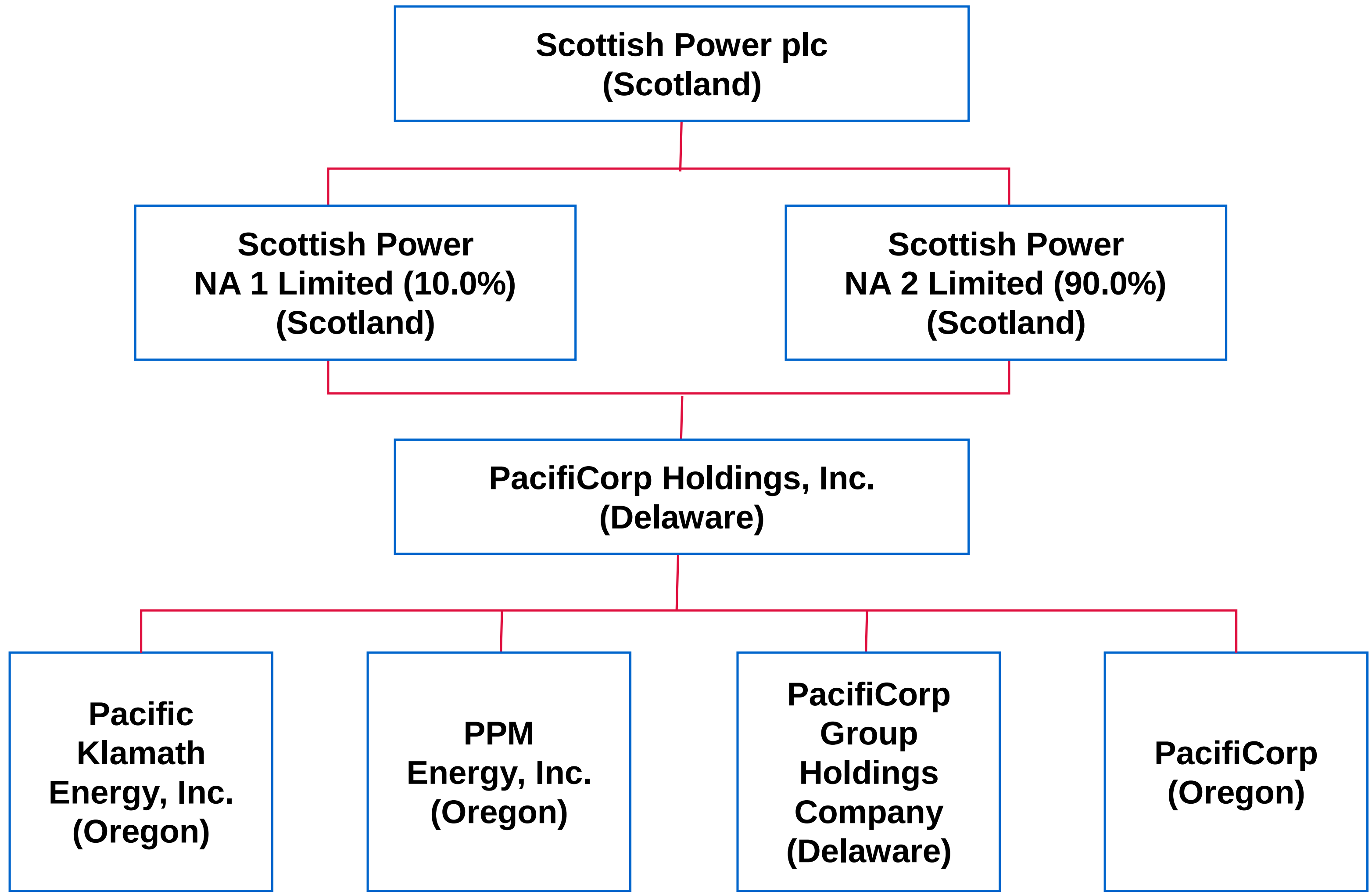
A. No, it will not. The rights that Berkshire Hathaway has as a holder of the zero coupon convertible preferred stock, including the fundamental transactions I discussed previously, are not considered to be day to day operations.

Conclusion

Q. Does this conclude your direct testimony?

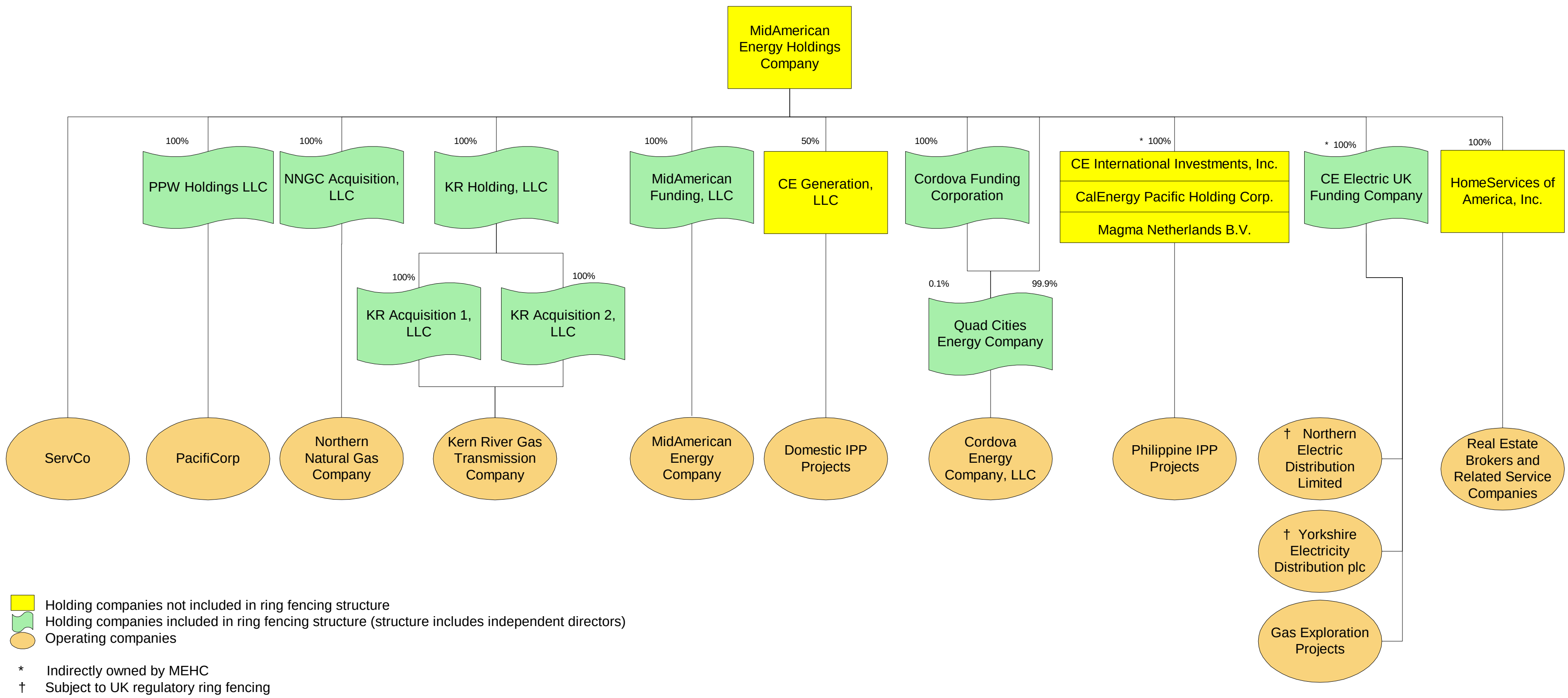
A. Yes, it does.

Scottish Power Corporate Organization
(Jurisdiction of Organization)



MIDAMERICAN
ENERGY HOLDINGS COMPANY

Simplified MEHC Organizational Structure – Post PacifiCorp Acquisition



Case UM-
PPL Exhibit 403
Witness: Patrick J. Goodman

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying Direct Testimony of Patrick J. Goodman

MEHC Form 10-K

July 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

Commission File No. 0-25551

MIDAMERICAN ENERGY HOLDINGS COMPANY
(Exact name of registrant as specified in its charter)

Iowa	94-2213782
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
666 Grand Avenue, Des Moines, IA	50309
(Address of principal executive offices)	(Zip Code)

(515) 242-4300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: N/A
Securities registered pursuant to Section 12(g) of the Act: N/A

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of each of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act).
Yes __ No X

All of the shares of common equity of MidAmerican Energy Holdings Company are privately held by a limited group of investors. As of January 31, 2005, 9,081,087 shares of common stock were outstanding.

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PART IV

Disclosure Regarding Forward-Looking Statements

This report contains statements that do not directly or exclusively relate to historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast," and similar terms. These statements represent plans, expectations and beliefs and are subject to risks, uncertainties and other factors. Many of these factors are outside the Company's control and could cause actual results to differ materially from such forward-looking statements. These factors include, among others:

- general economic and business conditions in the jurisdictions in which its facilities are located;
- the financial condition and creditworthiness of our significant customers and suppliers;
- governmental, statutory, regulatory or administrative initiatives or ratemaking actions affecting the Company or the electric or gas utility, pipeline or power generation industries;
- weather effects on sales and revenue;
- general industry trends;
- increased competition in the power generation, electric and gas utility or pipeline industries;
- fuel and power costs and availability;
- continued availability of accessible gas reserves;
- changes in business strategy, development plans or customer or vendor relationships;
- availability, term and deployment of capital;
- availability of qualified personnel;
- unscheduled outages or repairs;
- risks relating to nuclear generation;
- financial or regulatory accounting principles or policies imposed by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board ("FASB"), the Securities and Exchange Commission ("SEC") and similar entities with regulatory oversight;
- other risks or unforeseen events, including wars, the effects of terrorism, embargos and other catastrophic events; and
- other business or investment considerations that may be disclosed from time to time in SEC filings or in other publicly disseminated written documents.

MidAmerican Energy Holdings Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors should not be construed as exclusive.

PART I

Item 1. Business.

General

MidAmerican Energy Holdings Company ("MEHC") and its subsidiaries (together with MEHC, the "Company") are organized and managed on seven distinct platforms: MidAmerican Energy Company ("MidAmerican Energy"), Kern River Gas Transmission Company ("Kern River"), Northern Natural Gas Company ("Northern Natural Gas"), CE Electric UK Funding ("CE Electric UK") (which includes Northern Electric Distribution Limited ("Northern Electric") and Yorkshire Electricity Distribution plc ("Yorkshire Electricity")), CalEnergy Generation-Foreign (the subsidiaries owning the Upper Mahiao, Malitbog and Mahanagdong projects (collectively, the "Leyte Projects") and the Casecnan project), CalEnergy Generation-Domestic (the subsidiaries owning interests in independent power projects in the United States), and HomeServices of America, Inc. (collectively with its subsidiaries, "HomeServices"). Refer to Note 23 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional segment information regarding the Company's platforms. Through these platforms, the Company owns and operates a combined electric and natural gas utility company in the United States, two natural gas pipeline companies in the United States, two electricity distribution companies in the United Kingdom, a diversified portfolio of domestic and international independent power projects and the second largest residential real estate brokerage firm in the United States.

MEHC's energy subsidiaries generate, transmit, store, distribute and supply energy. MEHC's electric and natural gas utility subsidiaries currently serve approximately 4.4 million electricity customers and approximately 680,000 natural gas customers. Its natural gas pipeline subsidiaries operate interstate natural gas transmission systems with approximately 18,300 miles of pipeline in operation and peak delivery capacity of 6.4 billion cubic feet of natural gas per day. The Company has interests in 6,777 net owned megawatts of power generation facilities in operation and under construction, including 5,203 net owned megawatts in facilities that are part of the regulated return asset base of its electric utility business and 1,574 net owned megawatts in non-utility power generation facilities. Substantially all of the non-utility power generation facilities have long-term contracts for the sale of energy and/or capacity from the facilities.

On March 14, 2000, MEHC and an investor group comprising Berkshire Hathaway Inc. ("Berkshire Hathaway"), Walter Scott, Jr., a director of MEHC, David L. Sokol, Chairman and Chief Executive Officer of MEHC, and Gregory E. Abel, President and Chief Operating Officer of MEHC, closed on a definitive agreement and plan of merger whereby the investor group, together with certain of Mr. Scott's family members and family trusts and corporations, acquired all of the outstanding common stock of MEHC (the "Teton Transaction").

The principal executive offices of MEHC are located at 666 Grand Avenue, Des Moines, Iowa 50309 and its telephone number is (515) 242-4300. MEHC initially incorporated in 1971 under the laws of the State of Delaware and reincorporated in 1999 in Iowa, at which time it changed its name from CalEnergy Company, Inc. to MidAmerican Energy Holdings Company.

In this Annual Report, references to "U.S. dollars," "dollars," "$" or "cents" are to the currency of the United States, references to "pounds sterling," "£," "sterling," "pence" or "p" are to the currency of the United Kingdom and references to "pesos" are to the currency of the Philippines. References to kW means kilowatts, MW means megawatts, GW means gigawatts, kWh means kilowatt hours, MWh means megawatt hours, GWh means gigawatt hours, kV means kilovolts, mmcf means million cubic feet, Bcf means billion cubic feet, Tcf means trillion cubic feet and Dth means decatherms or one million British thermal units.

MidAmerican Energy

Business

MidAmerican Energy, an indirect wholly-owned subsidiary of MEHC, owns a public utility headquartered in Iowa with $5.1 billion of assets as of December 31, 2004, and operating revenues for 2004 totaling $2.7 billion. MidAmerican Energy is principally engaged in the business of generating, transmitting, distributing and selling electric energy and in distributing, selling and transporting natural gas. MidAmerican Energy distributes electricity at retail in Council Bluffs, Des Moines, Fort Dodge, Iowa City, Sioux City and Waterloo, Iowa; the Quad Cities (Davenport and Bettendorf, Iowa and Rock Island, Moline and East Moline, Illinois); and a number of adjacent communities and areas. It also distributes natural gas at retail in Cedar Rapids, Des Moines, Fort Dodge, Iowa City, Sioux City and Waterloo, Iowa; the Quad Cities; Sioux Falls, South Dakota; and a number of adjacent communities and areas. Additionally, MidAmerican Energy transports natural gas through its distribution system for a number of end-use customers who have independently secured their supply of natural gas. As of December 31, 2004, MidAmerican Energy had approximately 698,000 regulated retail electric customers and 680,000 regulated retail and transportation natural gas customers.

In addition to retail sales and natural gas transportation, MidAmerican Energy sells electric energy and natural gas to other utilities, marketers and municipalities. These sales are referred to as wholesale sales.

MidAmerican Energy's regulated electric and gas operations are conducted under franchises, certificates, permits and licenses obtained from state and local authorities. The franchises, with various expiration dates, are typically for 25-year terms.

MidAmerican Energy has a diverse customer base consisting of residential, agricultural, and a variety of commercial and industrial customer groups. Among the primary industries served by MidAmerican Energy are those that are concerned with food products, the manufacturing, processing and fabrication of primary metals, real estate, farm and other non-electrical machinery, and cement and gypsum products.

MidAmerican Energy also conducts a number of nonregulated business activities.

For the year ended December 31, 2004, MidAmerican Energy derived 53% of its gross operating revenues from its regulated electric business, 37% from its regulated gas business and 10% from its nonregulated business activities. For 2003 and 2002, the corresponding percentages were 54% electric, 36% gas and 10% nonregulated; and 61% electric, 31% gas and 8% nonregulated, respectively.

Electric Operations

For the year ended December 31, 2004, regulated electric sales by MidAmerican Energy by customer class were as follows: 20% were to residential customers, 14% were to small general service customers, 27% were to large general service customers, 5% were to other customers, and 34% were wholesale sales. For the year ended December 31, 2004, regulated electric sales by MidAmerican Energy by jurisdiction were as follows: 89% to Iowa, 10% to Illinois and 1% to South Dakota.

The annual hourly peak demand on MidAmerican Energy's electric system usually occurs as a result of air conditioning use during the cooling season. In August 2003, MidAmerican Energy reached a record hourly peak demand of 3,935 MW. For 2004, MidAmerican Energy recorded an hourly peak demand of 3,894 MW on July 20.

The following table sets out certain information concerning MidAmerican Energy's power generation facilities based upon summer 2004 accreditation and expected accredited generating capacity of projects recently completed or under construction:

Operating Project (1)	Facility Net Capacity (MW)(2)	Net MW Owned (2)	Fuel	Location	Operation
Steam Electric Generating Facilities:					
Council Bluffs Energy Center Units 1 & 2	133	133	Coal	Iowa	1954, 1958
Council Bluffs Energy Center Unit 3	690	546	Coal	Iowa	1978
Louisa Generation Station	700	616	Coal	Iowa	1983
Neal Generation Station Units 1 & 2	435	435	Coal	Iowa	1964, 1972
Neal Generation Station Unit 3	515	371	Coal	Iowa	1975
Neal Generation Station Unit 4	644	261	Coal	Iowa	1979
Ottumwa Generation Station	715	372	Coal	Iowa	1981
Riverside Generation Station	135	135	Coal	Iowa	1925-61
Total steam electric generating facilities	3,967	2,869			
Other Facilities:					
Combustion Turbines (3)	1,116	1,116	Gas/Oil	Iowa	1969-2003
Quad Cities Generating Station	1,748	437	Nuclear	Illinois	1974
Portable Power Modules	56	56	Oil	Iowa	2000
Moline Water Power	3	3	Hydro	Illinois	1970
Total other facilities	2,923	1,612			
Total accredited generating capacity	6,890	4,481			
Projects Recently Completed or Under Construction:					
Greater Des Moines Energy Center (3)	190	190	Gas	Iowa	2004
Council Bluffs Energy Center Unit 4	790	479	Coal	Iowa	2007
Northern Iowa Wind Power	53	53	Wind	Iowa	2005
Total projects recently completed or under construction	1,033	722			
	7,923	5,203			

(1) MidAmerican Energy operates all such power generation facilities other than Quad Cities Generating Station and Ottumwa Generation Station.

(2) Represents accredited net generating capability from the summer of 2004 and the expected accredited generating capacity of projects recently completed or under construction. Actual MW may vary depending on operating conditions and plant design for operating projects. Net MW Owned indicates ownership of accredited capacity for the summer of 2004 as approved by the Mid-Continent Area Power Pool ("MAPP").

(3) The Greater Des Moines Energy Center project was completed in two phases. Commercial operation in the simple cycle mode began in May 2003, resulting in 327 MW (included in "Other Facilities — Combustion Turbines" above) of accredited capacity throughout 2004. Commercial operation of the combined cycle mode began in December 2004 and additional accredited capacity is expected to be 190 MW.

MidAmerican Energy's total accredited net generating capability in the summer of 2004 was 4,897 MW. Accredited net generating capability represents the amount of generation available to meet the requirements on MidAmerican Energy's system and consists of MidAmerican Energy-owned generation of 4,481 MW and the net amount of capacity purchases and sales of 416 MW. The actual amount of generation capacity available at any time may be less than the accredited capability due to regulatory restrictions, transmission constraints, fuel restrictions and generating units being temporarily out of service for inspection, maintenance, refueling, modifications or other reasons.

MidAmerican Energy anticipates a continuing increase in demand for electricity from its regulated customers. To meet anticipated demand and ensure adequate electric generation in its service territory, MidAmerican Energy recently completed its combined cycle combustion turbine project and is currently constructing the 790 MW (expected accreditation) super-critical-temperature, coal-fired Council Bluffs Energy Center Unit No. 4 ("CBEC Unit 4") and a 310 MW (nameplate rating) wind power project in Iowa. The projects will provide service to regulated retail electricity customers. MidAmerican Energy has obtained regulatory approval to include the Iowa portion of the actual costs of the generation projects in its Iowa rate base as long as actual costs do not exceed the agreed caps that MidAmerican Energy has deemed to be reasonable. If the caps are exceeded, MidAmerican Energy has the right to demonstrate the prudence of the expenditures above the caps, subject to regulatory review. Wholesale sales may also be made from the projects to the extent the power is not immediately needed for regulated retail service. MidAmerican Energy expects to invest approximately $1.1 billion in the CBEC Unit 4 and wind generation projects, of which $350.4 million has been invested through December 31, 2004.

MidAmerican Energy recently completed work on its Greater Des Moines Energy Center, a natural gas-fired, combined cycle plant located near Pleasant Hill, Iowa. Construction of the plant was completed in two phases. Commercial operation of the simple cycle mode began on May 5, 2003, and continued through most of 2004, providing 327 MW of accredited capacity in the summer of 2004. Commercial operation of the combined cycle mode began on December 16, 2004. The additional accredited capacity from the completion of the second phase is expected to be 190 MW. MidAmerican Energy expects the total cost of the Greater Des Moines Energy Center to be under the $357.0 million cost cap established by the Iowa Utilities Board ("IUB").

MidAmerican Energy is currently constructing the CBEC Unit 4, a 790 MW (based on expected accreditation) super-critical-temperature, low-sulfur coal-fired plant. MidAmerican Energy will operate the plant and hold an undivided ownership interest as a tenant in common with the other owners of the plant. MidAmerican Energy's ownership interest is 60.67%, equating to 479 MW of output. MidAmerican Energy expects its share of the estimated cost of the project, including transmission facilities, to be approximately $737.0 million, excluding allowance for funds used during construction. Municipal, cooperative and public power utilities will own the remainder, which is a typical ownership arrangement for large base-load plants in Iowa. On February 12, 2003, MidAmerican Energy executed a contract with Mitsui & Co. Energy Development, Inc. ("Mitsui") for the engineering, procurement and construction of the plant. On September 9, 2003, MidAmerican Energy began construction of the plant, which it expects to be completed in the summer of 2007. On December 29, 2004, MidAmerican Energy received an order from the IUB approving construction of the associated transmission facilities and is proceeding with construction.

The second electric generating project currently under construction consists of wind power facilities located at two sites in north central Iowa totaling 310 MW based on the nameplate rating. Generally speaking, accredited capacity ratings for wind power facilities are considerably less than the nameplate ratings due to the varying nature of wind. The current projected accredited capacity for these wind power facilities is approximately 53 MW. MidAmerican Energy will own and operate these facilities, which are expected to cost approximately $323.0 million, including transmission facilities and excluding the allowance for funds used during construction. As of December 31, 2004, wind turbines totaling 160.5 MW at one of the sites were completed and in service. Completion of the remaining turbines is expected by the middle of 2005. On January 31, 2005, the IUB approved ratemaking principles related to expanding the wind power project. An additional 50 MW of capacity, based on the nameplate rating, is expected to be constructed at the sites in 2005 at an estimated cost of $63.0 million.

MidAmerican Energy is interconnected with Iowa utilities and utilities in neighboring states and is party to an electric generation and transmission pooling agreement administered by the MAPP. The MAPP is a voluntary association of electric utilities doing business in Minnesota, Nebraska, North Dakota and the Canadian provinces of Saskatchewan and Manitoba and portions of Iowa, Montana, South Dakota and Wisconsin. Its membership also includes power marketers, regulatory agencies and independent power producers. The MAPP facilitates operation of the transmission system, is responsible for the safety and reliability of the bulk electric system, and has responsibility for administration of the MAPP's Open-Access Transmission Tariff.

Each MAPP participant is required to maintain for emergency purposes a net generating capability reserve of at least 15% above its system peak demand. MidAmerican Energy's reserve margin at peak demand for 2004 was approximately 26%. MidAmerican Energy believes it has adequate electric capacity reserve through 2010, including capacity provided by the generating projects discussed above. However, significantly higher-than-normal temperatures during the cooling season could cause MidAmerican Energy's reserve to fall below the 15% minimum. If MidAmerican Energy fails to maintain the appropriate reserve, significant penalties could be contractually imposed by the MAPP.

MidAmerican Energy's transmission system connects its generating facilities with distribution substations and interconnects with 14 other transmission providers in Iowa and five adjacent states. Under normal operating conditions, MidAmerican Energy's transmission system has adequate capacity to deliver energy to MidAmerican Energy's distribution system and to export and import energy with other interconnected systems.

Gas Operations

MidAmerican Energy is engaged in the procurement, transportation, storage and distribution of natural gas for customers in the midwest region of the United States. MidAmerican Energy purchases natural gas from various suppliers, transports it from the production area to MidAmerican Energy's service territory under contracts with interstate pipelines, stores it in various storage facilities to manage fluctuations in system demand and seasonal pricing, and distributes it to customers through MidAmerican Energy's distribution system.

MidAmerican Energy sells natural gas and transportation services to end-use, or retail, customers and natural gas to other utilities, marketers and municipalities. MidAmerican Energy also transports through its distribution system natural gas purchased independently by a number of end-use customers. During 2004, 45% of total gas delivered through MidAmerican Energy's system for end-use customers was under gas transportation services.

For the year ended December 31, 2004, regulated gas sales, excluding transportation throughput, by MidAmerican Energy by customer class were as follows: 40% were to residential customers, 20% were to small general service customers, 2% were to large general service customers and 38% were wholesale sales. For the year ended December 31, 2004, regulated gas sales, excluding transportation throughput, by MidAmerican Energy by jurisdiction were as follows: 78% to Iowa, 11% to South Dakota, 10% to Illinois and 1% to Nebraska.

There are seasonal variations in MidAmerican Energy's gas business that are principally due to the use of natural gas for heating. In general, 45-55% of MidAmerican Energy's regulated gas revenue is reported in the months of January, February, March and December.

MidAmerican Energy purchases gas supplies from producers and third party marketers. To ensure system reliability, a geographically diverse supply portfolio with varying terms and contract conditions is utilized for the gas supplies. MidAmerican Energy attempts to optimize the value of its regulated assets by engaging in wholesale sales transactions. IUB and South Dakota Public Utilities Commission ("SDPUC") rulings have allowed MidAmerican Energy to retain 50% of the respective jurisdictional margins earned on wholesale sales of natural gas, with the remaining 50% being returned to customers through the purchased gas adjustment clause discussed below.

MidAmerican Energy has rights to firm pipeline capacity to transport gas to its service territory through direct interconnects to the pipeline systems of Northern Natural Gas (an affiliate company), Natural Gas Pipeline Company of America ("NGPL"), Northern Border Pipeline Company ("Northern Border") and ANR Pipeline Company ("ANR"). At times, the capacity available through MidAmerican Energy's firm capacity portfolio may exceed the demand on MidAmerican Energy's distribution system. Firm capacity in excess of MidAmerican Energy's system needs can be resold to other companies to achieve optimum use of the available capacity. Past IUB and SDPUC rulings have allowed MidAmerican Energy to retain 30% of the respective jurisdictional margins earned on the resold capacity, with the remaining 70% being returned to customers through the purchased gas adjustment clause.

MidAmerican Energy is allowed to recover its cost of gas from all of its regulated gas customers through purchased gas adjustment clauses. Accordingly, MidAmerican Energy's regulated gas customers retain the risk associated with the market price of gas. MidAmerican Energy uses several strategies to reduce the market price risk for its gas customers, including the use of storage gas and peak shaving facilities, sharing arrangements to share savings and costs with customers and short-term and long-term financial and physical gas purchase agreements.

MidAmerican Energy utilizes leased gas storage to meet peak day requirements and to manage the daily changes in demand due to changes in weather. The storage gas is typically replaced during the summer months when the demand for gas has historically been lower than during the heating season. In addition, MidAmerican Energy also utilizes three liquefied natural gas ("LNG") plants and two propane-air plants to meet peak day demands in the winter. The storage and peak shaving facilities reduce MidAmerican Energy's dependence on gas purchases during the volatile winter heating season.

In 1995, the IUB gave initial approval of MidAmerican Energy's Incentive Gas Supply Procurement Program. In November 2004, the IUB extended the program through October 31, 2006. Under the program, as amended, MidAmerican Energy is required to file with the IUB every six months a comparison of its gas procurement costs to an index-based reference price. If MidAmerican Energy's cost of gas for the period is less or greater than an established tolerance band around the reference price, then MidAmerican Energy shares a portion of the savings or costs with customers. A similar program is currently in effect in South Dakota through October 31, 2005. Since the implementation of the program, MidAmerican Energy has successfully achieved and shared savings with its natural gas customers.

On February 2, 1996, MidAmerican Energy had its highest peak-day delivery of 1,143,026 Dth. This peak-day delivery consisted of 88% traditional sales service and 12% transportation service of customer-owned gas. As of January 31, 2005, MidAmerican Energy's 2004/2005 winter heating season peak-day delivery of 997,058 Dth was reached on January 14, 2005. This peak-day delivery included 76% traditional sales service and 24% transportation service.

Kern River

Business

Kern River, an indirect wholly-owned subsidiary of MEHC, owns an interstate natural gas transportation pipeline system comprising 1,679 miles of pipeline, with an approximate design capacity of 1,755,575 Dth per day, extending from supply areas in the Rocky Mountains to consuming markets in Utah, Nevada and California. In 2003, a 717 mile expansion project ("2003 Expansion Project"), which was placed in service on May 1, 2003, increased the design capacity of Kern River's pipeline system by 885,575 Dth per day to its current 1,755,575 Dth per day.

Kern River's pipeline consists of two sections: the mainline section and the common facilities. Kern River owns the entire mainline section, which extends from the pipeline's point of origination near Opal, Wyoming through the Central Rocky Mountains area into Daggett, California. The mainline section consists of the original 682 miles of 36-inch pipeline, 628 miles of 36-inch loop pipeline related to the 2003 Expansion Project and 68 miles of various laterals that connect to the mainline.

The common facilities consist of a 219-mile section of original pipeline that extends from the point of interconnection with the mainline in Daggett to Bakersfield, California and an additional 82 miles related to the 2003 Expansion Project. The common facilities are jointly owned by Kern River (approximately 76.8% as of December 31, 2004) and Mojave Pipeline Company ("Mojave"), a wholly owned subsidiary of El Paso Corporation ("El Paso") (approximately 23.2% as of December 31, 2004), as tenants-in-common. Kern River's ownership percentage in the common facilities will increase or decrease pursuant to subsequently completed expansions by the respective joint owners. Kern River has exclusive rights to approximately 1,570,500 Dth per day of the common facilities' capacity, and Mojave has exclusive rights to 400,000 Dth per day of capacity. Operation and maintenance of the common facilities are the responsibility of Mojave Pipeline Operating Company, an affiliate of Mojave.

Transportation Service Agreements

As of December 31, 2004, Kern River had under contract 1,661,575 Dth per day of capacity under long-term firm gas transportation service agreements under which the pipeline receives natural gas on behalf of shippers at designated receipt points, transports the gas on a firm basis up to each shipper's maximum daily quantity and delivers thermally equivalent quantities of gas at designated delivery points. Each shipper pays Kern River the aggregate amount specified in its long-term firm gas transportation service agreement and Kern River's tariff, with such amount consisting primarily of a fixed monthly reservation fee based on each shipper's maximum daily quantity and a commodity charge based on the actual amount of gas transported.

With respect to Kern River's mainline facilities in existence prior to the 2003 Expansion Project, at December 31, 2004, Kern River had 27 long-term firm gas transportation service agreements with 16 shippers, for a total of 848,949 Dth per day of capacity. All but one of these long-term firm gas transportation service agreements expires on or before April 30, 2017. Several of these shippers are major oil and gas companies, or affiliates of such companies. These shippers also include electric generating companies, energy marketing and trading companies, and a gas distribution utility which provides services in Nevada and California.

With respect to Kern River's 2003 Expansion Project, at December 31, 2004, Kern River had 19 long-term firm gas transportation service agreements with 16 shippers, for a total of 812,626 Dth per day of capacity from the pipeline's point of origination near Opal, Wyoming to delivery points primarily in California. Approximately 83% of the 2003 Expansion Project's capacity is contracted for 15 years, with 14 of the long-term firm gas transportation service agreements expiring on April 30, 2018. The remaining 17% of capacity is contracted for 10 years, with five long-term firm gas transportation service agreements expiring on April 30, 2013. Over 95% of the 2003 Expansion Project's capacity has primary delivery points in California, with the flexibility to access secondary delivery points in Nevada and Utah.

Northern Natural Gas

Business

Northern Natural Gas, an indirect wholly-owned subsidiary of MEHC, owns one of the largest interstate natural gas pipeline systems in the United States. It reaches from Texas to Michigan's Upper Peninsula and is engaged in the transmission and storage of natural gas for utilities, municipalities, other pipeline companies, gas marketers, industrial and commercial users and other end users. Northern Natural Gas operates approximately 16,500 miles of natural gas pipelines with a design capacity of 4.4 Bcf per day. Based on a review of relevant industry data, the Northern Natural Gas system is believed to be the largest single pipeline in the United States as measured by pipeline miles and the ninth largest as measured by throughput. Northern Natural Gas' revenue is derived from the interstate transportation and storage of natural gas for third parties. Except for small quantities of natural gas owned for system operations, Northern Natural Gas does not own the natural gas that is transported through its system. Northern Natural Gas' transportation and storage operations are subject to a Federal Energy Regulatory Commission ("FERC") regulated tariff that is designed to allow it an opportunity to recover its costs together with a regulated return on equity.

Northern Natural Gas' system consists of two distinct but operationally integrated markets. Its traditional end-use and distribution market area is at the northern end of the system, including delivery points in Michigan, Illinois, Iowa, Minnesota, Nebraska, Wisconsin and South Dakota, which Northern Natural Gas refers to as the Market Area, and the natural gas supply and service area is at the southern end of the system, including Kansas, Oklahoma, Texas and New Mexico, which Northern Natural Gas refers to as the Field Area. Northern Natural Gas' Field Area is interconnected with many interstate and intrastate pipelines in the national grid system. A majority of Northern Natural Gas' capacity in both the Market Area and the Field Area is dedicated to Market Area customers under long-term firm transportation contracts. Approximately 70% of Northern Natural Gas' firm transportation contracts extend beyond 2007.

Northern Natural Gas' pipeline system transports natural gas primarily to end-user and local distribution markets in the Market Area. Customers consist of local distribution companies ("LDCs"), municipalities, other pipeline companies, gas marketers and end-users. While eight large LDCs account for the majority of Market Area volumes, Northern Natural Gas also serves numerous small communities through these large LDCs as well as municipalities or smaller LDCs and directly serves several large end-users. In 2004, approximately 85% of Northern Natural Gas' revenue was from capacity charges under firm transportation and storage contracts and approximately 80% of that revenue was from LDCs. In 2004, approximately 71% of Northern Natural Gas' revenue was generated from Market Area customer contracts.

The Field Area of Northern Natural Gas' system provides access to natural gas supply from key production areas including the Hugoton, Permian and Anadarko Basins. In each of these areas, Northern Natural Gas has numerous interconnecting receipt and delivery points, with volumes received in the Field Area consisting of both directly connected supply and volumes from interconnections with other pipeline systems. In addition, Northern Natural Gas has the ability to aggregate processable natural gas for deliveries to various gas processing facilities.

In the Field Area, customers holding transportation capacity consist of LDCs, marketers, producers, and end-users. The majority of Northern Natural Gas' Field Area firm transportation is provided to Northern Natural Gas' Market Area firm customers under long-term firm transportation contracts with such volumes supplemented by volumes transported on an interruptible basis or pursuant to short-term firm contracts. In 2004, approximately 19% of Northern Natural Gas' revenue was generated from Field Area customer transportation contracts.

Northern Natural Gas' storage services are provided through the operation of one underground storage field in Iowa, two underground storage facilities in Kansas and one LNG storage peaking unit each at Garner, Iowa and Wrenshall, Minnesota. The three underground natural gas storage facilities and Northern Natural Gas' two LNG storage peaking units have a total working storage capacity of approximately 59 Bcf and over 1.3 Bcf per day of peak day deliverability. These storage facilities provide Northern Natural Gas with operational flexibility for the daily balancing of its system and providing services to customers for meeting their year-round loadswing requirements. In 2004, approximately 10% of Northern Natural Gas' revenue was generated from storage services.

Northern Natural Gas' system is characterized by significant seasonal swings in demand, which provide opportunities to deliver high value-added services. Because of its location and multiple interconnections with other interstate and intrastate pipelines, Northern Natural Gas is able to access natural gas from both traditional production areas, such as the Hugoton, Permian and Anadarko Basins, as well as growing supply areas such as the Rocky Mountains through Trailblazer Pipeline Company, Pony Express Pipeline and Colorado Interstate Gas Pipeline Company ("Colorado Interstate"), and from Canadian production areas through Northern Border, Great Lakes Gas Transmission Limited Partnership ("Great Lakes") and Viking Gas Transmission Company ("Viking"). As a result of Northern Natural Gas' geographic location in the middle of the United States and its many interconnections with other pipelines, Northern Natural Gas augments its steady end-user and LDC revenue by taking advantage of opportunities to provide intermediate transportation through pipeline interconnections for customers in other markets including Chicago, Illinois, other parts of the Midwest and Texas.

Kern River and Northern Natural Gas Competition

Each of Kern River and Northern Natural Gas has several customers who account for greater than 10% of its revenue. The loss of any one or more of these, if not replaced, could have a material adverse effect on Kern River's and Northern Natural Gas' respective businesses.

Pipelines compete on the basis of cost (including both transportation costs and the relative costs of the natural gas they transport), flexibility, reliability of service and overall customer service. Industrial end-users often have the ability to choose from alternative fuel sources in addition to natural gas, such as fuel oil and coal. Natural gas competes with other forms of energy, including electricity, coal and fuel oil, primarily on the basis of price. Legislation and governmental regulations, the weather, the futures market, production costs, and other factors beyond the control of Kern River and Northern Natural Gas influence the price of natural gas.

Kern River competes with various interstate pipelines and its shippers in serving the southern California, Las Vegas, Nevada and Salt Lake City, Utah market areas, in order to market any unutilized or unsubscribed capacity. Kern River provides its customers with supply diversity through pipeline interconnections with Northwest Pipeline, Colorado Interstate, Overland Trail Pipeline, and Questar Pipeline. These interconnections, in addition to the direct interconnections to natural gas processing facilities, allow Kern River to access natural gas reserves in Colorado, northwestern New Mexico, Wyoming, Utah and the Western Canadian Sedimentary Basin.

Kern River is the only interstate pipeline that presently delivers natural gas directly from a gas supply basin into the intrastate California market, which enables its customers to avoid paying a "rate stack" (i.e., additional transportation costs attributable to the movement from one or more interstate pipeline systems to an intrastate system within California). Kern River believes that its rate structure and access to upstream pipelines/storage facilities and to economic Rocky Mountain gas reserves increases its competitiveness and attractiveness to end-users. Kern River believes it is advantaged relative to other competing interstate pipelines because its relatively new pipeline can be expanded at comparatively lower costs and will require significantly less capital expenditure to comply with the Pipeline Safety Improvement Act of 2002 ("PSIA") than other systems. Kern River's levelized rate structures under expansion rates and settlement rates also provide customers with greater rate certainty. Kern River's market position depends to a significant degree, however, on the availability and favorable price of gas produced in the Rocky Mountain area, an area that in recent years has attracted considerable expansion of pipeline capacity serving markets other than California and Nevada. In addition, Kern River's 2003 Expansion Project relies substantially on long-term transportation service agreements with several electric generation companies, who face significant competitive and financial pressures due to, among other things, the financial stress of energy markets and apparent over-building of electric generation capacity in California and other markets.

Northern Natural Gas has been able to provide cost competitive service because of its access to a variety of relatively low cost gas supply basins, its cost control measures and its relatively high load factor throughput, which lowers the cost per unit of transportation. Although Northern Natural Gas has experienced pipeline system bypass affecting a small percentage of its market, to date Northern Natural Gas has been able to more than offset any load lost to bypass in the Northern Natural Gas Market Area through expansion projects.

Major competitors in the Northern Natural Gas Market Area include ANR, Northern Border and NGPL. Other competitors include Great Lakes and Viking. In the Field Area, Northern Natural Gas competes with a large number of other competitors. Particularly in the Field Area, a significant amount of Northern Natural Gas' capacity is used on an interruptible or short-term basis. In summer months, Northern Natural Gas' Market Area customers often release significant amounts of their unused firm capacity to other shippers, which released capacity competes with Northern Natural Gas' short-term or interruptible services.

Although Northern Natural Gas will need to aggressively compete to retain and build load, Northern Natural Gas believes that current and anticipated changes in its competitive environment have created opportunities to serve existing customers more efficiently and to meet certain growing supply needs. While LDCs' peak day growth is driven by population growth and alternative fuel replacement, new off-peak demand growth is being driven primarily by power and ethanol plant expansion. Off-peak demand growth is important to Northern Natural Gas as this demand can generally be satisfied with little or no requirement for the construction of new facilities. Northern Natural Gas has been successful in competing for a significant amount of the increased demand related to the construction of new power and ethanol plants. Over the last five years, Northern Natural Gas has contracted approximately 281 mmcf per day of firm volume on its system from such new facilities, of which approximately 262 mmcf per day is currently in service and approximately 19 mmcf per day is scheduled to begin service in 2005.

Pipeline Development Project

MEHC and a subsidiary, Alaska Gas Transmission Company, LLC ("Alaska Gas"), are two of several other parties, including existing producers of oil from Alaska's North Slope, involved in a competitive selection process to develop and construct a proposed 745-mile natural gas pipeline which would be subject to FERC regulation and would extend from the North Slope area near Prudhoe Bay, Alaska south to the Alaska-Yukon border near Beaver Creek, Alaska. The State of Alaska is expected to select a preferred party for the project by the end of the second quarter of 2005. If either MEHC or Alaska Gas are selected, further approvals, including from FERC, would be required and significant development and construction risk would remain with respect to the pipeline project.

CE Electric UK

Business

CE Electric UK, an indirect wholly-owned subsidiary of MEHC, owns, primarily, two companies that distribute electricity in the United Kingdom, Northern Electric and Yorkshire Electricity. Northern Electric and Yorkshire Electricity, collectively, are the third largest electricity distribution business in the United Kingdom, serving more than 3.7 million customers in an area of approximately 10,000 square miles.

Electricity Distribution

Northern Electric's and Yorkshire Electricity's operations consist primarily of the distribution of electricity in the United Kingdom. Northern Electric and Yorkshire Electricity receive electricity from the national grid transmission system and distribute it to their customers' premises using their network of transformers, switchgear and cables. Substantially all of the end users in Northern Electric's and Yorkshire Electricity's distribution service areas are connected to the Northern Electric and Yorkshire Electricity networks and electricity can only be delivered through their distribution system, thus providing Northern Electric and Yorkshire Electricity with distribution volume that is relatively stable from year to year. Northern Electric and Yorkshire Electricity charge fees for the use of the distribution system to the suppliers of electricity. The suppliers, which purchase electricity from generators and sell the electricity to end-user customers, use Northern Electric's and Yorkshire Electricity's distribution networks pursuant to an industry standard "Use of System Agreement", which Northern Electric and Yorkshire Electricity separately entered into with the various suppliers of electricity in their respective distribution areas. One such supplier, Innogy Holdings plc ("Innogy") and certain of its affiliates, represented approximately 47% of the total revenues of Northern Electric and Yorkshire Electricity in 2004. The fees that may be charged by Northern Electric and Yorkshire Electricity for use of their distribution systems are controlled by a formula prescribed by the United Kingdom's electricity regulatory body that limits increases (and may require decreases) based upon the rate of inflation in the United Kingdom and other regulatory action.

At December 31, 2004, Northern Electric's and Yorkshire Electricity's electricity distribution network (excluding service connections to consumers) on a combined basis included approximately 33,000 kilometers of overhead lines and approximately 64,000 kilometers of underground cables. In addition to the circuits referred to above, at December 31, 2004, Northern Electric's and Yorkshire Electricity's distribution facilities also included approximately 58,000 transformers and approximately 750 primary substations. Substantially all substations are owned, with the balance being leased from third parties, most of which have remaining terms of at least 10 years.

Utility Services

Integrated Utility Services Limited, CE Electric UK's indirect wholly-owned subsidiary, is an engineering contracting company whose main business is providing electrical connection services on behalf of Northern Electric's and Yorkshire Electricity's distribution businesses and providing electrical infrastructure contracting services to third parties.

Gas Exploration and Production

CalEnergy Gas (Holdings) Limited ("CE Gas"), CE Electric UK's indirect wholly-owned subsidiary, is a gas exploration and production company that is focused on developing integrated upstream gas projects in Australia, the United Kingdom and Poland. Its upstream gas business consists of exploration, development and production projects, resulting in the sale of gas to third parties.

In Australia, CE Gas has construction and development projects in the Bass, Otway and Perth Basins. The Yolla construction project in the Bass Basin is a gas and gas liquids project in which CE Gas holds a 20% interest. The project, operated by Origin Energy of Australia, is nearing completion and includes an approximately 145 kilometer subsea pipeline across the Bass Strait off southern Victoria. The Bass Project is expected to be fully operational in 2005. The gas from the project will be sold to Origin Energy's retail affiliate, the liquefied petroleum gas will be sold to Elgas Limited, the largest marketer of liquefied petroleum gas in Australia, and the condensate will be sold to The Shell Company of Australia Limited. Also in the Bass Basin, CE Gas holds a 23.5% interest in the Trefoil discovery. This gas and gas liquids discovery was drilled in late 2004 and the commercial development potential is currently under evaluation. The Otway project, in which CE Gas holds a 6% interest, is operated by Woodside of Australia. This project received construction approval during 2004. Construction has now commenced with first production expected in 2006. Further prospecting in the three Otway Basin exploration permits in which CE Gas holds a 6% interest continues to be investigated. CE Gas also has a one-third interest in permit EP 437 in the onshore northern Perth Basin. The permitting process for this project was successfully completed in 2004.

In the United Kingdom, CE Gas continues to retain its 5% interest in the Victor Field, which is a gas field located in the North Sea, and during 2004, successfully applied for, and was granted, a new exploration permit in which CE Gas has a 100% interest.

In Poland, CE Gas retains its development interest in the Polish Trough. CE Gas, together with its joint venture partners FX Energy and the Polish Oil and Gas Company, has drilled the Zaniemysl #3 well in the Fences I Concession. This resulted in a commercial gas discovery early in 2004 in which CE Gas holds a 24.5% interest. This discovery is currently being developed and it is anticipated that the field will be on production in early 2006.

CalEnergy Generation-Foreign

Business

The CalEnergy Generation-Foreign platform consists of MEHC's indirect ownership of the Upper Mahiao, Mahanagdong and Malitbog projects, which are geothermal power plants located on the island of Leyte in the Philippines, and the Casecnan project, a combined irrigation and hydroelectric power generation project located in the central part of the island of Luzon in the Philippines. Each plant possesses an operating margin that allows for production in excess of the amount listed below. Utilization of this operating margin is based upon a variety of factors and can be expected to vary between calendar quarters under normal operating conditions.

The following table sets out certain information concerning CalEnergy Generation-Foreign's non-utility power projects in operation as of December 31, 2004:

Project[1]	Facility Net Capacity (MW)[2]	Net MW Owned[2]	Fuel	Contract Expiration	Power Purchaser/ Guarantor[3]
Upper Mahiao	119	119	Geo	2006	PNOC-EDC/ROP
Mahanagdong	155	150	Geo	2007	PNOC-EDC/ROP
Malitbog	216	216	Geo	2007	PNOC-EDC/ROP
Casecnan [4]	150	150	Hydro	2021	NIA/ROP
Total International Projects	640	635			

(1) All projects are located in the Philippines, are governed by contracts which are mainly payable in U.S. dollars and carry political risk insurance.

(2) Actual MW may vary depending on operating, geothermal reservoir and water flow conditions, as well as plant design. Facility Net Capacity (MW) represents the contract capacity for the facility. Net MW Owned indicates current legal ownership, but, in some cases, does not reflect the current allocation of distributions.

(3) Philippine National Oil Company-Energy Development Corporation ("PNOC-EDC"), Republic of the Philippines ("ROP"), and National Irrigation Administration ("NIA"). NIA also pays CE Casecnan Water and Energy Company, Inc. ("CE Casecnan"), an indirect subsidiary of MEHC, for the delivery of water and electricity by CE Casecnan. Separate sovereign undertakings of the ROP support PNOC-EDC's and NIA's respective obligations for each project.

(4) Net MW Owned of approximately 150 MW is subject to repurchase rights of up to 15% of the project by an initial minority shareholder and a dispute with the other initial minority shareholder regarding an additional 15% of the project. Refer to "Item 3. Legal Proceedings" of this Form 10-K for additional information.

The Upper Mahiao project is a 119 net MW geothermal power project owned and operated by CE Cebu Geothermal Power Company, Inc. ("CE Cebu"), a Philippine corporation that is 100% indirectly owned by MEHC. On June 18, 2006, the end of the ten-year cooperation period, the Upper Mahiao facility will be transferred to PNOC-EDC at no cost on an "as-is" basis.

The Upper Mahiao project takes geothermal steam and fluid, provided by PNOC-EDC at no cost, and converts its thermal energy into electrical energy which is sold to PNOC-EDC on a "take-or-pay" basis, which in turn sells the power to the National Power Corporation ("NPC"), the government-owned and controlled corporation that is the primary supplier of electricity in the Philippines, for distribution on the island of Cebu. PNOC-EDC pays CE Cebu a fee based on the plant capacity. Pursuant to an amendment to the Upper Mahiao energy conversion agreement entered into on August 31, 2003, CE Cebu and PNOC-EDC agreed that the plant capacity for purposes of the fee would equal the contractually specified level of 118.5 MW. PNOC-EDC also pays CE Cebu a fee based on the electricity actually delivered to PNOC-EDC (approximately 5% of total contract revenue). Payments under the Upper Mahiao agreement are denominated in U.S. dollars, or computed in U.S. dollars and paid in pesos at the then-current exchange rate, except for the energy fee. PNOC-EDC's payment requirements, and its other obligations under the Upper Mahiao agreement, are supported by the ROP through a performance undertaking.

The Mahanagdong project is a 155 net MW geothermal power project owned and operated by CE Luzon Geothermal Power Company, Inc. ("CE Luzon"), a Philippine corporation of which MEHC indirectly owns 100% of the common stock. Another industrial company owns an approximate 3% preferred equity interest in the Mahanagdong project. The Mahanagdong project sells 100% of its capacity to PNOC-EDC, which in turn sells the power to the NPC for distribution on the island of Luzon.

The terms of the Mahanagdong energy conversion agreement are substantially similar to those of the Upper Mahiao agreement. On July 25, 2007, the end of the ten year cooperation period, the Mahanagdong facility will be transferred to PNOC-EDC at no cost on an "as-is" basis. PNOC-EDC pays CE Luzon a fee based on the plant capacity. Pursuant to an amendment to the Mahanagdong energy conversion agreement entered into on August 31, 2003, CE Luzon and PNOC-EDC agreed that the plant capacity would equal the contractually specified level, which declines from approximately 155 MW in 2004 to approximately 153 MW in the last year of the cooperation period. The capacity fees are approximately 97% of total revenue at the contractually agreed capacity levels and the energy fees are approximately 3% of such total revenue. PNOC-EDC's payment requirements, and its other obligations under the Mahanagdong agreement, are supported by the ROP through a performance undertaking.

The Malitbog project is a 216 net MW geothermal project owned and operated by Visayas Geothermal Power Company ("VGPC"), a Philippine general partnership that is indirectly wholly owned by MEHC. VGPC sells 100% of its capacity on substantially the same basis as described above for the Upper Mahiao project to PNOC-EDC, which sells the power to the NPC for distribution on the islands of Cebu and Luzon.

The electrical energy produced by the facility is sold to PNOC-EDC on a "take-or-pay" basis. These capacity payments equal 100% of total revenue. Pursuant to an amendment to the Malitbog energy conversion agreement entered into on August 31, 2003, VGPC and PNOC-EDC agreed that the plant capacity would equal the contractually specified level of 216 MW. A substantial majority of the capacity payments are required to be made by PNOC-EDC in U.S. dollars. The portion of capacity payments payable to PNOC-EDC in pesos is expected to vary over the term of the Malitbog project energy conversion agreement from 10% of VGPC's revenue in the early years of the cooperation period to 23% of VGPC's revenue at the end of the cooperation period. Payments made in pesos will generally be made to a peso-denominated account and will be used to pay peso-denominated operation and maintenance expenses with respect to the Malitbog project and Philippine withholding taxes, if any, on the Malitbog project's debt service. The ROP has entered into a performance undertaking, which provides that all of PNOC-EDC's obligations pursuant to the Malitbog energy conversion agreement carry the full faith and credit of, and are affirmed and guaranteed by, the ROP. The Malitbog energy conversion agreement ten year cooperation period expires on July 25, 2007, at which time the facility will be transferred to PNOC-EDC at no cost on an "as is" basis.

The Casecnan project is a combined irrigation and hydroelectric power generation project. The Casecnan project consists generally of diversion structures in the Casecnan and Taan rivers that capture and divert excess water in the Casecnan watershed by means of concrete, in-stream diversion weirs and transfer that water through a transbasin tunnel of approximately 23 kilometers. During the water transfer, the elevation differences between the two watersheds allows electrical energy to be generated at an approximately 150 MW rated capacity power plant, which is located in an underground powerhouse cavern at the end of the transbasin water tunnel. A tailrace discharge tunnel then delivers water to the existing underutilized water storage reservoir at Pantabangan, providing additional water for irrigation and increasing the potential electrical generation at two existing downstream hydroelectric facilities of NPC. Once in the reservoir at Pantabangan, the water is under the control of NIA.

CE Casecnan owns and operates the Casecnan project under the terms of the Project Agreement between CE Casecnan and NIA, which was modified by a Supplemental Agreement between CE Casecnan and NIA effective on October 15, 2003 (the "Supplemental Agreement"). CE Casecnan will own and operate the project for a 20-year cooperation period which commenced on December 11, 2001, the start of the project's commercial operations, after which ownership and operation of the project will be transferred to NIA at no cost on an "as-is" basis. The Casecnan project is dependant upon sufficient rainfall to generate electricity and deliver water. The seasonality of rainfall patterns and the variability of rainfall from year to year, all of which are outside the control of CE Casecnan, have a material impact on the amounts of electricity generated and water delivered by the Casecnan project. Rainfall has historically been highest from June through December and lowest from January through May. The contractual terms for water delivery fees and variable energy fees (described below) can produce significant variability in revenue between reporting periods. Summarized below are significant provisions of the Project Agreement as modified by the Supplemental Agreement.

Under the Supplemental Agreement, CE Casecnan is paid a fee for the delivery of water and a fee for the generation of electricity. With respect to water deliveries, the water delivery fee is payable in a fixed monthly payment based upon an average annual water delivery of 801.9 million cubic meters, pro-rated to approximately 66.8 million cubic meters per month, multiplied by the applicable per cubic meter rate through December 25, 2008. For each contract year starting from December 25, 2003 and ending on December 25, 2008, a water delivery credit (deferred revenue) is computed equal to 801.9 million cubic meters minus the greater of actual water deliveries or 700.0 million cubic meters – the minimum threshold. The water delivery credit at the end of the contract year is available to be earned in the succeeding contract years ending December 25, 2008. The cumulative water delivery credit at December 25, 2008, if any, shall be amortized from December 25, 2008 through December 25, 2013. Accordingly, in recognizing revenue, the water delivery fees are recorded each month pro-rated to approximately 58.3 million cubic meters per month until the minimum threshold has been reached for the contract year. Subsequent water delivery fees within the contract year are based on actual water delivered.

With respect to electricity, CE Casecnan is paid a guaranteed energy delivery fee each month equal to the product obtained by multiplying 19 GWh times $0.1596 per kWh. The guaranteed energy delivery fee is payable regardless of the amount of energy actually generated and delivered by CE Casecnan in any month. NIA also pays CE Casecnan an excess energy delivery fee, which is a variable amount based on actual electrical energy, if any, delivered in each month in excess of 19 GWh multiplied by (i) $0.1509 per kWh through the end of 2008 and (ii) commencing in 2009, $0.1132 (escalating at 1% per annum thereafter) per kWh, provided that any deliveries of energy in excess of 490 GWh but less than 550 GWh per year are paid for at a rate of 1.3 pesos per kWh and deliveries in excess of 550 GWh per year are at no cost to NIA. Within each contract year, no variable energy fees are payable until energy in excess of the cumulative 19 GWh per month for the contract year to date has been delivered. If the Casecnan project is not dispatched up to 150 MW whenever water is available, NIA will pay for energy that could have been generated but was not as a result of such dispatch constraint.

The ROP has provided a Performance Undertaking under which NIA's obligations under the Project Agreement, as supplemented by the Supplemental Agreement, are guaranteed by the full faith and credit of the ROP. The Project Agreement and the Performance Undertaking provide for the resolution of disputes by binding arbitration in Singapore under international arbitration rules.

In connection with the signing of the Supplemental Agreement, CE Casecnan received written confirmation from the Private Sector Assets and Liabilities Management Corporation that the issues with respect to the Casecnan project that had been raised by the interagency review of independent power producers in the Philippines or that may have existed with respect to the project under certain provisions of the Electric Power Industry Reform Act of 2001 ("EPIRA"), which authorized the ROP to seek to renegotiate certain contracts such as the Project Agreement, have been satisfactorily addressed by the Supplemental Agreement.

CalEnergy Generation-Domestic

Business

The subsidiaries comprising the Company's CalEnergy Generation-Domestic platform own interests in 15 operating non-utility power projects in the United States. The following table sets out certain information concerning CalEnergy Generation-Domestic's non-utility power projects in operation as of December 31, 2004:

Operating Project	Facility Net Capacity (MW)(1)	Net MW Owned(1)	Fuel	Location	Power Purchase Agreement Expiration	Power Purchaser(2)
Cordova	537	537	Gas	Illinois	2017	El Paso
Salton Sea I	10	5	Geo	California	2017	Edison
Salton Sea II	20	10	Geo	California	2020	Edison
Salton Sea III	50	25	Geo	California	2019	Edison
Salton Sea IV	40	20	Geo	California	2026	Edison
Salton Sea V	49	25	Geo	California	Varies	Various
Vulcan	34	17	Geo	California	2016	Edison
Elmore	38	19	Geo	California	2018	Edison
Leathers	38	19	Geo	California	2019	Edison
Del Ranch	38	19	Geo	California	2019	Edison
CE Turbo	10	5	Geo	California	Varies	Various
Saranac	240	90	Gas	NewYork	2009	NYSE&G
Power Resources	212	106	Gas	Texas	2005	ONEOK
Yuma	50	25	Gas	Arizona	2024	SDG&E
Roosevelt Hot Springs	23	17	Geo	Utah	2020	UP&L
Total Domestic Operating Projects	1,389	939				

(1) Represents nominal net generating capability (accredited for Cordova and contract capacity for most others). Actual MW may vary depending on operating and reservoir conditions and plant design. Net MW Owned indicates current legal ownership, but, in some cases, does not reflect the current allocation of partnership distributions.

(2) El Paso; Southern California Edison Company ("Edison"); New York State Electric & Gas Corporation ("NYSE&G"); ONEOK Energy, Marketing and Trading Company, L.P. ("ONEOK"); San Diego Gas & Electric Company ("SDG&E"); and Utah Power & Light Company ("UP&L").

Cordova Energy owns a 537 MW gas-fired power plant in the Quad Cities, Illinois area (the "Cordova Project"). CalEnergy Generation Operating Company, an indirect wholly owned subsidiary of MEHC, operates the Cordova Project which commenced commercial operations in June 2001. Cordova Energy entered into a power purchase agreement with a unit of El Paso, under which El Paso will purchase all of the capacity and energy from the project until December 31, 2019. The contract year under the power purchase agreement extends from May 15th in a year to May 14th in the subsequent year. For each contract year, Cordova Energy has an option to recall from El Paso 50% of the output of the Cordova Project, reducing El Paso's purchase obligation to 50% of the output during such contract year. Cordova Energy exercised such option for the contract year ended May 14, 2004, and the recalled output was sold to MidAmerican Energy. Cordova Energy did not exercise the recall option for the contract year which commenced on May 15, 2004, and El Paso is required to purchase 100% of the capacity and energy from the project for the current contract year and, subject to future exercises of the recall option, for the remainder of the term of the power purchase agreement. The Company is aware there have been public announcements that El Paso's financial condition has deteriorated as a result of, among other things, reduced liquidity and will continue to monitor the situation.

MEHC has a 50% ownership interest in CE Generation, LLC ("CE Generation") whose affiliates currently operate ten geothermal plants in the Imperial Valley in California (the "Imperial Valley Projects"). The Imperial Valley Projects include the "Salton Sea Projects" consisting of the Salton Sea I, Salton Sea II, Salton Sea III, Salton Sea IV and Salton Sea V projects and the "Partnership Projects" consisting of the Vulcan, Elmore, Leathers, Del Ranch and CE Turbo projects.

Each of the Imperial Valley Projects, excluding the Salton Sea V and CE Turbo projects, sells electricity to Edison pursuant to a separate Standard Offer No. 4 Agreement ("SO4 Agreement") or a negotiated power purchase agreement. Each power purchase agreement is independent of the others, and the performance requirements specified within one such agreement apply only to the project subject to the agreement. The power purchase agreements provide for capacity payments, capacity bonus payments and energy payments. Edison makes fixed annual capacity payments and capacity bonus payments to the applicable projects to the extent that capacity factors exceed certain benchmarks. The price for capacity is fixed for the life of the SO4 Agreements and is significantly higher in the months of June through September.

Energy payments under the original SO4 Agreements were based on the cost that Edison avoids by purchasing energy from the project instead of obtaining the energy from other sources ("Avoided Cost of Energy"). In June and November 2001, the Imperial Valley Projects (except the Salton Sea IV, Salton Sea V and CE Turbo projects), which receive Edison's Avoided Cost of Energy, entered into agreements that provide for amended energy payments under the SO4 Agreements. The amendments provide for fixed energy payments per kWh in lieu of Edison's Avoided Cost of Energy. The fixed energy payment was 3.25 cents per kWh from December 1, 2001 through April 30, 2002 and is 5.37 cents per kWh commencing May 1, 2002 for a five-year period. Following the five-year period, the energy payments revert back to Edison's Avoided Cost of Energy.

For the years ended December 31, 2004, 2003 and 2002, Edison's average Avoided Cost of Energy was 5.9 cents per kWh, 5.4 cents per kWh and 3.5 cents per kWh, respectively. Estimates of Edison's future Avoided Cost of Energy vary substantially from year to year primarily based on the future cost of natural gas.

On May 20, 2003, Salton Sea Power LLC ("Salton Sea Power") entered into a power sales agreement with Riverside. Under the terms of the agreement, Salton Sea Power sells up to 20 MW of energy generated from the Salton Sea V project to Riverside. Sales under the agreement commenced June 1, 2003 and will terminate May 31, 2013.

Pursuant to 33-year power sales agreements, the Salton Sea V and CE Turbo projects had sold a portion of their net output to CalEnergy Minerals LLC ("Minerals") for the Zinc Recovery Project's full electrical energy requirements. The agreements provide for energy payments based on the market rates available to the Salton Sea V and CE Turbo projects, adjusted for wheeling costs. On September 10, 2004, Minerals ceased operations of the Zinc Recovery Project. Accordingly, except for sales during the dismantling and decommissioning phases of the Zinc Recovery Project, no further sales to Minerals are expected. The Salton Sea V project sells its remaining output and the CE Turbo project sells its available power under the transaction agreement as described in the next paragraph.

Pursuant to a transaction agreement dated January 29, 2003, the Salton Sea V project and the CE Turbo project began selling available power to TransAlta USA Inc. ("TransAlta") on February 12, 2003 based on percentages of the Dow Jones SP-15 Index. The transaction agreement shall continue until the earlier of (a) 30 days following a written notice of termination and (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party.

The Saranac project is a 240 net MW natural gas-fired cogeneration facility located in Plattsburgh, New York owned by the Saranac Partnership, which is indirectly owned by subsidiaries of CE Generation, ArcLight Capital Holdings and General Electric Capital Corporation. The Saranac project has entered into a 15-year power purchase agreement with NYSE&G, 15-year steam purchase agreements with Georgia-Pacific Corporation and Pactiv Corporation and a 15-year natural gas supply contract with Coral Energy to supply 100% of the Saranac project's fuel requirements. Each of the power purchase agreement, the steam purchase agreements and the natural gas supply contract contains rates that are fixed for the respective contract terms and expire in 2009.

The Power Resources project is a 212 net MW natural gas-fired cogeneration project owned by Power Resources Ltd. ("Power Resources"), an indirect wholly-owned subsidiary of CE Generation. On August 5, 2003, Power Resources entered into a Tolling Agreement with ONEOK. The agreement commenced October 1, 2003 and expires December 31, 2005. Under the terms of the agreement, Power Resources, as an exempt wholesale generator ("EWG"), sells its electricity and capacity to ONEOK for a fixed amount per kW-month plus a variable operating and maintenance fee per MWh. In addition, ONEOK pays annual turbine start-up costs.

The Yuma project is a 50 net MW natural gas-fired cogeneration project in Yuma, Arizona owned by Yuma Cogeneration Associates ("YCA"), providing its electricity to SDG&E under an existing 30-year power purchase contract which commenced in May 1994 the ("Yuma PPA"). MEHC has guaranteed all of the obligations of YCA under the Yuma PPA or any other agreement with SDG&E relating to or arising out of the Yuma PPA. YCA also has executed steam sales contracts with Queen Carpet, Inc. to act as its thermal host.

The Roosevelt Hot Springs project is a geothermal steam field which supplies geothermal steam to a 23 net MW power plant owned by UP&L located on the Roosevelt Hot Springs property under a 30-year steam sales contract expiring in 2020. The Company obtained a cash prepayment under a pre-sale agreement with UP&L whereby UP&L paid in advance for the steam produced by the steam field. MEHC guarantees the performance of this subsidiary and must make certain penalty payments to UP&L if the steam produced does not meet certain quantity and quality requirements.

Zinc Recovery Project

Indirect wholly-owned subsidiaries of MEHC, own the rights to commercial quantities of extractable minerals from elements in solution in the geothermal brine and fluids utilized at the Imperial Valley Projects and a zinc recovery plant constructed near the Imperial Valley Projects designed to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the "Zinc Recovery Project").

The Zinc Recovery Project began limited production during December 2002 and continued limited production until September 10, 2004. Efforts to increase production had continued since the Zinc Recovery Project was placed in service with an emphasis on process modification. Management had been assessing the long-term economic viability of the Zinc Recovery Project in light of continuing cash flow deficits and operating losses and the efforts to increase production, and had continued to evaluate the expected impact of the planned improvements to the extraction process during the third quarter of 2004. Furthermore, management had been exploring other operating alternatives, such as establishing strategic partnerships and consideration of ceasing operations of the Zinc Recovery Project.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. In connection with ceasing operations, the Zinc Recovery Project's assets are being dismantled and sold and certain employees of the operator of the Zinc Recovery Project have been paid one-time termination benefits. Implementation of a disposal plan began in September 2004 and will continue in 2005. Refer to Note 3 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional discussion regarding the Company's discontinued operations.

Development Projects

MEHC's indirect wholly-owned subsidiary, CE Obsidian Energy LLC ("Obsidian"), is evaluating the development of a 185 net MW geothermal facility in the Imperial Valley in California. Substantially all of the output of the facility would be sold to the Imperial Irrigation District ("IID") pursuant to a power purchase agreement. TransAlta is currently funding 50% of the development costs of this project. Significant development and construction risk remains with this project.

HomeServices

Business

HomeServices is the second largest full-service residential real estate brokerage firm in the United States. In addition to providing traditional residential real estate brokerage services, HomeServices offers other integrated real estate services, including mortgage originations, mortgage banking, title and closing services and other related services. HomeServices currently operates in 18 states under the following brand names: Carol Jones REALTORS, CBSHOME Real Estate, Champion Realty, Edina Realty Home Services, Esslinger-Wooten-Maxwell REALTORS, First Realty/GMAC, HOME Real Estate, Iowa Realty, Jenny Pruitt and Associates REALTORS, Long Realty, Prudential California Realty, Prudential Carolinas Realty, RealtySouth, Rector-Hayden REALTORS, Reece & Nichols, Semonin REALTORS and Woods Bros. Realty. HomeServices generally occupies the number one or number two market share position in each of its major markets based on aggregate closed transaction sides. HomeServices' major markets consist of the following metropolitan areas: Minneapolis and St. Paul, Minnesota; Los Angeles and San Diego, California; Kansas City, Kansas; Kansas City, Missouri; Des Moines, Iowa; Omaha and Lincoln, Nebraska; Birmingham and Auburn, Alabama; Tucson, Arizona; Winston-Salem and Charlotte, North Carolina; Louisville and Lexington, Kentucky; Annapolis, Maryland; Atlanta, Georgia; Miami, Florida and Springfield, Missouri.

Acquisitions

In 2004, HomeServices separately acquired six real estate companies for an aggregate purchase price of $30.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2003, these real estate companies had combined revenue of $95.7 million on approximately 15,000 closed sides representing $3.2 billion of sales volume. In 2003, HomeServices separately acquired four real estate companies for an aggregate purchase price of $36.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2002, these real estate companies had combined revenue of $102.9 million on approximately 16,000 closed sides representing $3.6 billion of sales volume.

Regulatory Matters

General Regulation

The Company's operating platforms are subject to a number of federal, state, local and international regulations.

MidAmerican Energy

MidAmerican Energy is subject to comprehensive regulation by the FERC as well as utility regulatory agencies in Iowa, Illinois and South Dakota that significantly influences the operating environment and the recoverability of costs from utility customers. Except for Illinois, that regulatory environment has to date, in general, given MidAmerican Energy an exclusive right to serve electricity customers within its service territory and, in turn, the obligation to provide electric service to those customers. In Illinois, all customers are free to choose their electricity provider and MidAmerican Energy has an obligation to serve customers at regulated rates that leave MidAmerican Energy's system, but later choose to return. To date, there has been no significant loss of customers from MidAmerican Energy's existing regulated Illinois rates.

In conjunction with the March 1999 approval by the IUB of the MidAmerican Energy acquisition and March 2000 affirmation as part of the Company's acquisition by a private investor group, MidAmerican Energy committed to the IUB to use commercially reasonable efforts to maintain an investment grade rating on its long-term debt and to maintain its common equity level above 42% of total capitalization unless circumstances beyond its control result in the common equity level decreasing to below 39% of total capitalization. MidAmerican Energy must seek the approval of the IUB of a reasonable utility capital structure if MidAmerican Energy's common equity level decreases below 42% of total capitalization, unless the decrease is beyond the control of MidAmerican Energy. MidAmerican Energy is also required to seek the approval of the IUB if MidAmerican Energy's equity level decreases to below 39%, even if the decrease is due to circumstances beyond the control of MidAmerican Energy. If MidAmerican Energy's common equity level were to drop below the required thresholds, MidAmerican Energy's ability to issue debt could be restricted.

With the elimination of its energy adjustment clause in Iowa in 1997, MidAmerican Energy is financially exposed to movements in energy prices. Although MidAmerican Energy believes it has sufficient generation under typical operating conditions for its retail electric needs, a loss of adequate generation by MidAmerican Energy requiring the purchase of replacement power at a time of high market prices could subject MidAmerican Energy to losses on its energy sales.

Under three settlement agreements between MidAmerican Energy, the Iowa Office of Consumer Advocate ("OCA") and other intervenors, approved by the IUB, MidAmerican Energy has agreed not to seek a general increase in electric rates prior to 2012 unless its Iowa jurisdictional electric return on equity for any year falls below 10%. Prior to filing for a general increase in electric rates, MidAmerican Energy is required to conduct 30 days of good faith negotiations with the signatories to the settlement agreements to attempt to avoid a general increase in such rates. As a party to the settlement agreements, the OCA has agreed not to request or support any decrease in MidAmerican Energy's Iowa electric rates prior to January 1, 2012. The settlement agreements specifically allow the IUB to approve or order electric rate design or cost of service rate changes that could result in changes to rates for specific customers as long as such changes do not result in an overall increase in revenues for MidAmerican Energy. The settlement agreements also each provide that portions of revenues associated with Iowa retail electric returns on equity within specified ranges will be recorded as a regulatory liability.

Under the first settlement agreement, which was approved by the IUB on December 21, 2001, and is effective through December 31, 2005, an amount equal to 50% of revenues associated with returns on equity between 12% and 14%, and 83.33% of revenues associated with returns on equity above 14%, in each year is recorded as a regulatory liability. The second settlement agreement, which was filed in conjunction with MidAmerican Energy's application for ratemaking principles on its wind power project and was approved by the IUB on October 17, 2003, provides that during the period

January 1, 2006 through December 31, 2010, an amount equal to 40% of revenues associated with returns on equity between 11.75% and 13%, 50% of revenues associated with returns on equity between 13% and 14%, and 83.3% of revenues associated with returns on equity above 14%, in each year will be recorded as a regulatory liability.

The third settlement agreement was approved by the IUB on January 31, 2005, in conjunction with MidAmerican Energy's proposed expansion of its wind power project by up to 90 MW. This settlement extended through 2011 MidAmerican Energy's commitment not to seek a general increase in electric rates unless its Iowa jurisdictional electric return on equity falls below 10%. It also extended the revenue sharing mechanism through 2011. In addition, the OCA agreed to commit not to seek any decrease in Iowa electric base rates to become effective before January 1, 2012. The total capacity added as the result of the wind expansion project is currently projected to be 50 MW.

The regulatory liabilities created by the three settlements are recorded as a regulatory charge in depreciation and amortization expense when the liability is accrued. Additionally, interest expense is accrued on the portion of the regulatory liability balance recorded in prior years. The regulatory liabilities created for the years through 2010 are expected to be reduced as they are credited against plant in service in amounts equal to the allowance for funds used during construction associated with generating plant additions. As a result of the credit applied to generating plant balances from the reduction of the regulatory liabilities, future depreciation will be reduced.

Illinois bundled electric rates are frozen until 2007, subject to certain exceptions allowing for increases, at which time bundled rates may be increased or decreased by the Illinois Commerce Commission. Illinois law provides that, through 2006, Illinois earnings above a computed level of return on common equity are to be shared equally between regulated retail electric customers and MidAmerican Energy. MidAmerican Energy's computed level of return on common equity is based on a rolling two-year average of the Monthly Treasury Long-Term Average Rate, as published by the Federal Reserve System, plus a premium of 8.5% for 2000 through 2004 and a premium of 12.5% for 2005 and 2006. The two-year average above which sharing must occur for 2004 is 13.57%. The law allows MidAmerican Energy to mitigate the sharing of earnings above the threshold return on common equity through accelerated recovery of electric assets.

The FERC has undertaken several measures to increase competition in the markets for wholesale electric energy, including efforts to foster the development of regional transmission organizations ("RTO") in its Order No. 2000 issued December 1999 and its July 2002 proposed rulemaking that would implement a standard market design ("SMD") for wholesale electric markets.

If implemented, the FERC's July 2002 proposed rule for SMD would require sweeping changes to the use and expansion of the interstate transmission and wholesale bulk power systems in the United States. However, it is unclear when or even whether the FERC will issue a final rule and what form the final rule would ultimately take. In response to significant criticism of its proposed rule, the FERC subsequently indicated that it had changed its proposal and would adopt a flexible approach to SMD that would accommodate regional differences. Any final rule on SMD or similar FERC action could impact the costs of MidAmerican Energy's electricity and transmission products. Such FERC action could directly or indirectly influence how transmission services are priced, the availability of transmission services, how transmission services are obtained and market prices for electricity in markets in which MidAmerican Energy buys and sells electricity. Although MidAmerican Energy is not presently a member of an RTO, two RTOs – Midwest Independent System Operator and PJM Interconnection – are directly interconnected with MidAmerican Energy's transmission facilities. MidAmerican Energy cannot predict what impact, if any, the evolution of these RTOs, or others, may have on how wholesale electricity is bought and sold, as well as the geographic scope of the wholesale marketplace in which MidAmerican Energy buys or sells electricity.

On June 3, 2004, the FERC's Division of Operational Investigations of the Office of Market Oversight and Investigations informed MidAmerican Energy that it was commencing an audit to determine whether and how MidAmerican Energy and its subsidiaries and affiliates are complying with (1) requirements of the standards of conduct and open access same-time information system of the FERC's regulations, (2) codes of conduct, and (3) transmission practices. The FERC has commenced several such audits of utilities in 2003 and 2004. The audit is on-going, and MidAmerican Energy expects it to be completed within the first half of 2005. MidAmerican Energy does not expect the outcome of this issue to have a material effect on its results of operations, financial position or cash flows.

On July 13, 2004, the FERC issued an order requiring MidAmerican Energy to conduct a study to determine whether MidAmerican Energy or its affiliates possess generation market power. MidAmerican Energy is being required to show the absence of generation market power in order to be allowed to continue to sell wholesale electric power at market-based rates.

The FERC order is intended to have MidAmerican Energy conform to what has become the FERC's general practice for utilities given authorization to make wholesale market-based sales. Under this general practice, utilities authorized to make market-based electric sales must submit a new market power study to the FERC every three years. In accordance with the FERC order, MidAmerican Energy's market-based sales became subject to refund beginning November 1, 2004, and will remain so until the matter is resolved. MidAmerican Energy does not expect the outcome of this issue to have a material effect on its results of operations, financial position or cash flows.

Kern River and Northern Natural Gas

Kern River and Northern Natural Gas are subject to regulation by various federal and state agencies. As owners of interstate natural gas pipelines, Northern Natural Gas' and Kern River's rates, services and operations are subject to regulation by the FERC. The FERC administers, among other things, the Natural Gas Act and the Natural Gas Policy Act of 1978. Additionally, interstate pipeline companies are subject to regulation by the United States Department of Transportation ("DOT") pursuant to the Natural Gas Pipeline Safety Act of 1968 ("NGPSA"), which establishes safety requirements in the design, construction, operations and maintenance of interstate natural gas transmission facilities.

The FERC has jurisdiction over, among other things, the construction and operation of pipelines and related facilities used in the transportation, storage and sale of natural gas in interstate commerce, including the modification or abandonment of such facilities. The FERC also has jurisdiction over the rates and charges and terms and conditions of service for the transportation of natural gas in interstate commerce.

Kern River's tariff rates were designed to give it an opportunity to recover all actually and prudently incurred operations and maintenance costs of its pipeline system, taxes, interest, depreciation and amortization and a regulated equity return. Kern River's rates are set using a "levelized cost-of-service" methodology so that the rate is constant over the contract period. This is achieved by using a FERC-approved depreciation schedule in which depreciation increases as interest expense decreases.

Kern River was required to file a general rate case no later than May 1, 2004 pursuant to the terms of its 1998 FERC Docket No. RP99-274 rate case settlement. Kern River filed its rate case on April 30, 2004, which supports a revenue increase of $40.1 million representing a 13% increase from its existing cost of service and a proposed overall cost of service of $347.4 million. Since its last rate case, Kern River has increased the capacity of its system from 724,500 Dth per day to 1,755,575 Dth per day at a cost of approximately $1.3 billion resulting in a total rate base of approximately $1.8 billion. The rate increase became effective on November 1, 2004, subject to refund, and the FERC set a procedural order with a hearing scheduled for March 2005.

On February 10, 2005, Kern River received notice from the Office of Market Oversight and Investigations of the FERC that it is instituting a non-public audit to determine Kern River's compliance with the FERC's standards of conduct in regards to communications with any of Kern River's marketing and energy affiliates. The time period of the audit generally covers September 22, 2004, to the present although some questions cover time periods from November 25, 2003. Kern River understands that virtually all interstate pipelines are expected to be audited by the FERC in 2005. Kern River believes it is in compliance with the standards of conduct in all material respects and the outcome of this audit is not expected to have a material effect on Kern River's results of operations, financial position or cash flows.

Northern Natural Gas has implemented a straight fixed variable rate design which provides that all fixed costs assignable to firm capacity customers, including a return on equity, are to be recovered through fixed monthly demand or capacity reservation charges which are not a function of throughput volumes.

On May 1, 2003, Northern Natural Gas filed a request for increased rates with the FERC. The rate increase is primarily attributable to four main cost areas: the capital investment made by Northern Natural Gas in the five years since its last rate case, an increase in Northern Natural Gas' depreciation rates, increased return on equity, and changes in the level of contract entitlement. The rate filing provides evidence in support of a $71 million increase to Northern Natural Gas' annual revenue requirement. However, Northern Natural Gas chose to effectuate only $55 million of the increase. Northern Natural Gas' new rates went into effect November 1, 2003, subject to refund.

Additionally, on January 30, 2004, Northern Natural Gas filed with the FERC to increase its revenue requirement by an incremental $30 million to that requested in the May 1, 2003 filing. The increased revenue requirement is primarily attributable to ongoing pipeline integrity initiative costs that Northern Natural Gas has undertaken since the May 1, 2003 rate filing. The FERC suspended the rate increase until August 1, 2004 and consolidated the 2003 and 2004 rate cases due to the similarity of issues in both cases and the updated costs. On July 29, 2004, Northern Natural Gas notified the FERC that, in furtherance of settlement negotiations, Northern Natural Gas was not putting the rate increase into effect on August 1, 2004, but reserved its statutory right to put the suspended rates into effect at a later date. Northern Natural Gas' implemented the new rates on November 1, 2004, subject to refund.

On February 16, 2005, Northern Natural Gas reached a tentative agreement with the majority of its customers to settle the consolidated rate cases. Definitive terms of the settlement must be agreed by all settling parties and must then be documented in a settlement agreement which must be agreed to by all settling parties. Thereafter, the settlement must be certified by the presiding administrative law judge and approved by the FERC. The terms of the agreement in principle provide for an annual revenue increase of $48 million for the period November 1, 2003 through October 31, 2004, $53 million for the period November 1, 2004 through October 31, 2005, $58 million for the period November 1, 2005 through October 31, 2006, and $62 million beginning November 1, 2006. As a result of the settlement, Northern Natural Gas will be required to refund an amount generally reflecting the difference between the rate increases implemented on November 1, 2003 and November 1, 2004 and the final settled revenue amounts.

Additional proposals and proceedings that might affect the interstate pipeline industry are considered from time to time by Congress, the FERC, state regulatory bodies and the courts. We cannot predict when or if any new proposals might be implemented or, if so, how Kern River and Northern Natural Gas might be affected.

Other United States Regulation

The Public Utility Regulatory Policies Act of 1978, as amended ("PURPA") and the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), are two of the laws (including the regulations thereunder) that affect MEHC and certain of its subsidiaries' operations. PURPA provides to qualified facilities ("QF") certain exemptions from federal and state laws and regulations, including organizational, rate and financial regulation. PUHCA extensively regulates and restricts the activities of registered public utility holding companies and their subsidiaries. Any legislation altering PUHCA or PURPA, if adopted, could adversely impact the Company's existing domestic projects.

The Company is currently exempt from regulation under all provisions of PUHCA, except the provisions that regulate the acquisition of securities of public utility companies, based on the intrastate exemption in Section 3(a)(1) of PUHCA. In order to maintain this exemption, MEHC and each of its public utility subsidiaries from which it derives a material part of its income (currently only MidAmerican Energy) must be predominantly intrastate in character and organized in and carry on MEHC's and MidAmerican Energy's respective utility operations substantially in MidAmerican Energy's state of organization (currently Iowa). Except for MidAmerican Energy's generating plant assets, the majority of the Company's domestic power plant operations and all of its foreign utility operations are not public utilities within the meaning of PUHCA as a result of their status as QFs under PURPA (with the Company's ownership interest therein limited to 50%), EWGs or foreign utility companies, or are otherwise exempted from the definition of "public utility" under PUHCA. Although the Company believes that it will continue to qualify for exemption from additional regulation under PUHCA, it is possible that as a result of the expansion of its public utility operations, loss of exempt status by one or more of its domestic power plants or foreign utilities, or amendments to PUHCA or the interpretation of PUHCA, the Company could become subject to additional regulation under PUHCA in the future. There can be no assurances that such regulation would not have a material adverse effect on the Company.

In the event the Company was unable to avoid the loss of QF status for one or more of its affiliate's facilities, such an event could result in termination of a given project's power sales agreement and a default under the project subsidiary's project financing agreements, which, in the event of the loss of QF status for one or more facilities, could have a material adverse effect on the Company.

Regulatory requirements applicable in the future to nuclear generating facilities could adversely affect the results of operations of MEHC and MidAmerican Energy, in particular. The Company is subject to certain generic risks associated with utility nuclear generation, including risks arising from the operation of nuclear facilities and the storage, handling and disposal of high-level and low-level radioactive materials; risks of a serious nuclear incident; limitations on the amounts and types of insurance commercially available in respect of losses that might arise in connection with nuclear operations; and uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. The Nuclear Regulatory Commission ("NRC") has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generating facilities. Revised safety requirements promulgated by the

NRC have, in the past, necessitated substantial capital expenditures at nuclear plants, including the Quad Cities units, in which MidAmerican Energy has an ownership interest, and additional such expenditures could be required in the future.

Pipeline Safety Regulation

The Company's pipeline operations are subject to regulation by the DOT under the NGPSA relating to design, installation, testing, construction, operation and management of its pipeline system. The NGPSA requires any entity that owns or operates pipeline facilities to comply with applicable safety standards, to establish and maintain inspection and maintenance plans and to comply with such plans. The Company's pipeline operations conduct internal audits of their facilities every four years, with more frequent reviews of those it deems of higher risk. The DOT also routinely audits these pipeline facilities. Compliance issues that arise during these audits or during the normal course of business are addressed on a timely basis.

The aging pipeline infrastructure in the United States has led to heightened regulatory and legislative scrutiny of pipeline safety and integrity practices. The NGPSA was amended by the Pipeline Safety Act of 1992 to require the DOT's Office of Pipeline Safety to consider protection of the environment when developing minimum pipeline safety regulations. In addition, the amendments require that the DOT issue pipeline regulations concerning, among other things, the circumstances under which emergency flow restriction devices should be required, training and qualification standards for personnel involved in maintenance and operation, and requirements for periodic integrity inspections, as well as periodic inspection of facilities in navigable waters which could pose a hazard to navigation or public safety. In addition, the amendments narrowed the scope of its gas pipeline exemption pertaining to underground storage tanks under the Resource Conservation and Recovery Act. The Company believes its pipeline operations comply in all material respects with the NGPSA.

The PSIA requires major new programs in the areas of operator qualification, risk analysis and integrity management. The PSIA requires the periodic inspection or testing of pipelines in areas where the potential consequences of a gas pipeline accident may be significant or may do considerable harm to people and their property, which are referred to as High Consequence Areas. Pursuant to the PSIA, the DOT promulgated a major new final rule, effective February 14, 2004, that requires interstate pipeline operators to: develop comprehensive integrity management programs, identify applicable threats to pipeline segments that could impact High Consequence Areas, assess these segments, and provide ongoing mitigation and monitoring. The Company believes its pipeline operations comply in all material respects with the PSIA.

CE Electric UK

Since 1990, the electricity generation, supply and distribution industries in Great Britain have been privatized, and competition has been introduced in generation and supply. Electricity is produced by generators, transmitted through the national grid transmission system and distributed to customers by the fourteen Distribution License Holders ("DLHs") in their respective distribution service areas.

Under the Utilities Act 2000, the public electricity supply license created pursuant to the Electricity Act 1989 was replaced by two separate licenses-the electricity distribution license and the electricity supply license. When the relevant provision of the Utilities Act 2000 became effective on October 1, 2001, the public electricity supply licenses formerly held by Northern Electric plc ("NE") and Yorkshire Electricity Group plc ("YE") were split so that separate subsidiaries held licenses for electricity distribution and electricity supply. In order to comply with the Utilities Act 2000 and to facilitate this license splitting, NE and YE (and each of the other holders of the former public electricity supply licenses) each made a statutory transfer scheme that was approved by the Secretary of State for Trade and Industry. These schemes provided for the transfer of certain assets and liabilities to the licensed subsidiaries. This occurred on October 1, 2001, a date set by the Secretary of State for Trade and Industry. As a consequence of these schemes, the electricity distribution businesses of NE and YE were transferred to Northern Electric and Yorkshire Electricity, respectively. Northern Electric and Yorkshire Electricity are each holders of an electricity distribution license. The residual elements of the electricity supply licenses were transferred to Innogy in connection with the sale of NE's electricity and gas supply business to Innogy and the purchase by NE of YE's electricity distribution business from Innogy on September 21, 2001 (the "Yorkshire Swap").

Each of the DLHs is required to offer terms for connection to its distribution system and for use of its distribution system to any person. In providing the use of its distribution system, a DLH must not discriminate between users, nor may its charges differ except where justified by differences in cost.

Most of the revenue of the DLHs in the United Kingdom is controlled by a distribution price control formula which is set out in the license of each DLH. It has been the practice of the Office of Gas and Electricity Markets ("Ofgem") (and its predecessor body, the Office of Electricity Regulation), to review and reset the formula at five year intervals, although the formula may be further reviewed at other times at the discretion of the regulator. Any such resetting of the formula requires the consent of the DLH. If the DLH does not consent to the formula reset, it is reviewed by the United Kingdom's competition authority, whose recommendations can then be given effect by license modifications made by Ofgem.

The current formula requires that regulated distribution income per unit is increased or decreased each year by RPI-Xd where RPI means the Retail Price Index, reflecting the average of the 12-month inflation rates recorded for each month in the previous July to December period. The Xd factor in the formula was established by Ofgem at the price control review effective in April 2000 (and through March 31, 2005, will continue to be set) at 3%. The formula also takes account of a variety of other factors including the changes in system electrical losses, the number of customers connected and the voltage at which customers receive the units of electricity distributed. The distribution price control formula determines the maximum average price per unit of electricity distributed (in pence per kWh) which a DLH is entitled to charge. The distribution price control formula permits DLHs to receive additional revenue due to increased distribution of units and the increase in the number of end users. The price control does not seek to constrain the profits of a DLH from year to year. It is a control on revenue that operates independently of most of the DLH's costs. During the term of the price control, cost savings or additional costs have a direct impact on income and cash flow.

The procedure and methodology adopted at a price control review is at the reasonable discretion of Ofgem. Generally, Ofgem's judgment of the future allowed revenue of licensees has been based upon, among other things:

- the actual operating costs of each of the licensees;
- the operating costs which each of the licensees would incur if it were as efficient as, in Ofgem's judgment, the most efficient licensees;
- the regulatory value to be ascribed to each of the licensees' distribution network assets;
- the allowance for depreciation of the distribution network assets of each of the licensees;
- the rate of return to be allowed on investment in the distribution network assets by all licensees; and
- the financial ratios of each of the licensees and the license requirement for each licensee to maintain an investment grade status.

As a result of the review concluded in 1999, the allowed revenue of Northern Electric's distribution business was reduced by 24%, in real terms, and the allowed revenue of Yorkshire Electricity's distribution business was reduced by 23%, in real terms, with effect from April 1, 2000.

Ofgem's process of reviewing each DLH's existing price control formula, with a revised formula for each DLH (including Northern Electric and Yorkshire Electricity) to take effect from April 1, 2005 for an expected period of five years was recently completed. As a result of the review, the allowed revenue of Northern Electric's distribution business was reduced by 4%, in real terms, and the allowed revenue of Yorkshire Electricity's distribution business was reduced by 9%, in real terms, with effect from April 1, 2005. The Xd factor was set at zero. Ofgem indicated that during the period 2005 to 2010, the retention of the benefits of any out-performance from the operating cost assumptions made by Ofgem in setting the new price control may depend on the successful implementation of revised cost reporting guidelines to be prescribed by Ofgem and applied by all DLHs. In setting the allowed revenue of Northern Electric and Yorkshire Electricity (and all other DLHs) with effect from April 1, 2005, Ofgem made a specific allowance for an amount in respect of each DLH's pension costs.

With effect from April 1, 2005, a number of incentive schemes operate to encourage DLHs to provide an appropriate quality of service. Payments in respect of each failure to meet a prescribed standard of service are set out in regulations. The aggregate payments that may be due is uncapped, although payments are excused in certain force majeure circumstances. In storm conditions the obligations relating to the period within which supplies should be restored are relaxed and the overall, annual exposure under the restoration standard in storm conditions is limited to 2% of a DLH's allowed revenue. There also is a discretionary reward scheme of up to a £1 million per annum, and other incentive schemes pursuant to which a DLH's allowed revenue may increase by up to 3.3% or decrease by up to 3.5% in any year.

Under the Utilities Act 2000, the Gas and Electricity Markets Authority ("GEMA") is able to impose financial penalties on license holders who contravene (or have in the past contravened) any of their license duties or certain of their duties under the Electricity Act 1989 or who are failing (or have in the past failed) to achieve a satisfactory performance in relation to the individual standards of performance prescribed by GEMA. Any penalty imposed must be reasonable and may not exceed 10% of the licensee's revenue.

CalEnergy Generation-Foreign

In June 2004, Philippine President Gloria Macapagal-Arroyo was re-elected for a six-year term, through June 2010. President Macapagal-Arroyo has announced a plan to pursue policies targeting balanced economic growth, strong market-based industry, and poverty alleviation. In connection with those policies, the Philippine Department of Energy has announced an energy plan focused on attaining a 100 percent electrification level throughout the Philippines, further developing and utilizing renewable energy sources for power and electrification, and enhancing private sector participation in all energy activities.

The Philippine Congress has passed EPIRA, which is aimed at restructuring the Philippine power industry, privatizing the NPC and introducing a competitive electricity market, among other initiatives. The implementation of EPIRA may have an impact on the Company's future operations in the Philippines and the Philippines power industry as a whole, the effect of which is not yet determinable or estimable.

In connection with an interagency review of approximately 40 independent power project contracts in the Philippines pursuant to EPIRA, in 2003 the Casecnan project (together with four other unrelated projects) had reportedly been identified as raising legal and financial questions and, with those projects, had been prioritized for renegotiation. As part of the Supplemental Agreement, CE Casecnan received written confirmation from the Private Sector Assets and Liabilities Management Corporation that the issues with respect to the Casecnan project that had been raised by the interagency review of independent power producers in the Philippines or that may have existed with respect to the project under certain provisions of EPIRA, which authorized the ROP to seek to renegotiate certain contracts such as the Project Agreement, have been satisfactorily addressed by the Supplemental Agreement. MEHC's indirect subsidiaries' Leyte Projects also had reportedly been identified as raising financial questions. In connection with the entering into of amendments to the energy conversion agreement for each of the Leyte Projects with PNOC-EDC, the Company believes that any issues raised by the interagency review of independent power producers in the Philippines with respect to the Leyte Projects have been resolved.

CalEnergy Generation-Domestic

Each of the domestic power facilities in the CalEnergy Generation-Domestic platform, excluding Cordova Energy and Power Resources, meets the requirements promulgated under PURPA to be a QF. QF status under PURPA provides two primary benefits. First, regulations under PURPA exempt QFs from PUHCA, the FERC rate regulation under the Federal Power Act and the state laws concerning rates of electric utilities and financial and organization regulations of electric utilities. Second, the FERC's regulations promulgated under PURPA require that (1) electric utilities purchase electricity generated by QFs, the construction of which commenced on or after November 9, 1978, at a price based on the purchasing utility's Avoided Cost of Energy, (2) electric utilities sell back-up, interruptible, maintenance and supplemental power to QFs on a non-discriminatory basis, and (3) electric utilities interconnect with QFs in their service territories. There can be no assurance that the QF status of such CalEnergy Generation - Domestic facilities will be maintained.

Cordova Energy and Power Resources are exempt from regulation under PUHCA because they are EWGs. PUHCA provides that a EWG is not considered to be an electric utility company. A EWG is permitted to sell capacity and electricity in the wholesale markets, but not in the retail markets.

If an EWG is subject to a "material change" in facts that might affect its continued eligibility for EWG status, within 60 days of such material change, the EWG must (1) file a written explanation of why the material change does not affect its EWG status, (2) file a new application for EWG status, or (3) notify the FERC that it no longer wishes to maintain EWG status.

HomeServices

HomeServices is subject to regulations promulgated by the U.S. Department of Housing and Urban Development ("HUD") as well as regulatory agencies in the states within which it operates that significantly influence its operating environment. On July 29, 2002, HUD issued a proposed regulation under the Real Estate Settlement and Procedures Act.("RESPA") HUD has characterized the proposal as "fundamentally changing the way in which payments to mortgage brokers are recorded and reported to consumers," "significantly" improving the disclosure of settlement costs on the Good Faith Estimate making it firmer and more usable, and "removing regulatory barriers to allow guaranteed packages of settlement services and mortgages to be made available to consumers." The proposal was submitted to the Office of Management and Budget on December 16, 2003, and was voluntarily withdrawn by HUD on March 22, 2004. The House Committee on Financial Services, the Senate Committee on Banking, Housing and Urban Affairs and HUD each has indicated that reforming the

RESPA regulation is a priority in 2005. It is unknown whether a proposed rule will be introduced or finalized in 2005. Accordingly, the Company is presently unable to quantify the likely impact of any proposed rule, if issued.

Environmental Regulation

Domestic

The Company's domestic operations are subject to a number of federal, state and local environmental and environmentally related laws and regulations affecting many aspects of its present and future operations in the United States. Such laws and regulations generally require the Company's domestic operations to obtain and comply with a wide variety of licenses, permits and other approvals. The Company believes that its operating power facilities and gas pipeline operations are currently in material compliance with all applicable federal, state and local laws and regulations. However, no guarantee can be given that in the future the Company's domestic operations will be in material compliance with all applicable environmental statutes and regulations or that all necessary permits will be obtained or approved. In addition, the construction of new power facilities and gas pipeline operations is a costly and time-consuming process requiring a multitude of complex environmental permits and approvals prior to the start of construction that may create the risk of expensive delays or material impairment of project value if projects cannot function as planned due to changing regulatory requirements or local opposition. The Company cannot provide assurance that existing regulations will not be revised or that new regulations will not be adopted or become applicable to it which could have an adverse impact on its capital or operating costs or its operations.

Clean Air Standards

MidAmerican Energy's generating facilities are subject to applicable provisions of the Clean Air Act and related air quality standards promulgated by the United States Environmental Protection Agency ("EPA"). The Clean Air Act provides the framework for regulation of certain air emissions and permitting and monitoring associated with those emissions. MidAmerican Energy believes it is in material compliance with current air quality requirements.

The EPA has in recent years implemented more stringent national ambient air quality standards for ozone and new standards for fine particulate matter. These standards set the minimum level of air quality that must be met throughout the United States. Areas that achieve the standards, as determined by ambient monitoring, are characterized as being in attainment of the standard. Areas that fail to meet the standard are designated as being nonattainment areas. Generally, once an area has been designated as a nonattainment area, sources of emissions in the area that contribute to the failure to achieve the ambient air quality standards are required to make emissions reductions. The EPA has concluded that the entire State of Iowa is in attainment of the ozone standards and the fine particulate standards.

On December 4, 2003, the EPA announced the development of its Interstate Air Quality Rule, now known as the Clean Air Interstate Rule, a proposal to require coal-burning power plants in 29 states, including Iowa, and the District of Columbia to reduce emissions of sulfur dioxide ("SO_2") and nitrogen oxides ("NO_X") in an effort to reduce ozone and fine particulate matter in the Eastern United States. It is likely that MidAmerican Energy's coal-burning facilities will be impacted by this proposal.

In December 2000, the EPA concluded that mercury emissions from coal-fired generating stations should be regulated. The EPA is currently considering two regulatory alternatives that would reduce emissions of mercury from coal-fired utilities. One of these alternatives would require reductions of mercury from all coal-fired facilities greater than 25 MW through application of Maximum Achievable Control Technology with compliance assessed on a facility basis. The other alternative would regulate the mercury emissions of coal-fired facilities that pose a health hazard through a market based cap-and-trade mechanism similar to the SO_2 allowance system. The EPA is currently under a deadline to finalize the mercury reduction rule by March 2005.

The Clean Air Interstate Rule or the mercury reduction rule could, in whole or in part, be superseded or made more stringent by one of a number of multi-pollutant emission reduction proposals currently under consideration at the federal level, including the "Clear Skies Initiative," and other pending legislative proposals that contemplate 70% to 90% reductions of SO_2, NO_X and mercury, as well as possible new federal regulation of carbon dioxide and other gasses that may affect global climate change.

Depending on the outcome of the final Clean Air Interstate Rule and the mercury reduction rule or any superseding legislation by Congress, MidAmerican Energy may be required to install control equipment on its generating stations, purchase emission allowances or decrease the number of hours during which its generating stations operate. However, until final regulatory or legislative action is taken, the impact of the regulations on MidAmerican Energy cannot be predicted.

MidAmerican Energy has implemented a planning process that forecasts the site-specific controls and actions that may be required to meet emissions reductions as contemplated by the EPA. In accordance with an Iowa law passed in 2001, MidAmerican Energy has on file with the IUB its current multi-year plan and budget for managing SO_2 and NO_X from its generating facilities in a cost-effective manner. The plan, which is required to be updated every two years, provides specific actions to be taken at each coal-fired generating facility and the related costs and timing for each action. On July 17, 2003, the IUB issued an order that affirmed an administrative law judge's approval of the initial plan filed on April 1, 2002, as amended. On October 4, 2004, the IUB issued an order approving MidAmerican Energy's second biennial plan as revised in a settlement MidAmerican Energy entered into with the Iowa Consumer Advocate Division of the Department of Justice. That plan covers the time period from April 1, 2004 through December 31, 2006. Neither IUB order resulted in any changes to electric rates for MidAmerican Energy. The effect of the orders is to approve the prudence of expenditures made consistent with the plans. Pursuant to an unrelated rate settlement agreement approved by the IUB on October 17, 2003, if prior to January 1, 2011, capital and operating expenditures to comply with environmental requirements cumulatively exceed $325.0 million, then MidAmerican Energy may seek to recover the additional expenditures from customers. At this time, MidAmerican Energy does not expect these capital expenditures to exceed such amount.

Under the New Source Review ("NSR") provisions of the Clean Air Act, a utility is required to obtain a permit from the EPA or a state regulatory agency prior to (1) beginning construction of a new major stationary source of an NSR-regulated pollutant or (2) making a physical or operational change to an existing facility that potentially increases emissions, unless the changes are exempt under the regulations (including routine maintenance, repair and replacement of equipment). In general, projects subject to NSR regulations are subject to pre-construction review and permitting under the Prevention of Significant Deterioration ("PSD") provisions of the Clean Air Act. Under the PSD program, a project that emits threshold levels of regulated pollutants must undergo a Best Available Control Technology analysis and evaluate the most effective emissions controls. These controls must be installed in order to receive a permit. Violations of NSR regulations, which may be alleged by the EPA, states and environmental groups, among others, potentially subject a utility to material expenses for fines and other sanctions and remedies including requiring installation of enhanced pollution controls and funding supplemental environmental projects.

In recent years, the EPA has requested from several utilities information and support regarding their capital projects for various generating plants. The requests were issued as part of an industry-wide investigation to assess compliance with the NSR and the New Source Performance Standards of the Clean Air Act. In December 2002 and April 2003, MidAmerican Energy received requests from the EPA to provide documentation related to its capital projects from January 1, 1980, to April 2003 for a number of its generating plants. MidAmerican Energy has submitted information to the EPA in responses to these requests, and there are currently no outstanding data requests pending from the EPA. MidAmerican Energy cannot predict the outcome of these requests at this time. However, on August 27, 2003, the EPA announced changes to its NSR rules that clarify what constitutes routine repair, maintenance and replacement for purposes of triggering NSR requirements. The EPA concluded equipment that is repaired, maintained or replaced with an expenditure not greater than 20 percent of the value of the source will not trigger the NSR provisions of the Clean Air Act. A number of states and local air districts challenged the EPA's clarification of the NSR rule and a panel of the U.S. Circuit Court of Appeals for the District of Columbia Circuit issued an order on December 24, 2003, staying the EPA's implementation of its clarifications of the equipment replacement rule. On July 1, 2004, the EPA published a notice of stay of the final equipment replacement rule in the *Federal Register*, consistent with the judicial stay. Additionally, on the same date, the EPA published a Notice of Reconsideration and Request for Comment on the equipment replacement rule in response to the Petitioners' legal challenges. Until such time as the EPA takes final action on the equipment replacement rule, the previous rules without the clarified exemption remain in effect.

Nuclear Regulation

MidAmerican Energy is subject to the jurisdiction of the NRC with respect to its license and 25% ownership interest in Quad Cities Station Units 1 and 2. Exelon Generation Company, LLC ("Exelon Generation") is the operator of Quad Cities Station and is under contract with MidAmerican Energy to secure and keep in effect all necessary NRC licenses and authorizations.

The NRC regulations control the granting of permits and licenses for the construction and operation of nuclear generating stations and subject such stations to continuing review and regulation. On October 29, 2004, the NRC granted renewed licenses for both Quad Cities Station Unit 1 and Unit 2 that provide for operation until December 14, 2032, which is in effect a 20-year extension of the licenses. The NRC review and regulatory process covers, among other things, operations, maintenance, and environmental and radiological aspects of such stations. The NRC may modify, suspend or revoke licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under such Act or the terms of such licenses.

Federal regulations provide that any nuclear operating facility may be required to cease operation if the NRC determines there are deficiencies in state, local or utility emergency preparedness plans relating to such facility, and the deficiencies are not corrected. Exelon Generation has advised MidAmerican Energy that an emergency preparedness plan for Quad Cities Station has been approved by the NRC. Exelon Generation has also advised MidAmerican Energy that state and local plans relating to Quad Cities Station have been approved by the Federal Emergency Management Agency.

The NRC also regulates the decommissioning of nuclear power plants including the planning and funding for the eventual decommissioning of the plants. In accordance with these regulations, MidAmerican Energy submits a report to the NRC every two years providing reasonable assurance that funds will be available to pay the costs of decommissioning its share of Quad Cities Station.

Under the Nuclear Waste Policy Act of 1982 ("NWPA"), the U.S. Department of Energy ("DOE") is responsible for the selection and development of repositories for, and the permanent disposal of, spent nuclear fuel and high-level radioactive wastes. Exelon Generation, as required by the NWPA, signed a contract with the DOE under which the DOE was to receive spent nuclear fuel and high-level radioactive waste for disposal beginning not later than January 1998. The DOE did not begin receiving spent nuclear fuel on the scheduled date, and remains unable to receive such fuel and waste. The earliest the DOE currently is expected to be able to receive such fuel and waste is 2010. The costs to be incurred by the DOE for disposal activities are being financed by fees charged to owners and generators of the waste. In 2004, Exelon Generation reached a settlement with the DOE concerning the DOE's failure to begin accepting spent nuclear fuel in 1998. As a result, Quad Cities Station will be billing the DOE, and the DOE will be obligated to reimburse the station for all station costs incurred due to the DOE's delay. Exelon Generation has informed MidAmerican Energy that existing on-site storage capability at Quad Cities Station is sufficient to permit interim storage in 2005. For Quad Cities Station, Exelon Generation has begun to develop an interim spent fuel storage installation ("ISFSI") at Quad Cities Station to store spent nuclear fuel in dry casks in order to free space in the storage pool. The first pad at the ISFSI is expected to facilitate storage of casks to support operations at Quad Cities Station until at least 2017. Exelon Generation has completed the bulk of the construction work on the first pad and expects the first cask loading to take place in 2005. In the 2017 to 2022 timeframe, Exelon Generation plans to add a second pad to the ISFSI to accommodate storage of spent nuclear fuel through the end of operations at Quad Cities Station.

MidAmerican Energy has established trusts for the investment of funds collected for nuclear decommissioning associated with Quad Cities Station. Electric tariffs currently in effect include provisions for annualized collection of estimated decommissioning costs at Quad Cities Station. In Iowa, estimated Quad Cities Station decommissioning costs are reflected in base rates. MidAmerican Energy's cost related to decommissioning funding in 2004 was $8.3 million.

United Kingdom

CE Electric UK's businesses are subject to extensive regulatory requirements with respect to the protection of the environment.

The United Kingdom government introduced new contaminated land legislation in April 2000 that requires local governmental authorities to put in place a program for investigating land in their area in order to identify contamination. Local authorities (and the Environment Agency where controlled waters are affected) can enforce remedial action where such contamination of land poses a threat to the greater environment. If the "person" who contaminated the land cannot be found, the land owner will be held responsible.

The UK local authorities have not identified any CE Electric UK sites that require any action under these regulations. CE Electric UK evaluations of three potential sites confirm this conclusion. A project with an environmental remediation company is in progress at one of these sites where there is an agreement to reduce pockets of localized contamination to an acceptable standard.

The Environmental Protection Act (Disposal of PCB's and other Dangerous Substances) Regulations 2001 were introduced on May 5, 2000. The regulations required that transformers containing over 50 parts per million of PCB's and other dangerous substances be registered with the Environment Agency. Transformers containing 500 parts per million had to be de-contaminated by December 31, 2000. As of December 31, 2004, CE Electric UK had 360 transformers containing between 50 and 500 parts per million of such substances registered with the Environment Agency and is continuing with its sampling, labeling and registration program. CE Electric UK believes it is in compliance and these regulations are not expected to have a material impact on the Company.

The 1998 Groundwater Regulations seek to prevent listed hazardous substances from entering groundwater and strengthens the United Kingdom Environment Agency's powers to require additional protective measures, especially in areas of important groundwater supplies. Mineral oils and hydrocarbons are included in the list of more tightly controlled substances ("List I substances"). This affects the high voltage fluid filled electricity cable network incorporating an insulating fluid that is currently in List I. The existing voluntary Operating Code of Practice, as agreed between the Environment Agency and companies in the electricity industry, is undergoing revision to address the regulatory changes. The existing voluntary Operating Code of Practice is, and any revised Operating Code of Practice will be, incorporated into the operating practices of Northern Electric and Yorkshire Electricity. Any revisions which are made are not expected to have a material impact on the Company.

The Oil Storage Regulations became effective in 2002 and require the phased introduction of secondary containment measures (bunding) for all above ground oil storage locations where the capacity is more than 200 liters. The primary containers must be in sound condition, leak free, and positioned away from vehicle traffic routes. The secondary containment must be impermeable to water and oil (without drainage valve) and be subject to routine maintenance. The capacity of the bund must be sufficient to hold up to 110% of the largest stored vessel or 25% of the maximum stored capacity, whichever is the greater. On March 1, 2002, these regulations came into effect for all new oil storage facilities. On September 1, 2003, the regulations became effective for existing storage facilities at "significant risk" (i.e. within 10 meters of a water course), and on September 1, 2005, the regulations come into effect for all remaining storage facilities. A detailed study of the impacts has been carried out and a plan of action prepared to ensure compliance. The Company expects that the cost of compliance with the remaining provisions of such regulations will not have a material impact.

The Electricity Act 1989 obligates either the United Kingdom Secretary of State or the Director General of Electric Supply to take into account the effect of electricity generation, transmission and supply activities on the physical environment when approving applications for the construction of overhead power lines. The Electricity Act requires CE Electric UK to consider the desirability of preserving natural beauty and the conservation of natural and man-made features of particular interest when it formulates proposals for development in connection with certain of its activities. CE Electric UK mitigates the effects its proposals have on natural and man-made features and administers an environmental assessment when it intends to lay cables, construct overhead lines or carry out any other development in connection with its licensed activities. The Company expects that the cost of compliance with these obligations and the mitigation thereof will not have a material impact.

CE Electric UK's policy is to carry out its activities in such a manner as to minimize the impact of its works and operations on the environment, and in accordance with environmental legislation and good practice. There have not been any significant regulatory environmental compliance issues and there are no material legal or administrative proceedings pending against CE Electric UK with respect to any environmental matter.

Environmental laws and regulations in the United Kingdom currently have, and future modifications may increasingly have, the effect of requiring modification of CE Electric UK's facilities and increasing its operating costs.

Philippines

On June 23, 1999, the Philippine Congress enacted the Philippine Clean Air Act of 1999. The related implementing rules and regulations were adopted in November 2000. The law as written would require the Leyte Projects to comply with a maximum discharge of 200 grams of hydrogen sulfide per gross MWh of output by June 2004. On November 13, 2002, the Secretary of the Philippine Department of Environment and Natural Resources issued a Memorandum Circular ("MC") designating geothermal areas as "special airsheds." PNOC-EDC has advised the Leyte Projects that the MC exempts the Mahanagdong and Malitbog plants from the need to comply with the point-source emission standards of the Clean Air Act. CE Cebu and PNOC-EDC have constructed a gas dispersion facility for the Upper Mahiao project which is designed to ensure compliance with the emission standards of the Clean Air Act. The gas dispersion project was put into commercial operation in December 2003.

Employees

At December 31, 2004, the Company employed approximately 11,540 people, of which approximately 3,900 are covered by union contracts. MidAmerican Energy's union contract with International Brotherhood of Electrical Workers locals 109 and 499 expires February 28, 2006, and covers approximately 1,700 employee members.

Item 2. Properties.

The Company's utility properties consist of physical assets necessary and appropriate to render electric and gas service in its service territories. Electric property consists primarily of generation, transmission and distribution facilities and related rights-of-way. Gas property consists primarily of distribution plants, natural gas pipelines, related rights-of-way, compressor stations and meter stations. It is the opinion of management that the principal depreciable properties owned by the Company are in good operating condition and well maintained. Pursuant to separate financing agreements, substantially all or most of the properties of each subsidiary (except CE Electric UK and Northern Natural Gas) are pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. See Notes 6 and 23 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information about the Company's properties.

MidAmerican Energy

MidAmerican Energy's most significant properties are its electric generation facilities. Refer to the MidAmerican Energy discussion in "Item 1. Business" of this Form 10-K for additional information about MidAmerican Energy's generation facilities.

The electric transmission system of MidAmerican Energy at December 31, 2004, included 918 miles of 345-kV lines and 1,128 miles of 161-kV lines. MidAmerican Energy's electric distribution system included approximately 222,300 transformers and 382 substations at December 31, 2004.

Gas property consists primarily of natural gas mains and services pipelines, meters and related distribution equipment, including feeder lines to communities served from natural gas pipelines owned by others. The gas distribution facilities of MidAmerican Energy at December 31, 2004, included approximately 21,548 miles of gas mains and services pipelines.

Kern River and Northern Natural Gas

At December 31, 2004, Kern River's pipeline consisted of two distinguishable sections: the mainline section and the common facilities. The mainline section consists of the original 682 miles of 36-inch pipeline, 628 miles of 36-inch loop pipeline related to the 2003 Expansion Project and 68 miles of various laterals that connect to the mainline, and extends from the pipeline's point of origination near Opal, Wyoming through the Central Rocky Mountains area into Daggett, California and is owned entirely by Kern River. The common facilities consist of the 219-mile section of original pipeline that extends from the point of interconnection with the mainline in Daggett to Bakersfield, California and an additional 82 miles related to the 2003 Expansion Project. The common facilities are jointly owned by Kern River (currently approximately 76.8%) and Mojave (currently approximately 23.2%) as tenants-in-common.

At December 31, 2004, Northern Natural Gas' system was comprised of approximately 7,300 miles of mainline transmission pipelines and approximately 9,200 miles of lateral pipelines. Northern Natural Gas' storage services are provided through the operation of three underground storage fields, in Redfield, Iowa, and Lyons and Cunningham, Kansas. Northern Natural Gas' three underground natural gas storage facilities and two LNG storage peaking units have a total storage capacity of approximately 59 Bcf. Northern Natural Gas' two LNG liquefaction/vaporization facilities are located near Garner, Iowa and Wrenshall, Minnesota with storage capacity of 2 Bcf each.

The right to construct and operate the pipelines across certain property was obtained through negotiations and through the exercise of the power of eminent domain, where necessary. Kern River and Northern Natural Gas continue to have the power of eminent domain in each of the states in which they operate their respective pipelines, but they do not have the power of eminent domain with respect to Native American tribal lands. Although the main Kern River pipeline crosses the Moapa Indian Reservation, all facilities are located within a utility corridor that is reserved to the United States Department of Interior, Bureau of Land Management.

With respect to real property, each of the pipelines falls into two basic categories: (1) parcels that are owned in fee, such as certain of the compressor stations, measurement stations and district office sites; and (2) parcels where the interest derives from leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities permitting the use of such land for the construction, operation and maintenance of the pipelines.

MEHC believes that Kern River and Northern Natural Gas each have satisfactory title to all of the real property making up their respective pipelines in all material respects.

CE Electric UK

At December 31, 2004, Northern Electric's and Yorkshire Electricity's electricity distribution networks (excluding service connection to consumers) on a combined basis included approximately 33,000 kilometers of overhead lines and approximately 64,000 kilometers of underground cables. In addition to the circuits referred to above, at December 31, 2004, Northern Electric's and Yorkshire Electricity's distribution facilities also included approximately 58,000 transformers and approximately 750 primary substations.

Other Properties

At December 31, 2004, MEHC's most significant physical properties, other than those owned by MidAmerican Energy, Kern River, Northern Natural Gas and CE Electric UK, are its current interests in operating power facilities and its plants under construction and related real property interests, as well as leases of office space for its residential real estate brokerage operations. See "Item 1. Business" of this Form 10-K for further detail.

Item 3. Legal Proceedings.

In addition to the proceedings described below, the Company is currently party to various items of litigation or arbitration in the normal course of business, none of which are reasonably expected by the Company to have a material adverse effect on its financial position, results of operations or cash flows.

Pipeline Litigation

In 1998, the United States Department of Justice informed the then current owners of Kern River and Northern Natural Gas that Jack Grynberg, an individual, had filed claims in the United States District Court for the District of Colorado under the False Claims Act against such entities and certain of their subsidiaries including Kern River and Northern Natural Gas. Mr. Grynberg has also filed claims against numerous other energy companies and alleges that the defendants violated the False Claims Act in connection with the measurement and purchase of hydrocarbons. The relief sought is an unspecified amount of royalties allegedly not paid to the federal government, treble damages, civil penalties, attorneys' fees and costs. On April 9, 1999, the United States Department of Justice announced that it declined to intervene in any of the Grynberg qui tam cases, including the actions filed against Kern River and Northern Natural Gas in the United States District Court for the District of Colorado. On October 21, 1999, the Panel on Multi-District Litigation transferred the Grynberg qui tam cases, including the ones filed against Kern River and Northern Natural Gas, to the United States District Court for the District of Wyoming for pre-trial purposes. Motions to dismiss the complaint, filed by various defendants including Northern Natural Gas and The Williams Companies, Inc. ("Williams"), which was the former owner of Kern River, were denied on May 18, 2001. On October 9, 2002, the United States District Court for the District of Wyoming dismissed Grynberg's royalty valuation claims. On November 19, 2002, the United States District Court for the District of Wyoming denied Grynberg's motion for clarification and dismissed his royalty valuation claims. Grynberg appealed this dismissal to the United States Court of Appeals for the Tenth Circuit and on May 13, 2003, the Tenth Circuit Court dismissed his appeal. Motions to Dismiss based on various jurisdictional grounds were filed on June 4, 2004. Grynberg filed his brief and other pleadings in opposition to the Motions to Dismiss on October 22, 2004. In connection with the purchase of Kern River from Williams in March 2002, Williams agreed to indemnify MEHC against any liability for this claim; however, no assurance can be given as to the ability of Williams to perform on this indemnity should it become necessary. No such indemnification was obtained in connection with the purchase of Northern Natural Gas in August 2002. The Company believes that the Grynberg cases filed against Kern River and Northern Natural Gas are without merit and that Williams, on behalf of Kern River pursuant to its indemnification, and Northern Natural Gas, intend to defend these actions vigorously.

On June 8, 2001, a number of interstate pipeline companies, including Kern River and Northern Natural Gas, were named as defendants in a nationwide class action lawsuit which had been pending in the 26th Judicial District, District Court, Stevens County Kansas, Civil Department against other defendants, generally pipeline and gathering companies, since May 20, 1999. The plaintiffs allege that the defendants have engaged in mismeasurement techniques that distort the heating content of natural gas, resulting in an alleged underpayment of royalties to the class of producer plaintiffs. In November 2001, Kern River and Northern Natural Gas, along with the coordinating defendants, filed a motion to dismiss under Rules 9B and 12B of the Kansas Rules of Civil Procedure. The court denied this motion. In January 2002, Kern River and most of the coordinating defendants filed a motion to dismiss for lack of personal jurisdiction. The court has yet to rule on these motions. The plaintiffs filed for certification of the plaintiff class on September 16, 2002. On January 13, 2003, oral arguments were heard on coordinating defendants' opposition to class certification. On April 10, 2003, the court entered an order denying the plaintiffs' motion for class certification. On May 12, 2003, the plaintiffs filed a motion for leave to file a fourth amended petition alleging a class of gas royalty owners in Kansas, Colorado and Wyoming. The court granted the motion for leave to amend on July 28, 2003. Kern River was not a named defendant in the amended complaint and has been dismissed from the action. Northern Natural Gas filed an answer to the fourth amended petition on August 22, 2003. Class discovery is ongoing. Williams has agreed to indemnify MEHC against any liability associated with Kern River for this claim; however, no assurance can be given as to the ability of Williams to perform on this indemnity should it become necessary. Northern Natural Gas anticipates joining with other defendants in contesting certification of the plaintiff class. Kern River and Northern Natural Gas believe that this claim is without merit and that Kern River's and Northern Natural Gas' gas measurement techniques have been in accordance with industry standards and their tariffs.

Similar to the June 8, 2001 matter referenced above, the plaintiffs in that matter have filed a new companion action against a number of parties, including Northern Natural Gas but excluding Kern River, in a Kansas state district court for damages for mismeasurement of British thermal unit content, resulting in lower royalties. The action was filed on May 12, 2003, shortly after the state district court dismissed the plaintiffs' third amended petition in the original litigation which sought to certify a nationwide class. The new companion action which seeks to certify a class of royalty owners in Kansas, Colorado and Wyoming, tracking the fourth amended petition in the action referenced above, was not served until August 4, 2003. A motion to dismiss was filed on August 25, 2003. On October 9, 2003, the state district court denied the motion to dismiss; Northern Natural Gas filed its answer on November 6, 2003. Class discovery is ongoing. Northern Natural Gas anticipates joining with other defendants in contesting certification of the plaintiff class. Northern Natural Gas believes that this claim is without merit and that Northern Natural Gas' gas measurement techniques have been in accordance with industry standards and its tariff.

Natural Gas Commodity Litigation

MidAmerican Energy is one of dozens of companies named as defendants in a January 20, 2004 consolidated class action lawsuit filed in the U.S. District Court for the Southern District of New York. The suit alleges that the defendants have engaged in unlawful manipulation of the prices of natural gas futures and options contracts traded on the New York Mercantile Exchange ("NYMEX") during the period January 1, 2000 to December 31, 2002. MidAmerican Energy is mentioned as a company that has engaged in wash trades on Enron Online (an electronic trading platform) that had the effect of distorting prices for gas trades on the NYMEX. The plaintiffs to the class action do not specify the amount of alleged damages. At this time, MidAmerican Energy does not believe that it has any material exposure in this lawsuit.

The original complaint in this matter, *Cornerstone Propane Partners, L.P. v. Reliant, et al. ("Cornerstone")*, was filed on August 18, 2003 in the United States District Court, Southern District of New York naming MidAmerican Energy and MEHC. On October 1, 2003, a second complaint, *Roberto, E. Calle Gracey, et al. ("Calle Gracey")*, was filed in the same court but did not name MidAmerican Energy or MEHC. On November 14, 2003, a third complaint, *Dominick Viola ("Viola"), et* al., was filed in the same court and named MidAmerican Energy and MEHC as defendants. On November 19, 2003, an Order of Voluntary Dismissal Without Prejudice of MEHC was entered by the court dismissing MEHC from the *Cornerstone* and *Viola* complaints. On December 5, 2003, the court entered Pretrial Order No. 1, which among other procedural matters, ordered the consolidation of the *Cornerstone, Calle Gracey* and *Viola* complaints and permitted plaintiffs to file an amended complaint in this matter. On January 20, 2004, plaintiffs filed *In Re: Natural Gas Commodity Litigation* as the amended complaint reasserting their previous allegations. On February 19, 2004, MidAmerican Energy filed a Motion to Dismiss and joined with several other defendants to file a joint Motion to Dismiss. The plaintiffs filed a response on May 19, 2004, contesting both Motions to Dismiss. On September 24, 2004, the pending Motions to Dismiss were denied. On October 14, 2004, the plaintiffs filed an amended consolidated class action complaint reasserting their previous allegations. On January 25, 2005, the plaintiffs filed their motion for class certification. MidAmerican Energy will continue to coordinate with the other defendants and vigorously defend the allegations against it.

Philippines

Pursuant to the share ownership adjustment mechanism in the CE Casecnan stockholder agreement, which is based upon pro forma financial projections of the Casecnan project prepared following commencement of commercial operations, in February 2002, MEHC's indirect wholly-owned subsidiary, CE Casecnan Ltd., advised the minority stockholder, LaPrairie Group Contractors (International) Ltd. ("LPG"), that MEHC's ownership interest in CE Casecnan had increased to 100% effective from commencement of commercial operations. On July 8, 2002, LPG filed a complaint in the Superior Court of the State of California, City and County of San Francisco against, among others, CE Casecnan Ltd. and MEHC. On January 21, 2004, CE Casecnan Ltd. and LPG entered into a status quo agreement pursuant to which the parties agreed to set aside certain distributions related to the shares subject to the LPG dispute and CE Casecnan agreed not to take any further actions with respect to such distribution without at least 15 days prior notice to LPG. Accordingly, 15% of the CE Casecnan dividend distributions declared in 2004, totaling $15.9 million, was set aside by CE Casecnan in an unsecured CE Casecnan account and is shown as restricted cash and short-term investments and other current liabilities in the accompanying consolidated balance sheet included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K. The court is currently expected to rule on the first phase of the litigation before the end of the first quarter of 2005. The impact, if any, of this litigation on the Company cannot be determined at this time.

Mirant Americas Energy Marketing ("Mirant") Claim

Mirant was one of the shippers that entered into a 15-year, 2003 Expansion Project, firm gas transportation contract (90,000 Dth per day) with Kern River (the "Mirant Agreement") and provided a letter of credit equivalent to 12 months of reservation charges as security for its obligations under the Mirant Agreement. In July 2003, Mirant filed for Chapter 11 bankruptcy protection and continued to perform under the Mirant Agreement post-bankruptcy. In October 2003, Mirant informed Kern River that it would not renew its letter of credit and Kern River drew on the letter of credit and held the proceeds thereof, $14.8 million, as cash collateral. Effective December 18, 2003, Mirant rejected the Mirant Agreement pursuant to procedures under the Bankruptcy Code and paid all post-petition amounts then due and owing under the Mirant Agreement through December 18, 2003. On January 13, 2004, Kern River filed a proof of claim with the bankruptcy court for an aggregate total amount of $210.2 million (the "Kern River Claim"), which Kern River believed was secured to the extent of the $14.8 million in proceeds received from the letter of credit and held as a cash security deposit. The claims underpinning the proof of claim arise from damages caused by Mirant's rejection of the Mirant Agreement. On May 25, 2004, the bankruptcy court issued an order permitting Kern River to apply 100% of the $14.8 million cash security deposit to its claim for damages. On October 12, 2004, Mirant raised an objection to the Kern River Claim asserting, among other things, that Kern River had not included a discount adjustment or mitigation to the claim. On November 11, 2004, Kern River filed an amended proof of claim of $138.8 million, reflecting discounting, mitigation and other adjustments, and which excludes the $14.8 million already received by Kern River. Kern River can not determine at this time if it will collect any portion of the balance of the Kern River Claim or be able to remarket the rejected Mirant Agreement capacity.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Since March 14, 2000, MEHC's equity securities have been owned by Berkshire Hathaway, Walter Scott, Jr. (together with certain of his family members and family trusts and corporations), David L. Sokol and Gregory E. Abel and have not been registered with the SEC pursuant to the Securities Act of 1933, as amended, listed on a stock exchange or otherwise publicly held or traded.

Item 6. Selected Financial Data.

The following table sets forth selected financial data, which should be read in conjunction with the Company's consolidated financial statements and the related notes to those statements included in "Item 8. Financial Statements and Supplementary Data" and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K. The selected financial data as of and for the years ended December 31, 2004, 2003, 2002 and 2001, and as of December 31, 2000 and for the period from March 14, 2000 through December 31, 2000, have been derived from the Company's historical consolidated financial statements. The selected financial data from January 1, 2000 through March 13, 2000, have been derived from MEHC (Predecessor)'s historical consolidated financial statements.

	Year Ended December 31,				March 14 2000 through December 31,	MEHC (Predecessor) January 1, 2000 through March 13,
	2004	**2003**	**2002(1)**	**2001(2)**	**2000(3)**	**2000(4)**
			(Amounts in millions)			
Statement of Operations Data:						
Operating revenue	$ 6,553.4	$ 5,965.6	$ 4,795.2	$ 4,696.8	$ 3,918.1	$ 1,056.4
Income from continuing operations	537.8	442.7	397.4	148.4	84.1	51.4
Loss from discontinued operations, net of tax(5)	(367.6)	(27.1)	(17.4)	(5.7)	(2.8)	(0.1)
Net income	$ 170.2	$ 415.6	$ 380.0	$ 142.7	$ 81.3	$ 51.3
Balance Sheet Data:						
Total assets	$19,903.6	$19,145.0	$18,434.9	$12,994.6	$11,960.4	N/A
Parent company senior debt(6)	2,772.0	2,777.9	2,323.4	1,834.5	1,830.0	N/A
Parent company subordinated debt(6)	1,585.8	1,772.1	-	-	-	N/A
Company-obligated mandatory redeemable preferred securities of subsidiary trusts	-	-	2,063.4	788.2	786.5	N/A
Subsidiary and project debt(6)	6,304.9	6,674.6	7,077.1	4,754.8	3,398.7	N/A
Subsidiary-obligated mandatorily redeemable preferred securities of subsidiary trusts	-	-	-	100.0	100.0	N/A
Preferred securities of subsidiaries	89.5	92.1	93.3	121.2	145.7	N/A
Total stockholders' equity	$ 2,971.2	$ 2,771.4	$ 2,294.3	$ 1,708.2	$ 1,576.4	N/A

(1) Reflects the acquisitions of Kern River on March 27, 2002 and Northern Natural Gas on August 16, 2002.

(2) Reflects the Yorkshire Swap on September 21, 2001 and includes $15.2 million of after-tax income related to the sale of the Northern Electric electricity and gas supply business, the sale of the Telephone Flat Project, the sale of Western States Geothermal, the transfer of Bali Energy Ltd. shares, and the Teesside Power Limited (''TPL'') asset valuation impairment charge.

(3) Reflects the Teton Transaction on March 14, 2000.

(4) Includes $7.6 million of expenses related to the Teton Transaction.

(5) Reflects MEHC's decision to cease operations of the Zinc Recovery Project effective September 10, 2004, which resulted in a non-cash, after-tax impairment charge of $340.3 million being recorded to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively, the "Mineral Assets"). The charge and related activity of the Mineral Assets, including the reclassification of such activity for the years ended December 31, 2003, 2002 and 2001 and for the periods January 1, 2000 through March 13, 2000 and March 14, 2000 through December 31, 2000, are classified separately as discontinued operations.

(6) Excludes current portion.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in combination with the selected financial data and the consolidated financial statements included in Items 6 and 8 herein.

General

The Company's operations are organized and managed on seven distinct platforms: MidAmerican Energy, Kern River, Northern Natural Gas, CE Electric UK (which includes Northern Electric and Yorkshire Electricity), CalEnergy Generation-Foreign, CalEnergy Generation-Domestic, and HomeServices.

The Company owns and operates a combined electric and natural gas utility company in the United States, two natural gas pipeline companies in the United States, two electricity distribution companies in the United Kingdom, a diversified portfolio of domestic and international independent power projects and the second largest residential real estate brokerage firm in the United States.

The Company's principal energy subsidiaries generate, transmit, store, distribute and supply energy. The Company's electric and natural gas utility subsidiaries currently serve approximately 4.4 million electricity customers and approximately 680,000 natural gas customers. Its natural gas pipeline subsidiaries operate interstate natural gas transmission systems with approximately 18,300 miles of pipeline in operation and peak delivery capacity of 6.4 Bcf of natural gas per day. The Company has interests in 6,777 net owned MW of power generation facilities in operation and under construction, including 5,203 net owned MW in facilities that are part of the regulated return asset base of its electric utility business and 1,574 net owned MW in non-utility power generation facilities. Substantially all of the non-utility power generation facilities have long-term contracts for the sale of energy and/or capacity from the facilities.

Executive Summary

The following significant events and changes, as discussed in more detail herein, highlight some factors that affect the comparability of our financial results, for the years ended December 31, 2004, 2003 and 2002, respectively:

- On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project, effective immediately. Based on this decision, a non-cash, after-tax impairment charge of $340.3 million has been recorded to write-off the Mineral Assets.

- In December 2004, MidAmerican Energy placed into service the second phase of its 327 MW natural gas-fired combined cycle generating plant. The plant is the first of three electric generating projects to be completed by MidAmerican Energy. MidAmerican Energy expects to invest approximately $1.1 billion in the two remaining projects through 2007. Both projects are currently under construction and $350.4 million of the $1.1 billion had been invested through December 31, 2004.

- The Company made significant investments in its natural gas pipeline business by acquiring Kern River in March 2002 for $419.7 million, net of cash acquired, and Northern Natural Gas in August 2002 for $882.7 million, net of cash acquired, and completing the 2003 Expansion Project in May 2003 at a total cost of $1.2 billion. These pipelines serve major markets in the midwest and western United States.

- HomeServices separately acquired 13 real estate companies throughout 2004, 2003 and 2002. Operating revenue has grown from $1.1 billion in 2002 to $1.8 billion in 2004.

- CE Electric UK operates mainly in Great Britain and the majority of its transactions are in Pounds Sterling. The weighted average ratio of U.S. Dollars to Pounds Sterling was 1.84, 1.64 and 1.49 during each of the years ended December 31, 2004, 2003 and 2002, respectively, which continues to produce positive revenue and profit comparisons on a year over year basis.

- Both Kern River and Northern Natural Gas have filed for rate increases with the FERC and have hearings scheduled in 2005. New rates for Northern Natural Gas' May 2003 rate case went into effect on November 1, 2003, subject to refund. New rates for the Northern Natural Gas' January 2004 and Kern River's April 2004 rate cases each went into effect on November 1, 2004, subject to refund. Additionally, Ofgem completed the process of reviewing the existing price control formula for Northern Electric and Yorkshire Electricity in November 2004. As a result of the review, the allowed revenue of Northern Electric's and Yorkshire Electricity's distribution businesses will be reduced by 4% and 9%, respectively, in real terms, effective April 1, 2005.

- CE Casecnan reached an arbitration settlement with the NIA effective during the fourth quarter of 2003. As part of the settlement, NIA paid CE Casecnan $17.7 million plus Philippines pesos of 39.9 million (approximately $0.7 million) and delivered a ROP $97.0 million 8.375% Note due in 2013. In exchange, CE Casecnan agreed to modify certain provisions of the project agreement, the most significant being the elimination of the tax compensation portion of the water delivery fee and modification of the threshold volume of water used to calculate the guaranteed water delivery fee. In January 2004, CE Casecnan exercised its right to put the note and received $99.2 million (representing par plus accrued interest) from the ROP.

- On November 23, 2004, Northern Natural Gas sold its stipulated general, unsecured claim of $249.0 million against Enron Corp. ("Enron") to a third party investor for $72.2 million and recorded the proceeds received as other income in 2004.

- In the fourth quarter of 2004, CE Generation recorded a $16.8 million charge as a result of the partial impairment of the carrying value of the Power Resources project.

- In February 2004, MEHC issued $250.0 million of 5.00% senior notes due February 15, 2014. The proceeds from these issuances were used to satisfy a demand made by MEHC's affiliate, Salton Sea Funding Corporation ("Funding Corporation"), for the amount remaining on MEHC's guarantee of Funding Corporation's 7.475% Senior Secured Series F Bonds ("Series F Bonds") and for other general corporate purposes. In October 2004, MidAmerican Energy issued $350.0 million of 4.65% medium-term notes due October 2014, which were used for general corporate purposes.

Results of Operations for the Year Ended December 31, 2004 and the Year Ended December 31, 2003

The following table summarizes net income for the years ended December 31(in millions):

	2004	2003
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income:		
MidAmerican Energy	$ 267.8	$ 271.4
Kern River	142.6	133.7
Northern Natural Gas	218.0	127.3
CE Electric UK	325.9	288.7
CalEnergy Generation-Foreign	165.7	177.6
CalEnergy Generation-Domestic	3.1	2.1
HomeServices	111.9	90.0
Total reportable segments	1,235.0	1,090.8
Corporate/other	(435.8)	(232.9)
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	799.2	857.9
Income tax expense	265.0	270.3
Minority interest and preferred dividends of subsidiaries	13.3	183.2
Income from continuing operations before equity income	520.9	404.4
Equity income	16.9	38.3
Income from continuing operations	537.8	442.7
Loss from discontinued operations, net of tax benefits	(367.6)	(27.1)
Net income available to common and preferred stockholders	$ 170.2	$ 415.6

The $367.6 million loss from discontinued operations, net of tax benefits, for the year ended December 31, 2004 included a $340.3 million non-cash impairment charge recognized in connection with ceasing operations of the Company's Zinc Recovery Project and a $27.1 million loss from operations, net of tax, of the Zinc Recovery Project.

Income from continuing operations for the year ended December 31, 2004, increased $95.1 million, or 21.5%, to $537.8 million compared with $442.7 million for the same period in 2003.

Equity income for the year ended December 31, 2004, decreased $21.4 million to $16.9 million compared with $38.3 million for the same period in 2003. CE Generation recorded a $16.8 million charge as a result of the partial impairment of the carrying value of the Power Resources project. Additionally, HomeServices' mortgage joint ventures had lower income due to lower refinancing activity.

Minority interest and preferred dividends for the year ended December 31, 2004, decreased $169.9 million to $13.3 million from $183.2 million for the same period in 2003. The decrease was due to the Company's adoption, as of October 1, 2003, of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R") related to certain finance subsidiaries. The adoption required the deconsolidation of certain finance subsidiaries, which resulted in the amounts previously classified as mandatorily redeemable preferred securities of subsidiary trusts being reclassified as parent company subordinated debt in the Company's consolidated balance sheet at December 31, 2003. The adoption also required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations, prospectively. In accordance with the requirements of FIN 46R, no amounts prior to adoption, on October 1, 2003, have been reclassified. The amount remaining in minority interest and preferred dividends of subsidiaries related to these mandatorily redeemable preferred securities of subsidiary trusts for the nine-month period ended September 30, 2003, was $170.2 million.

Income tax expense for the year ended December 31, 2004, decreased $5.3 million to $265.0 million from $270.3 million for the same period in 2003. The effective tax rate was 33.2% and 31.5% for the years ended December 31, 2004 and 2003, respectively. The increase in the effective tax rate in 2004 was mainly due to the effect of the $170.2 million of tax deductible interest on subordinated debt not included in income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income in 2003, partially offset by the $24.4 million tax payment made in connection with the NIA arbitration settlement at CE Casecnan in 2003, and the settlement by CE Electric UK of various positions with the Inland Revenue department and a change in the State of Iowa's income tax laws in 2004.

Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income decreased $58.7 million, or 6.8%, to $799.2 million in 2004 from $857.9 million in 2003. The decrease was due to the following:

Reportable Segments

- Kern River's pre-tax earnings were $8.9 million higher due to the completion of the 2003 Expansion Project in May 2003, partially offset by lower capitalized interest in connection with completing the expansion. In 2004, Kern River collected $14.8 million on its claim for damages against Mirant for the rejection by Mirant of its firm gas transportation contract. The income was largely offset by revenue lost related to the rejection of the agreement.

- Northern Natural Gas' pre-tax earnings were $90.7 million higher due to a $72.2 million pre-tax gain on the sale of the Enron Note Receivable and improved results associated with the May 2003 rate case which resulted in higher rates commencing November 1, 2003.

- CE Electric UK's pre-tax earnings were $37.2 million higher primarily from the approximately $34.0 million favorable earnings impact of the continued weakness of the U.S. dollar relative to the British pound, partially offset by the $8.9 million gain from the sale of a local operational and dispatch facility at Northern Electric in 2003.

- CalEnergy Generation-Foreign's pre-tax earnings were $11.9 million lower in 2004 compared to 2003. In 2003, CE Casecnan recorded $31.9 million of income in connection with the settlement of its arbitration with the NIA. That gain was partially offset by the settlement of various disputes which the Leyte Projects had with PNOC-EDC, which resulted in the reversal of accrued revenue totaling $11.3 million. In 2004, CE Casecnan had lower revenue as a result of its contract arbitration settlement, which was fully offset by higher revenue at the Leyte Projects due to price indices and lower interest expense on the repayment of project debt. Also in 2004, CalEnergy Generation-Foreign earned higher interest income on affiliate loans of $8.7 million.

- Pre-tax earnings at HomeServices were $21.9 million higher due to higher average home sales prices and acquisitions not included in the comparable 2003 period.

Corporate

- The Company's adoption of FIN 46R, as previously described, required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations prospectively. As a result, the charges for interest expense related to securities of the Company's finance subsidiaries increased by $147.1 million to $196.9 million in 2004 from $49.8 million in 2003.
- During June 2003, the Company sold its investment in Williams Cumulative Convertible Preferred Stock. As a result, 2003 pre-tax earnings included $32.6 million from the gain on the sale and dividend income.

- The Company's corporate interest expense increased $11.5 million primarily as a result of the issuance of the $250.0 million of 5.00% senior notes in February 2004.

Revenue

Operating revenue for the year ended December 31, 2004 increased $587.8 million or 9.9% to $6,553.4 million from $5,965.6 million for the same period in 2003. The following table summarizes operating revenue by segment for the years ended December 31 (in millions):

	Year Ended December 31,	
	2004	2003
Operating revenue:		
MidAmerican Energy	$ 2,701.7	$ 2,600.2
Kern River	316.1	260.2
Northern Natural Gas	544.8	486.9
CE Electric UK	936.4	830.0
CalEnergy Generation-Foreign	307.4	326.4
CalEnergy Generation-Domestic	39.0	45.2
HomeServices	1,756.4	1,476.6
Total reportable segments	6,601.8	6,025.5
Corporate/other	(48.4)	(59.9)
Total operating revenue	$ 6,553.4	$ 5,965.6

MidAmerican Energy's operating revenue for the year ended December 31, 2004, increased $101.5 million, or 3.9%, to $2,701.7 million. Regulated and non-regulated natural gas revenue increased $53.8 million, or 4.8%, to $1,166.5 million mainly due to higher prices for natural gas purchased for regulated customers, which is passed directly to the customer, and regulated wholesale volumes. Average natural gas prices increased 7.4% from 2003 to 2004. These price increases were partially offset by lower regulated retail and non-regulated volumes. Regulated and non-regulated electric revenue increased $49.8 million, or 3.4%, to $1,518.9 million mainly due to higher regulated retail and non-regulated volumes as well as prices of wholesale sales. These increases were partially offset by lower regulated wholesale volumes and regulated retail prices.

Operating revenue at Kern River and Northern Natural Gas is principally derived by providing firm or interruptible transportation services under long-term gas transportation service agreements. Northern Natural Gas also derives part of its revenue from storing gas. Kern River's operating revenue for the year ended December 31, 2004, increased $55.9 million, or 21.5%, to $316.1 million primarily due to the transportation fees earned in connection with the 2003 Expansion Project, which began operations May 1, 2003. Northern Natural Gas' operating revenue, which reflects the impact of the new rates beginning November 1, 2004 and 2003, and higher gas and liquid sales, increased $57.9 million, or 11.9%, to $544.8 million for the year ended December 31, 2004.

CE Electric UK's operating revenue for the year ended December 31, 2004, increased $106.4 million, or 12.8%, to $936.4 million primarily as a result of the weaker U.S. dollar. Additionally, CE Electric UK experienced increased revenue at its contracting business.

Operating revenue for CalEnergy Generation-Foreign for the year ended December 31, 2004, decreased $19.0 million, or 5.8%, to $307.4 million primarily due to lower water delivery fees in connection with the NIA arbitration settlement at CE Casecnan effective in the fourth quarter of 2003, partially offset by higher energy fees due to increased generation on higher water flows in 2004.

HomeServices' operating revenue for the year ended December 31, 2004, consisting mainly of commission revenue from real estate brokerage transactions, increased $279.8 million, or 18.9%, to $1,756.4 million. The increase is due primarily to growth at existing businesses of $154.7 million due primarily to higher average home sales prices and acquisitions not included in the comparable 2003 period totaling $125.1 million. During the year ended December 31, 2004, HomeServices participated in $59.8 billion of transactions, an increase of $11.2 billion from 2003. About 24% of the increase came from the six acquisitions made during the year.

Costs and expenses

Cost of sales for the year ended December 31, 2004, increased $351.4 million, or 14.6%, to $2,751.9 million from $2,400.5 million for the same period in 2003. HomeServices' cost of sales, consisting primarily of commissions on real estate brokered transactions, increased $211.8 million due to higher commission expense on incremental sales at existing business units and acquisitions not included in the comparable 2003 period. MidAmerican Energy's costs of sales increased $87.4 million due mainly to an increase in the per unit cost of natural gas, higher regulated wholesale natural gas, regulated retail electric and non-regulated electric volumes, partially offset by lower regulated retail and non-regulated natural gas volumes. Northern Natural Gas' cost of sales increased $18.9 million due to higher gas and liquid sales. CE Electric UK's cost of sales increased $16.7 million mainly due to increased activity at its contracting business and the weaker U.S. dollar, partially offset by lower exit charges from the National Grid Company at both Northern Electric and Yorkshire Electricity.

Operating expenses for the year ended December 31, 2004, increased $125.6 million, or 8.3%, to $1,637.9 million from $1,512.3 million for the same period in 2003. HomeServices' operating expenses, consisting mainly of compensation, marketing and other administrative costs, increased $44.8 million due mainly to acquisitions not included in the comparable 2003 period. MidAmerican Energy's operating expenses increased $40.3 million due mainly to higher generation maintenance costs, Quad Cities Station expenses, and transmission expenses. CE Electric UK's operating expenses increased $39.3 million, mainly due to higher pension costs and the weaker U.S. dollar in 2004, and a gain on the sale of a local operational dispatch facility in 2003. Kern River's operating expenses increased $16.4 million due to the commencement of operations of the 2003 Expansion Project. CalEnergy Generation-Foreign's operating expenses decreased $12.5 million mainly due to lower legal and other costs in 2004.

Depreciation and amortization for the year ended December 31, 2004, increased $35.3 million to $638.2 million from $602.9 million for the same period in 2003. Kern River's expense increased $16.5 million due to the completion of the 2003 Expansion Project. Northern Natural Gas' expense increased $15.2 million due to higher depreciation rates consistent with the filed rate case. CE Electric UK's expense increased $12.7 million primarily due to the weaker U.S. dollar. Partially offsetting these increases was a decrease in MidAmerican Energy's expense of $14.6 million due primarily to a decrease in regulatory expense related to its revenue sharing arrangements.

Other income and expense

Interest expense for the year ended December 31, 2004, increased $142.2 million to $903.2 million from $761.0 million for the same period in 2003. On October 1, 2003, the Company adopted FIN 46R related to certain finance subsidiaries. The adoption required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the accompanying consolidated statement of operations, prospectively. For the year ended December 31, 2004 and the three-month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these finance subsidiaries. In accordance with the requirements of FIN 46R, no amounts prior to adoption on October 1, 2003 have been reclassified. The amount included in minority interest and preferred dividends of subsidiaries related to these finance subsidiaries for the nine-month period ended September 30, 2003, was $170.2 million. Other interest expense decreased $4.9 million. The Company incurred lower interest expense of $42.9 million due mainly to the Company's scheduled redemption of $215.0 million of 6.96% senior notes in September 2003, redemption in full of the outstanding shares of the Yorkshire Capital Trust I, 8.08% trust securities in June 2003, and reductions in subsidiary project debt. The Company incurred additional interest expense, totaling $38.0 million, on the Company's debt issuances of $450.0 million of 3.5% senior notes in May 2003 and $250.0 million of 5.0% senior notes in February 2004 and the effects of the weaker U.S. dollar.

Capitalized interest for the year ended December 31, 2004, decreased $10.5 million to $20.0 million from $30.5 million for the same period in 2003. The decrease was mainly due to the discontinuance of capitalizing interest on Kern River's 2003 Expansion Project, partially offset by increased construction activity at MidAmerican Energy's generation projects.

Interest and dividend income for the year ended December 31, 2004, decreased $9.0 million to $38.9 million from $47.9 million for the same period in 2003. The decrease was mainly due to dividend income received in 2003 from the Company's investment in Williams Cumulative Convertible Preferred Stock that was sold in June 2003, partially offset by higher interest income at CE Electric UK resulting from higher cash balances.

Other income for the year ended December 31, 2004, increased $31.6 million to $128.2 million from $96.6 million for the same period in 2003. In 2004, the Company recognized a $72.2 million gain on Northern Natural Gas' sale of the Enron Note

Receivable and a $14.8 million gain on amounts collected by Kern River on its claim for damages against Mirant. In 2003, the Company recognized a $31.9 million gain in connection with the NIA arbitration settlement and a $13.8 million gain on the sale of Williams Cumulative Convertible Preferred Stock. Additionally, the allowance for equity funds used during construction for the year ended December 31, 2004, decreased $6.2 million due primarily to the completion of Kern River's expansion in 2003.

Results of Operations for the Year Ended December 31, 2003 and the Year Ended December 31, 2002

The following table summarizes net income for the years ended December 31(in millions):

	2003	2002
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income:		
MidAmerican Energy	$ 271.4	$ 238.8
Kern River	133.7	60.7
Northern Natural Gas	127.3	42.9
CE Electric UK	288.7	266.8
CalEnergy Generation-Foreign	177.6	147.9
CalEnergy Generation-Domestic	2.1	(1.2)
HomeServices	90.0	61.2
Total reportable segments	1,090.8	817.1
Corporate/other	(232.9)	(185.4)
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	857.9	631.7
Income tax expense	270.3	111.3
Minority interest and preferred dividends of subsidiaries	183.2	163.5
Income from continuing operations before equity income	404.4	356.9
Equity income	38.3	40.5
Income from continuing operations	442.7	397.4
Loss from discontinued operations, net of tax benefits	(27.1)	(17.4)
Net income available to common and preferred stockholders	$ 415.6	$ 380.0

The loss from discontinued operations, net of tax benefits, for the year ended December 31, 2003, was $27.1 million as compared to $17.4 million for 2002 and consists of losses from the operation of the Company's Zinc Recovery Project.

Income from continuing operations for the year ended December 31, 2003, increased $45.3 million, or 11.4%, to $442.7 million compared with $397.4 million for the same period in 2002.

Equity income for the year ended December 31, 2003, decreased $2.2 million to $38.3 million compared with $40.5 million for the same period in 2003. Equity income from non-regulated generation equity investments decreased $16.6 million to $14.8 million from $31.4 million in 2002 mainly due to the expiration of a contract at the Power Resources project and a charge associated with an equity investment. Equity income from HomeServices for the year ended December 31, 2003 increased $14.8 million to $23.6 million primarily due to increased refinancing activity at mortgage joint ventures.

Minority interest and preferred dividends for the year ended December 31, 2003, increased $19.7 million to $183.2 million from $163.5 million for the same period in 2002. As previously described, the Company was required to adopt, as of October 1, 2003, FIN 46R related to certain finance subsidiaries. The adoption required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations prospectively. In accordance with the requirements of FIN 46R, no amounts prior to adoption, on October 1, 2003, have been reclassified. The amount remaining in minority interest and preferred dividends of subsidiaries related to these securities increased $22.5 million to $170.2 million for the nine-month period ended September 30, 2003, from $147.7 million for the year ended December 31, 2002. Mandatorily redeemable preferred securities of subsidiary trusts were issued in 2002 to finance the acquisitions of both Kern River and Northern Natural Gas.

Income tax expense for the year ended December 31, 2003, increased $159.0 million to $270.3 million from $111.3 million for the same period in 2002. The effective tax rate was 31.5% and 17.6% for the years ended December 31, 2003 and 2002, respectively. The increase in the effective tax rate was primarily due to increased tax expense on foreign income including the incremental tax expense of $24.4 million in connection with the CE Casecnan NIA arbitration settlement proceeds. The 2002 effective tax rate was unusually low as the Company recognized tax benefits of $35.7 million in connection with the execution of the TPL restructuring agreement at CE Electric UK.

Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income increased $226.2 million, or 35.8%, to $857.9 million in 2003 from $631.7 million in 2002. The increase was due to the following:

Reportable Segments

- Pre-tax earnings at MidAmerican Energy were higher by $32.6 million. The reportable segment earned higher regulated Iowa electric income as it benefited from the first phase of the Greater Des Moines Energy Center beginning operation in May 2003, higher equity funds used during the construction of its electric generation projects, and certain non-recurring items, including lower fuel costs resulting from a contract restructuring and the settlement of a bankruptcy claim.

- Kern River, acquired in March 2002, and Northern Natural Gas, acquired in August 2002, had higher pre-tax earnings of $73.0 million and $84.4 million, respectively, due mainly to the inclusion of the acquisitions for a full-year of operations in the Company's consolidated results and the completion of Kern River's 2003 Expansion Project.

- CE Electric UK's pre-tax earnings were higher by $21.9 million. Approximately $20.0 million of the increase resulted from higher distribution revenue at Yorkshire Electricity, $18.5 million was due to the earnings benefit of the continued weakness of the U.S. dollar relative to the British pound, $11.3 million related to lower costs primarily achieved from economies of scale with Northern Electric and Yorkshire Electricity, $14.4 million was a result of the gain and lower interest costs associated with a bond redemption, $8.9 million related to the gain on sale of a local operational and dispatch facility at Northern Electric, and $7.0 million for rebates received from the National Grid Company. These increases were partially offset by the sale of several of its north sea, natural gas assets resulting in a pre-tax gain of $54.3 million.

- Pre-tax earnings at CalEnergy Generation-Foreign were higher by $29.7 million. In 2003, CE Casecnan recorded $31.9 million of other income in connection with the settlement of its arbitration with the NIA. The 2003 gain was partially offset by the settlement of various disputes which the Leyte Projects had with PNOC-EDC, which resulted in the reversal of accrued revenue totaling $11.3 million. The other significant difference in 2003 was the decrease in financial expense of $10.6 million due to repayment of debt and lower variable interest rates.

- HomeServices' pre-tax earnings were higher by $28.8 million due to acquisitions made throughout 2002 and 2003 and due to growth from higher home prices and higher mortgage refinancing activity at existing companies.

Corporate

- The Company's adoption of FIN 46R, as previously described, required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations prospectively. The charge to interest expense related to securities of the Company's finance subsidiaries was $49.8 million in 2003 and $ - million in 2002.

Revenue

Operating revenue for the year ended December 31, 2003 increased $1,170.4 million or 24.4% to $5,965.6 million from $4,795.2 million for the same period in 2002. The following table summarizes operating revenue by segment for the years ended December 31 (in millions):

	Year Ended December 31, 2003	2002
Operating revenue:		
MidAmerican Energy	$ 2,600.2	$ 2,240.9
Kern River	260.2	127.3
Northern Natural Gas	486.9	178.1
CE Electric UK	830.0	795.4
CalEnergy Generation-Foreign	326.4	326.3
CalEnergy Generation-Domestic	45.2	38.5
HomeServices	1,476.6	1,138.3
Total reportable segments	6,025.5	4,844.8
Corporate/other	(59.9)	(49.6)
Total operating revenue	$ 5,965.6	$ 4,795.2

MidAmerican Energy's operating revenue for the year ended December 31, 2003, increased $359.3 million, or 16.0%, to $2,600.2 million. MidAmerican Energy's regulated and non-regulated gas revenue for the year ended December 31, 2003 increased $308.4 million to $1,112.7 million from $804.3 million in 2002 mainly due to higher prices for gas purchased for regulated customers which is passed directly to the customer. Average gas prices increased 59.9% or $2.24 per Dth from 2002 to 2003. Regulated electric revenue for the year ended December 31, 2003 increased $44.6 million to $1,398.0 million from $1,353.4 million for the same period in 2002 mainly due to higher prices of wholesale sales during 2003.

Operating revenue at both pipelines is principally derived by providing firm or interruptible transportation services under long-term gas transportation service agreements. Northern Natural Gas also derives part of its revenue from storing gas. Kern River's operating revenue for the year ended December 31, 2003, increased $132.9 million to $260.2 million. The increase was primarily due to the transportation fees earned in connection with the 2003 Expansion Project which began operations May 1, 2003, and to a lesser degree, the inclusion of its operations for all of 2003. Northern Natural Gas' operating revenue for the year ended December 31, 2003, increased $308.8 million to $486.9 million. Northern Natural Gas was acquired on August 16, 2002. The increase in its operating revenue relates to the timing of that acquisition and inclusion of its operations for all of 2003.

CE Electric UK's operating revenue for the year ended December 31, 2004, increased $34.6 million, or 4.4%, to $830.0 million. The increase was a result of the weaker U.S. dollar, higher distribution revenue and higher revenue at its contracting business. This was partially offset by lower revenue caused by the sale of CE Gas assets in 2002.

HomeServices' operating revenue for the year ended December 31, 2003, consisting mainly of commission revenue from real estate brokerage transactions, increased $338.3 million, or 29.7%, to $1,476.6 million. The increase was due to acquisitions made throughout 2002 and 2003 and $91.3 million due to growth at existing companies. During the year ended December 31, 2003, HomeServices participated in $48.6 billion of transactions, an increase of $11.7 billion from 2002. About 23% of the increase came from the four acquisitions made during the year.

Costs and expenses

Cost of sales for the year ended December 31, 2003 increased $556.5 million, or 30.2%, to $2,400.5 million from $1,844.0 million for the same period in 2002. MidAmerican Energy's cost of sales for the year ended December 31, 2003 increased $345.6 million, or 34.9%, to $1,334.5 million from $988.9 million for the same period in 2002. MidAmerican Energy's regulated and non-regulated gas cost of sales for the year ended December 31, 2003 increased $291.1 million to $878.1 million from $587.0 million in 2002 mainly due to the increase in per unit cost of gas discussed in operating revenue. Electric cost of sales increased $51.0 million in 2003 primarily due to the reclassification of costs for energy purchased under the Cooper Nuclear Station restructured contract between MidAmerican Energy and the Nebraska Public Power District which expired in December 2004. Prior to August 1, 2002, the date of the restructuring, only fuel costs for energy purchased from Cooper Nuclear Station were classified as a cost of sales. Consistent with the restructured contract, other costs under the contract are classified as operating expenses. Following the restructuring, all costs for energy and capacity purchased under the contract were included in cost of sales consistent with the new power purchase contract. Operating expenses decreased accordingly.

HomeServices' cost of sales, consisting primarily of commissions on real estate brokerage transactions, increased $235.6 million for the year ended December 31, 2003, or 30.7%, to $1,003.2 million from $767.6 million for the same period in 2002. Cost of sales increased $106.7 million due to acquisitions made during 2002 and 2003. The remainder of HomeServices' increase was due to growth of existing companies totaling $128.9 million.

Operating expenses for the year ended December 31, 2003 increased $209.5 million, or 16.1%, to $1,512.3 million from $1,302.8 million for the same period in 2002. An increase of $146.6 million was due to Northern Natural Gas, which was owned for the entire period in 2003. Increased operating expenses at HomeServices were $78.8 million, primarily due to the impact of acquisitions and increased compensation expenses. These increases were partially offset by lower operating expenses at CE Electric UK of $39.6 million, mainly due to the sale of the retail business in 2002 and a gain on the sale of a local operational dispatch facility in 2003, and lower operating expenses at MidAmerican Energy of $19.5 million primarily due to the restructuring of the Cooper contract.

Depreciation and amortization for the year ended December 31, 2003 increased $72.8 million, or 13.7%, to $602.9 million from $530.1 million for the same period in 2002. An increase of $34.6 million was due to Northern Natural Gas, which was owned for the entire period in 2003. Increased depreciation at Kern River was $19.6 million mainly due to the completion of the 2003 Expansion Project and the inclusion of Kern River's operations for the entire period. Increased depreciation of $11.6 million at MidAmerican Energy due to higher utility plant depreciation and increased depreciation of $8.2 million at CE Electric UK due to a weaker U.S. dollar and an increased asset base, partially offset by the CE Gas asset sale in 2002.

In 2002, CE Gas executed the sale of several of its assets and recorded a pre-tax gain of $54.3 million, which included a write off of non-deductible goodwill of $49.6 million. Refer to Note 5 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information regarding the asset sales.

Other Income and Expense

Interest expense for the year ended December 31, 2003 increased $128.9 million to $761.0 million from $632.1 million for the same period in 2002. The increase was mainly due to interest on parent company subordinated debt which was $49.8 million for the quarter and year ended December 31, 2003. This amount represents the interest recorded on the parent company subordinated debt for the period from October 1, 2003, the date the Company adopted FIN 46R, through December 31, 2003. Prior to the adoption of FIN 46R, the parent company subordinated debt was classified as company-obligated mandatorily redeemable preferred securities of subsidiary trusts. Costs associated with those instruments, prior to the adoption of FIN 46R, were classified as minority interest and preferred dividends of subsidiaries in the accompanying consolidated statements of operations. The remaining $79.1 million increase resulted from additional interest expense totaling $38.9 million on MEHC's debt issuances of $700.0 million in October 2002 and $450.0 million in May 2003, increased interest expense of $32.5 million at Northern Natural Gas primarily due to a full year of ownership and increased interest expense at Kern River of $32.2 million due to additional borrowings related to the 2003 Expansion Project and a full year of ownership. The increases were partially offset by decreased interest, totaling $27.9 million, due to the combination of the June 2003 redemption of the Yorkshire Electricity securities, reductions in CalEnergy Generation-Foreign project debt, MEHC's revolving credit facility and the retirement of MEHC's 6.96% Senior Notes.

Capitalized interest for the year ended December 31, 2003 increased $7.1 million to $30.5 million. The increase was mainly due to Kern River's 2003 Expansion Project and increased construction activity at MidAmerican Energy's generation projects.

Interest and dividend income for the year ended December 31, 2003 decreased $8.1 million to $47.9 million from $56.0 million for the same period in 2002. The decrease was primarily due to lower income at CE Electric UK of $9.9 million due to lower cash balances partially offset by higher dividend income on the investment in Williams Cumulative Convertible Preferred Stock totaling $4.7 million and interest earned on higher corporate cash balances available during 2003.

Other income for the year ended December 31, 2003, increased \$56.4 million to \$96.6 million from \$40.2 million for the same period in 2003. In 2003, the Company recognized a \$31.9 million gain in connection with the NIA arbitration settlement and a \$13.8 million gain on the sale of Williams Cumulative Convertible Preferred Stock. Additionally, the allowance for equity funds used during construction for the year ended December 31, 2003, increased \$7.3 million due primarily to the construction of Kern River's expansion in 2003.

Other expense for the year ended December 31, 2003, decreased \$22.7 million to \$5.9 million from \$28.6 million for the same period in 2002. In 2002, MidAmerican Energy recorded an impairment of its investment in airplane leases and other non-regulated investments of \$21.7 million.

Liquidity and Capital Resources

The Company has available a variety of sources of liquidity and capital resources, both internal and external. These resources provide funds required for current operations, construction expenditures, debt retirement and other capital requirements. The Company may from time to time seek to retire its outstanding securities through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Each of MEHC's direct or indirect subsidiaries is organized as a legal entity separate and apart from MEHC and its other subsidiaries. Pursuant to separate financing agreements at each subsidiary, the assets of each subsidiary may be pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. It should not be assumed that any asset of any subsidiary of MEHC will be available to satisfy the obligations of MEHC or any of its other subsidiaries; provided, however, that unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing arrangements for such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to MEHC or affiliates thereof.

The Company's cash and cash equivalents were \$960.9 million at December 31, 2004, compared to \$660.2 million at December 31, 2003. In addition, the Company recorded separately, in restricted cash and short-term investments and in deferred charges and other assets, restricted cash and investments of \$164.5 million and \$119.5 million at December 31, 2004 and 2003, respectively. The restricted cash balance for both periods is comprised primarily of amounts deposited in restricted accounts which are reserved for the service of debt obligations, customer deposits held in escrow, custody deposits and unpaid dividends declared obligations.

<u>Cash Flows from Operating Activities</u>

The Company generated cash flows from operations of \$1,424.6 million for the year ended December 31, 2004, compared with \$1,217.9 million for the same period in 2003. The increase was mainly due to greater income from continuing operations and a tax refund as a result of a 2003 net operating loss from accelerated depreciation. Also contributing to the net increase in cash flows from operations were changes in working capital, partially offset by lower distributions from equity investments.

<u>Cash Flows from Investing Activities</u>

Cash flows used in investing activities for the years ended December 31, 2004 and 2003 were \$1,029.7 million and \$1,003.2 million, respectively. Capital expenditures, construction and other development costs for the years ended December 31, 2004 and 2003 were \$1,179.4 million and \$1,219.4 million, respectively. In addition to the capital expenditures, contributing to the increase of cash flows used in investing activities was \$288.8 million of proceeds from the sale of convertible preferred securities in 2003, partially offset by the receipt of the proceeds of the put of the ROP Note, and sale of the Enron Note Receivable claim, as described below.

Put of ROP Note and Receipt of Cash

On January 14, 2004, CE Casecnan exercised its right to put the ROP Note to the ROP and, in accordance with the terms of the put option, CE Casecnan received \$99.2 million (representing \$97.0 million par value plus accrued interest) from the ROP on January 21, 2004.

Sale of Enron Note Receivable and Receipt of Cash

Northern Natural Gas had a note receivable of approximately $259.0 million (the "Enron Note Receivable") with Enron. As a result of Enron filing for bankruptcy on December 2, 2001, Northern Natural Gas filed a bankruptcy claim against Enron seeking to recover payment of the Enron Note Receivable. As of December 31, 2001, Northern Natural Gas had written-off the note. By stipulation, Enron and Northern Natural Gas agreed to a value of $249.0 million for the claim and received approval of the stipulation from Enron's Bankruptcy Court on August 26, 2004. On November 23, 2004, Northern Natural Gas sold its stipulated general, unsecured claim against Enron of $249.0 million to a third party investor for $72.2 million, which was recorded as other income in the fourth quarter of 2004.

Capital Expenditures, Construction and Other Development Costs

Capital expenditures, construction and other development costs were $1,310.3 for the year ended December 31, 2004, compared with $1,179.8 million for the same period in 2003. The following table summarizes the expenditures by business segment (in millions):

	Year Ended December 31,	
	2004	2003
Capital expenditures:		
MidAmerican Energy	$ 633.8	$ 346.5
Kern River	26.9	433.1
Northern Natural Gas	138.8	104.4
CE Electric UK	334.5	301.9
CalEnergy Generation-Foreign	4.6	8.5
CalEnergy Generation-Domestic	1.3	6.6
HomeServices	20.8	18.3
Segment capital expenditures	1,160.7	1,219.3
Corporate/other	18.7	0.1
Total capital expenditures	$ 1,179.4	$ 1,219.4

Forecasted capital expenditures, construction and other development costs for fiscal 2005 are approximately $1.3 billion. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company expects to meet these capital expenditures with cash flows from operations and the issuance of debt. Capital expenditures relating to operating projects, consisting mainly of recurring expenditures, were $778.3 million for the year ended December 31, 2004. Construction and other development costs were $401.0 million for the year ended December 31, 2004. These costs consist mainly of expenditures for large scale, generation projects as follows:

MidAmerican Energy

MidAmerican Energy anticipates a continuing increase in demand for electricity from its regulated customers. To meet anticipated demand and ensure adequate electric generation in its service territory, MidAmerican Energy recently completed its combined cycle combustion turbine project and is currently constructing the 790 MW CBEC Unit 4 and a 310 MW (nameplate rating) wind power project in Iowa. A 50 MW (nameplate rating) expansion of the wind power project is also expected to be constructed in 2005. The projects will provide service to regulated retail electricity customers.

MidAmerican Energy has obtained regulatory approval to include the Iowa portion of the actual costs of the generation projects in its Iowa rate base as long as actual costs do not exceed the agreed caps that MidAmerican Energy has deemed to be reasonable. If the caps are exceeded, MidAmerican Energy has the right to demonstrate the prudence of the expenditures above the caps, subject to regulatory review. Wholesale sales may also be made from the projects to the extent the power is not immediately needed for regulated retail service. MidAmerican Energy expects to invest approximately $1.1 billion in the CBEC Unit 4 and wind generation projects currently under construction, of which $350.4 million has been invested through December 31, 2004.

MidAmerican Energy recently completed work on its Greater Des Moines Energy Center, a natural gas-fired, combined cycle unit located near Pleasant Hill, Iowa. Construction of the plant was completed in two phases. Commercial operation of the simple cycle mode began on May 5, 2003, and continued through most of 2004, providing 327 MW of accredited capacity in the summer of 2004. Commercial operation of the combined cycle mode began on December 16, 2004. The additional accredited capacity from completion of the second phase is expected to be 190 MW. MidAmerican Energy expects the total cost of the Greater Des Moines Energy Center to be under the $357.0 million cost cap established by the IUB.

MidAmerican Energy is currently constructing the CBEC Unit 4, a 790 MW (based on expected accreditation) super-critical-temperature, low-sulfur coal-fired plant. MidAmerican Energy will operate the plant and hold an undivided ownership interest as a tenant in common with the other owners of the plant. MidAmerican Energy's ownership interest is 60.67%, equating to 479 MW of output. MidAmerican Energy expects its share of the estimated cost of the project, including transmission facilities, to be approximately $737.0 million, excluding allowance for funds used during construction. Municipal, cooperative and public power utilities will own the remainder, which is a typical ownership arrangement for large base-load plants in Iowa. On February 12, 2003, MidAmerican Energy executed a contract with Mitsui for engineering, procurement and construction of the plant. On September 9, 2003, MidAmerican Energy began construction of the plant, which it expects to be completed in the summer of 2007. On December 29, 2004, MidAmerican Energy received an order from the IUB approving construction of the associated transmission facilities and is proceeding with construction.

The second electric generating project currently under construction consists of wind power facilities located at two sites in north central Iowa totaling 310 MW based on the nameplate rating. Generally speaking, accredited capacity ratings for wind power facilities are considerably less than the nameplate ratings due to the varying nature of wind. The current projected accredited capacity for these wind power facilities is approximately 53 MW. MidAmerican Energy will own and operate these facilities, which are expected to cost approximately $323.0 million, including transmission facilities and excluding the allowance for funds using during construction. As of December 31, 2004, wind turbines totaling 160.5 MW at one of the sites were completed and in service. Completion of the remaining turbines is expected by the middle of 2005. On January 31, 2005, the IUB approved ratemaking principles related to expanding the wind power project. An additional 50 MW of capacity, based on nameplate rating, is expected to be constructed at the sites in 2005 at an estimated cost of $63.0 million.

MidAmerican Energy's total accredited net generating capability in the summer of 2004 was 4,897 MW. Accredited net generating capability represents the amount of generation available to meet the requirements on MidAmerican Energy's system and consists of MidAmerican Energy-owned generation of 4,481 MW and the net amount of capacity purchases and sales of 416 MW. The actual amount of generation capacity available at any time may be less than the accredited capability due to regulatory restrictions, transmission constraints, fuel restrictions and generating units being temporarily out of service for inspection, maintenance, refueling, modifications or other reasons.

HomeServices' Acquisitions

In 2004, HomeServices separately acquired six real estate companies for an aggregate purchase price of $30.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2003, these real estate companies had combined revenue of $95.7 million on approximately 15,000 closed sides representing $3.2 billion of sales volume. These purchases were financed using HomeServices' cash balances. In 2003, HomeServices separately acquired four real estate companies for an aggregate purchase price of $36.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2002, these real estate companies had combined revenue of $102.9 million on approximately 16,000 closed sides representing $3.6 billion of sales volume. Additionally in 2004, HomeServices paid an earnout of $6.0 million based on 2004 financial performance measures. These purchases were financed using HomeServices' cash balances and revolving credit facility.

Cash Flows from Financing Activities

Cash flows used in financing activities for the year ended December 31, 2004 were $122.8 million. During 2004, the Company used cash for financing activities, totaling $747.9 million, primarily for repayments of subsidiary and parent company obligations, including $136.4 million of cash flows from discontinued operations, and generated cash from financing activities, totaling $625.1 million, from the issuance of subsidiary, project and parent company debt. Cash flows used in financing activities for the year ended December 31, 2003 were $426.3 million. During 2003, the Company used cash for financing activities, totaling $2,033.2 million, primarily for repayments of subsidiary obligations and parent company debt and the retirement of preferred securities of subsidiary trusts, and generated cash from financing activities, totaling $1,606.9 million, from the issuance of subsidiary, project and parent company debt.

Recent Debt Issuances, Redemptions and Stock Transactions

On February 12, 2004, MEHC completed the sale of $250 million in aggregate principal amount of its 5.00% senior notes due February 15, 2014. The proceeds were used to satisfy a demand made by its affiliate, Funding Corporation, for $136.4 million, the amount remaining on MEHC's guarantee of Funding Corporation's Series F Bonds, and for other general corporate purposes.

On March 1, 2004, Funding Corporation completed the redemption of an aggregate principal amount of $136.4 million of its Series F Bonds, pro rata, at a redemption price of 100% of such aggregate outstanding principal amount, plus accrued interest to the date of redemption. A demand was also made on MEHC for the full amount remaining on MEHC's guarantee of the Series F Bonds in order to fund the redemption. MEHC made the requisite payment and, as a result, it has no further liability with respect to its guarantee. The payment was included in cash flows from discontinued operations.

On October 1, 2004, MidAmerican Energy issued $350.0 million of 4.65% medium-term notes due October 1, 2014. The proceeds were used for general corporate purposes.

In 2004, the Company made the required $100.0 million payment on its 11.00% parent company subordinated debt. The payments on subsidiary and project debt made in 2004 consisted of the maturity of CE Electric UK's 6.853% senior notes, totaling $117.1 million, and regularly scheduled principal payments on project term loans.

On January 6, 2004, the Company purchased a portion of the shares of common stock owned by the Company's chairman and chief executive officer, for an aggregate purchase price of $20.0 million.

Current Maturities of Long-Term Debt

The Company's current portion of long-term debt increased $644.7 million to $1,145.6 million at December 31, 2004, from $500.9 million at December 31, 2003, due mainly to $260.0 million of 7.23% parent company senior notes becoming due in the third quarter of 2005, and, pursuant to a call option exercised in February 2005, at a cost of $17.5 million, a subsidiary of CE Electric UK purchased, and then cancelled, its Variable Rate Reset Trust Securities, due in 2020, at a par value of £155.0 million. Accordingly, the Company has included the entire principal amount of these securities in its current portion of long-term debt in the accompanying consolidated balance sheet. The Company plans to use existing cash and future debt issuances to repay these obligations.

Restricted Cash and Short-Term Investments

During the year ended December 31, 2004, CE Casecnan increased its restricted cash related to obligations for debt service and unpaid dividends declared. Additionally, Northern Natural Gas increased its restricted cash related to custody deposits.

Discontinued Operations - Zinc Recovery Project and Mineral Assets

Indirect wholly-owned subsidiaries of MEHC, own the rights to commercial quantities of extractable minerals from elements in solution in the geothermal brine and fluids utilized at the Imperial Valley Projects and a zinc recovery plant constructed near the Imperial Valley Projects designed to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process.

The Zinc Recovery Project began limited production during December 2002 and continued limited production until September 10, 2004. Efforts to increase production had continued since the Zinc Recovery Project was place in service with an emphasis on process modification. Management had been assessing the long-term economic viability of the Zinc Recovery Project in light of continuing cash flow deficits and operating losses and the efforts to increase production, and had continued to evaluate the expected impact of the planned improvements to the extraction process during the third quarter of 2004. Furthermore, management had been exploring other operating alternatives, such as establishing strategic partnerships and consideration of ceasing operations of the Zinc Recovery Project.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project, effective immediately. Based on this decision, a non-cash, after-tax impairment charge of $340.3 million has been recorded to write-off the Mineral Assets.

In connection with ceasing operations, the Zinc Recovery Project's assets are being dismantled and sold and certain employees of the operator of the Zinc Recovery Project were paid one-time termination benefits. Cash expenditures of approximately $4.1 million, consisting of pre-tax disposal costs, termination benefit costs and property taxes, were made through December 31, 2004. The Company expects to make additional cash expenditures of pre-tax disposal costs and property taxes of approximately $1.6 million. Substantially all of such costs are expected to relate to disposal activities, and a portion of the disposal costs is expected to be offset by proceeds from sales of the Zinc Recovery Project's assets. These costs are recognized in the period in which the related liability is incurred. Salvage proceeds will be recognized in the period earned. Implementation of a disposal plan began in September 2004 and will continue in 2005. The Company also expects to receive approximately $55 million in future tax benefits.

The operating losses from discontinued operations before income taxes during the years ended December 31, 2004, 2003 and 2002 were $42.7 million, $46.4 million and $29.1 million, respectively.

Credit Ratings Risks

Debt and preferred securities of the Company may be rated by nationally recognized credit rating agencies. Assigned credit ratings are based on each rating agency's assessment of the rated company's ability to, in general, meet the obligations of its debt or preferred securities. The credit ratings are not a recommendation to buy, sell or hold securities, and there is no assurance that a particular credit rating will continue for any given period of time. Other than the agreements discussed below, the Company does not have any credit agreements that require termination or a material change in collateral requirements or payment schedule in the event of a downgrade in the credit ratings of the respective company's securities.

In conjunction with its wholesale marketing and trading activities, MidAmerican Energy must meet credit quality standards as required by counterparties. MidAmerican Energy has energy trading agreements that, in accordance with industry practice, either specifically require it to maintain investment grade credit ratings or provide the right for counterparties to demand "adequate assurances" in the event of a material adverse change in MidAmerican Energy's creditworthiness. If one or more of MidAmerican Energy's credit ratings decline below investment grade, MidAmerican Energy may be required to post cash collateral, letters of credit or other similar credit support to facilitate ongoing wholesale marketing and trading activities. As of December 31, 2004, MidAmerican Energy's estimated potential collateral requirements totaled approximately $151.0 million. MidAmerican Energy's collateral requirements could fluctuate considerably due to seasonality, market price volatility, and a loss of key MidAmerican Energy generating facilities or other related factors.

Yorkshire Power Group Limited ("YPGL"), a subsidiary of CE Electric UK, entered into certain currency rate swap agreements for its Yankee Bonds with three large multi-national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling. For the $281.1 million of the 6.496% Yankee Bonds outstanding at December 31, 2004, the agreements extend until February 25, 2008 and convert the U.S. dollar interest rate to a fixed Sterling rate ranging from 7.3175% to 7.345%. The estimated fair value of these swap agreements at December 31, 2004 was $96.1 million based on quotes from the counterparties to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated. Certain of these counterparties have the option to terminate the swap agreements and demand payment of the fair value of the swaps if YPGL's credit ratings from the three recognized credit rating agencies decline below investment grade. As of December 31, 2004, YPGL's credit ratings from the three recognized credit rating agencies were investment grade; however, if the ratings fell below investment grade, payment requirements would have been approximately $44.8 million.

Inflation

Inflation has not had a significant impact on the Company's costs.

Obligations and Commitments

The Company has contractual obligations and commercial commitments that may affect its financial condition. Contractual obligations to make future payments arise from parent company and subsidiary long-term debt and notes payable, preferred equity securities, operating leases and power and fuel purchase contracts. Other obligations arise from unused lines of credit and letters of credit. Material obligations as of December 31, 2004 are as follows (in millions):

	Payments Due By Periods				
	Total	< 1 Year	2-3 Years	4-5 Years	>5 Years
Contractual Cash Obligations:					
Parent company senior debt	$ 3,032.0	$ 260.0	$ 550.0	$ 1,000.0	$ 1,222.0
Parent company subordinated debt	1,774.4	188.5	468.0	468.0	649.9
Subsidiary and project debt	7,190.4	885.6	695.3	844.3	4,765.2
Preferred securities of subsidiaries	89.5	-	-	-	89.5
Interest payments on long-term debt[1]	7,588.5	811.9	1,417.8	1,056.7	4,302.1
Coal, electricity and natural gas contract commitments [2]	668.8	173.0	255.3	122.2	118.3
Operating leases [2]	375.0	70.4	121.0	78.9	104.7
Deferred costs on construction contracts [3]	152.3	-	152.3	-	-
Total contractual cash obligations	$ 20,870.9	$2,389.4	$ 3,659.7	$ 3,570.1	$11,251.7

	Commitment Expiration per Period				
	Total	< 1 Year	2-3 Years	4-5 Years	>5 Years
Other Commercial Commitments:					
Unused parent company revolving lines of credit	$ 30.0	$ -	$ 30.0	$ -	$ -
Parent company letters of credit	71.1	71.1	-	-	-
Unused subsidiary lines of credit	144.9	144.9	-	-	-
Total other commercial commitments	$ 246.0	$ 216.0	$ 30.0	$ -	$ -

(1) Excludes interest payments on variable rate long-term debt.

(2) The coal, electricity and natural gas contract commitments and operating leases are not reflected on the consolidated balance sheets.

(3) MidAmerican Energy is allowed to defer up to $200.0 million in payments to Mitsui under its engineering, procurement and construction contract to build the CBEC Unit 4, which is expected to be complete in the summer of 2007.

The Company has other types of commitments that are subject to change and relate primarily to the items listed below. For additional information, refer, where applicable, to the respective referenced note of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplemental Data" of this Form 10-K.

- Construction expenditures (see Note 6)
- Asset retirement obligations (see Note 10)
- Debt service reserve guarantees (see Note 14)
- Nuclear decommissioning costs (see Note 21)
- Residual guarantees on operating leases (see Note 21)

Off-Balance Sheet Arrangements

The Company has certain investments that are accounted for under the equity method in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, an amount is recorded on the Company's balance sheet as an equity investment and is increased or decreased for the Company's pro-rata share of earnings or losses, respectively, less any dividend distribution from such investments.

As of December 31, 2004, the Company's investments which are accounted for under the equity method had $861.3 million of debt and $40.2 million in outstanding letters of credit. As of December 31, 2004, the Company's pro-rata share of such debt and outstanding letters of credit, which is all non-recourse to MEHC, was $430.3 million and $20.1 million, respectively.

MEHC is generally not required to support the debt service obligations of its equity investments. However, default with respect to this non-recourse debt could result in a loss of invested equity.

New Accounting Pronouncements

In December 2003, the FASB issued FIN 46R, which served to clarify guidance in FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" ("FIN 46"). The Company adopted and applied the provisions of FIN 46R, related to certain finance subsidiaries, as of October 1, 2003. The adoption required the deconsolidation of certain finance subsidiaries, which resulted in the amounts previously classified as mandatorily redeemable preferred securities of subsidiary trusts, in the amount of $1.9 billion, being reclassified to parent company subordinated debt in the accompanying consolidated balance sheets. In addition, amounts previously recorded as minority interest and preferred dividends of subsidiaries are now recorded as interest expense in the accompanying consolidated statements of operations prospectively. For the year ended December 31, 2004, and the three-month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these securities. In accordance with the requirements of FIN 46R, no amounts prior to adoption of FIN 46R on October 1, 2003 have been reclassified. The amounts included in minority interest and preferred dividends of subsidiaries related to these securities for the nine-month period ended September 30, 2003, and the year ended December 31, 2002, were $170.2 million and $147.7 million, respectively. The Company adopted the provisions of FIN 46R related to non-special purpose entities in the first quarter of 2004. The Company considered the provisions of FIN 46R for all subsidiaries and their related power purchase, power sale, or tolling agreements. Factors considered in the analysis include the duration of the agreements, how capacity and energy payments are determined, source and payment terms for fuel, as well as responsibility and payment for operating and maintenance expenses. As a result of these considerations, the Company has determined its power purchase, power sale and tolling agreements do not represent significant variable interests. Accordingly, the Company concluded that it is appropriate to continue to consolidate the power plant projects with ownership interests greater than 50% and not to consolidate the power plants from which it purchases power.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires entities to measure compensation costs for all share-based payments, including stock options, at fair value and expense such payments over the service period. Since MEHC is considered a nonpublic entity under the criteria of SFAS 123R, this standard is effective for annual periods beginning after December 15, 2005. Adoption of this standard will not have an effect on the Company's financial position, results of operations or cash flows as all of the Company's outstanding stock options were fully vested at the date of issuance of SFAS 123R. Modifications to outstanding stock options after the effective date of the standard may result in additional compensation expense pursuant to the provisions of SFAS 123R.

Critical Accounting Policies

The preparation of financial statements and related documents in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 2 to the consolidated financial statements for the year ended December 31, 2004 included in this annual report describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Estimates are used for, but not limited to, the accounting for the effects of certain types of regulation, impairment of long-lived assets, contingent liabilities, accrued pension and post-retirement expense and revenue. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Accounting for the Effects of Certain Types of Regulation

MidAmerican Energy, Kern River and Northern Natural Gas prepare their financial statements in accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation ("SFAS 71"), which differs in certain respects from the application of GAAP by non-regulated businesses. In general, SFAS 71 recognizes that accounting for rate-regulated enterprises should reflect the economic effects of regulation. As a result, a regulated utility is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (a regulatory liability) if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates. Accordingly, MidAmerican Energy, Kern River and Northern Natural Gas have deferred certain costs, which will be amortized over various future periods. To the extent that collection of such costs or payment of such obligations is no longer probable as a result of changes in regulation, the associated regulatory asset or liability is charged or credited to income.

A possible consequence of deregulation of the regulated energy industry is that SFAS 71 may no longer apply. If portions of the Company's regulated energy operations no longer meet the criteria of SFAS 71, the Company could be required to write off the related regulatory assets and liabilities from its balance sheet, and thus a material adjustment to earnings in that period could result if regulatory assets or liabilities are not recovered in transition provisions of any deregulation legislation.

The Company continues to evaluate the applicability of SFAS 71 to its regulated energy operations and the recoverability of these assets and liabilities through rates as there are on-going changes in the regulatory and economic environment.

Impairment of Long-Lived Assets and Goodwill

The Company's long-lived assets consist primarily of properties, plants and equipment. Depreciation is computed using the straight-line method based on economic lives or regulatorily mandated recovery periods. The Company believes the useful lives assigned to the depreciable assets, which generally range from 3 to 87 years, are reasonable.

The Company periodically evaluates long-lived assets, including properties, plants and equipment, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Upon the occurrence of a triggering event, the carrying amount of a long-lived asset is reviewed to assess whether the recoverable amount has declined below its carrying amount. The recoverable amount is the estimated net future cash flows that the Company expects to recover from the future use of the asset, undiscounted and without interest, plus the asset's residual value on disposal. Where the recoverable amount of the long-lived asset is less than the carrying value, an impairment loss would be recognized to write down the asset to its fair value that is based on discounted estimated cash flows from the future use of the asset.

The estimate of cash flows arising from future use of the asset that are used in the impairment analysis requires judgment regarding what the Company would expect to recover from future use of the asset. Any changes in the estimates of cash flows arising from future use of the asset or the residual value of the asset on disposal based on changes in the market conditions, changes in the use of the asset, management's plans, the determination of the useful life of the asset and technology changes in the industry could significantly change the calculation of the fair value or recoverable amount of the asset and the resulting impairment loss, which could significantly affect the results of operations. The determination of whether impairment has occurred is primarily based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions.

The provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which establishes the accounting for acquired goodwill and other intangible assets, and provides that goodwill and indefinite-lived intangible assets will not be amortized, requires allocating goodwill to each reporting unit and testing for impairment using a two-step approach. The goodwill impairment test is performed annually or whenever an event has occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company completed its annual review pursuant to SFAS 142 for its reporting units as of October 31, 2004, primarily using a discounted cash flow methodology. No impairment was indicated as a result of these assessments.

Contingent Liabilities

The Company establishes accruals for estimated loss contingencies, such as environmental, legal and regulatory matters, when it is management's assessment that a loss is probable and the amount of the loss can be reasonably estimated. Revisions to contingent liabilities are recorded in the period in which different facts or information become known or circumstances change that affect the previous assumptions with respect to the likelihood or amount of loss. Accruals for contingent liabilities and subsequent revisions are reflected in income when accruals are recorded or as regulatory treatment dictates. Accruals for contingent liabilities are based upon management's assumptions and estimates, and advice of legal counsel or other third parties regarding the probable outcomes of the matter. Should the outcomes differ from the assumptions and estimates, revisions to the estimated accruals for contingent liabilities would be required.

Accrued Pension and Postretirement Expense

Pension and postretirement costs are accrued throughout the year based on results of an annual study performed by external actuaries. In addition to the benefits granted to employees, the timing of the cost of these plans is impacted by assumptions used by the actuaries, including assumptions provided by MEHC for the discount rate and long-term rate of return on assets. Both of these factors require estimates and projections by management and can fluctuate from period to period. Actual returns on assets are significantly affected by stock and bond markets, over which management has little control. The interest rate at which projected benefits are discounted significantly affects amounts expensed. Refer to Note 22 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional disclosures regarding the Company's pension and post retirement commitments.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Based on existing regulatory precedent, MidAmerican Energy is not allowed to recognize deferred income tax expense related to certain temporary differences resulting from accelerated tax depreciation and other property related basis differences. For these differences, MidAmerican Energy establishes deferred tax liabilities and regulatory assets on the consolidated balance sheets since MidAmerican Energy is allowed to recover the increased tax expense when these differences turn around.

The Company has not provided U.S. deferred income taxes on its currency translation adjustment or the cumulative earnings of international subsidiaries that have been determined by management to be reinvested indefinitely. These earnings related to ongoing operations and were approximately $1.5 billion at December 31, 2004. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. Deferred taxes are provided for earnings of international subsidiaries when the Company plans to remit those earnings.

The calculation of current and deferred income taxes requires management to apply judgment relating to the application of complex tax laws or related interpretations and uncertainties related to the outcome of tax audits. Changes in such factors may result in changes to management's estimates, which could require the Company to adjust its currently recorded tax assets and liabilities and record additional income tax expense or benefits.

Revenue Recognition

Revenue is recorded based upon services rendered and electricity, gas and steam delivered, distributed or supplied to the end of the period. The Company records unbilled revenue representing the estimated amounts customers will be billed for services rendered between the meter reading dates in a particular month and the end of that month.

Where billings result in an overrecovery of United Kingdom distribution business revenue against the maximum regulated amount, revenue is deferred in an amount equivalent to the over recovered amount. The deferred amount is deducted from revenue and included in other liabilities. Where there is an under recovery, no anticipation of any potential future recovery is made.

Revenue from the transportation and storage of gas is recognized based on contractual terms and the related volumes. Kern River and Northern Natural Gas are subject to the FERC's regulations and, accordingly, certain revenue collected may be subject to possible refunds upon final orders in pending rate proceedings. Kern River and Northern Natural Gas record revenue which is subject to refund based on their best estimate of the final outcome of these proceedings and other third party regulatory proceedings, advice of counsel and estimated total exposure, as well as collection and other risks. The estimate of the refund is recorded in other current liabilities in the accompanying consolidated balance sheets.

Revenue from water and energy delivery is recorded on the basis of the contractual minimum guaranteed water delivery threshold for the respective contract year. If and when cumulative deliveries within a contract year exceed the minimum threshold, additional revenue is recognized. Revenue from long-term electricity contracts is recorded at the lower of the amount billed or the average of the contract, subject to contractual provisions at each project.

Commission revenue from real estate brokerage transactions and related amounts due to agents are recognized when title has transferred from seller to buyer. Title fee revenue from real estate transactions and related amounts due to the title insurer are recognized at the closing, which is when consideration is received. Fees related to loan originations are recognized at the closing, which is when services have been provided and consideration is received. To the extent the estimated amount differs from the actual amount, revenue will be affected.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk, including changes in the market price of certain commodities and interest rates. To manage the price volatility relating to these exposures, the Company enters into various financial derivative instruments. Senior management provides the overall direction, structure, conduct and control of the Company's risk management activities, including the use of financial derivative instruments, authorization and communication of risk management policies and procedures, strategic hedging program guidelines, appropriate market and credit risk limits, and appropriate systems for recording, monitoring and reporting the results of transactional and risk management activities.

Interest Rate Risk

At December 31, 2004, the Company had fixed-rate long-term debt of $11,503.4 million in aggregate principal amount and having a fair value of $12,416.2 million. These instruments are fixed-rate and therefore do not expose the Company to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would decrease by approximately $396.0 million if interest rates were to increase by 10% from their levels at December 31, 2004. In general, such a decrease in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments prior to their maturity.

At December 31, 2003, the Company had fixed-rate long-term debt of $11,369.4 million in aggregate principal amount and having a fair value of $12,015.1 million. These instruments were fixed-rate and therefore did not expose the Company to the risk of earnings loss due to changes in market interest rates.

At December 31, 2004, the Company had floating-rate obligations of $493.4 million that expose the Company to the risk of increased interest expense in the event of increases in short-term interest rates. These obligations are not hedged. If the floating rates were to increase by 1%, the Company's consolidated interest expense for unhedged floating-rate obligations would increase by approximately $0.4 million each month in which such increase continued based upon December 31, 2004 principal balances.

At December 31, 2003, the Company had floating-rate obligations of $459.8 million that exposed the Company to the risk of increased interest expense in the event of increases in short-term interest rates. These obligations were not hedged.

Currency Exchange Rate Risk

CE Electric UK entered into currency rate swap agreements for its Senior Notes with large multi-national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $237.0 million of 6.995% Senior Notes outstanding at December 31, 2004. The agreements extend until maturity on December 30, 2007 and convert the U.S. dollar interest rate to a fixed Sterling rate of 7.737%. The estimated fair value of these swap agreements at December 31, 2004 and 2003 was $35.7 million and $16.0 million, respectively, based on quotes from the counterparty to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated.

A subsidiary of CE Electric UK entered into certain currency rate swap agreements for its Yankee Bonds with three large multi-national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $281.1 million of 6.496% Yankee Bonds outstanding at December 31, 2004. The agreements extend until maturity on February 25, 2008 and convert the U.S. dollar interest rate to a fixed Sterling rate ranging from 7.3175% to 7.345%. The estimated fair value of these swap agreements at December 31, 2004 and 2003 was $96.1 million and $62.6 million, respectively, based on quotes from the counterparties to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated.

A 10% devaluation of the U.S. dollar versus Sterling from the value at December 31, 2004 would increase the amount owed by the Company if these swap agreements were terminated by approximately $69.9 million.

Derivatives

As of December 31, 2004, MidAmerican Energy held derivative instruments used for non-trading and trading purposes with the following fair values (in thousands):

Contract Type	Maturity in 2005	Maturity in 2006-08	Total
Non-trading:			
Regulated electric assets	$ 2,260	$ 431	$ 2,691
Regulated electric (liabilities)	(10,057)	(4,817)	(14,874)
Regulated gas assets	2,973	1,798	4,771
Regulated gas (liabilities)	(21,921)	-	(21,921)
Regulated weather (liabilities)	(4,495)	-	(4,495)
Nonregulated electric assets	1,957	372	2,329
Nonregulated electric (liabilities)	(1,158)	(214)	(1,372)
Nonregulated gas assets	5,937	1,919	7,856
Nonregulated gas (liabilities)	(6,606)	(1,558)	(8,164)
Total	(31,110)	(2,069)	(33,179)
Trading:			
Nonregulated gas assets	993	-	993
Nonregulated gas (liabilities)	(430)	(100)	(530)
Total	563	(100)	463
Total MidAmerican Energy assets	$ 14,120	$ 4,520	$ 18,640
Total MidAmerican Energy (liabilities)	$ (44,667)	$ (6,689)	$ (51,356)

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
MidAmerican Energy Holdings Company
Des Moines, Iowa

We have audited the accompanying consolidated balance sheets of MidAmerican Energy Holdings Company and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the consolidated financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MidAmerican Energy Holdings Company and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 10 to the consolidated financial statements, the Company changed its accounting policy for asset retirement obligations and for variable interest entities in 2003.

/s/ Deloitte & Touche LLP

Des Moines, Iowa
February 25, 2005

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	As of December 31, 2004	As of December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 960,903	$ 660,213
Restricted cash and short-term investments	129,316	55,281
Accounts receivable, net of allowance for doubtful accounts of $26,033 and $26,004	695,761	666,063
Inventories	125,079	123,301
Other current assets	278,219	348,618
Total current assets	2,189,278	1,853,476
Properties, plants and equipment, net	11,607,264	11,180,979
Goodwill	4,306,751	4,305,643
Regulatory assets	451,830	512,549
Other investments	236,258	228,896
Equity investments	210,430	234,370
Deferred charges and other assets	901,751	829,039
Total assets	$ 19,903,562	$ 19,144,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 410,319	$ 345,237
Accrued interest	197,813	189,635
Accrued property and other taxes	166,639	112,823
Other liabilities	532,160	420,294
Short-term debt	9,090	48,036
Current portion of long-term debt	1,145,598	500,941
Current portion of parent company subordinated debt	188,543	100,000
Total current liabilities	2,650,162	1,716,966
Other long-term accrued liabilities	2,171,616	1,961,695
Parent company senior debt	2,771,957	2,777,878
Parent company subordinated debt	1,585,810	1,772,146
Subsidiary and project debt	6,304,923	6,674,640
Deferred income taxes	1,281,833	1,299,082
Total liabilities	16,766,301	16,202,407
Deferred income	62,443	69,201
Minority interest	14,119	9,754
Preferred securities of subsidiaries	89,540	92,145
Commitments and contingencies (Note 21)		
Stockholders' equity:		
Zero coupon convertible preferred stock — authorized 50,000 shares, no par value; 41,263 shares issued and outstanding	-	-
Common stock — authorized 60,000 shares, no par value; 9,081 and 9,281 shares issued and outstanding at December 31, 2004 and 2003, respectively	-	-
Additional paid-in capital	1,950,663	1,957,277
Retained earnings	1,156,843	999,627
Accumulated other comprehensive loss, net	(136,347)	(185,459)
Total stockholders' equity	2,971,159	2,771,445
Total liabilities and stockholders' equity	$ 19,903,562	$ 19,144,952

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Year Ended December 31,		
	2004	**2003**	**2002**
Operating revenue	$ 6,553,388	$ 5,965,630	$ 4,795,179
Costs and expenses:			
Cost of sales	2,751,856	2,400,536	1,843,955
Operating expense	1,637,922	1,512,345	1,302,780
Depreciation and amortization	638,209	602,934	530,078
Gain on CE Gas asset sale (Note 5)	-	-	(54,345)
Total costs and expenses	5,027,987	4,515,815	3,622,468
Operating income	1,525,401	1,449,815	1,172,711
Other income (expense):			
Interest expense	(903,217)	(760,956)	(632,133)
Capitalized interest	20,040	30,494	23,361
Interest and dividend income	38,889	47,908	56,037
Other income	128,205	96,643	40,223
Other expense	(10,125)	(5,913)	(28,561)
Total other income (expense)	(726,208)	(591,824)	(541,073)
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	799,193	857,991	631,638
Income tax expense	264,986	270,276	111,278
Minority interest and preferred dividends of subsidiaries	13,301	183,203	163,468
Income from continuing operations before equity income	520,906	404,512	356,892
Equity income	16,861	38,224	40,520
Income from continuing operations	537,767	442,736	397,412
Loss from discontinued operations, net of tax benefits (Note 3)	(367,561)	(27,118)	(17,369)
Net income available to common and preferred stockholders	$ 170,206	$ 415,618	$ 380,043

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2004
(Amounts in thousands)

	Outstanding Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2002	9,281	$ -	$ 1,553,073	$ 223,926	$ (68,832)	$ 1,708,167
Net income	-	-	-	380,043	-	380,043
Other comprehensive income:						
Foreign currency translation adjustment	-	-	-	-	166,880	166,880
Fair value adjustment on cash flow hedges, net of tax of $(10,106)	-	-	-	-	(27,623)	(27,623)
Minimum pension liability adjustment, net of tax of $(135,707)	-	-	-	-	(313,456)	(313,456)
Unrealized losses on securities, net of tax of $(1,813)	-	-	-	-	(3,204)	(3,204)
Total comprehensive income						202,640
Issuance of zero-coupon convertible preferred stock	-	-	402,000	-	-	402,000
Retirement of stock options	-	-	815	(19,960)	-	(19,145)
Other equity transactions	-	-	621	-	-	621
Balance, December 31, 2002	9,281	-	1,956,509	584,009	(246,235)	2,294,283
Net income	-	-	-	415,618	-	415,618
Other comprehensive income:						
Foreign currency translation adjustment	-	-	-	-	58,148	58,148
Fair value adjustment on cash flow hedges, net of tax of $7,202	-	-	-	-	16,769	16,769
Minimum pension liability adjustment, net of tax of $(6,425)	-	-	-	-	(14,989)	(14,989)
Unrealized gains on securities, net of tax of $566	-	-	-	-	848	848
Total comprehensive income						476,394
Other equity transactions	-	-	768	-	-	768
Balance, December 31, 2003	9,281	-	1,957,277	999,627	(185,459)	2,771,445
Net income	-	-	-	170,206	-	170,206
Other comprehensive income:						
Foreign currency translation adjustment	-	-	-	-	107,370	107,370
Fair value adjustment on cash flow hedges, net of tax of $(6,069)	-	-	-	-	(12,270)	(12,270)
Minimum pension liability adjustment, net of tax of $(19,898)	-	-	-	-	(46,429)	(46,429)
Unrealized gains on securities, net of tax of $294	-	-	-	-	441	441
Total comprehensive income						219,318
Common stock purchase	(200)	-	(7,010)	(12,990)	-	(20,000)
Other equity transactions	-	-	396	-	-	396
Balance, December 31, 2004	9,081	$ -	$ 1,950,663	$ 1,156,843	$ (136,347)	$ 2,971,159

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Income from continuing operations	$ 537,767	$ 442,736	$ 397,412
Adjustments to reconcile income from continuing operations to cash flows from continuing operations:			
Distributions less income on equity investments	20,022	40,160	(11,383)
Gain on other items	(71,757)	(29,264)	(47,086)
Depreciation and amortization	638,209	602,934	530,078
Amortization of regulatory assets and liabilities	(1,586)	(14,363)	8,709
Amortization of deferred financing costs	20,875	27,748	28,433
Provision for deferred income taxes	176,591	220,136	(18,020)
Other	16,981	8,211	8,356
Changes in other items:			
Accounts receivable and other current assets	(43,600)	(25,900)	(200,760)
Accounts payable and other accrued liabilities	171,457	(17,835)	78,813
Deferred income	(6,465)	(9,344)	(4,839)
Net cash flows from continuing operations	1,458,494	1,245,219	769,713
Net cash flows from discontinued operations	(33,846)	(27,296)	(11,987)
Net cash flows from operating activities	1,424,648	1,217,923	757,726
Cash flows from investing activities:			
Capital expenditures relating to operating projects	(778,300)	(616,804)	(528,950)
Construction and other development costs	(401,090)	(602,564)	(813,348)
Proceeds from notes receivable	169,210	-	-
Acquisitions, net of cash acquired	(36,706)	(54,263)	(1,416,937)
Proceeds from (purchase of) affiliate notes, net	14,118	(32,406)	-
Sale (purchase) of convertible preferred securities	-	288,750	(275,000)
Other	2,148	25,786	189,984
Net cash flows from continuing operations	(1,030,620)	(991,501)	(2,844,251)
Net cash flows from discontinued operations	966	(11,666)	(63,560)
Net cash flows from investing activities	(1,029,654)	(1,003,167)	(2,907,811)
Cash flows from financing activities:			
Proceeds from subsidiary and project debt	375,351	1,157,649	1,485,349
Proceeds from parent company senior debt	249,765	449,295	700,000
Repayments of subsidiary and project debt	(368,417)	(1,490,986)	(393,264)
Repayments of parent company senior and subordinated debt	(100,000)	(412,551)	-
Net repayment of subsidiary short-term debt	(43,949)	(31,750)	(472,835)
Purchase and retirement of common stock	(20,000)	-	-
Proceeds from issuance of trust preferred securities	-	-	1,273,000
Proceeds from issuance of preferred stock	-	-	402,000
Net repayment of parent company revolving credit facility	-	-	(153,500)
Repayment of other obligations	-	-	(94,297)
Increase in restricted cash and investments	(48,515)	(4,024)	(41,524)
Redemption of preferred securities of subsidiaries	(2,606)	(1,176)	(127,908)
Other	(27,167)	(91,387)	(40,962)
Net cash flows from continuing operations	14,462	(424,930)	2,536,059
Net cash flows from discontinued operations	(137,297)	(1,407)	19,175
Net cash flows from financing activities	(122,835)	(426,337)	2,555,234
Effect of exchange rate changes	28,531	27,364	52,536
Net change in cash and cash equivalents	300,690	(184,217)	457,685
Cash and cash equivalents at beginning of period	660,213	844,430	386,745
Cash and cash equivalents at end of period	$ 960,903	$ 660,213	$ 844,430

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

MidAmerican Energy Holdings Company ("MEHC") and its subsidiaries (together with MEHC, the "Company") are organized and managed on seven distinct platforms: MidAmerican Energy Company ("MidAmerican Energy"), Kern River Gas Transmission Company ("Kern River"), Northern Natural Gas Company ("Northern Natural Gas"), CE Electric UK Funding ("CE Electric UK") (which includes Northern Electric Distribution Limited ("Northern Electric") and Yorkshire Electricity Distribution plc ("Yorkshire Electricity")), CalEnergy Generation-Foreign (the subsidiaries owning the Upper Mahiao, Malitbog and Mahanagdong Projects (collectively the "Leyte Projects") and the Casecnan project), CalEnergy Generation-Domestic (the subsidiaries owning interests in independent power projects and related operations) and HomeServices of America, Inc. (collectively with its subsidiaries, "HomeServices"). Through these platforms, the Company owns and operates a combined electric and natural gas utility company in the United States, two natural gas pipeline companies in the United States, two electricity distribution companies in the United Kingdom, a diversified portfolio of domestic and international independent power projects and the second largest residential real estate brokerage firm in the United States.

On March 14, 2000, MEHC and an investor group comprising Berkshire Hathaway Inc. ("Berkshire Hathaway"), Walter Scott, Jr., a director of MEHC, David L. Sokol, Chairman and Chief Executive Officer of MEHC, and Gregory E. Abel, President and Chief Operating Officer of MEHC, closed on a definitive agreement and plan of merger whereby the investor group, together with certain of Mr. Scott's family members and family trusts and corporations, acquired all of the outstanding common stock of MEHC (the "Teton Transaction").

MEHC initially incorporated in 1971 under the laws of the State of Delaware and reincorporated in 1999 in Iowa, at which time it changed its name from CalEnergy Company, Inc. to MidAmerican Energy Holdings Company.

In these notes to consolidated financial statements, references to "U.S. dollars," "dollars," "$" or "cents" are to the currency of the United States, references to "pounds sterling," " £," "sterling," "pence" or "p" are to the currency of the United Kingdom and references to "pesos" are to the currency of the Philippines. References to kW means kilowatts, MW means megawatts, GW means gigawatts, kWh means kilowatt hours, MWh means megawatt hours, GWh means gigawatts hours, kV means kilovolts, mmcf means million cubic feet, Bcf means billion cubic feet, Tcf means trillion cubic feet and Dth means decatherms or one million British thermal units.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of MEHC and its wholly-owned subsidiaries except for certain trusts formed to hold trust preferred securities. Under Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R") these trusts, by design, are considered variable interest entities, with no variable interest holder being considered the primary beneficiary, thus requiring the reporting entity to deconsolidate the trust. Subsidiaries which are less than 100% owned but greater than 50% owned are consolidated with a minority interest. Subsidiaries that are 50% owned or less, but where the Company has the ability to exercise significant influence, are accounted for under the equity method of accounting. Investments where the Company's ability to influence is limited are accounted for under the cost method of accounting. All inter-enterprise transactions and accounts have been eliminated. The results of operations of the Company include the Company's proportionate share of results of operations of entities acquired from the date of each acquisition for purchase business combinations.

For the Company's foreign operations whose functional currency is not the U.S. dollar, the assets and liabilities are translated into U.S. dollars at current exchange rates. Resulting translation adjustments are reflected as other comprehensive income in stockholders' equity. Revenue and expenses are translated at average exchange rates for the period. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Reclassifications

Certain amounts in the fiscal 2003 and 2002 consolidated financial statements and supporting note disclosures have been reclassified to conform to the fiscal 2004 presentation, including the reclassification of activity as discontinued operations (see Note 3). Such reclassification did not impact previously reported net income or retained earnings.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for the Effects of Certain Types of Regulation

MidAmerican Energy, Kern River and Northern Natural Gas prepare their financial statements in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), which differs in certain respects from the application of generally accepted accounting principles by non-regulated businesses. In general, SFAS 71 recognizes that accounting for rate-regulated enterprises should reflect the economic effects of regulation. As a result, a regulated entity is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (a regulatory liability) if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates. Accordingly, MidAmerican Energy, Kern River and Northern Natural Gas have deferred certain costs, which will be amortized over various future periods. To the extent that collection of such costs or payment of such obligations is no longer probable as a result of changes in regulation, the associated regulatory asset or liability is charged or credited to income.

A possible consequence of deregulation of the regulated energy industry is that SFAS 71 may no longer apply. If portions of the Company's regulated energy operations no longer meet the criteria of SFAS 71, the Company could be required to write off the related regulatory assets and liabilities from its consolidated balance sheet, and thus a material adjustment to earnings in that period could result if regulatory assets or liabilities are not recovered in transition provisions of any deregulation legislation.

The Company continues to evaluate the applicability of SFAS 71 to its regulated energy operations and the recoverability of these assets and liabilities through rates as there are on-going changes in the regulatory and economic environment.

Consolidated Statements of Cash Flows

The Company considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Investments other than restricted cash are primarily commercial paper and money market securities. Restricted cash is not considered a cash equivalent. The supplemental disclosures to the accompanying consolidated statements of cash flows were as follows (in thousands):

	Year Ended December 31,		
	2004	**2003**	**2002**
Interest paid, net of interest capitalized	$ 867,181	$ 706,039	$ 588,972
Income taxes (refunded) paid	$ (16,616)	$ 9,911	$ 101,225
Non-cash transaction – ROP note received under NIA Arbitration Settlement	$ -	$ 97,000	$ -

Cash paid for interest for the years ended December 31, 2003 and 2002 does not include $170,151 and $147,667, respectively, of interest paid on subordinated debt, which is included in minority interest and preferred dividends of subsidiaries in the consolidated statements of operations. These amounts were not reclassified pursuant to the FIN 46R.

Restricted Cash and Investments

The restricted cash and short-term investments balance recorded separately in restricted cash and short-term investments and in deferred charges and other assets, was $164.5 million and $119.5 million at December 31, 2004 and 2003, respectively, and includes commercial paper and money market securities. The balance is mainly composed of amounts deposited in restricted accounts from which the Company will source its debt service reserve requirements relating to the projects, customer deposits held in escrow, custody deposits, and unpaid dividends declared obligations. The debt service funds are restricted by their respective project debt agreements to be used only for the related project.

The Company's nuclear decommissioning trust funds and other marketable securities are classified as available for sale and are accounted for at fair value.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectibility of payments from its customers. This assessment requires judgment regarding the outcome of pending disputes, arbitrations and the ability of customers to pay the amounts owed to the Company.

Inventories

Inventories consist mainly of materials and supplies, coal stocks, gas in storage and fuel oil, which are valued at the lower of cost, determined primarily using average cost, or market.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, the fair value estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current transaction.

The methods and assumptions used to estimate fair value are as follows:

Short-term debt — Due to the short-term nature of the short-term debt, the fair value approximates the carrying value.

Debt instruments — The fair value of all debt instruments has been estimated based upon quoted market prices as supplied by third-party broker dealers, where available, or at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risks.

Other financial instruments — All other financial instruments of a material nature are short-term and the fair value approximates the carrying amount.

Properties, Plants and Equipment, Net

Properties, plants and equipment are recorded at historical cost. The cost of major additions and betterments are capitalized, while replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed. Depreciation is computed using the straight-line method based on economic lives or regulatorily mandated recovery periods. The Company believes the useful lives assigned to the depreciable assets, which generally range from 3 to 87 years, are reasonable.

Capitalized costs for gas reserves, other than costs of unevaluated exploration projects and projects awaiting development consent, are depleted using the units of production method. Depletion is calculated based on hydrocarbon reserves of properties in the evaluated pool estimated to be commercially recoverable and include anticipated future development costs in respect of those reserves.

Impairment of Long-Lived Assets

The Company periodically evaluates long-lived assets, including properties, plants and equipment, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Upon the occurrence of a triggering event, the carrying amount of a long-lived asset is reviewed to assess whether the recoverable amount has declined below its carrying amount. The recoverable amount is the estimated net future cash flows that the Company expects to recover from the future use of the asset, undiscounted and without interest, plus the asset's residual value on disposal. Where the recoverable amount of the long-lived asset is less than the carrying value, an impairment loss would be recognized to write down the asset to its fair value that is based on discounted estimated cash flows from the future use of the asset.

Goodwill

The provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which establishes the accounting for acquired goodwill and other intangible assets, and provides that goodwill and indefinite-lived intangible assets will not be amortized, requires allocating goodwill to each reporting unit and testing for impairment using a two-step approach. The goodwill impairment test is performed annually or whenever an event has occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company completed its annual review pursuant to SFAS 142 for its reporting units as of October 31, 2004 primarily using a discounted cash flow methodology. No impairment was indicated as a result of these assessments.

Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both properties, plants and equipment and earnings, it is realized in cash through depreciation provisions included in rates for subsidiaries that apply SFAS 71. Interest and AFUDC for subsidiaries that apply SFAS 71 are capitalized as a component of projects under construction and will be amortized over the assets' estimated useful lives.

Deferred Financing Cost

The Company capitalizes costs associated with financings, as deferred financing costs, and amortizes the amounts over the term of the related financing using the effective interest method.

Contingent Liabilities

The Company establishes accruals for estimated loss contingencies, such as environmental, legal and regulatory matters, when it is management's assessment that a loss is probable and the amount of the loss can be reasonably estimated.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Based on existing regulatory precedent, MidAmerican Energy is not allowed to recognize deferred income tax expense related to certain temporary differences resulting from accelerated tax depreciation and other property related basis differences. For these differences, MidAmerican Energy establishes deferred tax liabilities and regulatory assets on the consolidated balance sheets since MidAmerican Energy is allowed to recover the increased tax expense when these differences turn around.

The Company has not provided U.S. deferred income taxes on its currency translation adjustment or the cumulative earnings of international subsidiaries that have been determined by management to be reinvested indefinitely. These earnings related to ongoing operations and were approximately $1.5 billion at December 31, 2004. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. Deferred taxes are provided for earnings of international subsidiaries when the Company plans to remit those earnings.

The calculation of current and deferred income taxes requires management to apply judgment relating to the application of complex tax laws or related interpretations and uncertainties related to the outcome of tax audits. Changes in such factors may result in changes to management's estimates, which could require the Company to adjust its currently recorded tax assets and liabilities and record additional income tax expense or benefits.

Revenue Recognition

Revenue is recorded based upon services rendered and electricity, gas and steam delivered, distributed or supplied to the end of the period. The Company records unbilled revenue representing the estimated amounts customers will be billed for services rendered between the meter reading dates in a particular month and the end of that month.

Where billings result in an overrecovery of United Kingdom distribution business revenue against the maximum regulated amount, revenue is deferred in an amount equivalent to the over recovered amount. The deferred amount is deducted from revenue and included in other liabilities. Where there is an under recovery, no anticipation of any potential future recovery is made.

Revenue from the transportation and storage of gas are recognized based on contractual terms and the related volumes. Kern River and Northern Natural Gas are subject to the Federal Energy Regulatory Commission's ("FERC") regulations and, accordingly, certain revenue collected may be subject to possible refunds upon final orders in pending rate proceedings. Kern River and Northern Natural Gas record revenue which is subject to refund based on their best estimate of the final outcome of these proceedings and other third party regulatory proceedings, advice of counsel and estimated total exposure, as well as collection and other risks. The estimate of the refund is recorded in other current liabilities in the accompanying consolidated balance sheets.

Revenue from water and energy delivery is recorded on the basis of the contractual minimum guaranteed water delivery threshold for the respective contract year. If and when cumulative deliveries within a contract year exceed the minimum threshold, additional revenue is recognized. Revenue from long-term electricity contracts is recorded at the lower of the amount billed or the average of the contract, subject to contractual provisions at each project.

Commission revenue from real estate brokerage transactions and related amounts due to agents are recognized when title has transferred from seller to buyer. Title fee revenue from real estate transactions and related amounts due to the title insurer are recognized at the closing, which is when consideration is received. Fees related to loan originations are recognized at the closing, which is when services have been provided and consideration is received.

Financial Instruments

The Company currently utilizes swap agreements and forward purchase agreements to manage market risks and reduce its exposure resulting from fluctuation in interest rates, foreign currency exchange rates and electric and gas prices. For interest rate swap agreements, the net cash amounts paid or received on the agreements are accrued and recognized as an adjustment to interest expense. Gains and losses related to gas forward contracts are deferred and included in the measurement of the related gas purchases. These instruments are either exchange traded or with counterparties of high credit quality; therefore, the risk of nonperformance by the counterparties is considered to be negligible.

New Accounting Pronouncements

In December 2003, the FASB issued FIN 46R, which served to clarify guidance in FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51." The Company adopted and applied the provisions of FIN 46R, related to certain finance subsidiaries, as of October 1, 2003. The adoption required the deconsolidation of certain finance subsidiaries, which resulted in the amounts previously classified as mandatorily redeemable preferred securities of subsidiary trusts, in the amount of $1.9 billion, being reclassified to parent company subordinated debt in the accompanying consolidated balance sheets. In addition, amounts previously recorded as minority interest and preferred dividends of subsidiaries are now recorded as interest expense in the accompanying consolidated statements of operations, prospectively. For the year ended December 31, 2004, and the three-month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these securities. In accordance with the requirements of FIN 46R, no amounts prior to adoption of FIN 46R on October 1, 2003 have been reclassified. The amounts included in minority interest and preferred dividends of subsidiaries related to these securities for the nine-month period ended September 30, 2003, and the year ended December 31, 2002, were

$170.2 million and $147.7 million, respectively. The Company adopted the provisions of FIN 46R related to non-special purpose entities in the first quarter of 2004. The Company considered the provisions of FIN 46R for all subsidiaries and their related power purchase, power sale, or tolling agreements. Factors considered in the analysis include the duration of the agreements, how capacity and energy payments are determined, source and payment terms for fuel, as well as responsibility and payment for operating and maintenance expenses. As a result of these considerations, the Company has determined its power purchase, power sale and tolling agreements do not represent significant variable interests. Accordingly, the Company concluded that it is appropriate to continue to consolidate the power plant projects with ownership interests greater than 50% and not to consolidate the power plants from which it purchases power.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires entities to measure compensation costs for all share-based payments, including stock options, at fair value and expense such payments over the service period. Since MEHC is considered a nonpublic entity under the criteria of SFAS 123R, this standard is effective for annual period beginning after December 15, 2005. Adoption of this standard will not have an effect on the Company's financial position, results of operations or cash flows as all of the Company's outstanding stock options were fully vested at the date of issuance of SFAS 123R. Modifications to outstanding stock options after the effective date of the standard may result in additional compensation expense pursuant to the provisions of SFAS 123R.

3. Discontinued Operations – Zinc Recovery Project and Mineral Assets

Indirect wholly-owned subsidiaries of MEHC, own the rights to commercial quantities of extractable minerals from elements in solution in the geothermal brine and fluids utilized at certain geothermal energy generation facilities located in the Imperial Valley of California and a zinc recovery plant constructed near the geothermal energy generation facilities designed to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the "Zinc Recovery Project").

The Zinc Recovery Project began limited production during December 2002 and continued limited production until September 10, 2004. Efforts to increase production had continued since the Zinc Recovery Project was placed in service with an emphasis on process modification. Management had been assessing the long-term economic viability of the Zinc Recovery Project in light of continuing cash flow deficits and operating losses and the efforts to increase production, and had continued to evaluate the expected impact of the planned improvements to the extraction process during the third quarter of 2004. Furthermore, management had been exploring other operating alternatives, such as establishing strategic partnerships and consideration of ceasing operations of the Zinc Recovery Project.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash, after-tax impairment charge of $340.3 million has been recorded to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively, the "Mineral Assets"). The charge and the related activity of the Mineral Assets are classified separately as discontinued operations in the accompanying consolidated statements of operations and include the following (in thousands):

	Year Ended December 31.		
	2004	**2003**	**2002**
Total revenue	$ 3,401	$ 659	$ 288
Losses from discontinued operations	$ (42,695)	$ (46,423)	$ (29,059)
Costs of disposal activities, net	(4,134)	-	-
Asset impairment charges, including goodwill	(532,009)	-	-
Income tax benefits	211,277	19,305	11,690
Loss from discontinued operations, net of tax	$ (367,561)	$ (27,118)	$ (17,369)

In connection with ceasing operations, the Zinc Recovery Project's assets are being dismantled and sold and certain employees of the operator of the Zinc Recovery Project were paid one-time termination benefits. Cash expenditures of approximately $4.1 million, consisting of pre-tax disposal costs, termination benefit costs and property taxes, were made through December 31, 2004. The Company expects to make additional cash expenditures of pre-tax disposal costs and property taxes of approximately $1.6 million. Substantially all of such costs are expected to relate to disposal activities, and a portion of the disposal costs is expected to be offset by proceeds from sales of the Zinc Recovery Project's assets. These costs are recognized in the period in which the related liability is incurred. Salvage proceeds will be recognized in the period earned. Implementation of a disposal plan began in September 2004 and will continue in 2005. The Company also expects to receive approximately $55 million in future tax benefits.

4. Acquisitions

HomeServices

In 2004, HomeServices separately acquired six real estate companies for an aggregate purchase price of $30.7 million, net of cash acquired, plus working capital and certain other adjustments. These purchases were financed using HomeServices' cash balances.

In 2003, HomeServices separately acquired four real estate companies for an aggregate purchase price of $36.7 million, net of cash acquired, plus working capital and certain other adjustments. Additionally in 2004, HomeServices paid an earnout of $6.0 million based on 2004 financial performance measures. These purchases were financed using HomeServices' cash balances and revolving credit facility.

In 2002, HomeServices separately acquired three real estate companies for an aggregate purchase price of $106.1 million, net of cash acquired, plus working capital and certain other adjustments. Additionally in 2003, HomeServices paid an earnout of $17.6 million based on 2002 financial performance measures. These purchases were financed using HomeServices' cash balances, revolving credit facility and $40.0 million from MEHC, which was contributed to HomeServices as equity.

Kern River

On March 27, 2002, the Company acquired Kern River from The Williams Companies, Inc. ("Williams"). At the date of acquisition, Kern River owned a 926-mile interstate pipeline transporting Rocky Mountain and Canadian natural gas to markets in California, Nevada and Utah.

The Company paid $419.7 million, net of cash acquired and a working capital adjustment, for Kern River's gas pipeline business. The acquisition has been accounted for as a purchase business combination. The Company completed the allocation of the purchase price to the assets and liabilities acquired during 2003. The results of operations for Kern River are included in the Company's results beginning March 27, 2002.

The recognition of goodwill resulted from various attributes of Kern River's operations and business in general. These attributes include, but are not limited to:

- Opportunities for expansion;
- Generally high credit quality shippers contracting with Kern River;
- Kern River's strong competitive position;
- Exceptional operating track record and state-of-the-art technology;
- Strong demand for gas in the Western markets; and
- An ample supply of low-cost gas.

There is no assurance that these attributes will continue to exist to the same degree as believed at the time of the acquisition.

In connection with the acquisition of Kern River, MEHC issued $323.0 million of 11% Company-obligated mandatorily redeemable preferred securities of a subsidiary trust due March 12, 2012 with scheduled principal payments beginning in 2005 and $127.0 million of no par, zero coupon convertible preferred stock to Berkshire Hathaway. Each share of preferred stock is convertible at the option of the holder into one share of the Company's common stock subject to certain adjustments as described in the MEHC Amended and Restated Articles of Incorporation.

Northern Natural Gas

On August 16, 2002, the Company acquired Northern Natural Gas from Dynegy Inc. Northern Natural Gas is a 16,500-mile interstate pipeline extending from southwest Texas to the upper Midwest region of the United States.

The Company paid $882.7 million for Northern Natural Gas, net of cash acquired and a working capital adjustment. The acquisition has been accounted for as a purchase business combination. The Company completed the allocation of the purchase price to the assets and liabilities acquired during 2003. The results of operations for Northern Natural Gas are included in the Company's results beginning August 16, 2002.

The recognition of goodwill resulted from various attributes of Northern Natural Gas' operations and business in general. These attributes include, but are not limited to:

- Generally high credit quality shippers contracting with Northern Natural Gas;
- Northern Natural Gas' strong competitive position;
- Strategic location in the high demand Upper Midwest markets;
- Flexible access to an ample supply of low-cost gas;
- Exceptional operating track record; and
- Opportunities for expansion.

There is no assurance that these attributes will continue to exist to the same degree as believed at the time of the acquisition.

In connection with the acquisition of Northern Natural Gas, MEHC issued $950.0 million of 11% Company-obligated mandatorily redeemable preferred securities of a subsidiary trust due August 31, 2011, with scheduled principal payments beginning in 2003, to Berkshire Hathaway.

The following pro forma financial information of the Company represents the unaudited pro forma results of operations as if the Kern River and Northern Natural Gas acquisitions, and the related financings, had occurred at the beginning of 2002. These pro forma results have been prepared for comparative purposes only and do not profess to be indicative of the results of operations which would have been achieved had these transactions been completed at the beginning of the year, nor are the results indicative of the Company's future results of operations (in millions):

	Year Ended December 31, 2002
Revenue	$ 5,299.4
Income before cumulative effect of change in accounting principle	285.5
Net income available to common and preferred shareholders	285.5

5. Dispositions and Other Items

CE Gas Asset Sale

In May 2002, CalEnergy Gas (Holdings) Limited ("CE Gas"), an indirect wholly owned subsidiary of the Company, executed the sale of several of its U.K. natural gas assets to Gaz de France for approximately $200.0 million (£137.0 million), which was included in other investing activities in the accompany consolidated statement of cash flows in 2002. CE Gas sold its interest in four natural gas-producing fields located in the southern basin of the U.K. North Sea (Anglia, Johnston, Schooner and Windermere). The transaction also included the sale of rights in four gas fields (in development/construction) and three exploration blocks owned by CE Gas. The Company recorded pre-tax and after-tax income of $54.3 million and $41.3 million, respectively, which includes a write off of non-deductible goodwill of $49.6 million.

Teesside Power Limited ("TPL")

The Company has a 15.4% interest in TPL, which owns and operates a 1,875 MW combined cycle gas-fired power plant. Enron Corp. ("Enron"), which through its subsidiaries has a 42.5% interest, previously operated TPL. TPL is now in administration and administrators have been appointed to run its business and are attempting to find a buyer. The Company wrote-off its investment in TPL during 2001. Shareholders in TPL had previously utilized TPL's taxable losses with an obligation to reimburse TPL later in the project's life. In May 2002, TPL executed a restructuring and stabilization agreement with its lenders. The contract included an agreement between TPL and its shareholders with respect to the waiver of these repayment obligations. In May 2002, TPL released $35.7 million due to the repayment obligation being waived which is reflected as a tax benefit in income tax expense in 2002.

6. Properties, Plants and Equipment, Net

Properties, plants and equipment, net comprise the following at December 31 (in thousands):

	Depreciation Life	2004	2003
Utility generation and distribution system	10-50 years	$ 10,149,818	$ 8,987,158
Interstate pipelines' assets	3-87 years	3,566,578	3,470,117
Independent power plants	10-30 years	1,384,660	1,395,782
Mineral and gas reserves and exploration assets	5-30 years	101,472	554,780
Utility non-operational assets	3-30 years	465,297	429,228
Other assets	3-10 years	167,150	146,286
Total operating assets		15,834,975	14,983,351
Accumulated depreciation and amortization		(4,800,372)	(4,260,643)
Net operating assets		11,034,603	10,722,708
Construction in progress		572,661	458,271
Properties, plants and equipment, net		$ 11,607,264	$ 11,180,979

7. Investment in CE Generation

The Company holds a 50% interest in CE Generation, LLC ("CE Generation") and accounts for this interest as an equity investment. The equity investment in CE Generation at December 31, 2004 and 2003 was $188.7 million and $209.4 million, respectively. The following is summarized financial information for CE Generation as of and for the years ended December 31 (in thousands):

	2004	2003	2002
Revenue	$ 444,228	$ 487,422	$ 510,082
Income (loss) before cumulative effect of change in accounting principle	(3,084)	37,341	58,314
Net income (loss)	(3,084)	34,874	58,314
Current assets	124,734	260,551	
Total assets	1,447,388	1,708,742	
Current liabilities	115,153	253,237	
Long-term debt, including current portion	722,650	924,565	

As part of its annual impairment test, CE Generation determined on December 9, 2004 that a portion of the carrying value of the Power Resources project's long-lived assets were no longer recoverable. As a result, CE Generation recognized a non-cash impairment charge of $54.5 million ($33.5 million after tax), in accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets," to write down the long-lived assets to their fair value. The fair value was determined based on discounted estimated cash flows from the future use of the long-lived assets. The impairment charge will not result in any current or future cash expenditures. MEHC's $16.8 million portion of the Power Resources impairment is reflected in income on equity investments in the accompanying consolidated statement of operations for the year ended December 31, 2004.

8. Other Income and Expense

Other income for the years ending December 31 consists of the following (in thousands):

	2004	2003	2002
Gain on Enron note receivable	$ 72,210	$ -	$ -
Gain on CE Casecnan settlement	-	31,889	-
Allowance for equity funds used during construction	20,476	26,708	19,366
Gain on Mirant bankruptcy claim	14,750	-	-
Gain on Williams preferred stock	-	13,750	2,750
Corporate-owned life insurance income	5,447	6,317	1,330
Gain on sale of other assets and investments	3,609	4,183	7,519
Other	11,713	13,796	9,258
Total other income	$ 128,205	$ 96,643	$ 40,223

Other expense for the years ending December 31, 2004, 2003 and 2002 was $10.1 million, $5.9 million and $28.6 million, respectively. In 2002, MidAmerican Energy recorded an impairment of its investment in airplane leases and other non-regulated investments of $21.7 million.

Sale of Enron Note Receivable and Receipt of Cash

Northern Natural Gas had a note receivable of approximately $259.0 million (the "Enron Note Receivable") with Enron. As a result of Enron filing for bankruptcy on December 2, 2001, Northern Natural Gas filed a bankruptcy claim against Enron seeking to recover payment of the Enron Note Receivable. As of December 31, 2001, Northern Natural Gas had written-off the note. By stipulation, Enron and Northern Natural Gas agreed to a value of $249.0 million for the claim and received approval of the stipulation from Enron's Bankruptcy Court on August 26, 2004. On November 23, 2004, Northern Natural Gas sold its stipulated general, unsecured claim against Enron of $249.0 million to a third party investor for $72.2 million, which was recorded as other income in the fourth quarter of 2004.

CE Casecnan Water and Energy Company ("CE Casecnan") Arbitration Settlement

On October 15, 2003, CE Casecnan, an indirect, majority-owned subsidiary of the Company, closed a transaction settling the arbitration, which arose from a Statement of Claim made on August 19, 2002, by CE Casecnan against the Republic of the Philippines ("ROP") National Irrigation Administration ("NIA"). As a result of the agreement, CE Casecnan recorded $31.9 million of other income and $24.4 million of associated income taxes. In connection with the settlement, the NIA delivered to CE Casecnan a ROP $97.0 million 8.375% Note due 2013 (the "ROP Note"), which contained a put provision granting CE Casecnan the right to put the ROP Note to the ROP for a price of par plus accrued interest for a 30-day period commencing on January 14, 2004. The ROP Note is included in other current assets in the accompanying consolidated balance sheet at December 31, 2003.

On January 14, 2004, CE Casecnan exercised its right to put the ROP Note to the ROP and, in accordance with the terms of the put, CE Casecnan received $99.2 million (representing $97.0 million par value plus accrued interest) from the ROP on January 21, 2004.

Mirant Americas Energy Marketing ("Mirant") Claim

In July 2003, Mirant filed Chapter 11 bankruptcy. On January 13, 2004, Kern River filed a proof of claim with the bankruptcy court for an aggregate total of $210.2 million, which Kern River believed was secured by the $14.8 million in proceeds received from its letter of credit and held as a cash security deposit. In May 2004, the bankruptcy court issued an order permitting Kern River to apply 100% of the $14.8 million it held in cash collateral to its claim for damages. On October 12, 2004, Mirant raised an objection to Kern River's claim asserting, among other things, that Kern River had not included a discount adjustment or mitigation to the claim. On November 11, 2004, Kern River filed an amended proof of claim of $138.8 million, reflecting discounting, mitigation and other adjustments. The amended proof of claim excludes the $14.8 million already received by Kern River. Kern River can not determine at this time if it will collect any portion of the balance of the claim or be able to remarket the rejected capacity.

Williams Preferred Stock

On March 27, 2002, the Company invested $275.0 million in Williams in exchange for shares of 9⅞% cumulative convertible preferred stock of Williams. Dividends on Williams preferred stock were received quarterly, commencing July 1, 2002. On June 10, 2003, Williams repurchased, for $288.8 million, plus accrued dividends, all of the shares of its 9⅞% Cumulative Convertible Preferred Stock originally acquired by the Company in March 2002 for $275.0 million. The Company recorded a pre-tax gain of $13.8 million on the transaction.

9. Regulatory Assets and Liabilities

The principal components of the Company's regulatory assets and liabilities were as follows as of December 31 (in thousands):

	As of December 31,		
	Weighted Average Remaining Life	2004	2003
Regulatory assets:			
Deferred income taxes, net	24 years	$ 160,662	$ 138,192
Computer systems development costs	7 years	63,637	72,787
System levelized account	25 years	53,576	54,109
Minimum pension liability adjustment	N/A	41,136	36,795
Unrealized loss on regulated hedges	1 year	36,794	14,248
Pipe recoating and reconditioning costs	87 years	22,406	22,315
Asset retirement obligations	9 years	20,875	90,556
Debt refinancing costs	7 years	15,365	19,698
Environmental costs	3 years	9,284	13,995
Nuclear generation assets	28 years	6,727	7,522
Cooper Nuclear Station capital improvement costs	-	-	7,314
Other	Various	21,368	35,018
Total		$ 451,830	$ 512,549
Regulatory liabilities:			
Cost of removal accrual	24 years	$ 428,719	$ 408,608
Iowa electric settlement accrual	3 years	181,188	144,418
Asset retirement obligations	49 years	53,259	-
Unrealized gain on regulated hedges	2 years	7,462	15,122
Environmental insurance recovery	3 years	3,599	3,781
Nuclear insurance reserve	49 years	3,262	2,561
Other	Various	5,278	10,250
Total		$ 682,767	$ 584,740

Of the regulatory assets listed above, only the nuclear generation assets at MidAmerican Energy and the computer systems development costs, the system levelized account, and the pipe recoating and reconditioning costs at Northern Natural Gas are included in rate base and earn a return.

The decrease in the asset retirement obligation regulatory asset and the establishment of a related regulatory liability is the result of a 20-year extension to the operating license of Quad Cities Generating Station and its impact on the timing of related cash flows. Regulatory liabilities are included in other long-term accrued liabilities in the accompanying consolidated balance sheets.

10. Asset Retirement Obligations

On January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" and recognized a liability for legal retirement obligations for nuclear decommissioning, wet and dry ash landfills and offshore and minor lateral pipeline facilities. Concurrent with the recognition of the liability, the estimated cost of the asset retirement obligation ("ARO") was capitalized and is being depreciated over the remaining life of the asset. The difference between the ARO liability, the ARO net asset and amounts recovered from regulated customers to satisfy such liabilities is recorded as a regulatory asset or liability.

The change in the balance of the ARO liability, which is included in other long-term accrued liabilities in the accompanying consolidated balance sheets, for the years ended December 31 is summarized as follows (in thousands):

	2004	2003
Balance, January 1	$284,007	$289,323
Revision to nuclear decommissioning ARO liability	(120,098)	(21,902)
Addition for new wind power facilities	2,777	-
Accretion	15,877	16,586
Balance, December 31	$182,563	$284,007

At December 31, 2004, $154.2 million of the ARO liability pertained to the decommissioning of Quad Cities Station. Also, at December 31, 2004, $207.5 million of assets reflected in other investments in the accompanying consolidated balance sheet are restricted for satisfying the Quad Cities Station ARO liability.

The 2004 revision is a result of a change in the assumed life of Quad Cities Station pursuant to a 20-year extension to the operating license of the plant by the Nuclear Regulatory Commission ("NRC") in October 2004 and its impact on the timing of related cash flows. The 2003 revision to the nuclear decommissioning ARO liability was due to the results of a decommissioning study performed by the plant operator.

In addition to the ARO liabilities, MidAmerican Energy has accrued for the cost of removing other electric and gas assets through its depreciation rates, in accordance with accepted regulatory practices. These accruals are reflected in other long-term accrued liabilities in the accompanying consolidated balance sheets and total $428.7 million and $408.6 million at December 31, 2004 and 2003, respectively.

11. Short-Term Debt

Short-term debt consists of the following at December 31 (in thousands):

	2004	2003
MidAmerican Energy commercial paper	$ -	$ 48,000
HomeServices revolving credit facilities	9,052	-
Other	38	36
Total short-term debt	$ 9,090	$ 48,036

Parent Company Revolving Credit Facilities

In the second quarter of 2003, the Company terminated its $400.0 million credit facility. On June 6, 2003, the Company closed on a new $100.0 million revolving credit facility which expires on June 6, 2006. The facility supports letters of credit of which $70.0 million were outstanding at December 31, 2004. No borrowings were outstanding at December 31, 2004 or 2003. The facility, which was not drawn on during 2004, carries a variable interest rate based on LIBOR and ranged from 2.02% to 2.255% in 2003.

MidAmerican Energy Short-Term Debt

As of December 31, 2004, MidAmerican Energy has in place a $425.0 million revolving credit facility, which expires on November 18, 2009, and supports its $304.6 million commercial paper program and its variable rate pollution control revenue obligations, all of which was available at December 31, 2004. In addition, MidAmerican Energy has a $5.0 million line of credit which expires on July 1, 2005. There was no commercial paper outstanding at December 31, 2004, and commercial paper totaled $48.0 million at December 31, 2003. MHC Inc., an indirect wholly-owned subsidiary of the Company, has a $4.0 million line of credit, expiring July 1, 2005, under which no borrowings were outstanding at December 31, 2004 or 2003. The commercial paper, bank notes and outstanding line of credit had a weighted average interest rate of 0.98% at December 31, 2003.

HomeServices Revolving Credit Facilities

HomeServices maintains a $125.0 million senior secured revolving credit facility, which expires in November 2005. Amounts outstanding under this revolving credit facility are secured by a pledge of the capital stock of all of the existing and future subsidiaries of HomeServices and bear interest, at HomeServices' option, at either the prime lending rate or LIBOR plus a fixed spread of 1.25% to 2.25%, which varies based on HomeServices' cash flow leverage ratio. The spread was 1.25% at December 31, 2004 and 2003. No borrowings were outstanding at December 31, 2004 or 2003. In addition, HomeServices has in place two mortgage warehouse lines of credit totaling $20.0 million, which expire on March 31, 2005 and October 31, 2005, and bear interest at LIBOR plus 1.75% and LIBOR plus 2.25%, respectively. The balances outstanding on these mortgage warehouse lines of credit at December 31, 2004, totaled $9.1 million. There were no borrowings outstanding at December 31, 2003. The mortgage warehouse lines of credit had weighted average interest rates of 4.54% and 4.21%, respectively, at December 31, 2004.

12. Parent Company Senior Debt

Parent company senior debt is unsecured senior obligations of MEHC and consists of the following at December 31 (in thousands):

	2004	2003
7.23% Senior Notes, due 2005	$ 260,000	$ 260,000
4.625% Senior Notes, due 2007	199,403	199,225
7.63% Senior Notes, due 2007	350,000	350,000
3.50% Senior Notes, due 2008	449,497	449,373
7.52% Senior Notes, due 2008	450,000	450,000
7.52% Senior Notes, due 2008 (Series B)	101,037	101,267
5.875% Senior Notes, due 2012	499,906	499,898
5.00% Senior Notes, due 2014	249,797	-
8.48% Senior Notes, due 2028	475,000	475,000
Fair value adjustments and other	(2,683)	(6,885)
Total Parent Company Senior Debt	3,031,957	2,777,878
Less current portion	(260,000)	-
Total Long-Term Parent Company Senior Debt	$ 2,771,957	$ 2,777,878

On February 12, 2004, MEHC issued $250.0 million, net of discount, of its 5.00% Senior Notes with a final maturity on February 15, 2014. The proceeds were used to satisfy a demand made by its affiliate, Salton Sea Funding Corporation ("Funding Corporation"), for $136.4 million, the amount remaining on MEHC's guarantee of Funding Corporation's 7.475% Senior Secured Series F Bonds due November 30, 2018 ("Series F Bonds"), and for other general corporate purposes.

On May 16, 2003, MEHC issued $450.0 million, net of discount, of its 3.50% Senior Notes with a final maturity on May 15, 2008. The proceeds were used for general corporate purposes.

13. Parent Company Subordinated Debt

MEHC has organized special purpose Delaware business trusts (collectively, the "Trusts") pursuant to their respective amended and restated declarations of trusts (collectively, the "Declarations").

The financial terms of MEHC's various subordinated debentures held by such Trusts are essentially identical to the corresponding terms of the mandatorily redeemable preferred securities issued by such Trusts (the "Trust Securities").

Pursuant to Preferred Securities Guarantee Agreements (collectively, the "Guarantees"), between MEHC and a trustee, MEHC has agreed irrevocably to pay to the holders of the Trust Securities, to the extent that the applicable Trust has funds available to make such payments, quarterly distributions, redemption payments and liquidation payments on the Trust Securities. Considered together, the undertakings contained in the Declarations, Junior Debentures, Indentures and Guarantees constitute full and unconditional guarantees on a subordinated basis by MEHC of the Trusts' obligations under the Trust Securities.

Parent company subordinated debt consists of the following at December 31 (in thousands):

	2004	2003
CalEnergy Capital Trust II — 6.25%, due 2012	$ 104,645	$ 104,645
CalEnergy Capital Trust III — 6.5%, due 2027	269,980	269,980
MidAmerican Capital Trust I — 11%, due 2010	454,772	454,772
MidAmerican Capital Trust II — 11%, due 2011	700,000	800,000
MidAmerican Capital Trust III — 11%, due 2012	323,000	323,000
Fair value adjustment	(78,044)	(80,251)
Total Parent Company Subordinated Debt	1,774,353	1,872,146
Less current portion	(188,543)	(100,000)
Long-Term Parent Company Subordinated Debt	$ 1,585,810	$ 1,772,146

MEHC owns all of the common securities of the Trusts. The Trust Securities have a liquidation preference of $50 each (plus accrued and unpaid dividends thereon to the date of payment) and represent undivided beneficial ownership interests in each of the Trusts. The assets of the Trusts consist solely of Subordinated Debentures of MEHC (collectively, the "Junior Debentures") issued pursuant to their respective indentures. The indentures include agreements by MEHC to pay expenses and obligations incurred by the Trusts.

Prior to the Teton Transaction, each Trust Security issued by CalEnergy Capital Trust II and III with a par value of $50 was convertible at the option of the holder at any time into shares of MEHC's common stock based on a specified conversion rate. As a result of the Teton Transaction, in lieu of shares of MEHC's common stock, upon any conversion, holders of Trust Securities will receive $35.05 for each share of common stock it would have been entitled to receive on conversion.

Distributions on the Trust Securities (and Junior Debentures) are cumulative, accrue from the date of initial issuance and are payable quarterly in arrears. The Junior Debentures are subordinated in right of payment to all senior indebtedness of the Company and the Junior Debentures are subject to certain covenants, events of default and optional and mandatory redemption provisions, all as described in the Junior Debenture indentures.

The indentures relating to the CalEnergy Trusts II and III Trust Securities give MEHC the option to defer the interest payments due on the respective Junior Debentures for up to 20 consecutive quarters during which time the corresponding distributions on the respective Trust Securities are deferred (but continue to accumulate and accrue interest). The indentures relating to the MidAmerican Capital Trust I, II and III Trust Securities give MEHC the option to defer the 11% interest payment on the respective Junior Debentures for up to 10 consecutive semi-annual periods during which time the corresponding 11% distributions on the respective Trust Securities are deferred (but continue to accumulate and accrue interest at the rate of 13% per annum). In addition, each declaration of trust establishing the MidAmerican Capital Trusts I, II and III Trust Securities and each of the related subscription agreements contains a provision prohibiting Berkshire Hathaway and its affiliates, who are the holders of all of the respective Trust Securities issued by such Trusts, from transferring such Trust Securities to a non-affiliated person absent an event of default.

14. Subsidiary and Project Debt

Each of MEHC's direct and indirect subsidiaries is organized as a legal entity separate and apart from MEHC and its other subsidiaries. Pursuant to separate project financing agreements, all or substantially all of the assets of each subsidiary are or may be pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. It should not be assumed that any asset of any such subsidiary will be available to satisfy the obligations of MEHC or any of its other such subsidiaries; provided, however, that unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing arrangements of such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to MEHC or affiliates thereof.

The restrictions on distributions at these separate legal entities include various covenants including, but not limited to, leverage ratios, interest coverage ratios and debt service coverage ratios. As of December 31, 2004, the separate legal entities were in compliance with all applicable covenants. However, Cordova Energy's 537 MW gas-fired power plant in the Quad Cities, Illinois area (the "Cordova project") is currently prohibited from making distributions by the terms of its indenture due to its failure to meet its debt service coverage ratio requirement.

Long-term debt of subsidiaries and projects consists of the following at December 31 (in thousands):

	2004	2003
MidAmerican Funding	$ 700,000	$ 700,000
MidAmerican Energy	1,422,527	1,128,647
CE Electric UK	2,504,801	2,467,214
Kern River	1,214,808	1,276,174
Northern Natural Gas	799,614	799,472
CE Casecnan	197,098	246,458
Leyte Projects	105,664	172,813
Cordova Funding	206,663	214,761
Funding Corporation	-	136,384
HomeServices	32,963	37,558
Other, including fair value adjustments	6,383	(3,900)
Total Subsidiary and Project Debt	7,190,521	7,175,581
Less current portion	(885,598)	(500,941)
Total Long-Term Subsidiary and Project Debt	$ 6,304,923	$ 6,674,640

MidAmerican Funding

The components of MidAmerican Funding's, a wholly owned subsidiary of MEHC, Senior Notes and Bonds consist of the following at December 31 (in thousands):

	2004	2003
6.339% Senior Notes, due 2009	$ 175,000	$ 175,000
6.75% Senior Notes, due 2011	200,000	200,000
6.927% Senior Bonds, due 2029	325,000	325,000
Total MidAmerican Funding	$ 700,000	$ 700,000

MidAmerican Funding may use distributions that it receives from its subsidiaries to make payments on the Notes and Bonds. These subsidiaries must make payments on their own indebtedness before making distributions to MidAmerican Funding. These distributions are also subject to utility regulatory restrictions agreed to by MidAmerican Energy in March 1999, whereby it committed to the Iowa Utilities Board ("IUB") to use commercially reasonable efforts to maintain an investment grade rating on its long-term debt and to maintain its common equity level above 42% of total capitalization unless circumstances beyond its control result in the common equity level decreasing to below 39% of total capitalization. MidAmerican Energy must seek the approval of the IUB of a reasonable utility capital structure if MidAmerican Energy's common equity level decreases below 42% of total capitalization, unless the decrease is beyond the control of MidAmerican Energy. MidAmerican Energy is also required to seek the approval of the IUB if MidAmerican Energy's equity level decreases to below 39%, even if the decrease is due to circumstances beyond the control of MidAmerican Energy.

MidAmerican Energy

The components of MidAmerican Energy's Mortgage Bonds, Pollution Control Revenue Obligations and Notes consist of the following at December 31 (in thousands):

	2004	2003
Mortgage bonds:		
7.7% Series, due 2004	$ -	$ 55,630
7% Series, due 2005	90,500	90,500
Pollution control revenue obligations:		
6.1% Series, due 2007	1,000	1,000
5.95% Series, due 2023	29,030	29,030
Variable rate series:		
Due 2016 and 2017, 2.05% and 1.26%	37,600	37,600
Due 2023 secured by general mortgage bond, 2.05% and 1.26%	28,295	28,295
Due 2023, 2.05% and 1.26%	6,850	6,850
Due 2024, 2.05% and 1.26%	34,900	34,900
Due 2025, 2.05% and 1.26%	12,750	12,750
Notes:		
6.375% Series, due 2006	160,000	160,000
5.125% Series, due 2013	275,000	275,000
4.65% Series, due 2014	350,000	-
6.75% Series, due 2031	400,000	400,000
Obligations under capital lease	1,524	2,060
Unamortized debt premium and discount, net	(4,922)	(4,968)
Total MidAmerican Energy	$1,422,527	$1,128,647

MidAmerican Energy's 7.7% series of mortgage bonds, totaling $55.6 million, matured on May 17, 2004. On October 1, 2004, MidAmerican Energy issued $350.0 million of 4.65% medium-term notes due October 1, 2014. The proceeds were used for general corporate purposes.

On January 14, 2003, MidAmerican Energy issued $275.0 million of 5.125% medium-term notes due in 2013. The proceeds were used to refinance existing debt and for other corporate purposes.

CE Electric UK

The components of CE Electric UK and its subsidiaries' long-term debt consist of the following at December 31 (in thousands):

	2004	2003
6.853% Senior Notes, due 2004	$ -	$ 117,112
8.625% Bearer bonds, due 2005	192,045	178,877
6.995% Senior Notes, due 2007	237,000	236,174
6.496% Yankee Bonds, due 2008	281,113	281,149
Variable Rate Reset Trust Securities, due 2020 (5.88% and 4.39%)	308,361	287,539
8.875% Bearer bonds, due 2020	191,955	178,644
9.25% Eurobonds, due 2020	485,654	458,187
7.25% Sterling Bonds, due 2022	377,674	351,242
7.25% Eurobonds, due 2028	378,202	352,768
CE Gas Credit Facility, 6.36%	52,797	25,522
Total CE Electric UK	$2,504,801	$2,467,214

Pursuant to a call option exercised in February 2005, at a cost of $17.5 million, a subsidiary of CE Electric UK purchased, and then cancelled, its Variable Rate Reset Trust Securities, due in 2020, at a par value of £155.0 million. Accordingly, the Company has included the entire principal amount of these securities in its current portion of long-term debt in the accompanying consolidated balance sheet at December 31, 2004.

Kern River

The components of Kern River's long-term debt consist of the following at December 31 (in thousands):

	2004	2003
6.676% Senior Notes, due 2016	$ 439,000	$ 464,000
4.893% Senior Notes, due 2018	775,808	812,174
Total Kern River	$1,214,808	$1,276,174

On August 13, 2001, Kern River issued $510.0 million in debt securities. The offering was in the form of $510.0 million of 15-year amortizing Senior Notes bearing a fixed rate of interest of 6.676%. For the Senior Notes, $405.0 million will be amortized through June 2016, with a final payment of $105.0 million to be made on July 31, 2016.

On May 1, 2003, Kern River Funding Corporation, a wholly owned subsidiary of Kern River, issued $836.0 million of its 4.893% Senior Notes with a final maturity on April 30, 2018. The proceeds were used to repay all of the $815.0 million of outstanding borrowings under Kern River's $875.0 million credit facility. Kern River entered into this credit facility in 2002 to finance the construction of its 717 mile expansion.

Northern Natural Gas

The components of Northern Natural Gas' Senior Notes consist of the following at December 31 (in thousands):

	2004	2003
6.875% Senior Notes, due 2005	$ 100,000	$ 100,000
6.75% Senior Notes, due 2008	150,000	150,000
7.00% Senior Notes, due 2011	250,000	250,000
5.375% Senior Notes, due 2012	300,000	300,000
Unamortized debt discount	(386)	(528)
Total Northern Natural Gas	$ 799,614	$ 799,472

CE Casecnan

On November 27, 1995, CE Casecnan issued $371.5 million of notes and bonds to finance the construction of the CE Casecnan project. The CE Casecnan Notes and Bonds consist of the following at December 31 (in thousands):

	2004	2003
11.45% Senior Secured Series A Notes, due in 2005	$ 48,750	$ 91,250
11.95% Senior Secured Series B Bonds, due in 2010	148,348	155,208
Total CE Casecnan	$ 197,098	$ 246,458

The CE Casecnan Notes and Bonds are subject to redemption at the Company's option as provided in the Trust Indenture. The CE Casecnan Notes and Bonds are also subject to mandatory redemption based on certain conditions.

Leyte Projects

The Leyte Projects term loans consist of the following at December 31 (in thousands):

	2004	2003
Mahanagdong Project 6.92% Term Loan, due 2007	$ 51,537	$ 72,151
Mahanagdong Project 7.60% Term Loan, due 2007	11,428	16,000
Malitbog Project 4.99% and 3.67%, due 2005	11,866	26,378
Malitbog Project 9.176% Term Loan, due 2006	6,580	14,628
Upper Mahiao Project 5.95% Term Loan, due 2006	24,253	43,656
Total Leyte Projects	$ 105,664	$ 172,813

MEHC provides debt service reserve letters of credit in amounts equal to the next semi-annual principal and interest payments due on the loans which were equal to $44.6 million and $40.3 million at December 31, 2004 and 2003, respectively.

Cordova Funding

On September 10, 1999, Cordova Funding Corporation ("Cordova Funding"), a wholly owned subsidiary of the Company, closed the $225.0 million aggregate principal amount financing for the construction of the Cordova project. The proceeds were loaned to Cordova Energy and consist of the following at December 31 (in thousands):

	2004	2003
8.48% Senior Secured Bonds, due 2019	$ 11,716	$ 12,175
8.64% Senior Secured Bonds, due 2019	85,893	89,260
8.79% Senior Secured Bonds, due 2019	28,758	29,885
8.82% Senior Secured Bonds, due 2019	53,384	55,476
9.07% Senior Secured Bonds, due 2019	26,912	27,965
Total Cordova Funding	$ 206,663	$ 214,761

MEHC has issued a limited guarantee of a specified portion of the final scheduled principal payment on December 15, 2019, on the Cordova Funding Senior Secured Bonds in an amount up to a maximum of $37.0 million. MEHC has also issued a debt service reserve guarantee of which such maximum amount was $13.0 million as of December 31, 2004.

As of December 31, 2004, Cordova Funding is currently prohibited from making distributions by the terms of its indenture due to its failure to meet its debt service coverage ratio requirement.

Funding Corporation

CalEnergy Minerals LLC ("Minerals"), a wholly-owned indirect subsidiary of MEHC, was one of several guarantors of the Funding Corporation's debt. As a result of a note allocation agreement, Minerals was primarily responsible for $136.4 million of the Series F Bonds. In 1999, MEHC guaranteed a specified portion of the scheduled debt service on the Series F Bonds equal to the then current principal amount of $136.4 million and associated interest.

On March 1, 2004, Funding Corporation completed the redemption of an aggregate principal amount of $136.4 million of the Series F Bonds, pro rata, at a redemption price of 100% of such aggregate outstanding principal amount, plus accrued interest to the date of redemption. Funding Corporation also made a demand on MEHC for the full amount remaining on MEHC's guarantee of the Series F Bonds in order to fund the redemption. MEHC made the requisite payment and, as a result, it has no further liability with respect to its guarantee. The Company had a non-cash, after-tax loss, recorded in loss from discontinued operations in the accompanying consolidated statement of operations, of $6.4 million as a result of the redemption of the Series F Bonds.

HomeServices

In November 1998, HomeServices issued $35.0 million of 7.12% fixed-rate private placement senior notes due in annual increments of $5.0 million beginning in 2004. As of December 31, 2004 and 2003, the balance of the HomeServices Senior Notes was $30.0 million and $35.0 million, respectively.

In addition to the senior notes, HomeServices has outstanding capital leases and other long-term debt, with varying interest rates, totaling $3.0 million and $2.6 million at December 31, 2004 and 2003, respectively.

Annual Repayments of Long-Term Debt

The annual repayments of parent company, subsidiary and project debt for the years beginning January 1, 2005 and thereafter are as follows (in thousands):

	2005	2006	2007	2008	2009	Thereafter	Total
Parent Company senior debt	$ 260,000	$ -	$ 550,000	$1,000,000	$ -	$ 1,221,957	$ 3,031,957
Parent Company subordinated debt	188,543	234,021	234,021	234,021	234,021	649,726	1,774,353
MidAmerican Funding	-	-	-	-	175,000	525,000	700,000
MidAmerican Energy	91,018	160,000	1,000	-	-	1,170,509	1,422,527
CE Electric UK	500,406	9,720	253,925	294,051	4,913	1,441,786	2,504,801
Kern River	62,784	66,128	69,472	72,816	74,906	868,702	1,214,808
Northern Natural Gas	99,963	-	-	150,000	-	549,651	799,614
CE Casecnan	54,753	36,016	37,730	37,730	13,720	17,149	197,098
Leyte Projects	63,034	30,037	12,593	-	-	-	105,664
Cordova Funding	7,875	4,500	4,163	4,725	6,412	178,988	206,663
HomeServices	5,765	5,000	5,000	5,000	5,000	7,198	32,963
Other, including purchase accounting adjustments	-	-	-	-	-	6,383	6,383
Totals	$1,334,141	$ 545,422	$ 1,167,904	$1,798,343	$ 513,972	$ 6,637,049	$ 11,996,831

Fair Value

At December 31, 2004, the Company had fixed-rate long-term debt of $11,503.4 million in principal amount and having a fair value of $12,416.2 million. In addition, at December 31, 2004, the Company had floating-rate obligations of $493.4 million that expose the Company to the risk of increased interest expense in the event of increases in short-term interest rates. The fair value of the floating-rate obligations and the short-term debt approximates their carrying amounts.

At December 31, 2003, the Company had fixed-rate long-term debt of $11,369.4 million in principal amount and having a fair value of $12,015.1 million. In addition, at December 31, 2003, the Company had floating-rate obligations of $459.8 million. The fair value of the floating-rate obligations and the short-term debt approximates their carrying amounts.

15. Income Taxes

Income tax expense on continuing operations consists of the following (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Current:			
Federal	$ 18,794	$ (48,911)	$ 57,236
State	(9,862)	10,901	17,476
Foreign	79,463	88,150	54,586
	88,395	50,140	129,298
Deferred:			
Federal	112,719	141,795	(4,900)
State	607	10,833	(13,640)
Foreign	63,265	67,508	520
	176,591	220,136	(18,020)
Total	$ 264,986	$ 270,276	$ 111,278

A reconciliation of the federal statutory tax rate to the effective tax rate on continuing operations applicable to income before income tax expense follows:

	2004	2003	2002
Federal statutory rate	35.0%	35.0%	35.0%
Investment and energy tax credits	(0.6)	(0.5)	(0.7)
State taxes, net of federal tax effect	2.2	1.8	1.2
Equity income	0.7	1.6	2.3
Dividends on preferred securities of subsidiaries	-	(6.9)	(8.3)
Tax effect of foreign income	0.3	0.5	(4.8)
Non-recurring items on CE Electric UK, net of tax effect of foreign income	-	(0.5)	(8.3)
Dividends received deduction	-	(1.1)	(1.9)
Effects of ratemaking	(0.9)	0.9	1.0
Other items, net	(3.5)	0.7	2.1
Effective tax rate	33.2%	31.5%	17.6%

Deferred tax liabilities (assets) consist of the following at December 31 (in thousands):

	2004	2003
Properties, plants and equipment, net	$ 1,700,884	$ 1,611,744
Income taxes recoverable through future rates	163,108	142,597
Employee benefits	56,656	43,005
Reacquired debt	3,877	5,665
Fuel cost recoveries	6,028	12,864
	1,930,553	1,815,875
Minimum pension liability adjustment	(172,350)	(147,279)
Revenue sharing accruals	(80,220)	(64,192)
Accruals not currently deductible for tax purposes	(54,402)	(55,290)
Nuclear reserve and decommissioning	(27,112)	(35,955)
Deferred income	(34,458)	(37,819)
Net operating loss ("NOL") and credit carryforwards	(267,051)	(161,659)
Other	(13,127)	(14,599)
	(648,720)	(516,793)
Net deferred income taxes	$ 1,281,833	$ 1,299,082

At December 31, 2004, the Company has available unused NOL and credit carryforwards that may be applied against future taxable income and that expire at various intervals between 2007 and 2024.

16. Preferred Securities of Subsidiaries

The total outstanding cumulative preferred securities of MidAmerican Energy are not subject to mandatory redemption requirements and may be redeemed at the option of MidAmerican Energy at prices which, in the aggregate, total \$31.1 million. The aggregate total the holders of all preferred securities outstanding at December 31, 2004, are entitled to upon involuntary bankruptcy is \$30.3 million plus accrued dividends. The annual dividend requirements for all preferred securities outstanding at December 31, 2004, total \$1.2 million.

The total outstanding 8.061% cumulative preferred securities of a subsidiary of CE Electric UK, which are redeemable in the event of the revocation by the Secretary of State of the subsidiary's electricity distribution license, was \$56.0 million as of December 31, 2004 and 2003, respectively.

17. Convertible Preferred Stock

In connection with the Kern River acquisition and the purchase of \$275.0 million of Williams' preferred stock, MEHC issued 6.7 million shares of no par, zero-coupon convertible preferred stock valued at \$402.0 million to Berkshire Hathaway. In connection with the Teton Transaction, MEHC issued 34.6 million shares of no par, zero coupon convertible preferred stock valued at \$1,211.4 million. Each share of preferred stock is convertible at the option of the holder into one share of MEHC's common stock subject to certain adjustments as described in MEHC's Amended and Restated Articles of Incorporation.

While the convertible preferred stock does not vote generally with the common stock in the election of directors, the convertible preferred stock gives Berkshire Hathaway the right to elect 20% of MEHC's Board of Directors. The convertible preferred stock is convertible into common stock only upon the occurrence of specified events, including modification or elimination of the Public Utility Holding Company Act of 1935 so that holding company registration would not be triggered by conversion. Additionally, the prior approval of the holders of convertible preferred stock is required for certain fundamental transactions by MEHC. Such transactions include, among others: (a) significant asset sales or dispositions; (b) merger transactions; (c) significant business acquisitions or capital expenditures; (d) issuances or repurchases of equity securities; and (e) the removal or appointment of the Chief Executive Officer.

MEHC's Articles of Incorporation further provide that the convertible preferred shares: (a) are not mandatorily redeemable by MEHC or at the option of the holder; (b) participate in dividends and other distributions to common shareholders as if they were common shares and otherwise possess no dividend rights; (c) are convertible into common shares on a 1 for 1 basis, as adjusted for splits, combinations, reclassifications and other capital changes by MEHC; and (d) upon liquidation, except for a de minimus first priority distribution of \$1 per share, shared ratably with the shareholders of common stock. Further, the aforementioned dividend and distribution arrangements cannot be modified without the positive consent of the preferred shareholders.

18. Stock Transactions

As of December 31, 2004, there were 2,048,329 options outstanding which are exercisable until the end of the term on March 14, 2008 at exercise prices ranging from \$15.94 to \$35.05 per share.

On March 6, 2002, MEHC purchased 800,000 stock options held by Mr. David L. Sokol, its Chairman and Chief Executive Officer. The options purchased had exercise prices ranging from \$18.50 to \$29.01. MEHC paid Mr. Sokol an aggregate amount of \$27.1 million, which is equal to the difference between the option exercise prices and an agreed upon per share value.

On January 6, 2004, the Company purchased a portion of the shares of common stock owned by Mr. Sokol for an aggregate purchase price of \$20.0 million.

19. Accounting for Derivatives

The Company is exposed to market risk, including changes in the market price of certain commodities and interest rates. To manage the price volatility relating to these exposures, the Company enters into various financial derivative instruments. Senior management provide the overall direction, structure, conduct and control of the Company's risk management activities, including the use of financial derivative instruments, authorization and communication of risk management policies and procedures, strategic hedging program and guidelines, appropriate market and credit risk limits, and appropriate systems for recording, monitoring and reporting the results of transactional and risk management activities.

Currency Exchange Rate Risk

CE Electric UK entered into currency rate swap agreements for its Senior Notes with large multi-national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $237.0 million of 6.995% Senior Notes outstanding at December 31, 2004. The agreements extend until maturity on December 30, 2007 and convert the U.S. dollar interest rate to a fixed Sterling rate of 7.737%. The estimated fair value of these swap agreements at December 31, 2004 and 2003, was $35.7 million and $16.0 million, respectively, based on quotes from the counterparty to these instruments and represents the estimated amount that the Company would expect to pay if these agreement were terminated.

A subsidiary of CE Electric UK entered into certain currency rate swap agreements for its Yankee Bonds with three large multi-national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $281.1 million of the 6.496% Yankee Bonds outstanding at December 31, 2004. The agreements extend until maturity on February 25, 2008 and convert the U.S. dollar interest rate to a fixed Sterling rate ranging from 7.3175% to 7.345%. The estimated fair value of these swap agreements at December 31, 2004 and 2003, was $96.1 million and $62.6 million, respectively, based on quotes from the counterparties to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated.

Derivatives

As of December 31, 2004, MidAmerican Energy held derivative instruments used for non-trading and trading purposes with the following fair values (in thousands):

Contract Type	Maturity in 2005	Maturity in 2006-08	Total
Non-trading:			
Regulated electric assets	$ 2,260	$ 431	$ 2,691
Regulated electric (liabilities)	(10,057)	(4,817)	(14,874)
Regulated gas assets	2,973	1,798	4,771
Regulated gas (liabilities)	(21,921)	-	(21,921)
Regulated weather (liabilities)	(4,495)	-	(4,495)
Nonregulated electric assets	1,957	372	2,329
Nonregulated electric (liabilities)	(1,158)	(214)	(1,372)
Nonregulated gas assets	5,937	1,919	7,856
Nonregulated gas (liabilities)	(6,606)	(1,558)	(8,164)
Total	(31,110)	(2,069)	(33,179)
Trading:			
Nonregulated gas assets	993	-	993
Nonregulated gas (liabilities)	(430)	(100)	(530)
Total	563	(100)	463
Total MidAmerican Energy assets	$ 14,120	$ 4,520	$ 18,640
Total MidAmerican Energy (liabilities)	$ (44,667)	$ (6,689)	$ (51,356)

20. Regulatory Matters

MidAmerican Energy

Under three settlement agreements between MidAmerican Energy, The Iowa Office of Consumer Advocate ("OCA") and other intervenors approved by the IUB, MidAmerican Energy has agreed not to seek a general increase in electric rates prior to 2012 unless its Iowa jurisdictional electric return on equity for any year falls below 10%. Prior to filing for a general increase in electric rates, MidAmerican Energy is required to conduct 30 days of good faith negotiations with the signatories to the settlement agreements to attempt to avoid a general increase in such rates. As a party to the settlement agreements the OCA has agreed not to request or support any decrease in MidAmerican Energy's Iowa electric rates prior to January 1, 2012. The settlement agreements specifically allow the IUB to approve or order electric rate design or cost of service rate changes that could result in changes to rates for specific customers as long as such changes do not result in an overall increase in revenues for MidAmerican Energy. The settlement agreements also each provide that portions of revenues associated with Iowa retail electric returns on equity within specified ranges will be recorded as a regulatory liability.

Under the first settlement agreement, which was approved by the IUB on December 21, 2001, and is effective through December 31, 2005, an amount equal to 50% of revenues associated with returns on equity between 12% and 14%, and 83.33% of revenues associated with returns on equity above 14%, in each year is recorded as a regulatory liability. The second settlement agreement, which was filed in conjunction with MidAmerican Energy's application for ratemaking principles on its wind power project and was approved by the IUB on October 17, 2003, provides that during the period January 1, 2006 through December 31, 2010, an amount equal to 40% of revenues associated with returns on equity between 11.75% and 13%, 50% of revenues associated with returns on equity between 13% and 14%, and 83.3% of revenues associated with returns on equity above 14%, in each year will be recorded as a regulatory liability.

The third settlement agreement was approved by the IUB on January 31, 2005, in conjunction with MidAmerican Energy's proposed expansion of its wind power project by up to 90 MW. This settlement extended through 2011 MidAmerican Energy's commitment not to seek a general increase in electric rates unless its Iowa jurisdictional electric return on equity falls below 10%. It also extended the revenue sharing mechanism through 2011. In addition, the OCA agreed to commit not to seek any decrease in Iowa electric base rates to become effective before January 1, 2012. The total capacity added as the result of the wind expansion project is currently projected to be 50 MW.

The regulatory liabilities created by the three settlement agreements are recorded as a regulatory charge in depreciation and amortization expense when the liability is accrued. Additionally, interest expense is accrued on the portion of the regulatory liability balance recorded in prior years. The regulatory liabilities created for the years through 2010 are expected to be reduced as they are credited against plant in service in amounts equal to the AFUDC associated with generating plant additions. As a result of the credit applied to generating plant balances from the reduction of the regulatory liabilities, future depreciation will be reduced. As of December 31, 2004 and 2003, the related regulatory liability reflected in the accompanying consolidated balance sheets was $181.2 million and $144.4 million, respectively. The regulatory liability for 2011 will be credited to customer bills in 2012.

Illinois bundled electric rates are frozen until 2007, subject to certain exceptions allowing for increases, at which time bundled rates may be increased or decreased by the Illinois Commerce Commission. Illinois law provides that, through 2006, Illinois earnings above a computed level of return on common equity are to be shared equally between regulated retail electric customers and MidAmerican Energy. MidAmerican Energy's computed level of return on common equity is based on a rolling two-year average of the Monthly Treasury Long-Term Average Rate, as published by the Federal Reserve System, plus a premium of 8.5% for 2000 through 2004 and a premium of 12.5% for 2005 and 2006. The two-year average above which sharing must occur for 2004 is 13.57%. The law allows MidAmerican Energy to mitigate the sharing of earnings above the threshold return on common equity through accelerated recovery of electric assets.

Kern River

Kern River's tariff rates were designed to give it an opportunity to recover all actually and prudently incurred operations and maintenance costs of its pipeline system, taxes, interest, depreciation and amortization and a regulated equity return. Kern River's rates are set using a "levelized cost-of-service" methodology so that the rate is constant over the contract period. This is achieved by using a FERC-approved depreciation schedule in which depreciation increases as interest expense decreases.

Kern River was required to file a general rate case no later than May 1, 2004 pursuant to the terms of its 1998 FERC Docket No. RP99-274 rate case settlement. Kern River filed its rate case on April 30, 2004, which supports a revenue increase of $40.1 million representing a 13% increase from its existing cost of service and a proposed overall cost of service of $347.4 million. Since its last rate case, Kern River has increased the capacity of its system from 724,500 Dth per day to 1,755,575 Dth per day at a cost of approximately $1.3 billion, resulting in a total rate base of approximately $1.8 billion. The rate increase became effective on November 1, 2004, subject to refund, and the FERC set a procedural order with a hearing scheduled for March 2005.

Northern Natural Gas

Northern Natural Gas has implemented a straight fixed variable rate design which provides that all fixed costs assignable to firm capacity customers, including a return on equity, are to be recovered through fixed monthly demand or capacity reservation charges which are not a function of throughput volumes.

On May 1, 2003, Northern Natural Gas filed a request for increased rates with the FERC. The rate increase is primarily attributable to four main cost areas: the capital investment made by Northern Natural Gas in the five years since its last rate case, an increase in Northern Natural Gas' depreciation rates, increased return on equity, and changes in the level of contract entitlement. The rate filing provides evidence in support of a $71 million increase to Northern Natural Gas' annual revenue requirement. However, Northern Natural Gas chose to effectuate only $55 million of the increase. Northern Natural Gas' new rates went into effect November 1, 2003, subject to refund.

Additionally, on January 30, 2004, Northern Natural Gas filed with the FERC to increase its revenue requirement by an incremental $30 million to that requested in the May 1, 2003 filing. The increased revenue requirement is primarily attributable to ongoing pipeline integrity initiative costs that Northern Natural Gas has undertaken since the May 1, 2003 rate filing. The FERC suspended the rate increase until August 1, 2004 and consolidated the 2003 and 2004 rate cases due to the similarity of issues in both cases and the updated costs. On July 29, 2004, Northern Natural Gas notified the FERC that, in furtherance of settlement negotiations, Northern Natural Gas was not moving the rate increase into effect on August 1, 2004, but reserved its statutory right to move the suspended rates into effect at a later date. Northern Natural Gas' implemented the new rates on November 1, 2004, subject to refund.

On February 16, 2005, Northern Natural Gas reached a tentative agreement with the majority of its customers to settle the consolidated rate cases. Definitive terms of the settlement must be agreed by all settling parties and must then be documented in a settlement agreement which must be agreed to by all settling parties. Thereafter, the settlement must be certified by the presiding administrative law judge and approved by the FERC. The terms of the agreement in principle provide for an annual revenue increase of $48 million for the period November 1, 2003 through October 31, 2004, $53 million for the period November 1, 2004 through October 31, 2005, $58 million for the period November 1, 2005 through October 31, 2006, and $62 million beginning November 1, 2006. As a result of the settlement, Northern Natural Gas will be required to refund an amount generally reflecting the difference between the rate increases implemented on November 1, 2003 and November 1, 2004 and the final settled revenue amounts.

CE Electric UK

The majority of the revenue of the Distribution License Holder ("DLH") in the United Kingdom is controlled by a distribution price control formula which is set out in the license of each DLH. It has been the practice of the Office of Gas and Electricity Markets ("Ofgem") (and its predecessor body, the Office of Electricity Regulation), to review and reset the formula at five-year intervals, although the formula may be further reviewed at other times at the discretion of the regulator. Any such resetting of the formula requires the consent of the DLH. If the DLH does not consent to the formula reset, it is reviewed by the United Kingdom's competition authority, whose recommendation can then be given effect by license modifications made by Ofgem.

The current formula requires that regulated distribution income per unit is increased or decreased each year by RPI-Xd where RPI means the Retail Price Index, reflecting the average of the 12-month inflation rates recorded for each month in the previous July to December period. The Xd factor in the formula was established by Ofgem at the price control review effective in April 2000 (and through March 31, 2005, will continue to be set) at 3%. The formula also takes account of a variety of other factors including the changes in system electrical losses, the number of customers connected and the voltage at which customers receive the units of electricity distributed. The distribution price control formula determines the maximum average price per unit of electricity distributed (in pence per kWh) which a DLH is entitled to charge. The distribution price control formula permits DLHs to receive additional revenue due to increased distribution of units and the increase in the number of end users. The price control does not seek to constrain the profits of a DLH from year to year. It is a control on revenue that operates independently of most of the DLH's costs. During the term of the price control, cost savings or additional costs have a direct impact on income and cash flow.

Ofgem's process of reviewing each DLH's existing price control formula, with a revised formula for each DLH (including Northern Electric and Yorkshire Electricity) to take effect from April 1, 2005 for an expected period of five years was recently completed. As a result of the review, the allowed revenue of Northern Electric's distribution business was reduced by 4%, in real terms, and the allowed revenue of Yorkshire Electricity's distribution business was reduced by 9%, in real terms, with effect from April 1, 2005. The Xd factor was set at zero. Ofgem indicated that during the period 2005 to 2010, the retention of the benefits of any out-performance from the operating cost assumptions made by Ofgem in setting the new price control may depend on the successful implementation of revised cost reporting guidelines to be prescribed by Ofgem and applied by all DLHs. In setting the allowed revenue of Northern Electric and Yorkshire Electricity (and all other DLHs) with effect from April 1, 2005, Ofgem made a specific allowance for an amount in respect of each DLH's pension costs.

With effect from April 1, 2005, a number of incentive schemes operate to encourage DLHs to provide an appropriate quality of service. Payments in respect of each failure to meet a prescribed standard of service are set out in regulations. The aggregate payments that may be due is uncapped, although payments are excused in certain force majeure circumstances. In storm conditions the obligations relating to the period within which supplies should be restored are relaxed and the overall, annual exposure under the restoration standard in storm conditions is limited to 2% of a DLH's allowed revenue. There also is a discretionary reward scheme of up to £1 million per annum, and other incentive schemes pursuant to which a DLH's allowed revenue may increase by up to 3.3% or decrease by up to 3.5% in any year.

21. Commitments and Contingencies

MidAmerican Energy, Kern River, Northern Natural Gas, CE Electric UK, CalEnergy Generation-Domestic and HomeServices have non-cancelable operating leases primarily for computer equipment, office space and rail cars. Rental payments on non-cancelable operating leases totaled $71.1 million for 2004, $65.8 million for 2003, and $60.1 million for 2002. The minimum payments under these leases are $70.4 million, $64.3 million, $56.7 million, $45.9 million, and $33.0 million for the years 2005 through 2009, respectively, and $104.7 million for the total of the years thereafter.

MidAmerican Energy

Fuel, Energy and Operating Lease Commitments

MidAmerican Energy has supply and related transportation contracts for its fossil fueled generating stations. As of December 31, 2004, the contracts, with expiration dates ranging from 2005 to 2010, require minimum payments of $83.5 million, $67.4 million, $62.8 million, $22.0 million and $15.8 million for the years 2005 through 2009, respectively, and $15.5 million for the total of the years thereafter. MidAmerican Energy expects to supplement these coal contracts with additional contracts and spot market purchases to fulfill its future fossil fuel needs. Additionally, MidAmerican Energy has a supply and transportation contract for a natural gas-fired generating plant. The contract, which expires in 2012, requires minimum annual payments of $6.2 million.

MidAmerican Energy also has contracts to purchase electric capacity. As of December 31, 2004, the contracts, with expiration dates ranging from 2005 to 2028, require minimum payments of $29.1 million, $25.1 million, $27.3 million, $35.8 million and $28.9 million for the years 2005 through 2009, respectively, and $73.9 million for the total of the years thereafter.

MidAmerican Energy has various natural gas supply and transportation contracts for its gas operations. As of December 31, 2004, the contracts, with expiration dates ranging from 2005 to 2013, require minimum payments of $54.2 million, $35.1 million, $25.2 million, $4.4 million and $2.9 million for the years 2005 through 2009, respectively, and $10.3 million for the total of the years thereafter.

MidAmerican Energy is the lessee on operating leases for coal railcars that contain guarantees of the residual value of such equipment throughout the term of the leases. Events triggering the residual guarantees include termination of the lease, loss of the equipment or purchase of the equipment. Lease terms are for five years with provisions for extensions. As of

December 31, 2004, the maximum amount of such guarantees specified in these leases totaled \$30.2 million. These guarantees are not reflected in the accompanying consolidated balance sheets.

On February 12, 2003, MidAmerican Energy executed a contract with Mitsui & Co. Energy Development, Inc. ("Mitsui") for engineering, procurement and construction of a 790 MW (based on expected accreditation) coal-fired generating plant expected to be completed in the summer of 2007. MidAmerican Energy will hold a 60.67% individual ownership interest as a tenant in common with the other owners of the plant. Under the contract, MidAmerican Energy is allowed to defer payments, including the other owners' shares, for up to \$200.0 million of billed construction costs through the end of the project. Deferred payments as of December 31, 2004 and 2003, totaled \$152.3 million and \$23.4 million, respectively, and are reflected in other long-term accrued liabilities in the accompanying consolidated balance sheets.

An asset representing the other owners' share of the deferred payments is reflected in deferred charges and other assets in the accompanying consolidated balance sheets and totaled \$59.9 million and \$9.2 million, respectively, as of December 31, 2004 and 2003. MidAmerican Energy will bill each of the other owners for its share of the deferred payments when payment is made to Mitsui.

Air Quality

MidAmerican Energy's generating facilities are subject to applicable provisions of the Clean Air Act and related air quality standards promulgated by the EPA. The Clean Air Act provides the framework for regulation of certain air emissions and permitting and monitoring associated with those emissions. MidAmerican Energy believes it is in material compliance with current air quality requirements.

The EPA has in recent years implemented more stringent national ambient air quality standards for ozone and new standards for fine particulate matter. These standards set the minimum level of air quality that must be met throughout the United States. Areas that achieve the standards, as determined by ambient monitoring, are characterized as being in attainment of the standard. Areas that fail to meet the standard are designated as being nonattainment areas. Generally, once an area has been designated as a nonattainment area, sources of emissions in the area that contribute to the failure to achieve the ambient air quality standards are required to make emissions reductions. The EPA has concluded that the entire State of Iowa is in attainment of the ozone standards and the fine particulate standards.

On December 4, 2003, the EPA announced the development of its Interstate Air Quality Rule, now known as the Clean Air Interstate Rule, a proposal to require coal-burning power plants in 29 states, including Iowa, and the District of Columbia to reduce emissions of sulfur dioxide ("SO_2") and nitrogen oxides ("NO_X") in an effort to reduce ozone and fine particulate matter in the Eastern United States. It is likely that MidAmerican Energy's coal-burning facilities will be impacted by this proposal.

In December 2000, the EPA concluded that mercury emissions from coal-fired generating stations should be regulated. The EPA is currently considering two regulatory alternatives that would reduce emissions of mercury from coal-fired utilities. One of these alternatives would require reductions of mercury from all coal-fired facilities greater than 25 MW through application of Maximum Achievable Control Technology with compliance assessed on a facility basis. The other alternative would regulate the mercury emissions of coal-fired facilities that pose a health hazard through a market based cap-and-trade mechanism similar to the SO_2 allowance system. The EPA is currently under a deadline to finalize the mercury reduction rule by March 2005.

The Clean Air Interstate Rule or the mercury reduction rule could, in whole or in part, be superseded or made more stringent by one of a number of multi-pollutant emission reduction proposals currently under consideration at the federal level, including the "Clear Skies Initiative," and other pending legislative proposals that contemplate 70% to 90% reductions of SO_2, NO_X and mercury, as well as possible new federal regulation of carbon dioxide and other gasses that may affect global climate change.

Depending on the outcome of the final Clean Air Interstate Rule and the mercury reduction rule or any superseding legislation by Congress, MidAmerican Energy may be required to install control equipment on its generating stations, purchase emission allowances or decrease the number of hours during which its generating stations operate. However, until final regulatory or legislative action is taken, the impact of the regulations on MidAmerican Energy cannot be predicted.

MidAmerican Energy has implemented a planning process that forecasts the site-specific controls and actions that may be required to meet emissions reductions as contemplated by the United States Environmental Protection Agency ("EPA"). In accordance with an Iowa law passed in 2001, MidAmerican Energy has on file with the IUB its current multi-year plan and budget for managing SO_2 and NO_X from its generating facilities in a cost-effective manner. The plan, which is required to be updated every two years, provides specific actions to be taken at each coal-fired generating facility and the related costs and timing for each action. On July 17, 2003, the IUB issued an order that affirmed an administrative law judge's approval of the initial plan filed on April 1, 2002, as amended. On October 4, 2004, the IUB issued an order approving MidAmerican Energy's second biennial plan as revised in a settlement MidAmerican Energy entered into with the Iowa Consumer Advocate Division of the Department of Justice. That plan covers the time period from April 1, 2004 through December 31, 2006. Neither IUB order resulted in any changes to electric rates for MidAmerican Energy. The effect of the orders is to approve the prudence of expenditures made consistent with the plans. Pursuant to an unrelated rate settlement agreement approved by the IUB on October 17, 2003, if prior to January 1, 2011, capital and operating expenditures to comply with environmental requirements cumulatively exceed $325.0 million, then MidAmerican Energy may seek to recover the additional expenditures from customers. At this time, MidAmerican Energy does not expect these capital expenditures to exceed such amount.

Under the New Source Review ("NSR") provisions of the Clean Air Act, a utility is required to obtain a permit from the EPA or a state regulatory agency prior to (1) beginning construction of a new major stationary source of an NSR-regulated pollutant or (2) making a physical or operational change to an existing facility that potentially increases emissions, unless the changes are exempt under the regulations (including routine maintenance, repair and replacement of equipment). In general, projects subject to NSR regulations are subject to pre-construction review and permitting under the Prevention of Significant Deterioration ("PSD") provisions of the Clean Air Act. Under the PSD program, a project that emits threshold levels of regulated pollutants must undergo a Best Available Control Technology analysis and evaluate the most effective emissions controls. These controls must be installed in order to receive a permit. Violations of NSR regulations, which may be alleged by the EPA, states and environmental groups, among others, potentially subject a utility to material expenses for fines and other sanctions and remedies including requiring installation of enhanced pollution controls and funding supplemental environmental projects.

In recent years, the EPA has requested from several utilities information and support regarding their capital projects for various generating plants. The requests were issued as part of an industry-wide investigation to assess compliance with the NSR and the New Source Performance Standards of the Clean Air Act. In December 2002 and April 2003, MidAmerican Energy received requests from the EPA to provide documentation related to its capital projects from January 1, 1980, to April 2003 for a number of its generating plants. MidAmerican Energy has submitted information to the EPA in responses to these requests, and there are currently no outstanding data requests pending from the EPA. MidAmerican Energy cannot predict the outcome of these requests at this time. However, on August 27, 2003, the EPA announced changes to its NSR rules that clarify what constitutes routine repair, maintenance and replacement for purposes of triggering NSR requirements. The EPA concluded equipment that is repaired, maintained or replaced with an expenditure not greater than 20 percent of the value of the source will not trigger the NSR provisions of the Clean Air Act. A number of states and local air districts challenged the EPA's clarification of the NSR rule and a panel of the U.S. Circuit Court of Appeals for the District of Columbia Circuit issued an order on December 24, 2003, staying the EPA's implementation of its clarifications of the equipment replacement rule. On July 1, 2004, the EPA published a notice of stay of the final equipment replacement rule in the *Federal Register*, consistent with the judicial stay. Additionally, on the same date, the EPA published a Notice of Reconsideration and Request for Comment on the equipment replacement rule in response to the Petitioners' legal challenges. Until such time as the EPA takes final action on the equipment replacement rule, the previous rules without the clarified exemption remain in effect.

Nuclear Decommissioning Costs

Expected decommissioning costs for Quad Cities Station have been developed based on a site-specific decommissioning study that includes decontamination, dismantling, site restoration, dry fuel storage cost and an assumed shutdown date. Quad Cities Station decommissioning costs are included in base rates in Iowa tariffs.

MidAmerican Energy's share of expected decommissioning costs for Quad Cities Station, in 2004 dollars, is $154.0 million and is the ARO liability for Quad Cities Station. MidAmerican Energy has established trusts for the investment of funds for decommissioning the Quad Cities Station. The fair value of the assets held in the trusts is reflected in other investments in the accompanying consolidated balance sheets.

Nuclear Insurance

MidAmerican Energy maintains financial protection against catastrophic loss associated with its interest in Quad Cities Station through a combination of insurance purchased by Exelon Generation Company, LLC ("Exelon Generation") (the operator and joint owner of Quad Cities Station), insurance purchased directly by MidAmerican Energy, and the mandatory industry-wide loss funding mechanism afforded under the Price-Anderson Amendments Act of 1988. The general types of coverage are: nuclear liability, property coverage and nuclear worker liability.

Exelon Generation purchases nuclear liability insurance for Quad Cities Station in the maximum available amount of $300.0 million, which includes coverage for MidAmerican Energy's ownership. In accordance with the Price-Anderson Amendments Act of 1988, excess liability protection above that amount is provided by a mandatory industry-wide Secondary Financial Protection program under which the licensees of nuclear generating facilities could be assessed for liability incurred due to a serious nuclear incident at any commercial nuclear reactor in the United States. Currently, MidAmerican Energy's aggregate maximum potential share of an assessment for Quad Cities Station is approximately $50.3 million per incident, payable in installments not to exceed $5.0 million annually.

The property insurance covers property damage, stabilization and decontamination of the facility, disposal of the decontaminated material and premature decommissioning arising out of a covered loss. For Quad Cities Station, Exelon Generation purchased primary and excess property insurance protection for the combined interests in Quad Cities Station, with coverage limits totaling $2.1 billion. MidAmerican Energy also directly purchased extra expense or business interruption coverage for its share of replacement power and other extra expenses in the event of a covered accidental outage at Quad Cities Station. The property and related coverages purchased directly by MidAmerican Energy and by Exelon Generation, which includes the interests of MidAmerican Energy, are underwritten by an industry mutual insurance company and contain provisions for retrospective premium assessments should two or more full policy-limit losses occur in one policy year. Currently, the maximum retrospective amounts that could be assessed against MidAmerican Energy from industry mutual policies for its obligations associated with Quad Cities Station total $8.8 million.

The master nuclear worker liability coverage, which is purchased by Exelon Generation for Quad Cities Station, is an industry-wide guaranteed-cost policy with an aggregate limit of $300 million for the nuclear industry as a whole, which is in effect to cover tort claims in nuclear-related industries.

The current Price-Anderson Act expired in August 2002 and is pending congressional action for reauthorization. Its contingent financial obligations still apply to reactors licensed by the NRC as of its expiration date. It is anticipated that the Price-Anderson Act will be renewed with increased third party financial protection requirements for nuclear incidents.

Legal Matters

In addition to the proceedings described below, the Company is currently party to various items of litigation or arbitration in the normal course of business, none of which are reasonably expected by the Company to have a material adverse effect on its financial position, results of operations or cash flows.

CalEnergy Generation-Foreign

Pursuant to the share ownership adjustment mechanism in the CE Casecnan stockholder agreement, which is based upon pro forma financial projections of the Casecnan project prepared following commencement of commercial operations, in February 2002, MEHC's indirect wholly-owned subsidiary, CE Casecnan Ltd., advised the minority stockholder, LaPrairie Group Contractors (International) Ltd. ("LPG"), that MEHC's ownership interest in CE Casecnan had increased to 100% effective from commencement of commercial operations. On July 8, 2002, LPG filed a complaint in the Superior Court of the State of California, City and County of San Francisco against, among others, CE Casecnan Ltd. and MEHC. On January 21, 2004, CE Casecnan Ltd. and LPG entered into a status quo agreement pursuant to which the parties agreed to set aside certain distributions related to the shares subject to the LPG dispute and CE Casecnan agreed not to take any further actions with respect to such distributions without at least 15 days prior notice to LPG. Accordingly, 15% of the CE Casecnan dividend distributions declared in 2004, totaling to $15.9 million, was set aside by CE Casecnan in an unsecured CE Casecnan account and is shown as restricted cash and short-term investments and other current liabilities in the accompanying consolidated balance sheet. The court is currently expected to rule on the first phase of the litigation before the end of the first quarter of 2005. The impact, if any, of this litigation on the Company cannot be determined at this time.

22. Pension and Postretirement Commitments

Domestic Operations

MidAmerican Energy sponsors a noncontributory defined benefit pension plan covering substantially all employees of MEHC and its domestic energy subsidiaries. Benefit obligations under the plan are based on participants' compensation, years of service and age at retirement. Funding to the established trust is based upon the actuarially determined costs of the plan and the requirements of the Internal Revenue Code and the Employee Retirement Income Security Act. The Company also maintains noncontributory, nonqualified defined benefit supplemental executive retirement plans for active and retired participants.

MidAmerican Energy also sponsors certain postretirement health care and life insurance benefits covering substantially all retired employees of MEHC and its domestic energy subsidiaries. Under the plans, covered employees may become eligible for these benefits if they reach retirement age while working for the Company. On July 1, 2004, the postretirement benefit plan was amended for non-union participants. Non-union employees hired July 1, 2004, and after will no longer be eligible for postretirement benefits other than pensions. The amendment establishes retiree medical accounts for participants to which the Company will make fixed contributions. Participants will use such accounts to pay a portion of their medical premiums during retirement. The Company retains the right to change these benefits anytime, subject to provisions in its collective bargaining agreements.

Net periodic pension benefit cost, including supplemental retirement, and postretirement benefit cost included the following components for MEHC and its domestic energy subsidiaries for the years ended December 31. For purposes of calculating the expected return on pension plan assets, a market-related value is used. Market-related value is equal to fair value except for gains and losses on equity investments which are amortized into market-related value on a straight-line basis over five years.

	Pension Cost			Postretirement Cost		
	2004	2003	2002	2004	2003	2002
	(in thousands)					
Service cost	$ 25,568	$ 24,693	$20,235	$ 7,842	$ 8,175	$ 6,028
Interest cost	35,159	34,533	34,177	15,716	16,065	13,928
Expected return on plan assets	(38,258)	(38,396)	(38,213)	(8,437)	(6,008)	(4,880)
Amortization of net transition obligation	(792)	(2,591)	(2,591)	3,283	4,110	4,110
Amortization of prior service cost	2,758	2,761	2,729	296	593	425
Amortization of prior year (gain) loss	1,569	1,483	(2,482)	3,299	3,716	2,385
Regulatory expense	-	3,320	6,639	-	-	-
Net periodic benefit cost	$ 26,004	$ 25,803	$20,494	$21,999	$26,651	$21,996

Weighted-average assumptions used to determine benefit obligations at December 31:

	2004	2003	2002	2004	2003	2002
Discount rate	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	5.00%	5.00%	5.00%		Not applicable	

Weighted-average assumptions used to determine net benefit cost for the years ended December 31:

	2004	2003	2002	2004	2003	2002
Discount rate	5.75%	5.75%	6.50%	5.75%	5.75%	6.50%
Expected return on plan assets	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%	5.00%		Not applicable	

Assumed health care cost trend rates at December 31:

	2004	2003
Health care cost trend rate assumed for next year	10.00%	11.00%
Rate that the cost trend rate gradually declines to	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2010	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects in thousands:

	Increase (Decrease) in Expense	
	One Percentage-Point Increase	One Percentage-Point Decrease
Effect on total service and interest cost	$ 4,855	$ (3,740)
Effect on postretirement benefit obligation	$ 29,420	$ (24,066)

The following table presents a reconciliation of the beginning and ending balances of the benefit obligation, fair value of plan assets and the funded status of the aforementioned plans to the net amounts measured and recognized in the accompanying consolidated balance sheets as of December 31(in thousands):

	Pension Benefits		Postretirement Benefits	
	2004	2003	2004	2003
Reconciliation of the fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 551,568	$ 467,773	$ 157,849	$ 122,655
Employer contributions	5,083	5,044	23,782	32,566
Participant contributions	-	-	7,733	6,371
Actual return on plan assets	63,151	105,438	9,698	15,853
Benefits paid	(28,174)	(26,687)	(19,687)	(19,596)
Fair value of plan assets at end of year	$ 591,628	$ 551,568	$ 179,375	$ 157,849
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$ 620,048	$ 593,179	$ 297,433	$ 291,441
Service cost	25,568	24,693	7,841	8,175
Interest cost	35,159	34,533	15,716	16,065
Participant contributions	-	-	7,733	6,371
Plan amendments	-	-	(19,219)	-
Actuarial (gain) loss	4,805	(5,670)	(33,773)	(5,023)
Benefits paid	(28,174)	(26,687)	(19,687)	(19,596)
Benefit obligation at end of year	$ 657,406	$ 620,048	$ 256,044	$ 297,433
Funded status	$ (65,778)	$ (68,480)	$ (76,669)	$(139,584)
Amounts not recognized in consolidated balance sheets:				
Unrecognized net (gain) loss	(34,319)	(12,907)	42,768	83,509
Unrecognized prior service cost	15,157	17,915	-	5,451
Unrecognized net transition obligation (asset)	-	(792)	19,641	36,992
Net amount recognized in the consolidated balance sheets	$ (84,940)	$ (64,264)	$ (14,260)	$ (13,632)
Net amount recognized in the consolidated balance sheets consists of:				
Prepaid benefit cost	$ -	$ 39	$ -	$ -
Accrued benefit liability	(117,357)	(100,490)	(14,260)	(13,632)
Intangible assets	14,653	17,367	-	-
Regulatory assets	17,764	18,820	-	-
Net amount recognized	$ (84,940)	$ (64,264)	$ (14,260)	$ (13,632)

The portion of the pension projected benefit obligation, included in the table above, related to the supplemental executive retirement plan was $106.5 million and $105.1 million as of December 31, 2004 and 2003, respectively. The supplemental executive retirement plan has no assets, and accordingly, the fair value of its plan assets was zero as of December 31, 2004 and 2003. The accumulated benefit obligation for all defined benefit pension plans was $585.4 million and $554.6 million at December 31, 2004 and 2003, respectively. Of these amounts, the supplemental executive retirement plan accumulated benefit obligation totaled $102.3 million and $100.5 million for 2004 and 2003, respectively.

Although the supplemental executive retirement plan had no assets as of December 31, 2004, the Company has Rabbi trusts that hold corporate-owned life insurance and other investments to provide funding for the future cash requirements. Because this plan is nonqualified, the cash surrender value of these assets is not included in the plan assets. The cash surrender value of the Rabbi trust investments was $98.8 million and $88.1 million at December 31, 2004 and 2003, respectively.

Plan Assets

The Company's investment policy for its domestic pension and postretirement plans is to balance risk and return through a diversified portfolio of high-quality equity and fixed income securities. Equity targets for the pension and postretirement plans are as indicated in the tables below. Maturities for fixed income securities are managed such that sufficient liquidity exists to meet near-term benefit payment obligations. The plans retain outside investment advisors to manage plan investments within the parameters outlined by the Company's Pension and Employee Benefits Plans Administrative Committee. The weighted average return on assets assumption is based on historical performance for the types of assets in which the plans invest.

The Company's pension plan asset allocations at December 31, 2004 and 2003, are as follows:

	Percentage of Plan Assets at December 31		Target
	2004	**2003**	**Range**
Asset Category			
Equity securities	71%	70%	65-75%
Debt securities	22%	23%	20-30%
Real estate	6%	7%	0-10%
Other	1%	-%	0-5%
Total	100%	100%	

The Company's postretirement benefit plan asset allocations at December 31, 2004, and 2003, are as follows:

	Percentage of Plan Assets at December 31		Target
	2004	**2003**	**Range**
Asset Category			
Equity securities	49%	49%	45-55%
Debt securities	47%	48%	45-55%
Other	4%	3%	0-10%
Total	100%	100%	

Cash Flows

MidAmerican Energy's expected benefit payments for its pension and postretirement plans for 2005 through 2009 and for the five years thereafter are summarized below (in thousands):

	Pension Benefits	Postretirement Benefits
2005	$ 30,670	$ 12,241
2006	32,728	11,731
2007	34,972	12,618
2008	38,092	13,432
2009	42,339	14,321
2010-14	$ 267,549	$ 87,264

Employer contributions to the domestic pension and postretirement plans are currently expected to be $6.6 million and $15.8 million, respectively, for 2005. The Company's policy is to contribute the minimum required amount to the pension plan and the amount expensed to its postretirement plans.

The Company sponsors defined contribution pension plans (401(k) plans) covering substantially all domestic employees. The Company's contributions vary depending on the plan but are based primarily on each participant's level of contribution and cannot exceed the maximum allowable for tax purposes. Total contributions were $17.1 million, $15.5 million and $12.0 million for 2004, 2003 and 2002, respectively.

In December 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Medicare Act"). The Medicare Act introduces a prescription drug benefit under Medicare as well as a subsidy to sponsors of retiree health care plans that provide a benefit to participants that is at least actuarially equivalent to Medicare Part D. The Medicare Act is expected to ultimately reduce the Company's postretirement costs from what they would have been absent such changes. Detailed regulations pertaining to the Medicare Act were promulgated in July 2004, resulting in a $23.8 million reduction in the accumulated postretirement obligation, which has been reflected as an actuarial gain in the table above. The impact of the Medicare Act on the net periodic postretirement benefit expense will initially be recognized in 2005 in conjunction with the next valuation of the postretirement plans.

United Kingdom Operations

Certain wholly-owned subsidiaries of CE Electric UK participate in the Electricity Supply Pension Scheme (the "UK Plan"), which provides pension and other related defined benefits, based on final pensionable pay, to substantially all employees throughout the electricity supply industry in the United Kingdom.

Net periodic pension benefit cost included the following components for CE Electric UK for the years ended December 31. For purposes of calculating the expected return on pension plan assets, a market-related value is used. Market-related value is equal to fair value except for gains and losses on equity investments which are amortized into market-related value on a straight-line basis over five years.

	Pension Cost		
	2004	**2003**	**2002**
Service cost	$ 12,100	$ 9,485	$ 8,718
Interest cost	73,515	62,632	56,817
Expected return on plan assets	(98,448)	(89,124)	(85,927)
Amortization of prior service cost	1,915	1,472	1,202
Amortization of loss	12,742	537	-
Curtailment loss	-	-	6,463
Net periodic expense (benefit)	$ 1,824	$ (14,998)	$ (12,727)

Weighted-average assumptions used to determine benefit obligations at December 31:

	2004	2003	2002
Discount rate	5.25%	5.50%	5.75%
Rate of compensation increase	2.75%	2.75%	2.50%

Weighted-average assumptions used to determine net benefit cost for years ended December 31:

	2004	2003	2002
Discount rate	5.50%	5.75%	5.75%
Expected return on plan assets	7.00%	7.00%	7.00%
Rate of compensation increase	2.75%	2.50%	2.50%

The following table presents a reconciliation of the beginning and ending balances of the benefit obligation, fair value of plan assets and the funded status of the UK Plan to the net amounts measured and recognized in the accompanying consolidated balance sheets as of December 31 (in thousands):

	Pension Benefits	
	2004	2003
Reconciliation of the fair value of plan assets:		
Fair value of plan assets at beginning of year	$1,206,216	$ 976,427
Employer contributions	17,600	14,391
Participant contributions	6,417	4,742
Actual return on plan assets	106,515	152,246
Benefits paid	(65,265)	(57,726)
Foreign currency exchange rate changes	93,239	116,136
Fair value of plan assets at end of year	$1,364,722	$1,206,216
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$1,334,587	$1,102,730
Service cost	12,100	9,485
Interest cost	73,515	62,632
Participant contributions	6,417	4,742
Benefits paid	(65,265)	(57,726)
Experience loss and change of assumptions	104,315	83,890
Foreign currency exchange rate changes	105,910	128,834
Benefit obligation at end of year	$1,571,579	$1,334,587
Funded status	$ (206,857)	$ (128,371)
Unrecognized net loss	614,182	507,039
Net amount recognized in the consolidated balance sheets	$ 407,325	$ 378,668
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid benefit cost	$ 407,325	$ 378,668
Accrued benefit liability	(561,988)	(496,147)
Intangible assets	16,119	16,604
Accumulated other comprehensive income	545,869	479,543
Net amount recognized	$ 407,325	$ 378,668

The accumulated benefit obligation for the defined benefit pension plan was $1.5 billion and $1.3 billion at December 31, 2004 and 2003, respectively.

The Company recorded a minimum pension liability as of December 31, 2004 and 2003 in the amount of $545.9 million and $479.5 million, respectively. The pension liability is primarily due to the decline in market value of the pension plan assets during 2002 combined with the effects of lower discount rates and higher rates of compensation increases used to value the plan's liabilities in 2004 and 2003, as well as, mortality assumption changes which increased the liability. As of

December 31, 2004 and 2003, the minimum pension liability is measured as the amount of the plan's accumulated benefit obligation that is in excess of the plan's market value of assets at December 31, 2004 and 2003 plus the prepaid asset balance. A charge equal to the excess was recorded to the Company's stockholders' equity, net of income tax benefits, as a component of comprehensive loss in the amount of $46.4 million and $27.1 million in 2004 and 2003, respectively. This adjustment does not impact current year earnings, or the funding requirements of the plan.

Plan Assets

CE Electric UK's investment policy for its pension and postretirement plans is to balance risk and return through a diversified portfolio of high-quality equity and fixed income securities. Maturities for fixed income securities are managed such that sufficient liquidity exists to meet near-term benefit payment obligations. The plans retain outside investment advisors to manage plan investments within the parameters outlined by the Benefits Committee of subsidiaries of CE Electric UK. The weighted average return on assets assumption is based on historical performance for the types of assets in which the plans invest.

CE Electric UK's pension plan asset allocation consists of the following at December 31:

	Percentage of Plan Assets at December 31,		
	2004	**2003**	**Target**
Asset Category			
Equity securities	49%	64%	50%
Debt securities	39%	26%	40%
Real estate	11%	9%	10%
Other	1%	1%	-
Total	100%	100%	100%

Cash Flows

CE Electric UK's expected benefit payments relative to the UK Plan for 2005 through 2009 and for the five years thereafter are summarized below (in millions):

2005	$ 67.5
2006	67.0
2007	67.7
2008	68.1
2009	70.5
2010-14	$ 369.8

Employer contributions to fund the ongoing liabilities of the UK Plan were approximately $14.7 million in 2004. The triennial process of valuing the UK Plan's assets and liabilities, which will value the plan assets and liabilities as of March 31, 2004, is underway. This valuation will set a revised level of contributions for the next three years. The preliminary report of the actuaries conducting the valuation showed a funding deficiency of $365.2 million. Based on the preliminary valuation, CE Electric UK has proposed that its subsidiaries contribute $63.6 million to the UK Plan each year, which amount includes $42.7 million each year in respect of the existing funding deficiency. The amount in respect of the funding deficiency has been calculated based on eliminating the funding deficiency over 12 years commencing April 1, 2005. Discussions on the appropriate level of contributions continue with the UK Plan trustees in accordance with the UK Plan rules.

23. Segment Information

The Company has identified seven reportable segments: MidAmerican Energy, Kern River, Northern Natural Gas, CE Electric UK, CalEnergy Generation-Foreign, CalEnergy Generation-Domestic and HomeServices. The Company's determination of reportable segments considers the strategic units under which the Company is managed. The Company's foreign reportable segments include CE Electric UK and CalEnergy Generation-Foreign. The reportable segment financial information includes all necessary adjustments and eliminations needed to conform to the Company's significant accounting policies including the allocation of goodwill and fair value adjustments relating to acquisitions. Additionally, the activity of the Company's Mineral Assets, which was previously reported in the CalEnergy Generation-Domestic reportable segment, is presented as discontinued operations within the accompanying consolidated financial statements. Information related to the Company's reportable segments is shown below (in thousands).

	Year Ended December 31,		
	2004	**2003**	**2002**
Operating revenue:			
MidAmerican Energy	$ 2,701,700	$ 2,600,239	$ 2,240,879
Kern River	316,131	260,182	127,254
Northern Natural Gas	544,822	486,878	178,118
CE Electric UK	936,364	829,993	795,366
CalEnergy Generation-Foreign	307,395	326,454	326,316
CalEnergy Generation-Domestic	38,960	45,154	38,478
HomeServices	1,756,454	1,476,569	1,138,332
Total reportable segments	6,601,826	6,025,469	4,844,743
Corporate/other(1)	(48,438)	(59,839)	(49,564)
Total operating revenue	$ 6,553,388	$ 5,965,630	$ 4,795,179
Depreciation and amortization:			
MidAmerican Energy	$ 266,409	$ 281,001	$ 269,412
Kern River	53,250	36,771	17,165
Northern Natural Gas	67,913	52,716	18,151
CE Electric UK	137,746	125,000	116,792
CalEnergy Generation-Foreign	90,328	87,928	88,036
CalEnergy Generation-Domestic	8,721	8,882	8,648
HomeServices	20,827	17,560	22,072
Total reportable segments	645,194	609,858	540,276
Corporate/other(1)	(6,985)	(6,924)	(10,198)
Total depreciation and amortization	$ 638,209	$ 602,934	$ 530,078
Interest expense:			
MidAmerican Energy	$ 125,189	$ 123,395	$ 122,561
Kern River	76,671	79,272	47,034
Northern Natural Gas	53,100	56,008	23,550
CE Electric UK	202,067	180,207	189,554
CalEnergy Generation-Foreign	42,696	59,603	68,338
CalEnergy Generation-Domestic	18,971	19,736	20,043
HomeServices	2,837	3,864	4,256
Total reportable segments	521,531	522,085	475,336
Corporate/other(1)	184,811	189,083	156,797
Parent company subordinated debt(2)	196,875	49,788	-
Total interest expense	$ 903,217	$ 760,956	$ 632,133

	Year Ended December 31, 2004	2003	2002
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income:			
MidAmerican Energy	$ 267,838	$ 271,437	$ 238,761
Kern River	142,643	133,720	60,700
Northern Natural Gas	217,981	127,307	42,882
CE Electric UK	325,844	288,720	266,755
CalEnergy Generation-Foreign	165,703	177,568	147,936
CalEnergy Generation-Domestic	3,071	2,120	(1,155)
HomeServices	111,906	89,981	61,202
Total reportable segments	1,234,986	1,090,853	817,081
Corporate/other(1) (2)	(435,793)	(232,862)	(185,443)
Total income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	$ 799,193	$ 857,991	$ 631,638
Income tax expense:			
MidAmerican Energy	$ 87,336	$ 110,078	$ 99,782
Kern River	54,148	51,319	23,014
Northern Natural Gas	84,423	50,599	16,947
CE Electric UK	80,211	91,539	25,245
CalEnergy Generation-Foreign	62,548	62,130	31,924
CalEnergy Generation-Domestic	1,217	1,078	(4,611)
HomeServices	52,996	43,587	28,207
Total reportable segments	422,879	410,330	220,508
Corporate/other(1)	(157,893)	(140,054)	(109,230)
Total income tax expense	$ 264,986	$ 270,276	$ 111,278
Capital expenditures:			
MidAmerican Energy	$ 633,807	$ 346,449	$ 332,845
Kern River	26,936	433,125	692,586
Northern Natural Gas	138,747	104,400	62,409
CE Electric UK	334,458	301,896	222,622
CalEnergy Generation-Foreign	4,633	8,497	7,830
CalEnergy Generation-Domestic	1,341	6,619	(1,640)
HomeServices	20,786	18,311	18,273
Total reportable segments	1,160,708	1,219,297	1,334,925
Corporate/other(1)	18,682	71	7,373
Total capital expenditures	$ 1,179,390	$ 1,219,368	$ 1,342,298

	As of December 31,		
	2004	2003	2002
Total assets:			
MidAmerican Energy	$ 7,274,999	$ 6,596,849	$ 6,411,143
Kern River	2,135,265	2,200,201	1,797,850
Northern Natural Gas	2,200,846	2,167,621	2,162,367
CE Electric UK	5,794,887	5,038,880	4,714,459
CalEnergy Generation-Foreign	767,465	951,155	974,852
CalEnergy Generation-Domestic	553,741	1,113,172	1,145,456
HomeServices	724,592	567,736	488,324
Total reportable segments	19,451,795	18,635,614	17,694,451
Corporate/other(1)	451,767	509,338	740,469
Total assets	$19,903,562	$19,144,952	$18,434,920
Long-lived assets:			
MidAmerican Energy	$ 3,892,031	$ 3,385,056	$ 3,236,046
Kern River	1,945,094	1,976,213	1,650,387
Northern Natural Gas	1,491,428	1,430,475	1,403,748
CE Electric UK	3,691,459	3,227,723	2,741,277
CalEnergy Generation-Foreign	520,406	621,674	724,908
CalEnergy Generation-Domestic	256,429	738,296	739,940
HomeServices	59,827	53,518	45,078
Total reportable segments	11,856,674	11,432,955	10,541,384
Corporate/other(1)	(249,410)	(251,976)	(256,897)
Total long-lived assets	$11,607,264	$11,180,979	$10,284,487

(1) The remaining differences between the segment amounts and the consolidated amounts described as "Corporate/other" relate principally to the corporate functions including administrative costs, interest expense, corporate cash and related interest income, intersegment eliminations and fair value adjustments relating to acquisitions.

(2) The Company adopted and applied the provisions of FIN 46R related to certain finance subsidiaries as of October 1, 2003. The adoption required amounts previously recorded in minority interest and preferred dividends of subsidiaries to be recorded as interest expense in the accompanying consolidated statements of operations. For the year ended December 31, 2004, and the three-month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these securities. In accordance with the requirements of FIN 46R, no amounts prior to adoption of FIN 46R on October 1, 2003 have been reclassified. The amounts included in minority interest and preferred dividends of subsidiaries related to these securities for the nine-month period ended September 30, 2003, and the year ended December 31, 2002, were $170.2 million and $147.7 million, respectively.

The following table shows the change in the carrying amount of goodwill by reportable segment for the years ended December 31, 2004 and 2003 (in thousands):

	MidAmerican Energy	Kern River	Northern Natural Gas	CE Electric UK	Cal Energy Generation Domestic	Home-Services	Total
Balance, January 1, 2003	$ 2,149,282	$ 32,547	$ 414,721	$ 1,195,321	$ 126,440	$ 339,821	$4,258,132
Goodwill from acquisitions during the year	-	-	-	-	-	26,648	26,648
Other goodwill adjustments[1]	(10,059)	1,353	(35,573)	66,262	(132)	(988)	20,863
Balance, December 31, 2003	2,139,223	33,900	379,148	1,261,583	126,308	365,481	4,305,643
Goodwill from acquisitions during the year	-	-	-	-	-	32,120	32,120
Impairment losses[2]	-	-	-	-	(52,776)	-	(52,776)
Other goodwill adjustments[1]	(18,098)	-	(24,236)	68,208	(1,038)	(3,072)	21,764
Balance, December 31, 2004	$ 2,121,125	$ 33,900	$ 354,912	$ 1,329,791	$ 72,494	$ 394,529	$4,306,751

(1) Other goodwill adjustments include income tax, foreign currency translation and purchase price adjustments.

(2) Impairment losses relate to the write-off of the Mineral Assets – see Note 3.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer, regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2004. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes during the fourth quarter of 2004 in the Company's internal controls or in other factors that could significantly affect internal controls.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

MEHC's management structure is organized functionally and the current executive officers and directors of MEHC and their positions are as follows:

Name	Position
David L. Sokol	Chairman of the Board, Chief Executive Officer and Director
Gregory E. Abel	President, Chief Operating Officer and Director
Patrick J. Goodman	Senior Vice President and Chief Financial Officer
Douglas L. Anderson	Senior Vice President, General Counsel and Corporate Secretary
Keith D. Hartje	Senior Vice President, Communications, General Services and Safety Audit and Compliance
Warren E. Buffett	Director
Walter Scott Jr.	Director
Marc D. Hamburg	Director
W. David Scott	Director
Edgar D. Aronson	Director
John K. Boyer	Director
Stanley J. Bright	Director
Richard R. Jaros	Director

Officers are elected annually by the Board of Directors. There are no family relationships among the executive officers, nor any arrangements or understanding between any officer and any other person pursuant to which the officer was appointed.

Set forth below is certain information, as of January 1, 2005, with respect to each of the foregoing officers and directors:

DAVID L. SOKOL, 48, Chairman of the Board of Directors and Chief Executive Officer. Mr. Sokol has been the Chief Executive Officer since April 19, 1993 and served as President of MEHC from April 19, 1993 until January 21, 1995. Mr. Sokol has been Chairman of the Board of Directors since May 1994 and a director since March 1991. Formerly, among other positions held in the independent power industry, Mr. Sokol served as President and Chief Executive Officer of Kiewit Energy Company, which at that time was a wholly owned subsidiary of Peter Kiewit & Sons', Inc., and Ogden Projects, Inc.

GREGORY E. ABEL, 42, President, Chief Operating Officer and Director. Mr. Abel joined MEHC in 1992 and initially served as Vice President and Controller. Mr. Abel is a Chartered Accountant and from 1984 to 1992 was employed by Price Waterhouse. As a Manager in the San Francisco office of Price Waterhouse, he was responsible for clients in the energy industry.

PATRICK J. GOODMAN, 38, Senior Vice President and Chief Financial Officer. Mr. Goodman joined MEHC in 1995 and served in various accounting positions including Senior Vice President and Chief Accounting Officer. Prior to joining MEHC, Mr. Goodman was a financial manager for National Indemnity Company and a senior associate at Coopers & Lybrand.

DOUGLAS L. ANDERSON, 46, Senior Vice President and General Counsel. Mr. Anderson joined MEHC in February 1993 and has served in various legal positions including General Counsel of the Company's independent power affiliates. From 1990 to 1993, Mr. Anderson was a corporate attorney with Fraser, Stryker in Omaha, NE. Prior to that Mr. Anderson was a principal in the firm Anderson and Anderson.

KEITH D. HARTJE, 54, Senior Vice President, Communications, General Services and Safety Audit and Compliance. Mr. Hartje has been with MidAmerican Energy and its predecessor companies since 1973. In that time, he has held a number of positions, including General Counsel and Corporate Secretary, District Vice President for southwest Iowa operations, and Vice President, Corporate Communications.

WARREN E. BUFFETT, 74, Director. Mr. Buffett has been a director of MEHC since March 2000. He is Chairman of the Board and Chief Executive Office of Berkshire Hathaway. Mr. Buffett is a Director of the Coca-Cola Company, the Gillette Company and The Washington Post Company.

WALTER SCOTT, JR., 73, Director. Mr. Scott has been a director of MEHC since June 1991. Mr. Scott was the Chairman and Chief Executive Officer of MEHC from January 8, 1992 until April 19, 1993. For more than the past five years, he has been Chairman of the Board of Directors of Level 3 Communications, Inc., a successor to certain businesses of Peter Kiewit & Sons', Inc. Mr. Scott is a director of Peter Kiewit & Sons', Inc., Berkshire Hathaway, Burlington Resources, Inc., ConAgra, Inc., Valmont Industries, Inc., Kiewit Materials Co., Commonwealth Telephone Enterprises, Inc. and RCN Corporation. Mr. Scott is the father of W. David Scott.

MARC D. HAMBURG, 55, Director. Mr. Hamburg has been a director of MEHC since March 2000. He has served as Vice President – Chief Financial Officer of Berkshire Hathaway since October 1, 1992 and Treasurer since June 1, 1987, his date of employment with Berkshire Hathaway.

W. DAVID SCOTT, 43, Director. Mr. Scott has been a director of MEHC since March 2000. Mr. Scott formed Magnum Resources, Inc., a commercial real estate investment and management company, in October 1994 and has served as its President and Chief Executive Officer since its inception. Before forming Magnum Resources, Mr. Scott worked for America First Companies, Cornerstone Banking Group and Peter Kiewit & Sons', Inc. Mr. Scott has been a director of America First Mortgage Investments, Inc., a mortgage REIT, since 1998. Mr. Scott is the son of Walter Scott, Jr.

EDGAR D. ARONSON, 70, Director. Mr. Aronson has been a director of MEHC since 1983. Mr. Aronson founded EDACO, Inc., a private venture capital company, in 1981, and has been President of EDACO, Inc. since that time. Prior to that, Mr. Aronson was Chairman of Dillon, Read International from 1979 to 1981 and a General Partner in charge of the International Department of Salomon Brothers Inc. from 1973 to 1979. Mr. Aronson served during 1962-1968 as Vice President consecutively in the International Departments of First National Bank of Chicago and Republic National Bank of New York. He founded the International Department of Salomon Brothers and Hutzler in 1968.

JOHN K. BOYER, 60, Director. Mr. Boyer has been a director of MEHC since March 2000. He is a partner with Fraser, Stryker, Meusey, Olson, Boyer & Bloch, P.C. where he has practiced from 1973 to present with emphasis on corporate, commercial, federal, state, and local taxation.

STANLEY J. BRIGHT, 64, Director. Mr. Bright was Chairman and Chief Executive Officer of MidAmerican Energy from July 1, 1995 until March 1999. Mr. Bright joined Iowa-Illinois Gas and Electric Company (a predecessor of MidAmerican Energy) as Vice President and Chief Financial Officer in 1986, became a director in 1987, President and Chief Operating Officer in 1990, and Chairman and Chief Executive Officer in 1991.

RICHARD R. JAROS, 52, Director. Mr. Jaros has been a director of MEHC since March 1991. Mr. Jaros served as President and Chief Operating Officer of MEHC from January 8, 1992 to April 19, 1993 and as Chairman of the Board from April 19, 1993 to May 1994. Until July 1997, Mr. Jaros was Executive Vice President and Chief Financial Officer of Peter Kiewit & Sons', Inc. and President of Kiewit Diversified Group, Inc., which is now Level 3 Communications, Inc. Mr. Jaros serves as director of Commonwealth Telephone Enterprises, Inc., RCN Corporation and Level 3 Communications, Inc.

Audit Committee Members and Financial Experts

The audit committee of the Board of Directors is comprised of Messrs. Marc D. Hamburg and Richard R. Jaros. The Board of Directors has determined that Messrs. Hamburg and Jaros qualify as "audit committee financial experts," as defined by Securities and Exchange Commission Rules, based on their education, experience and background. Mr. Jaros is independent as that term is used in Item 7(d) (3) (IV) of Schedule 14A under the Exchange Act.

Code of Ethics

MEHC has adopted a code of ethics that applies to its principal executive officer, its principal financial officer, its chief accounting officer and certain other covered officers. The code of ethics is filed as an exhibit to this annual report on Form 10-K.

Item 11. Executive Compensation.

The following table sets forth the compensation of MEHC's Chief Executive Officer and its four other most highly compensated executive officers who were employed as of December 31, 2004, which MEHC refers to as its Named Executive Officers. Information is provided regarding its Named Executive Officers for the last three fiscal years during which they were its executive officers, if applicable.

Name and Principal Positions	Year Ended Dec. 31	Salary [(1)]	Bonus [(1)]	Other Annual Comp[(2)]	LTIP Payouts	All Other Comp[(3)]
David L. Sokol	2004	$800,000	$ 2,500,000	$ 131,644	$ -	$ 9,995
Chairman and Chief	2003	800,000	2,750,000	141,501	-	9,800
Executive Officer	2002	800,000	2,750,000	27,232,047	-	8,850
Gregory E. Abel	2004	720,000	2,200,000	80,424	-	9,995
President and	2003	700,000	2,200,000	87,162	-	9,800
Chief Operating Officer	2002	540,000	2,200,000	-	-	8,857
Patrick J. Goodman	2004	290,000	295,000	-	257,664	88,391
Senior Vice President and	2003	275,000	285,000	-	-	108,631
Chief Financial Officer	2002	248,000	260,000	209,970	-	(16,342)
Douglas L. Anderson	2004	270,000	240,000	-	151,585	77,145
Senior Vice President and	2003	260,000	240,000	-	-	83,703
General Counsel	2002	200,000	220,000	-	-	(7,289)
Keith D. Hartje	2004	180,000	65,000	-	128,847	54,774
Senior Vice President,	2003	180,000	65,000	-	-	71,317
Communications, General	2002	180,000	65,000	-	-	(3,015)
Services and Safety Audit and						
Compliance						

(1) Includes amounts voluntarily deferred by the executive, if applicable.

(2) Consists of perquisites and other benefits if the aggregate amount of such benefits exceeds the lesser of either $50,000 or 10% of the total of salary and bonus reported for the Named Executive Officer. The amounts shown include the personal use of aircraft for 2004 for Mr. Sokol of $100,726 and for Mr. Abel of $73,859.

(3) Consists of the 2004 earnings on the MEHC Long-Term Incentive Partnership Plan ("LTIP") awards not paid out in 2004 and 401(k) plan contributions. For 2004, LTIP earnings on awards not paid out in 2004 were $78,396 for Mr. Goodman, $67,150 for Mr. Anderson and $44,979 for Mr. Hartje. Messrs. Sokol and Abel are not participants in the LTIP. Additionally, the amounts shown include company 401(k) contributions for 2004 for Messrs. Sokol, Abel, Goodman and Anderson of $9,995 and for Mr. Hartje of $9,795.

Pursuant to MEHC's Executive Incremental Profit Sharing Plan, Messrs. Sokol and Abel are each eligible to receive a one-time profit sharing award of $11.25 million, $18.75 million or $37.5 million based upon achieving specified adjusted diluted earnings per share targets for any calendar year from 2004 through 2007 and continued employment during such time.

Option Grants in Last Fiscal Year

MEHC did not grant any options during 2004.

Aggregated Option Exercises In Last Fiscal Year And Fiscal Year End Option Values

The following table sets forth the option exercises and the number of securities underlying exercisable and unexercisable options held by each of its Named Executive Officers at December 31, 2004.

Name	Shares Acquired On Exercise (#)	Value Realized	Underlying Unexercised Options Held (#) Exercisable	Underlying Unexercised Options Held (#) Unexercisable	Value of Unexercised In-the-money Options ($) (1) Exercisable	Value of Unexercised In-the-money Options ($) (1) Unexercisable
David Sokol	-	-	1,399,277	-	$113,073,927	N/A
Gregory E. Abel	-	-	649,052	-	$ 55,748,672	N/A
Patrick J. Goodman	-	-	-	-	-	-
Douglas L. Anderson	-	-	-	-	-	-
Keith D. Hartje	-	-	-	-	-	-

(1) On March 14, 2000, MEHC was acquired by a private investor group. As a privately held company, MEHC has no publicly traded equity securities. The value shown is based on an assumed fair market value of the stock of $113 per share as of December 31, 2004, as agreed to by MEHC stockholders.

Long-Term Incentive Plans – Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation Or Payout	Threshold ($) (1)	Target ($) (1)	Maximum ($) (1)
Patrick J. Goodman	N/A	December 31, 2008	40,000	N/A	N/A
Douglas L. Anderson	N/A	December 31, 2008	40,000	N/A	N/A
Keith D. Hartje	N/A	December 31, 2008	40,000	N/A	N/A

(1) The awards shown in the foregoing table are made pursuant to the LTIP. The amounts shown are dollar amounts credited to an investment account for the benefit of the named executive officers and such amounts vest equally over five years (starting with year 2004) with any unvested balances forfeited upon termination of employment. Vested balances (including any investment performance profits or losses thereon) are paid to the participant at the time of termination. Once an award is fully vested, the participant may elect to defer or receive payment of part or the entire award. Awards are credited or reduced with annual interest or loss based on a composite of funds or indices. Because the amounts to be paid out may increase or decrease depending on investment performance, the ultimate benefits are undeterminable and the payouts do not have a "target" or "maximum" amount.

Compensation of Directors

All directors, excluding Messrs. Sokol, Abel, Buffett and Walter Scott Jr., are paid an annual retainer fee of $24,000 and a fee of $500 per day for attendance at Board and Committee meetings. Directors who are employees are not entitled to receive such fees. All directors are reimbursed for their expenses incurred in attending Board meetings.

Retirement Plans

The MidAmerican Energy Company Supplemental Retirement Plan for Designated Officers (the "SERP"), provides additional retirement benefits to designated participants, as determined by the Board of Directors. Messrs. Sokol, Abel, Goodman and Hartje are participants in the SERP. The SERP provides annual retirement benefits up to sixty-five percent of a participant's Total Cash Compensation in effect immediately prior to retirement, subject to a $1 million maximum retirement benefit. "Total Cash Compensation" means the highest amount payable to a participant as monthly base salary during the five years immediately prior to retirement multiplied by 12 plus the average of the participant's last three years awards under an annual incentive bonus program and special, additional or non-recurring bonus awards, if any, that are required to be included in Total Cash Compensation pursuant to a participant's employment agreement or approved for inclusion by the Board. Participants must be credited with five years of service to be eligible to receive benefits under the SERP. Each of the Company's Named Executive Officers has or will have five years of credited service with the Company as of their respective normal retirement age and will be eligible to receive benefits under the SERP. A participant who elects early retirement is entitled to reduced benefits under the SERP, however, in accordance with their respective employment agreements, Messrs. Sokol and Abel are eligible to receive the maximum retirement benefit at age 47. A survivor benefit is payable to a surviving spouse under the SERP. Benefits from the SERP will be paid out of general corporate funds; however, through a Rabbi trust, the Company maintains life insurance on the participants in amounts expected to be sufficient to fund the after-tax cost of the projected benefits. Deferred compensation is considered part of the salary covered by the SERP.

The SERP benefit will be reduced by the amount of the participant's regular retirement benefit under the MidAmerican Energy Company Cash Balance Retirement Plan (the "MidAmerican Retirement Plan"), which became effective January 1, 1997, and by benefits under the Iowa Resources Inc. and Subsidiaries Supplemental Retirement Income Plan (the "IOR Supplemental Plan"), as applicable.

Part A of IOR Supplemental Plan provides retirement benefits up to sixty-five percent of a participant's highest annual salary during the five years prior to retirement reduced by the participant's MidAmerican Retirement Plan benefit. The percentage applied is based on years of credited service. A participant who elects early retirement is entitled to reduced benefits under the plan. A survivor benefit is payable to a surviving spouse. Benefits are adjusted annually for inflation. Part B of the IOR Supplemental Plan provides that an additional one hundred-fifty percent of annual salary is to be paid out to participants at the rate of ten percent per year over fifteen years, except in the event of a participant's death, in which event the unpaid balance would be paid to the participant's beneficiary or estate. Deferred compensation is considered part of the salary covered by the IOR Supplemental Plan.

The MidAmerican Retirement Plan replaced retirement plans of predecessor companies that were structured as traditional, defined benefit plans. Under the MidAmerican Retirement Plan, each participant has an account, for record keeping purposes only, to which credits are allocated each payroll period based upon a percentage of the participant's salary paid in the current pay period. In addition, all balances in the accounts of participants earn a fixed rate of interest that is credited annually. The interest rate for a particular year is based on the constant maturity Treasury yield plus seven-tenths of one percentage point. At retirement, or other termination of employment, an amount equal to the vested balance then credited to the account is payable to the participant in the form of a lump sum or a form of annuity for the entire benefit under the MidAmerican Retirement Plan.

The table below shows the estimated aggregate annual benefits payable under the SERP and the MidAmerican Retirement Plan. The amounts exclude Social Security and are based on a straight life annuity and retirement at ages 55, 60 and 65. Federal law limits the amount of benefits payable to an individual through the tax qualified defined benefit and contribution plans, and benefits exceeding such limitation are payable under the SERP.

Total Cash Compensation at Retirement ($)	Estimated Annual Benefit Age of Retirement 55	60	65
$ 400,000	$ 220,000	$ 240,000	$ 260,000
500,000	275,000	300,000	325,000
600,000	330,000	360,000	390,000
700,000	385,000	420,000	455,000
800,000	440,000	480,000	520,000
900,000	495,000	540,000	585,000
1,000,000	550,000	600,000	650,000
1,250,000	687,500	750,000	812,500
1,500,000	825,000	900,000	975,000
1,750,000	962,500	1,000,000	1,000,000
$ 2,000,000 and greater	$ 1,000,000	$ 1,000,000	$ 1,000,000

Employment Agreements

Pursuant to his employment agreement, Mr. Sokol serves as Chairman of MEHC's Board of Directors and Chief Executive Officer. The employment agreement provides that Mr. Sokol is to receive an annual base salary of not less than $750,000, senior executive employee benefits and annual bonus awards that shall not be less than $675,000. Subject to an annual renewal provision, such agreement is scheduled to expire on August 21, 2005.

The employment agreement provides that MEHC may terminate the employment of Mr. Sokol with cause, in which case MEHC is to pay to him any accrued but unpaid salary and a bonus of not less than the minimum annual bonus, or due to death, permanent disability or other than for cause, including a change in control, in which case Mr. Sokol is entitled to receive an amount equal to three times the sum of his annual salary then in effect and the greater of his minimum annual bonus or his average annual bonus for the two preceding years, as well as three years of accelerated option vesting plus continuation of his senior executive employee benefits (or the economic equivalent thereof) for three years. If Mr. Sokol resigns, MEHC is to pay to him any accrued but unpaid salary and a bonus of not less than the annual minimum bonus, unless he resigns for good reason in which case he will receive the same benefits as if he were terminated other than for cause.

In the event Mr. Sokol has relinquished his position as Chief Executive Officer and is subsequently terminated as Chairman of the Board due to death, disability or other than for cause, he is entitled to (i) any accrued but unpaid salary plus an amount equal to the aggregate annual salary that would have been paid to him through the fifth anniversary of the date he commenced his employment solely as Chairman of the Board, (ii) the immediate vesting of all of his options, and (iii) the continuation of his senior executive employee benefits (or the economic equivalent thereof) through such fifth anniversary. If Mr. Sokol relinquishes his position as Chief Executive Officer but offers to remain employed as the Chairman of the Board, he is to receive a special achievement bonus equal to two times the sum of his annual salary then in effect and the greater of his minimum annual bonus or his average annual bonus for the two preceding years, as well as two years of accelerated option vesting.

Under the terms of separate employment agreements with MEHC, each of Messrs. Abel and Goodman is entitled to receive two years base salary continuation, payments in respect of average bonuses for the prior two years and two years continued option vesting in the event MEHC terminates his employment other than for cause. If such persons were terminated without cause, Messrs. Sokol, Abel and Goodman would currently be entitled to be paid approximately $10,650,000, $5,750,000 and $1,200,000, respectively, without giving effect to any tax related provisions.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding beneficial ownership of the shares of MEHC's common stock and certain information with respect to the beneficial ownership of each director, its Named Executive Officers and all directors and executive officers as a group as of January 31, 2005.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned (2)	Percentage Of Class (2)
Common Stock:		
Walter Scott, Jr. (3)	5,000,000	55.06%
David L. Sokol (4)	1,523,482	14.54%
Berkshire Hathaway (5)	900,942	9.92%
Gregory E. Abel (6)	704,992	7.25%
W. David Scott (7)	624,350	6.88%
Douglas L. Anderson	-	-
Edgar D. Aronson	-	-
Stanley J. Bright	-	-
John K. Boyer	-	-
Warren E. Buffett (8)	-	-
Patrick J. Goodman	-	-
Marc D. Hamburg (8)	-	-
Richard R. Jaros	-	-
Keith D. Hartje	-	-
All directors and executive officers as a group (14 persons)	8,753,766	77.40%

(1) Unless otherwise indicated, each address is c/o MEHC at 666 Grand Avenue, 29th Floor, Des Moines, Iowa 50309.

(2) Includes shares which the listed beneficial owner is deemed to have the right to acquire beneficial ownership under Rule 13d-3(d) under the Securities Exchange Act, including, among other things, shares which the listed beneficial owner has the right to acquire within 60 days.

(3) Excludes 3 million shares held by family members and family controlled trusts and corporations ("Scott Family Interests") as to which Mr. Scott disclaims beneficial ownership. Such beneficial owner's address is 1000 Kiewit Plaza, Omaha, Nebraska 68131.

(4) Includes options to purchase 1,399,277 shares of common stock that are exercisable within 60 days.

(5) Such beneficial owner's address is 1440 Kiewit Plaza, Omaha, Nebraska 68131.

(6) Includes options to purchase 649,052 shares of common stock which are exercisable within 60 days. Excludes 10,041 shares reserved for issuance pursuant to a deferred compensation plan.

(7) Includes shares held by trusts for the benefit of or controlled by W. David Scott. Such beneficial owner's address is 11422 Miracle Hills Drive, Suite 400, Omaha, Nebraska 68154.

(8) Excludes 900,942 shares of common stock held by Berkshire Hathaway of which beneficial ownership of such shares is disclaimed.

The terms of MEHC's Zero Coupon Convertible Preferred Stock held by Berkshire Hathaway entitle the holder thereof to elect two members of its Board of Directors. The Zero Coupon Convertible Preferred Stock does not vote as to the election of any other members of MEHC's Board of Directors. Mr. Sokol's employment agreement gives him the right during the term of his employment to serve as a member of the Board of Directors and to designate two additional directors.

Pursuant to a shareholders agreement, following March 14, 2003, Walter Scott, Jr. or any of the Scott Family Interests are able to require Berkshire Hathaway to purchase, for an agreed value or an appraised value, any or all of Walter Scott, Jr.'s and the Scott Family Interests' shares of MEHC's common stock, provided that Berkshire Hathaway is then a purchaser of a type which is able to consummate such a purchase without causing it or any of its affiliates or MEHC or any of its subsidiaries to become subject to regulation as a registered holding company or a subsidiary of a registered holding company under PUHCA. Berkshire Hathaway is not currently such a purchaser. The consummation of such a transaction could result in a change in control with respect to MEHC.

MEHC's Amended and Restated Articles of Incorporation provide that each share of the Zero Coupon Convertible Preferred Stock is convertible at the option of the holder thereof into one conversion unit, which is one share of its common stock subject to certain adjustments as described in its articles, upon the occurrence of a Conversion Event. A "Conversion Event" includes (1) any conversion of Zero Coupon Convertible Preferred Stock that would not cause the holder of the shares of common stock issued upon conversion (or any affiliate of such holder) or the Company to become subject to regulation as a registered holding company or as a subsidiary of a registered holding company under PUHCA either as a result of the repeal or amendment of PUHCA, the number of shares involved or the identity of the holder of such shares and (2) a Company Sale. A "Company Sale" includes MEHC's involuntary or voluntary liquidation, dissolution, recapitalization, winding-up or termination and mergers, consolidations or sale of all or substantially all of its assets. The conversion by Berkshire Hathaway of its shares of Zero Coupon Convertible Preferred Stock into MEHC's common stock could result in a change in control with respect to beneficial ownership of its voting securities as calculated pursuant to Rule 13d-3(d) under the Securities Exchange Act.

Item 13. Certain Relationships and Related Transactions.

Under a subscription agreement with MEHC, which expires in March 2007, Berkshire Hathaway has agreed to purchase, under certain circumstances, additional 11% trust issued mandatorily redeemable preferred securities in the event that certain outstanding trust preferred securities of MEHC which were outstanding prior to the closing of its acquisition by a private investor group on March 14, 2000 are tendered for conversion to cash by the current holders.

MEHC provided a guarantee in favor of a third party lender in connection with a $1,663,998.75 loan from such lender to its President, Gregory E. Abel, in March 2000. The loan matures on April 1, 2010. The proceeds of this loan were used by Mr. Abel to purchase 47,475 shares of MEHC's common stock. Such common stock (together with 8,465 additional shares of common stock owned by Mr. Abel) also secures the loan. The entire original principal amount of the loan and the guarantee remain presently outstanding.

In order to finance its acquisition of Northern Natural Gas, on August 16, 2002, MEHC sold to Berkshire Hathaway $950.0 million in aggregate principal amount of the 11% mandatorily redeemable trust issued preferred securities Series A, of its subsidiary trust, MidAmerican Capital Trust II, due August 31, 2012. The transaction was a private placement pursuant to Section 4(1) of the Securities Act and did not involve any underwriters, underwriting discounts or commissions. Scheduled principal payments began in August 2003. Messrs. Warren E. Buffett and Walter Scott, Jr. are members of the Board of Directors of Berkshire Hathaway. Messrs. Buffett and Marc D. Hamburg are executive officers of Berkshire Hathaway.

On January 6, 2004, MEHC purchased a portion of the shares of common stock owned by Mr. Sokol for an aggregate purchase price of $20.0 million.

Compensation Committee Interlocks and Insider Participation

The compensation committee of the Board of Directors is comprised of Messrs. Warren E. Buffett and Walter Scott, Jr. Mr. Walter Scott, Jr. is a former officer of the Company. See "Certain Relationships and Related Transactions."

Item 14. Principal Accountant Fees and Services.

Aggregate fees billed to the Company as a consolidated entity during the fiscal years ending December 31, 2004 and 2003 by the Company's principal accounting firm, Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche"), are set forth below. The audit committee has considered whether the provision of the non-audit services described below is compatible with maintaining the principal accountant's independence.

	Year Ended December 31,	
	2004	2003
	(in millions)	
Audit Fees (1)	$ 3.2	$ 2.6
Audit-Related Fees (2)	0.1	0.3
Tax Fees (3)	0.4	0.9
All Other Fees (4)	-	-
Total aggregate fees billed	$ 3.7	$ 3.8

(1) Includes the aggregate fees billed for each of the last two fiscal years for professional services rendered by Deloitte & Touche for the audit of the Company's annual financial statements and the review of financial statements included in the Company's Form 10-Q or for services that are normally provided by Deloitte & Touche in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) Includes the aggregate fees billed in each of the last two fiscal years for assurance and related services by Deloitte & Touche that are reasonably related to the performance of the audit or review of the Company's financial statements. Services included in this category include audits of benefit plans, due diligence for possible acquisitions and consultation pertaining to new and proposed accounting and regulatory rules.

(3) Includes the aggregate fees billed in each of the last two fiscal years for professional services rendered by Deloitte & Touche for tax compliance, tax advice, and tax planning.

(4) Includes the aggregate fees billed in each of the last two fiscal years for products and services provided by Deloitte & Touche, other than the services reported as "Audit Fees," "Audit-Related Fees," or "Tax Fees".

The audit committee reviewed the non-audit services rendered by Deloitte & Touche in and for fiscal 2004 as set forth in the above table and concluded that such services were compatible with maintaining the principal accountant's independence. Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by the Company's principal accountant are approved in advance by the audit committee to assure that such services do not impair the principal accountant's independence from the Company. Accordingly, the audit committee has an Audit and Non-Audit Services Pre-Approval Policy (the "Policy") which sets forth the procedures and the conditions pursuant to which services to be performed by the principal accountant are to be pre-approved. Pursuant to the Policy, certain services described in detail in the Policy may be pre-approved on an annual basis together with pre-approved maximum fee levels for such services. The services eligible for annual pre-approval consist of services that would be included under the categories of Audit Fees, Audit-Related Fees and Tax Fees. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the principal accountant. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the audit committee prior to being performed. The audit committee may delegate authority to pre-approve audit and non-audit services to any member of the audit committee, but may not delegate such authority to management.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements and Schedules

(i) Financial Statements

Financial Statements are included in Item 8 of this Form 10-K.

(ii) Financial Statement Schedules

See Schedule I on page 112.
See Schedule II on page 115.

Schedules not listed above have been omitted because they are either not applicable, not required or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

(b) Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of this Annual Report.

(c) Financial statements required by Regulation S-X, which are excluded from the Annual Report by Rule 14a-3(b).

Not applicable.

Schedule I

MidAmerican Energy Holdings Company
Parent Company Only
Condensed Balance Sheets
As of December 31, 2004 and 2003
(Amounts in thousands)

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 349,689	$ 328,750
Investments in and advances to subsidiaries and joint ventures	6,141,843	5,731,915
Equipment, net	18,881	15,388
Goodwill	1,299,560	1,370,241
Deferred charges and other assets	168,805	180,331
Total assets	$7,978,778	$7,626,625
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other liabilities	$ 55,535	$ 52,934
Current portion of senior debt	260,000	-
Current portion of subordinated debt	188,543	100,000
Total current liabilities	504,078	152,934
Other long-term accrued liabilities	35,142	31,298
Notes payable — affiliate	76,000	86,045
Senior debt	2,771,957	2,777,878
Subordinated debt	1,585,810	1,772,146
Total liabilities	4,972,987	4,820,301
Deferred income	30,229	32,916
Minority interest	4,403	1,963
Stockholders' equity:		
Zero coupon convertible preferred stock — authorized 50,000 shares, no par value; 41,263 shares outstanding	-	-
Common stock — authorized 60,000 shares, no par value; 9,081 and 9,281 shares issued and outstanding at December 31, 2004 and 2003, respectively	-	-
Additional paid in capital	1,950,663	1,957,277
Retained earnings	1,156,843	999,627
Accumulated other comprehensive loss, net	(136,347)	(185,459)
Total stockholders' equity	2,971,159	2,771,445
Total liabilities and stockholders' equity	$7,978,778	$7,626,625

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

Schedule I

MidAmerican Energy Holdings Company
Parent Company Only (continued)
Condensed Statements of Operations
For the three years ended December 31, 2004
(Amounts in thousands)

	2004	2003	2002
Revenues:			
Equity in undistributed earnings of subsidiary companies and joint ventures	$ 103,176	$ 375,666	$ 250,517
Dividends and distributions from subsidiary companies and joint ventures	330,678	318,665	351,847
Interest and other income	11,713	19,377	778
Total revenues	445,567	713,708	603,142
Costs and expenses:			
General and administration	30,209	35,503	31,914
Depreciation and amortization	5,219	5,225	5,271
Interest, net of capitalized interest	399,394	247,509	164,290
Total costs and expenses	434,822	288,237	201,475
Income before income taxes	10,745	425,471	401,667
Income tax benefit	(159,461)	(160,298)	(126,043)
Income before preferred dividends of subsidiaries	170,206	585,769	527,710
Preferred dividends of subsidiaries	-	170,151	147,667
Net income available to common and preferred stockholders	$ 170,206	$ 415,618	$ 380,043

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

Schedule I

MidAmerican Energy Holdings Company
Parent Company Only (continued)
Condensed Statements of Cash Flows
For the three years ended December 31, 2004
(Amounts in thousands)

	2004	2003	2002
Cash flows from operating activities	$(228,468)	$ (230,354)	$ (211,704)
Cash flows from investing activities:			
Decrease (increase) in advances to and investments in subsidiaries and joint ventures	116,167	228,083	(1,654,755)
Other, net	6,803	(21,031)	(2,840)
Net cash flows from investing activities	122,970	207,052	(1,657,595)
Cash flows from financing activities:			
Purchase and retirement of common stock	(20,000)	-	-
Repayment of subordinated debt	(100,000)	(198,958)	-
Proceeds from senior debt	249,765	449,295	700,000
Repayments of senior debt	-	(215,000)	-
Proceeds from issuance of preferred stock	-	-	402,000
Proceeds from issuance of trust preferred securities	-	-	1,273,000
Net repayment of revolving credit facility	-	-	(153,500)
Other	(3,328)	(3,914)	(34,096)
Net cash flows from financing activities	126,437	31,423	2,187,404
Net change in cash and cash equivalents	20,939	8,121	318,105
Cash and cash equivalents at beginning of year	328,750	320,629	2,524
Cash and cash equivalents at end of year	$ 349,689	$ 328,750	$ 320,629
Supplemental disclosures:			
Interest paid, net of interest capitalized	$ 392,390	$ 219,910	$ 164,267
Income tax receipts	$(138,757)	$ (135,025)	$ (81,656)

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

Schedule II

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 31, 2004

(Amounts in thousands)

Column A Description	Column B Balance at Beginning of Year	Column C Charged to Income	Other Accounts	Acquisition Reserves (2)	Column D Deductions	Column E Balance at End of Year
Reserves Deducted From Assets To Which They Apply:						
Reserve for uncollectible accounts receivable:						
Year ended 2004	$ 26,004	$ 15,304	$ -	$ -	$ (15,275)	$ 26,033
Year ended 2003	$ 39,742	$ 13,620	$ -	$ -	$ (27,358)	$ 26,004
Year ended 2002	$ 7,319	$ 27,782	$ -	$ 10,142	$ (5,501)	$ 39,742
Reserves Not Deducted From Assets(1):						
Year ended 2004	$ 17,417	$ 4,048	$ -	$ -	$ (10,617)	$ 10,848
Year ended 2003	$ 10,981	$ 10,527	$ -	$ -	$ (4,091)	$ 17,417
Year ended 2002	$ 13,631	$ 2,798	$ 247	$ -	$ (5,695)	$ 10,981

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

(1) Reserves not deducted from assets include estimated liabilities for losses retained by MEHC for workers compensation, public liability and property damage claims.

(2) Acquisition reserves represent the reserves recorded at Kern River and Northern Natural Gas at the date of acquisition.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Des Moines, State of Iowa, on this 28th day of February 2005.

MIDAMERICAN ENERGY HOLDINGS COMPANY

/s/ David L. Sokol*
David L. Sokol
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Date
/s/ David L. Sokol* David L. Sokol Chairman of the Board, Chief Executive Officer, and Director	February 28, 2005
/s/ Gregory E. Abel* Gregory E. Abel President, Chief Operating Officer and Director	February 28, 2005
/s/ Patrick J. Goodman* Patrick J. Goodman Senior Vice President and Chief Financial Officer	February 28, 2005
/s/ Edgar D. Aronson* Edgar D. Aronson Director	February 28, 2005
/s/ Stanley J. Bright* Stanley J. Bright Director	February 28, 2005
/s/ Walter Scott, Jr.* Walter Scott, Jr. Director	February 28, 2005
/s/ Marc D. Hamburg* Marc D. Hamburg Director	February 28, 2005
/s/ Warren E. Buffett* Warren E. Buffett Director	February 28, 2005

Signature	Date
/s/ John K. Boyer* John K. Boyer Director	February 28, 2005
/s/ W. David Scott* W. David Scott Director	February 28, 2005
/s/ Richard R. Jaros* Richard R. Jaros Director	February 28, 2005
* By: /s/ Douglas L. Anderson Douglas L. Anderson Attorney-in-Fact	February 28, 2005

EXHIBIT INDEX

Exhibit No.

3.1 Amended and Restated Articles of Incorporation of MidAmerican Energy Holdings Company effective March 6, 2002 (incorporated by reference to Exhibit 3.3 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).

3.2 Bylaws of MidAmerican Energy Holdings Company (incorporated by reference to Exhibit 3.2 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

4.1 Indenture, dated as of October 4, 2002, by and between MidAmerican Energy Holdings Company and The Bank of New York, relating to the 4.625% Senior Notes due 2007 and the 5.875% Senior Notes due 2012 (incorporated by reference to Exhibit 4.1 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.2 First Supplemental Indenture, dated as of October 4, 2002, by and between MidAmerican Energy Holdings Company and The Bank of New York, relating to the 4.625% Senior Notes due 2007 and the 5.875% Senior Notes due 2012 (incorporated by reference to Exhibit 4.2 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.3 Registration Rights Agreement, dated as of October 1, 2002, by and between MidAmerican Energy Holdings Company and Credit Suisse First Boston (as Representative for the Initial Purchasers) (incorporated by reference to Exhibit 4.3 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.4 Indenture for the 6 1/4% Convertible Junior Subordinated Debentures due 2012, dated as of February 26, 1997, between MidAmerican Energy Holdings Company, as issuer, and the Bank of New York, as Trustee (incorporated by reference to Exhibit 10.129 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1995).

4.5 Indenture, dated as of October 15, 1997, among MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated October 23, 1997).

4.6 Form of First Supplemental Indenture for the 7.63% Senior Notes in the principal amount of $350,000,000 due 2007, dated as of October 28, 1997, among MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to Exhibit 4.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated October 23, 1997).

4.7 Form of Second Supplemental Indenture for the 6.96% Senior Notes in the principal amount of $215,000,000 due 2003, 7.23% Senior Notes in the principal amount of $260,000,000 due 2005, 7.52% Senior Notes in the principal amount of $450,000,000 due 2008, and 8.48% Senior Notes in the principal amount of $475,000,000 due 2028, dated as of September 22, 1998 between MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated September 17, 1998.)

4.8 Form of Third Supplemental Indenture for the 7.52% Senior Notes in the principal amount of $100,000,000 due 2008, dated as of November 13, 1998, between MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated November 10, 1998).

Exhibit No.

4.9 Indenture, dated as of March 14, 2000, among MidAmerican Energy Holdings Company and the Bank of New York, as Trustee (incorporated by reference to Exhibit 4.9 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

4.10 Subscription Agreement, dated as of March 14, 2000, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.10 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

4.11 Indenture, dated as of March 12, 2002, between MidAmerican Energy Holdings Company and the Bank of New York, as Trustee (incorporated by reference to Exhibit 4.11 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).

4.12 Subscription Agreement, dated as of March 7, 2002, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.12 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).

4.13 Subscription Agreement, dated as of March 12, 2002, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.13 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).

4.14 Amended and Restated Declaration of Trust of MidAmerican Capital Trust III, dated as of August 16, 2002 (incorporated by reference to Exhibit 4.14 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.15 Amended and Restated Declaration of Trust of MidAmerican Capital Trust II, dated as of March 12, 2002 (incorporated by reference to Exhibit 4.15 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.16 Amended and Restated Declaration of Trust of MidAmerican Capital Trust I, dated as of March 14, 2000 (incorporated by reference to Exhibit 4.16 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.17 Indenture, dated as of August 16, 2002, between MidAmerican Energy Holdings Company and the Bank of New York, as Trustee (incorporated by reference to Exhibit 4.17 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.18 Subscription Agreement, dated as of August 16, 2002, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.18 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

4.19 Shareholders Agreement, dated as of March 14, 2000 (incorporated by reference to Exhibit 4.19 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

10.1 Amended and Restated Employment Agreement between MidAmerican Energy Holdings Company and David L. Sokol, dated May 10, 1999 (incorporated by reference to Exhibit 10.1 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

10.2 Amendment No. 1 to the Amended and Restated Employment Agreement between MidAmerican Energy Holdings Company and David L. Sokol, dated March 14, 2000 (incorporated by reference to Exhibit 10.2 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

Exhibit No.

10.3	Non-Qualified Stock Option Agreements of David L. Sokol, dated March 14, 2000 (incorporated by reference to Exhibit 10.3 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
10.4	Amended and Restated Employment Agreement between MidAmerican Energy Holdings Company and Gregory E. Abel, dated May 10, 1999 (incorporated by reference to Exhibit 10.3 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
10.5	Non-Qualified Stock Option Agreements of Gregory E. Abel, dated March 14, 2000 (incorporated by reference to Exhibit 10.5 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
10.6	Employment Agreement between MidAmerican Energy Holdings Company and Patrick J. Goodman, dated April 21, 1999 (incorporated by reference to Exhibit 10.5 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
10.7	125 MW Power Plant-Upper Mahiao Agreement, dated September 6, 1993, between PNOC- Energy Development Corporation and Ormat, Inc. as amended by the First Amendment to 125 MW Power Plant Upper Mahiao Agreement, dated as of January 28, 1994, the Letter Agreement dated February 10, 1994, the Letter Agreement dated February 18, 1994 and the Fourth Amendment to 125 MW Power Plant-Upper Mahiao Agreement, dated as of March 7, 1994 (incorporated by reference to Exhibit 10.95 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.8	Credit Agreement, dated April 8, 1994, among CE Cebu Geothermal Power Company, Inc., the Banks thereto, Credit Suisse as Agent (incorporated by reference to Exhibit 10.96 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.9	Credit Agreement, dated as of April 8, 1994, between CE Cebu Geothermal Power Company, Inc., Export-Import Bank of the United States (incorporated by reference to Exhibit 10.97 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.10	Pledge Agreement, dated as of April 8, 1994, among CE Philippines Ltd, Ormat-Cebu Ltd., Credit Suisse as Collateral Agent and CE Cebu Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.98 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.11	Overseas Private Investment Corporation Contract of Insurance, dated April 8, 1994, between the Overseas Private Investment Corporation and the Company through its subsidiaries CE International Ltd., CE Philippines Ltd., and Ormat-Cebu Ltd. (incorporated by reference to Exhibit 10.99 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.12	180 MW Power Plant-Mahanagdong Agreement, dated September 18, 1993, between PNOC- Energy Development Corporation and CE Philippines Ltd. and the Company, as amended by the First Amendment to Mahanagdong Agreement, dated June 22, 1994, the Letter Agreement dated July 12, 1994, the Letter Agreement dated July 29, 1994, and the Fourth Amendment to Mahanagdong Agreement, dated March 3, 1995 (incorporated by reference to Exhibit 10.1 00 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.13	Credit Agreement, dated as of June 30, 1994, among CE Luzon Geothermal Power Company, Inc., American Pacific Finance Company, the Lenders party thereto, and Bank of America National Trust and Savings Association as Administrative Agent (incorporated by reference to Exhibit 10.101 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

Exhibit No.

10.14 Credit Agreement, dated as of June 30, 1994, between CE Luzon Geothermal Power Company, Inc. and Export-Import Bank of the United States (incorporated by reference to Exhibit 10.102 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.15 Finance Agreement, dated as of June 30, 1994, between CE Luzon Geothermal Power Company, Inc. and Overseas Private Investment Corporation (incorporated by reference to Exhibit 10.103 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.16 Pledge Agreement, dated as of June 30, 1994, among CE Mahanagdong Ltd., Kiewit Energy International (Bermuda) Ltd., Bank of America National Trust and Savings Association as Collateral Agent and CE Luzon Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.104 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.17 Overseas Private Investment Corporation Contract of Insurance, dated July 29, 1994, between Overseas Private Investment Corporation and the Company, CE International Ltd., CE Mahanagdong Ltd. and American Pacific Finance Company and Amendment No. 1, dated August 3, 1994 (incorporated by reference to Exhibit 10.105 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.18 231 MW Power Plant-Malitbog Agreement, dated September 10, 1993, between PNOC- Energy Development Corporation and Magma Power Company and the First and Second Amendments thereto, dated December 8, 1993 and March 10, 1994, respectively (incorporated by reference to Exhibit 10.106 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.19 Credit Agreement, dated as of November 10, 1994, among Visayas Power Capital Corporation, the Banks parties thereto and Credit Suisse, as Bank Agent (incorporated by reference to Exhibit 10.107 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.20 Finance Agreement, dated as of November 10, 1994, between Visayas Geothermal Power Company and Overseas Private Investment Corporation (incorporated by reference to Exhibit 10.108 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.21 Pledge and Security Agreement, dated as of November 10, 1994, among Broad Street Contract Services, Inc., Magma Power Company, Magma Netherlands B.V. and Credit Suisse, as Bank Agent (incorporated by reference to Exhibit 10.109 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

10.22 Overseas Private Investment Corporation Contract of Insurance, dated December 21, 1994, between Overseas Private Investment Corporation and Magma Netherlands, B.V. (incorporated by reference to Exhibit 10.110 to MidAmerican Energy Holdings Company's Annual Report on Form10-K for the year ended December 31, 1993).

10.23 Agreement as to Certain Common Representations, Warranties, Covenants and Other Terms, dated November 10, 1994, between Visayas Geothermal Power Company, Visayas Power Capital Corporation, Credit Suisse, as Bank Agent, Overseas Private Investment Corporation and the Banks named therein (incorporated by reference to Exhibit 10.111 to MidAmerican Energy Holdings Company's 1994 Annual Report on Form 10-K for the year ended December 31, 1993).

10.24 Trust Indenture, dated as of November 27, 1995, between the CE Casecnan Water and Energy Company, Inc. and Chemical Trust Company of California (incorporated by reference to Exhibit 4.1 to CE Casecnan Water and Energy Company, Inc.'s Registration Statement on Form S-4 dated January 25, 1996).

Exhibit No.

10.25 Amended and Restated Casecnan Project Agreement, dated June 26, 1995, between the National Irrigation Administration and CE Casecnan Water and Energy Company Inc. (incorporated by reference to Exhibit 10.1 to CE Casecnan Water and Energy Company, Inc.'s Registration Statement on Form S-4 dated January 25, 1996).

10.26 Indenture and First Supplemental Indenture, dated March 11, 1999, between MidAmerican Funding LLC and IBJ Whitehall Bank & Trust Company and the First Supplement thereto relating to the $700 million Senior Notes and Bonds (incorporated by reference to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1998).

10.27 General Mortgage Indenture and Deed of Trust, dated as of January 1, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4(b)-1 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1992, Commission File No. 1-10654).

10.28 First Supplemental Indenture, dated as of January 1, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4(b)-2 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1992, Commission File No. 1-10654).

10.29 Second Supplemental Indenture, dated as of January 15, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4(b)-3 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1992, Commission File No. 1-10654).

10.30 Third Supplemental Indenture, dated as of May 1, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4.4 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1993, Commission File No. 1-10654).

10.31 Fourth Supplemental Indenture, dated as of October 1, 1994, between Midwest Power Systems Inc. and Harris Trust and Savings Bank, Trustee (incorporated by reference to Exhibit 4.5 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1994, Commission File No. 1-10654).

10.32 Fifth Supplemental Indenture, dated as of November 1, 1994, between Midwest Power Systems Inc. and Harris Trust and Savings Bank, Trustee (incorporated by reference to Exhibit 4.6 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1994, Commission File No. 1-10654).

10.33 Sixth Supplemental Indenture, dated as of July 1, 1995, between Midwest Power Systems Inc. and Harris Trust and Savings Bank, Trustee (incorporated by reference to Exhibit 4.15 to the MidAmerican Energy Company Annual Report on Form 10-K for the year ended December 31, 1995, Commission File No. 1-11505).

10.34 Supplemental Agreement between CE Casecnan Water and Energy Company, Inc. and the Philippines National Irrigation Administration dated as of September 29, 2003 (incorporated by reference to Exhibit 98.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated October 15, 2003).

10.35 Sixth Amendment to 180 MW Power Plant-Mahanagdong Agreement, dated August 31, 2003, between PNOC-Energy Development Corporation and CE Luzon Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.44 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit No.

10.36 Third Amendment to 231 MW Power Plant-Malitbog Agreement, dated August 31, 2003, between PNOC-Energy Development Corporation and Visayas Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.45 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2003).

10.37 Seventh Amendment to 125 MW Power Plant-Upper Mahiao Agreement, dated August 31, 2003, between PNOC-Energy Development Corporation and CE Cebu Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.46 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2003).

10.38 Fiscal Agency Agreement, dated as of October 15, 2002, between Northern Natural Gas Company and J.P. Morgan Trust Company, National Association, Fiscal Agent, relating to the $300,000,000 in principal amount of the 5.375% Senior Notes due 2012. (incorporated by reference to Exhibit 10.47 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2003).

10.39 Trust Indenture, dated as of August 13, 2001, among Kern River Funding Corporation, Kern River Gas Transmission Company and the JP Morgan Chase Bank, as Trustee, relating to the $510,000,000 in principal amount of the 6.676% Senior Notes due 2016. (incorporated by reference to Exhibit 10.48 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2003).

10.40 Third Supplemental Indenture, dated as of May 1, 2003, among Kern River Funding Corporation, Kern River Gas Transmission Company and JPMorgan Chase Bank, as Trustee, relating to the $836,000,000 in principal amount of the 4.893% Senior Notes due 2018. (incorporated by reference to Exhibit 10.49 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2003).

10.41 CalEnergy Company, Inc. Voluntary Deferred Compensation Plan, effective December 1, 1997, First Amendment, dated as of August 17, 1999, and Second Amendment effective March 14, 2000 (incorporated by reference to Exhibit 10.50 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

10.42 MidAmerican Energy Holdings Company Executive Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10.51 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

10.43 MidAmerican Energy Company First Amended and Restated Supplemental Retirement Plan for Designated Officers dated as of May 10, 1999 (incorporated by reference to Exhibit 10.52 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

10.44 MidAmerican Energy Company Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

10.45 MidAmerican Energy Holdings Company Restated Deferred Compensation Plan-Board of Directors (incorporated by reference to Exhibit 10 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

10.46 MidAmerican Energy Company Combined Midwest Resources/Iowa Resources Restated Deferred Compensation Plan-Board of Directors (incorporated by reference to Exhibit 10.63 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

10.47 Share Sale Agreement, dated as of August 6, 2001, among NPower Yorkshire Limited, Innogy Holdings plc, CE Electric UK plc and Northern Electric plc (incorporated by reference to Exhibit 10.63 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).

Exhibit No.

10.48 Purchase Agreement, dated as of March 7, 2002, among The Williams Companies, Inc., Williams Gas Pipeline Company, LLC, Williams Western Pipeline Company LLC, Kern River Acquisition, LLC and MidAmerican Energy Holdings Company, KR Holding, LLC, KR Acquisition 1, LLC and KR Acquisition 2, LLC (incorporated by reference to Exhibit 99.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 28, 2002).

10.49 MidAmerican Energy Holdings Company Executive Incremental Profit Sharing Plan (incorporated by reference to Exhibit 10.2 of MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.)

10.50 Purchase and Sale Agreement, dated as of July 28, 2002, between Dynegy Inc., NNGC Holding Company, Inc. and MidAmerican Energy Holdings Company (incorporated by reference to Exhibit 99.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated July 30, 2002).

10.51 Trust Deed between CE Electric UK Funding Company, AMBAC Insurance UK Limited and The Law Debenture Trust Corporation, p.l.c. dated December 15, 1997 (incorporated by reference to Exhibit 99.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 30, 2004).

10.52 Insurance and Indemnity Agreement between CE Electric UK Funding Company and AMBAC Insurance UK Limited dated December 15, 1997 (incorporated by reference to Exhibit 99.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 30, 2004).

10.53 Supplemental Agreement to Insurance and Indemnity Agreement between CE Electric UK Funding Company and AMBAC Insurance UK Limited dated September 19, 2001 (incorporated by reference to Exhibit 99.3 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 30, 2004).

10.54 Fiscal Agency Agreement, dated as of May 4, 1993, among Northern Natural Gas Company, Enron Corp. and Continental Bank, National Association, Fiscal Agent, relating to the $100,000,000 in principal amount of the 6.875% Senior Notes due 2005 (incorporated by reference to Exhibit 10.68 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.55 Fiscal Agency Agreement, dated as of September 4, 1998, between Northern Natural Gas Company and Chase Bank of Texas, National Association, Fiscal Agent, relating to the $150,000,000 in principal amount of the 6.75% Senior Notes due 2008 (incorporated by reference to Exhibit 10.69 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.56 Fiscal Agency Agreement, dated as of May 24, 1999, between Northern Natural Gas Company and Chase Bank of Texas, National Association, Fiscal Agent, relating to the $250,000,000 in principal amount of the 7.00% Senior Notes due 2011(incorporated by reference to Exhibit 10.70 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.57 Trust Indenture, dated as of September 10, 1999, between Cordova Funding Corporation and Chase Manhattan Bank and Trust Company, National Association, Trustee, relating to the $225,000,000 in principal amount of the 8.75% Senior Secured Bonds due 2019 (incorporated by reference to Exhibit 10.71 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.58 Indenture, dated as of December 15, 1997, among CE Electric UK Funding Company, The Bank of New York, as Trustee, and Banque Internationale A Luxembourg S.A., as Paying Agent (incorporated by reference to Exhibit 10.72 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

Exhibit No.

10.59 First Supplemental Indenture, dated as of December 15, 1997, among CE Electric UK Funding Company, The Bank of New York, Trustee, and Banque Internationale A Luxembourg S.A., Paying Agent, relating to the $125,000,000 in principal amount of the 6.853% Senior Notes due 2004 and to the $237,000,000 in principal amount of the 6.995% Senior Notes due 2007 (incorporated by reference to Exhibit 10.73 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.60 Trust Deed, dated as of February 4, 1998 among Yorkshire Power Finance Limited, Yorkshire Power Group Limited and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 7.25% Guaranteed Bonds due 2028 (incorporated by reference to Exhibit 10.74 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.61 First Supplemental Trust Deed, dated as of October 1, 2001, among Yorkshire Power Finance Limited, Yorkshire Power Group Limited and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 7.25% Guaranteed Bonds due 2028 (incorporated by reference to Exhibit 10.75 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.62 Third Supplemental Trust Deed, dated as of October 1, 2001, among Yorkshire Electricity Distribution plc, Yorkshire Electricity Group PLC and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 9.25% Bonds due 2020 (incorporated by reference to Exhibit 10.76 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.63 Indenture, dated as of February 1, 1998, and Second Supplemental Indenture, dated as of February 25, 1998, each among Yorkshire Power Finance Limited, Yorkshire Power Group Limited, The Bank of New York, Trustee, and Banque Internationale du Luxembourg S.A., Paying Agent, relating to the $300,000,000 in principal amount of the 6.496% Notes due 2008 (incorporated by reference to Exhibit 10.77 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.64 Indenture, dated as of February 1, 2000, among Yorkshire Power Finance 2 Limited, Yorkshire Power Group Limited and The Bank of New York, Trustee (incorporated by reference to Exhibit 10.78 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.65 First Supplemental Indenture, dated as of February 16, 2000, among Yorkshire Power Finance 2 Limited, Yorkshire Power Group Limited and The Bank of New York, Trustee, relating to the £155,000,000 in principal amount of the Reset Senior Notes due 2020 (incorporated by reference to Exhibit 10.79 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.66 Trust Agreement, dated as of February 1, 2000, among Yorkshire Power Group Limited, YPG Holdings LLC and The Bank of New York, Trustee, relating to the $250,000,000 in principal amount of the 8.25% Pass-Through Asset Trust Securities due 2005 (incorporated by reference to Exhibit 10.80 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

10.67 First Supplemental Trust Deed, dated as of September 27, 2001, among Northern Electric Finance plc, Northern Electric plc, Northern Electric Distribution Limited and The Law Debenture Trust Corporation p.l.c., Trustee, relating to the £100,000,000 in principal amount of the 8.625% Guaranteed Bonds due 2005 and to the £100,000,000 in principal amount of the 8.875% Guaranteed Bonds due 2020 (incorporated by reference to Exhibit 10.81 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

Exhibit No.

10.68	Stock Redemption Agreement, dated as of January 8, 2004, between David L. Sokol and MidAmerican Energy Holdings Company (incorporated by reference to Exhibit 10.82 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.69	Trust Deed, dated as of January 17, 1995, between Yorkshire Electricity Group plc and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 9 1/4% Bonds due 2020 (incorporated by reference to Exhibit 10.83 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.70	Master Trust Deed, dated as of October 16, 1995, among Northern Electric Finance plc, Northern Electric plc and The Law Debenture Trust Corporation p.l.c., Trustee, relating to the £100,000,000 in principal amount of the 8.625% Guaranteed Bonds due 2005 and to the £100,000,000 in principal amount of the 8.875% Guaranteed Bonds due 2020.
10.71	MidAmerican Energy Holdings Company Amended and Restated Long-Term Incentive Partnership Plan dated as of January 1, 2004.
14.1	MidAmerican Energy Holdings Company Code of Ethics for Chief Executive Officer, Chief Financial Officer and Other Covered Officers.
21.1	Subsidiaries of the Registrant.
24.1	Power of Attorney.
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer's Certificate Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer's Certificate Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 31.1

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, David L. Sokol, certify that:

1. I have reviewed this annual report on Form 10-K of MidAmerican Energy Holdings Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2005

/s/ David L. Sokol
David L. Sokol
Chairman and Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Patrick J. Goodman, certify that:

1. I have reviewed this annual report on Form 10-K of MidAmerican Energy Holdings Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2005

/s/ Patrick J. Goodman
Patrick J. Goodman
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

I, David L. Sokol, Chairman and Chief Executive Officer of MidAmerican Energy Holdings Company (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: February 28, 2005

/s/ David L. Sokol
David L. Sokol
Chairman and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Patrick J. Goodman, Senior Vice President and Chief Financial Officer of MidAmerican Energy Holdings Company (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: February 28, 2005

/s/ Patrick J. Goodman
Patrick J. Goodman
Senior Vice President and Chief Financial

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

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

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

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

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

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

Q. Please describe the purpose of your testimony.

A. The chief purpose of my testimony is to provide an overview of the process by which shared services costs will be distributed to PacifiCorp and other MEHC subsidiaries after completion of the proposed transaction. Therefore, my testimony will address the creation of a shared services entity, allocation methodologies expected to be employed, the service contract that will govern the shared services to be rendered, and the expected costs to PacifiCorp of shared services under MEHC ownership, in contrast to those PacifiCorp experienced under Scottish Power plc ("ScottishPower") ownership. Additionally, I will address other accounting issues pertinent to this transaction that may be of interest to the Commission and sponsor some of the commitments in MEHC witness Gale's Exhibit PPL/301.

Accounting Changes

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

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

Shared Services

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

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

ScottishPower, but will incur costs of a similar nature from certain subsidiaries of MEHC.

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

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

Q. Please describe the new shared services company.

A. ServCo will be created as a direct subsidiary of MEHC. ServCo will be staffed with approximately ten (10) senior executives of MEHC and provide strategic management, coordination and corporate governance services to all MEHC subsidiaries, including board of directors support, strategic planning, financial planning and analysis, insurance, environmental compliance, financial reporting, human resources, legal, accounting and other administrative services.

Q. Will any PacifiCorp employees be transferred to the ServCo?

A. No.

Q. Why is MEHC forming a ServCo?

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

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

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

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

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

Q. How will costs from these two sources (ServCo and MEC) flow to PacifiCorp?

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

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

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

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

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

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

A. Costs and billings at ServCo will be accounted for using a system of accounts prescribed by the U.S. Securities and Exchange Commission ("SEC") in 17 CFR Ch. II. This system of accounts is aligned with the Federal Energy Regulatory Commission's ("FERC") uniform system of accounts. As a regulated public utility, MEC is required to use and account for costs using the FERC uniform system of accounts. Therefore, the system of accounts used to capture and bill shared costs by both the ServCo and MEC will be very similar. Such accounts will have an additional three-digit "sub-account" field to provide more descriptive detail of the type of cost activity involved. Also, a responsibility center field in the code block will establish budgetary control of amounts charged and will be descriptive of the department originally incurring the charges. Other segments of the code block to be used will capture cost elements (descriptive of the nature of costs, e.g., labor, payables, etc.) and project numbers. The code block used will accommodate a high degree of flexibility and capability in tracking and reporting costs.

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

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

Q. On what basis will shared services be charged?

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

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

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

Q. Will ServCo own assets used for shared services?

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

Q. Will ServCo be a for-profit entity?

A. No, ServCo will have neither profit nor losses. All costs incurred by ServCo, net of any income earned, will be directly charged when the benefiting organization can be specifically identified, and any residual indirect amounts will be allocated each month to MEHC and all benefiting subsidiaries. Shared services costs incurred by MEC on behalf of MEHC subsidiaries will also be fully allocated, to the extent not directly charged.

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

A. It is not expected that any significant administrative costs will originate from any

MEHC affiliate other than the two entities discussed above. However, when specific expertise is needed or available from other MEHC business platforms, the IASA provides the flexibility for any member of the MEHC group to request services at cost from other entities in the group. Services of this nature are situation-specific and not expected to be recurring.

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

Q. How will ServCo be capitalized?

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

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

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

Commission will be notified of anticipated or mandated changes to this cost allocation methodology. Of course, as specified in commitment 7(f) in Table 1 later in my testimony, the Commission will determine the appropriate corporate cost allocation for establishing rates.

Q. Why is the two-factor formula appropriate?

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

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

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

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

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

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

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

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

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

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

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

Commitments

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

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

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**	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.
I	**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.
J	**Cost Allocations**	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.

Q. Does this conclude your testimony?

A. Yes it does.

FIRST AMENDMENT
TO
INTERCOMPANY ADMINISTRATIVE SERVICE AGREEMENT

This First Amendment is made and entered into this first day of December, 1996, by and between MidAmerican Energy Company (MidAmerican) and MidAmerican Energy Holdings Company (Holdings), for itself and its subsidiaries.

RECITALS

1. MidAmerican and Holdings entered into an Intercompany Administrative Service Agreement (IASA) dated March 1, 1996.
2. In Illinois Commerce Commission Docket No. 96-0446, MidAmerican agreed to and the Commission ordered MidAmerican to amend the IASA to add certain provisions.

In consideration of the mutual covenants and agreements herein contained, the parties agree as follows:

1. The IASA shall be amended in Article II. Charges for Administrative Services by adding a new Section 2.03 which states:

> 2.03 Other Charges. In lieu of the charges billed under Section 2.01, the parties may provide Administrative Services on the basis of a fee for service. A fee for service shall be used when it is impractical to charge the other party under Section 2.01 for each individual usage of a particular Administrative Service. Such services include, but are not limited to, use of MidAmerican's computer systems, telephone systems and aircraft. The fee for service shall be determined or re-determined from time to time based on periodic studies of costs associated with providing the service. Before imposing a fee for service for a particular Administrative Service or changing such fee, the providing party shall give the other party reasonable notice of the amount of the fee or any change thereto.

2. The IASA shall be amended in Article II. Charges for Administrative Services by adding a new Section 2.04 which states:

2.04 Management Fee. In addition to the other charges which may be billed hereunder, MidAmerican shall pay to Holdings a management fee. The management fee shall be based on MidAmerican's corporate governance costs allocated to Holdings on the basis of a formula which averages the percentages of total payroll and total assets of each affiliate subject to an IASA compared to MidAmerican's payroll and assets. If the management fee as allocated is based on estimated costs, MidAmerican shall true-up the estimated costs used to determine the management fee against such actual costs for the year and any difference shall be reflected into the management fee calculation for the subsequent year.

3. The IASA shall be amended in Article V. Miscellaneous by adding a new Section 5.08 which states:

5.08 Regulatory Compliance. This Agreement shall be applied and administered consistent with applicable regulatory requirements.

4. Except as herein amended, the IASA shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have caused this First Amendment to be executed in their respective corporate names, by their duly authorized representative, as of the day and year first above written.

MidAmerican Energy Company

By ______________________

Name: P. G. Lindner
Title: Senior Vice President and Chief Financial Officer

MidAmerican Energy Holdings Company

By ______________________

Name: S. J. Bright
Title: President and Chief Executive Officer

INTERCOMPANY ADMINISTRATIVE SERVICES AGREEMENT

This Intercompany Administrative Service Agreement (Agreement) is made and entered into this first day of March, 1996, by and between MidAmerican Energy Company, an Iowa corporation (MidAmerican) and MidAmerican Energy Holdings Company, an Iowa corporation (Holdings), for itself and its subsidiaries.

RECITALS

1. Holdings and its subsidiaries are "affiliated interests" of MidAmerican as that term is defined by Section 7-101 of the Illinois Public Utilities Act, 220 ILCS 5/7-101.
2. Holdings and its subsidiaries are "affiliates" of MidAmerican as that term is defined by Section 476.72, *Iowa Code*.
3. MidAmerican may, from time to time or on an ongoing basis, provide administrative services to Holdings and/or its subsidiaries.
4. Holdings and/or its subsidiaries may, from time to time or on an ongoing basis, provide administrative services to MidAmerican.

In consideration of the mutual covenants and agreements herein contained, the parties agree as follows:

Article I. Applicability

1.01 Holdings Subsidiaries. As used hereinafter, all references to "Holdings" shall include MidAmerican Energy Holdings Company and its subsidiaries.

1.02 Applicability. This Agreement shall apply to Administrative Services provided by either MidAmerican or Holdings to the other, from time to time or on an ongoing basis, the provision and use of which is not the subject of a separate agreement among the parties. Administrative Services provided under this Agreement shall be provided from time to time or on an ongoing basis as agreed to by the parties. If a party elects to discontinue the provision or use of an Administrative Service provided under this Agreement, such party shall provide the other party with reasonable advanced notice of such discontinuance.

1.03 Administrative Services. For purposes of this Agreement, Administrative Services shall include, but not be limited to, the following:

a. The use of office facilities including, but not limited to, office space, conference rooms, fixtures, furniture, equipment, machinery, supplies, personal computers, mainframe computers, computer software and other personal property;

b. The use of airplanes, automobiles, other vehicles and equipment;

c. Personal services by executive, management, professional, technical and clerical employees;

d. Financial services, payroll processing, employee benefits participation, purchase order processing, billing services, mail services, tax sharing, contract negotiation and administration, engineering services.

1.04 Scheduling and Use. Each party reserves the right to provide and schedule the provision of Administrative Services pursuant to this Agreement so as not to interfere with the operations of the party providing such services. Except for corporate overheads, neither party shall be required by this Agreement to use the Administrative Services of the other party available pursuant hereto.

Article II. Charges and Billings for Administrative Services

2.01 Charges. Administrative Service charges will be made at full cost, as incurred by the provider. Charges will be documented by the provider of the service and will be available for audit by the party receiving the charge. Three types of categories have been established which provide reasonable and practical means for properly charging Administrative Services. They are:

a. Direct charges - for costs which have a direct relationship with the service or goods received.

    1. Each Administrative Service in this category shall be provided on the basis of direct labor cost attributed to providing that Administrative Service plus a loading rate representative of the providing party's overall actual costs to cover employee benefits, payroll taxes and overhead, plus direct non-labor expenses, if any, for providing that Administrative Service.

    2. The loading rate shall be determined to be the base labor loading rate specified from time to time by the providing party's accounting department. Such loading rate shall be adjusted periodically to reflect actual periodic changes in the underlying costs being loaded.

b. Service Charges - for costs that are impractical to charge directly but for which a cost/benefit relationship can be reasonably identified. A practical allocation method can be established and performed when the benefit of doing so outweighs the cost thereof.

c. Management Fee - for costs incurred for the general benefit of the entire corporate group for which direct charging and service charges are not practical.

2.02 Billings. The providing party shall bill the other party monthly for Administrative Services furnished hereunder. Such bills, accompanied by supporting detail, shall be rendered as soon as practicable after the end of each month (but not later than the 25th day of the following month) and shall be paid within ten days after the date of invoice. If, in order to furnish such bills within the time specified, it shall be necessary to use estimates of any items, such estimates shall be used and the necessary corrections shall be made at the earliest practicable time.

III. Indemnification

3.01 Indemnification. Each party shall protect, defend, indemnify and hold harmless the other party, its subsidiaries and affiliates and its and their agents, officers and employees from and against any loss or damage resulting from the prosecution of the work, and all claims, actions, suits, proceedings, costs, expenses, damages and liabilities (including legal expense and incidental and consequential damages) arising out of or connected with the provision or use of the Administrative Services provided (including all defects whether or not discoverable by either party) pursuant to this Agreement and resulting from the negligence or willful misconduct of the indemnifying party. The foregoing indemnification obligation shall extend to and include any and all liability of every kind and character, arising as a result of the Administrative Service provided or used, including damage to property, injury to or death of any persons in any manner resulting from the provision or use of the Administrative Service and resulting from the negligence or willful misconduct of the indemnifying party.

IV. Term

4.01 Term. This Agreement shall be effective upon completion of the statutory share-for-share exchange provided by the Agreement and Plan of Exchange entered into by MidAmerican and Holdings as of January 24, 1996 and continue in effect until terminated by either party upon sixty (60) days written notice to the other party.

V. Miscellaneous

5.01 Cooperation. The parties shall cooperate to the fullest extent in the administration of this Agreement and the provision of Administrative Services thereunder.

5.02 Entire Agreement; Amendments. This Agreement constitutes the sole and entire agreement between the parties with respect to the subject matter herein and supersedes all previous proposals, oral or written, negotiations, representations, commitments and all other communications between the parties. This Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the parties hereto.

5.03 Assignment. This Agreement may not be assigned by either party without the prior written consent of the other party.

5.04 Access to Records. During the term of this Agreement and for a period of seven years after the expiration or termination of this Agreement, each party shall have reasonable access to and the right to examine any and all books, documents, papers and records which pertain to the Administrative Services provided by the other party hereunder. Each party shall maintain all such records for a period of seven years after expiration or termination of this Agreement.

5.05 Partial Invalidity. Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provision hereof, unless such a construction would be unreasonable.

5.05 Waiver. Failure by either party to insist upon strict performance of any term or condition herein shall not be deemed a waiver of any rights or remedies that either party may have against the other nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

5.06 Status of Parties. In the performance of the Administrative Services hereunder, the providing party shall be an independent contractor with authority to control and direct the performance of the work hereunder.

5.07 Governing Law. This Agreement shall be governed by, construed and interpreted pursuant to the laws of the State of Iowa.

IN WITNESS WHEREOF, the parties have caused this Administrative Services Agreement to be executed in their respective corporate names, by their duly authorized representative, as of the day and year first above written.

MIDAMERICAN ENERGY COMPANY

By: ______________________
Name: Lance E. Cooper
Title: Group Vice President-Finance & Accounting

MIDAMERICAN ENERGY HOLDINGS COMPANY

By: ______________________
Name: John A. Rasmussen, Jr.
Title: Vice President & General Counsel

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

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

Introduction

Q. Please state your name and business address.

A. My name is Jeffery J. Gust, and my business address is 4299 NW Urbandale Drive, Urbandale, Iowa, 50322.

Q. By whom are you employed and in what capacity?

A. I am employed by MidAmerican Energy Company ("MEC"), the Iowa-based utility operation owned by MidAmerican Energy Holdings Company ("MEHC"). I serve as Vice President – energy supply management for MEC. In that capacity I have responsibility for the following MEC functions: electric trading, gas supply and trading, fuel trading and transportation, and MEC's ownership interest in Quad Cities Nuclear Power Station.

Q. Please summarize your education and business experience.

A. In 1985, I graduated from Iowa State University with a Bachelor of Science degree in Engineering Science. After graduation, I was employed by Iowa Electric Light and Power Company for four (4) years in the engineering department as a mechanical engineer. In 1990, I joined Iowa Power Inc., a MEC predecessor corporation, as a production analysis engineer. In 1993, I began working in the interutility marketing department as a bulk power engineer, eventually earning a promotion to the position of Senior Bulk Power Engineer. In January 1998, I was promoted to Manager, Bulk Power Marketing for MEC, and in April 1999, I was promoted to the position of Vice President Electric Trading. In 2004, I assumed my current duties as Vice President – Energy Supply Management.

Summary of Testimony

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

A. As discussed in MEHC witness Mr. Gale's testimony, the Public Utility Holding Company Act of 1935 ("PUHCA") has certain requirements with respect to the interconnection and the operation of the PacifiCorp and MEC electric utility systems. My testimony will explain the actions that are being taken to obtain a firm transmission contract path in order to interconnect the PacifiCorp and MEC systems, and will also explain the joint operating agreement ("JOA") that is being developed between the same parties. Both the contract path and the JOA are being pursued in connection with certain requirements of PUHCA as discussed by Mr. Gale in his testimony.

PacifiCorp and MEC Intercconnection

Q. Please explain where you are in the process of establishing the interconnection between PacifiCorp and MEC.

A. PacifiCorp and MEC are in the process of securing a firm transmission service contract path between their respective systems. Once secured, this path will allow the utilities to engage in energy-only or energy and capacity transactions with each other. The contract path will be secured in the near future by means of selecting one of the potential transmission paths currently under consideration. PacifiCorp and MEC initially identified five possible transmission paths across the AC/DC/AC interconnection facility ("DC Tie") that joins the Eastern and Western Interconnects.

PacifiCorp and MEC made transmission requests between their respective systems and each DC Tie in both the easterly and westerly directions. Requests were made for 50 MW of transmission capacity for a one-year period beginning April 1, 2006. Each request includes a roll-over right or a right of first refusal, allowing an extension of the transmission reservation for additional one-year periods, except for requests made on the Nebraska Public Power District ("NPPD") system. The NPPD tariff does not include roll-over rights, so three-year requests were made from them.

Based on information obtained from the transmission providers and Available Transmission Capacity ("ATC") listed on various transmission providers' OASIS sites, a preliminary analysis was conducted for each path. It was determined that four of the east to west paths appear to be options, and we expect to secure one 50 MW firm transmission path in the east to west direction.

Q. Please provide an overview of the MEC and PacifiCorp transmission systems that will be interconnected by means of this transmission path.

A. MEC owns approximately 4,400 miles of transmission lines ranging from 34.5 kV to 345 kV in the states of Iowa, Illinois, South Dakota and Missouri and is interconnected with other Iowa utility companies and utility companies in neighboring states and is party to an electric generation and transmission pooling agreement administered by the Mid-Continent Area Power Pool ("MAPP"). MAPP is a voluntary association of electric utilities doing business in Iowa, Illinois, Montana, South Dakota, North Dakota, Wisconsin, Minnesota, Nebraska and the Canadian provinces of Saskatchewan and Manitoba. Its membership includes investor-owned utilities, municipal electric utilities, power marketers, regulatory agencies and independent power producers. MAPP facilitates operation of the transmission system and has responsibility for administration of the MAPP Open-Access Transmission Tariff for shorter term transmission requests over a portion of the MAPP generation pooling region.

PacifiCorp owns approximately 15,763 miles of transmission lines ranging from 46 kV to 500 kV in the states of Washington, Oregon, California, Idaho, Utah, Wyoming, Montana, Arizona and New Mexico and is interconnected with utilities in these states and in neighboring states. PacifiCorp operates the integrated system in accordance with operating criteria established by the Western Electricity Coordinating Council ("WECC").

A map showing the service territories of PacifiCorp and MEC as well as the major interconnecting transmission lines and inter-ties is attached to Mr. Gale's testimony as Exhibit PPL/302.

The Joint Operating Agreement

Q. Please describe why the JOA is being developed between PacifiCorp and MEC.

A. As discussed in Mr. Gale's testimony, PUHCA requires electric utility companies that are part of the same holding company system be interconnected or capable of interconnection and also that their operations be coordinated. In addition, the Federal Energy Regulatory Commission ("FERC") requires that parties to any wholesale purchases and/or sales of energy have a tariff or contract approved by FERC prior to engaging in such transactions. MEC and PacifiCorp do not currently have any FERC-approved contracts or tariffs that could be used for the transactions contemplated between the parties. Therefore, the JOA will be filed with FERC, and upon FERC's acceptance or approval, the JOA will be used to facilitate the purchase, sale and exchange of energy between PacifiCorp and MEC. The draft JOA is attached to my testimony as Exhibit PPL/601. This draft is being provided for informational purposes, but is not yet completed. Once the JOA is completed, PacifiCorp will submit it for any necessary regulatory approvals, in separate regulatory proceedings.

The JOA will provide the contractual framework for conducting transactions between MEC and PacifiCorp for the purchase, sale and exchange of wholesale energy, on an economic basis. In addition, the JOA will provide the framework for PacifiCorp and MEC to work together to identify and promote other means of achieving efficiencies in the operation of their respective generating resources, consistent with each utility's existing obligations to provide reliable electric service. This may include, without limitation, evaluating and recommending opportunities to reduce the cost of operating generating resources in areas such as fuel procurement and transportation, operation and maintenance practices and general procurement activity. The JOA establishes an operating committee comprised of representatives from both PacifiCorp and MEC, who are charged with administering the JOA.

Q. Under what circumstances will PacifiCorp and MEC engage in an energy transaction?

A. The JOA provides that if one party determines it has energy available for sale or exchange, the parties <u>may</u> engage in such an energy transaction. Neither

PacifiCorp nor MEC is obligated to enter into any transactions under the terms of the JOA. It is expected that PacifiCorp and MEC will each separately evaluate whether or not to enter into a potential energy purchase, sale or exchange with the other utility and will enter into such transactions when it is economic for each utility to do so. The service schedules made a part of the JOA set forth the method for determining the price at which such transactions will occur. Generally, sales of energy will be based on a market index price at the time of the transaction. The JOA also provides that the terms and conditions of the Edison Electric Institute ("EEI") Master Power Purchase and Sale Agreement will be applicable to such transactions. The EEI master agreement prescribes billing and payment terms, establishes standards for the parties' performance, as well as other routine provisions (e.g., force majeure).

Q. Will the JOA address how the benefits and costs of the contract path are allocated between PacifiCorp and MEC?

A. Yes. Once it is completed, Service Schedule C of the JOA will address how the benefits and costs of the contract path are allocated between the parties

Q. Does this conclude your testimony?

A. Yes, it does.

JOINT OPERATING AGREEMENT

THIS JOINT OPERATING AGREEMENT is made and entered into as of this ___________, 200__, by and between MidAmerican Energy Company, an Iowa corporation ("MidAmerican") and PacifiCorp, an Oregon corporation ("PacifiCorp"). The foregoing companies are referred to herein collectively as the "Parties" and individually as a "Party."

WHEREAS, MidAmerican Energy Holdings Company ("MEHC"), the parent holding company of MidAmerican, and PacifiCorp Holdings, Inc. ("PHI") and Scottish Power plc ("ScottishPower") (PHI is the direct parent holding company of PacifiCorp and ScottishPower is the ultimate parent holding company of both PacifiCorp and PHI), have entered into a Stock Purchase Agreement dated May 23, 2005 (the "Stock Purchase Agreement");

WHEREAS, pursuant to the terms and conditions of the Stock Purchase Agreement, MEHC will purchase all of the outstanding shares of common stock of PacifiCorp from PHI and MEHC will become the indirect, parent holding company of PacifiCorp (the "Transaction");

WHEREAS, each of MidAmerican and PacifiCorp own and operate electric generation, transmission, and distribution facilities with which it is engaged in the business of generating, transmitting, and selling electric power and energy to retail and wholesale customers;

WHEREAS, each of MidAmerican and PacifiCorp will continue to own and operate their respective electric generation, transmission, and distribution facilities and conduct their respective businesses following the consummation of the Transaction;

WHEREAS, MidAmerican and PacifiCorp have arranged for Interconnection Transmission Service between their two systems;

WHEREAS, MidAmerican and PacifiCorp desire to enter into this Agreement to provide the contractual framework for coordinating transactions between the Parties for the purchase, sale, and/or exchange of energy, capacity or both on an economic basis; and

WHEREAS, MidAmerican and PacifiCorp also desire to enter into this Agreement to provide the framework for the Parties to work together to identify, evaluate and recommend opportunities to achieve efficiencies in the operation of each Parties' respective Generating Resources.

NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the Parties mutually agree as follows:

ARTICLE I

DEFINITIONS

For the purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following meanings. The meanings specified are applicable to both the singular and plural.

Section 1.1. "Agreement" means this Joint Operating Agreement, including all Service Schedules and attachments hereto, as it may be amended from time-to-time in accordance with Section 11.2.

Section 1.2. "Effective Date" has the meaning set forth in Section 2.1.

Section 1.3 "FERC" means the Federal Energy Regulatory Commission or any successor agency having jurisdiction over this Agreement.

Section 1.4. "Generating Resources" means the electric power generating facilities or capacity owned by, or under contract to, a Party for the primary purpose of meeting the capacity and energy needs of its Retail Customers and Wholesale Customers.

Section 1.5. "Industry Standards" means those principles, guides, criteria, standards, and practices referred to in Article X.

Section 1.6. "Interconnection Transmission Service" has the meaning set forth in the Service Schedule C to this Agreement.

Section 1.7. "Operating Committee" means the administrative body established pursuant to Article V for the purposes therein specified.

Section 1.8. "Party" or "Parties" has the respective meaning ascribed to it in the opening paragraph of this Agreement.

Section 1.9. "Retail Customer" for purposes of this Agreement means a retail electric customer on whose behalf a Party has undertaken an obligation to obtain Generating Resources so as to supply electricity to reliably meet the electric need of such customer.

Section 1.10. "Service Schedules" means the Service Schedules attached to this Agreement and those that later may be agreed to by the Parties from time to time in accordance with Section 11.2.

Section 1.11. "Transaction" has the meaning set forth in the Recitals to this Agreement.

Section 1.12. "Wholesale Customer" means a customer which a Party has undertaken, by contract, a firm obligation to provide capacity and associated energy or to serve with respect to such customer's partial or full requirements and to acquire Generating Resources and other resources necessary to meet such requirements.

ARTICLE II

TERM OF AGREEMENT

Section 2.1. Term

Subject to Section 11.1, this Agreement shall take effect upon consummation of the Transaction (the "Effective Date"), and shall continue in full force and effect for a period of five (5) years from the Effective Date, continuing thereafter until terminated by mutual agreement or upon twelve (12) months' written notice by one Party to the other Party.

Section 2.2. Periodic Review

This Agreement will be reviewed periodically by the Operating Committee to determine whether revisions are necessary or appropriate. Any revisions deemed necessary or appropriate shall be referred by the Operating Committee to the respective Parties for approval pursuant to Section 11.2.

ARTICLE III

OBJECTIVES

The purpose of this Agreement is to provide a contractual basis for conducting transactions between the Parties for the purchase, sale, and/or exchange of energy, capacity or both on an economic basis and to identify other means of achieving efficiencies in the operation of their Generating Resources consistent with the provision of reliable electric service.

ARTICLE IV

SCOPE AND RELATIONSHIP TO OTHER AGREEMENTS AND SERVICES

Section 4.1. Scope

This Agreement and the capacity and energy transactions governed by it are subject to, and may be limited from time to time by, applicable state and federal laws, and the regulations, rules and orders of applicable regulatory agencies regarding the purchase, sale, and/or exchange of energy, capacity or both among affiliates. This Agreement is not intended to preclude the Parties from entering into other arrangements between themselves not contemplated herein. Nothing in this Agreement requires either Party to enter into a transaction described in Article VI with the other Party; and each Party in its sole and absolute discretion shall determine whether or not to enter into any such transaction with the other Party.

Section 4.2. Transmission System Operations Excluded

This Agreement does not provide for the coordination, operation or management of the transmission facilities owned, operated or controlled by the two respective parties; and shall only apply to the coordination of the use of the Interconnection Transmission Service, and any Open Access Transmission Tariff transmission services that the Parties may purchase from time to time for the purpose of arranging transactions contemplated by the Service Schedules.

ARTICLE V

COMPOSITION AND DUTIES OF THE OPERATING COMMITTEE

Section 5.1. Operating Committee

The Operating Committee is the administrative body created to administer this Agreement and shall consist of members from MidAmerican and PacifiCorp. Each Party shall designate two (2) members from its respective company. Each member of the Operating Committee may designate an alternative representative to act on behalf of the member in the member's absence. At least one (1) member from each of MidAmerican and PacifiCorp is required to constitute a quorum of the Operating Committee.

Section 5.2. Meeting Dates

The Operating Committee shall hold meetings at such times, means and places as the members shall determine from time to time. Minutes of each Operating Committee meeting shall be prepared and maintained. Meetings may be held in person or telephonically. Actions by the Operating Committee may be undertaken by unanimous written consent, signed by all members of the Operating Committee.

Section 5.3. Decisions

All decisions of the Operating Committee shall be by unanimous vote of the members in attendance. The Operating Committee shall not conduct any business unless a quorum is present and voting. As necessary, recommendations will be made to the respective Presidents of each Party or such other officer(s) of each Party as may be appropriate. All decisions of the Operating Committee and all actions taken by a Party in connection with those decisions are subject to the normal governance and approval processes of each Party.

Section 5.4. Duties

The Operating Committee shall have the duties set forth in this Section. The Operating Committee will be responsible for:

(a) identifying opportunities to structure capacity and energy transactions between the Parties to improve the economical and efficient operation of each Party;

(b) defining and establishing protocols for transactions that may be undertaken pursuant to this Agreement, including without limitation procedures for utilizing the Interconnection Transmission Service in accordance with the terms and conditions of this Agreement;

(c) designating and appointing other committees to evaluate and recommend opportunities to reduce operating costs, increase efficiencies and reduce risks of the Parties' respective operations, including without limitation, opportunities that may be available in areas such as fuel procurement and transportation, Generating Resources operation and maintenance practices, and general procurement activity; and

(d) administering this Agreement and recommending any amendments hereto, including such amendments which could be proposed in response to a change in regulatory requirements applicable to one or both of the Parties.

ARTICLE VI

CAPACITY AND ENERGY TRANSACTIONS

Section 6.1. Capacity Sales and Exchanges

In the event a Party determines it has surplus capacity and associated energy relative to its capacity reserve requirements or otherwise has capacity available for sale or exchange and the other Party desires to acquire all or a part of such capacity, and the criteria set forth in this Agreement, including without limitation, Service Schedule A, have been met, the Parties may transact.

Section 6.2. Energy Sales and Exchanges

In the event a Party determines it has energy available for sale or exchange and the other Party has a desire to acquire all or a part of such available energy, and the criteria set forth in this Agreement, including without limitation, Service Schedule B, have been met, the Parties may transact.

Section 6.3. Duration of Capacity and Energy Transactions

Transactions for less than one year shall be arranged under Service Schedule A or Service Schedule B. The terms of transactions of longer duration shall be set out in separate agreements, which shall be subject to prior acceptance or approval by FERC to the extent then required by applicable rules or regulations.

ARTICLE VII

SERVICE SCHEDULES

Section 7.1. Service Schedules

The energy and capacity transactions described in Article VI shall be conducted in accordance with the terms of this Agreement, including without limitation the applicable Service Schedules. It is understood and agreed that from time to time the Parties may desire to reassess the terms of the Service Schedules which shall be done at the direction of the Operating Committee. Upon a recommendation of the Operating Committee and agreement between the Parties, any of the Service Schedules may be amended as of any date agreed to by the Parties in accordance with Section 11.2.

Section 7.2 Documentation of Transactions

Each transaction entered into pursuant to Article VI will be documented by issuing a confirmation setting out the details of the transaction. Each confirmation will be issued pursuant to and governed by the terms and conditions of the Master Power Purchase and Sale Agreement to be entered into by and between MidAmerican and PacifiCorp in the form attached to this Agreement as Exhibit A.

ARTICLE VIII

DISPUTE RESOLUTION PROCEDURES

All disputes between the Parties shall be resolved as provided in this paragraph, in lieu of the dispute resolution provisions of the Master Power Purchase and Sale Agreement. In the event of any such dispute, the Operating Committee shall meet and in good faith attempt to resolve such dispute within twenty (20) business days following notice by one Party to the other that a dispute under this Agreement exists. In the event the dispute cannot be resolved by the Operating Committee within such twenty (20) business day period, the Parties agree to submit the dispute to the Parties' respective Presidents (or each such President's appointed representative). The Party's respective Presidents (or such President's appointed representative) shall meet and in good faith attempt to resolve such dispute within twenty (20) business days following submittal of the dispute by the Operating Committee. If the respective Presidents (or their appointed representatives, as applicable) reach a decision regarding the dispute, such collective decision shall be binding on the Parties. In the event the dispute cannot be resolved by the Presidents (or such appointed representatives if applicable) within such further 20 business day period (or if the dispute has not been resolved within 50 business days from the date of the initial notice of a dispute provided by one Party to the other Party hereunder), then either Party may pursue such remedies as may be available to it in any court of competent jurisdiction, in accordance with the provisions of Section 10.6 of the Master Power Purchase and Sale Agreement.

ARTICLE IX

INDUSTRY STANDARDS

The Parties agree to conform to all applicable national and regional electric reliability council principles, guides, criteria, and standards and industry standard practices (collectively, "Industry Standards") as they may affect the implementation of this Agreement.

ARTICLE X

GENERAL

Section 10.1. No Third Party Beneficiaries

This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or power supplier, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and benefit of the Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or power supplier, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

Section 10.2. Waivers

Any waiver at any time by a Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right under this Agreement, shall not be deemed a waiver of such right.

Section 10.3. Successors and Assigns

This Agreement shall inure to the benefit of and be binding upon the Parties only, and their respective successors and assigns, and shall not be assignable by any Party without the written consent of the other Party except to a successor in the operation of its properties by reason of a reorganization to comply with state or federal restructuring requirements, or a merger, consolidation, sale or foreclosure whereby substantially all such properties are acquired by or merged with those of such a successor.

Section 10.4. Liability and Indemnification

In connection with any transactions entered into pursuant to Article VI, the indemnification provisions of the Master Power Purchase and Sale Agreement shall apply. For any other claims or liabilities that may arise under this Agreement, subject to any applicable state or federal law which may specifically restrict limitations on liability, each Party shall release, indemnify and hold harmless the other Party, its directors, officers and employees from and against any and all liability for loss, damage or expense alleged to arise from, or incidental to, injury to persons or damage to property in connection with its facilities or the production or transmission of electric energy by or though such facilities, or related to performance or non-performance of this Agreement, including any negligence arising hereunder. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT.

Section 10.5. Section Headings

The descriptive headings of the Articles and Sections of this Agreement are used for convenience only, and shall not modify or restrict any of the terms and provisions thereof.

Section 10.6 Notice

All notices hereunder or in connection herewith will be in writing and, if to MidAmerican, will be given to:

MidAmerican Energy Company
4299 Northwest Urbandale Drive
Urbandale, Iowa 50322
Attention: Vice President, Energy Supply Management
Facsimile No. (515) 281-2460

and, if to PacifiCorp, will be given to:

PacifiCorp
825 N.E. Multnomah, Suite 2000
Portland, Oregon 97232-4116
Attention: Sr. Vice President of Commercial & Trading
Facsimile No. (503) 813-6348

With a copy to:

PacifiCorp
825 N.E. Multnomah, Suite 600
Portland, Oregon 97232-4116
Attention: Director of Contract Administration
Facsimile No. (503) 813-6291

or such other address or addresses as any such Party may from time to time designate as to itself by like notice. Any such notice will be deemed to have been duly given when delivered in person or when dispatched by facsimile (confirmed in writing by mail simultaneously dispatched) or one (1) business day after having been dispatched by a nationally recognized overnight courier service to the appropriate Party at the address specified in this Section 10.6.

Section 10.7 Execution in Counterparts

This Agreement may be executed in two or more counterparts, which, taken together, shall be deemed a single agreement.

Section 10.8 Applicable Law.

This Agreement and the rights and duties of the Parties under it shall be governed by and construed, enforced and performed in accordance with the laws of the State of New York, without regards to principals of conflicts of law.

ARTICLE XI

REGULATORY APPROVAL

Section 11.1. Regulatory Authorization

This Agreement, and each amendment to or modification of it, is subject to and conditioned upon its approval or acceptance by all regulatory agencies having jurisdiction, and whose acceptance or approval is required by law including without limitation FERC. In the event that this Agreement is not so approved or accepted for filing in its entirety without modification acceptable to both Parties, or a regulatory agency having jurisdiction subsequently modifies this Agreement upon complaint or upon its own initiative, either Party may, irrespective of the notice provisions in Section 2.1, terminate this Agreement by giving notice to the other Party within thirty days of such failure to accept such subsequent modification.

Section 11.2. Changes

It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify, or supplement this Agreement, including the Service Schedules and the Master Power Purchase and Sale Agreement attached as Exhibit A that are a part of this Agreement, to reflect changes in operating practices, costs or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties and shall not become effective unless and until first approved or accepted in accordance with Section 11.1.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized officers on the day and year first above written.

MIDAMERICAN ENERGY COMPANY

By: ________________________________

Title: ______________________________

PACIFICORP

By: ________________________________

Title: ______________________________

SERVICE SCHEDULE A

CAPACITY AND ASSOCIATED ENERGY SALES OR EXCHANGES

Term

This Service Schedule A shall become effective and binding when the Agreement becomes effective, and shall continue in full force and effect throughout the Term of the Agreement unless earlier terminated or suspended in accordance with the terms of the Agreement.

Availability of Service

This Service Schedule A shall apply to capacity and associated energy transactions for a duration of less than one (1) year.

Capacity and Associated Energy Price

The capacity price and associated energy price shall be submitted for FERC acceptance or approval prior to making a sale under this Service Schedule A.

Responsibility for Transmission Arrangements

The providing Party shall have the cost responsibility for any transmission arrangements, beyond any Interconnection Transmission Service arranged and paid for under Service Schedule C, up to and at the point of delivery of such capacity and associated energy. The receiving Party shall have cost responsibility for any transmission arrangements at and from the point of delivery, beyond any Interconnection Transmission Service arranged and paid for under Service Schedule C, necessary to receive such capacity and associated energy.

SERVICE SCHEDULE B

ENERGY SALES OR EXCHANGES

Term

This Service Schedule B shall become effective and binding when the Agreement becomes effective, and shall continue in full force and effect throughout the Term of the Agreement unless earlier terminated or suspended in accordance with the terms of the Agreement.

Availability of Service

This Service Schedule B shall apply to energy made available for Day Ahead and Same Day scheduling periods.

Energy Product

a. Energy transactions in which PacifiCorp is Seller shall be the sale and delivery to the Delivery Point (as defined in the Master Power Purchase and Sale Agreement) by PacifiCorp, and the purchase and acceptance by MidAmerican at and from the Delivery Point of the designated quantity of Schedule C Firm Capacity/Energy Exchange Service, as defined in the Western System Power Pool Agreement, as the same may be in effect from time to time.

b. Energy transactions in which MidAmerican is Seller shall be the sale and delivery to the Delivery Point (as defined in the Master Power Purchase and Sale Agreement) by MidAmerican, and the purchase and acceptance by PacifiCorp at and from the Delivery Point of the designated quantity of EEI System Firm, as defined in the Master Power Purchase and Sale Agreement.

Energy Price

Energy made available pursuant to this Service Schedule B shall be at the price determined in accordance with the following:

a. Day-ahead transactions will be priced at the following delivery date market indices:

- Energy delivered to MidAmerican from PacifiCorp –
    - For NERC defined heavy load hour products, during Q1 & Q4, the price is to be based on the Mid-Columbia Peak 10X Day Ahead Power Price Index, for Q2 & Q3, the price is to be based on the higher of the Mid-Columbia Peak or Palo Verde Peak 10X Day Ahead Power Price Index(s).
    - For NERC defined light load hour products, during Q1, Q2, and Q4, the price is to be based on the average Mid-Columbia Off-Peak and Palo Verde Off-Peak 10X Day Ahead Power Price Index(s). For Q3 the price is to be based on the Mid-Columbia Peak 10X Day Ahead Power Price Index.

; and

- Energy delivered to PacifiCorp from MidAmerican –
  - The price is to be based on the PJM Northern Illinois (NI Hub) Day Ahead Clearing Price

b. Same Day transactions will be priced at the following Same Day market indices.

- Energy delivered to MidAmerican from PacifiCorp –
  - For NERC defined heavy load hours, during Q1 & Q4, the hourly price(s) is to be based on the Mid-Columbia Powerdex Price Index, for Q2 & Q3, the price is to be based on the higher of the Mid-Columbia or Palo Verde Powerdex Price Index(s), for the hours of the transaction.
  - For NERC defined light load hours, during Q1, Q2, and Q4, the hourly price(s) is to be based on the average Mid-Columbia Off-Peak and Palo Verde Off-Peak Powerdex Price Index(s). For Q3 the price is to be based on the Mid-Columbia Powerdex Price Index, for the hours of the transaction.

; and

- Energy delivered to PacifiCorp from MidAmerican –
  - The price shall be the PJM Northern Illinois (NI Hub) Real Time Clearing Price for the hours of the transaction.

For purposes of this Service Schedule B, "Q1" means calendar months January through March; "Q2" means calendar months April through June; "Q3" means calendar months July through September; and "Q4 means calendar months October through December; "NERC" means the North America Electric Reliability Council or its successor; "Day Ahead" means transactions entered into on the prescheduling day occurring one or more days prior to delivery as defined by the scheduling authority in the reliability council region of the Selling Party; and "Same Day" means transactions entered into on the same day the power is delivered.

Responsibility for Transmission Arrangements

The providing Party shall have cost responsibility for any transmission arrangements, beyond any Interconnection Transmission Service arranged and paid for under Service Schedule C, up to and at the point of delivery of such energy. The receiving Party shall have cost responsibility for any transmission arrangements at and from the point of delivery, beyond any Interconnection Transmission Service arranged and paid for under Service Schedule C, necessary to take receipt of such energy.

SERVICE SCHEDULE C

ALLOCATION OF INTERCONNECTION TRANSMISSION SERVICE COSTS AND BENEFITS

Term

This Service Schedule C shall become effective and binding when the Agreement becomes effective, and shall continue in full force and effect throughout the Term of the Agreement unless earlier terminated or suspended in accordance with the terms of the Agreement.

Applicability

This Service Schedule C provides for the allocation of the costs and benefits of any transmission service acquired by either of the Parties in connection with the Transaction in order to interconnect the Parties' respective electric utility systems (collectively, the "Interconnection Transmission Service").

Cost/Benefit Allocation

The costs and benefits of Interconnection Transmission Service shall be shared as follows:

[ ] .