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November 21, 2005

Via Electronic Mail and Hand Delivery

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of MIDAMERICAN ENERGY HOLDINGS COMPANY
Application for Authorization to Acquire Pacific Power & Light, dba PacifiCorp
Docket No. UM 1209

Dear Filing Center:

Enclosed please find the following documents on behalf of the Industrial Customers of Northwest Utilities for filing in the above-referenced docket.

- the original and 6 copies of the Highly Confidential Direct Testimony of Ken Canon (filed by Hand Delivery ONLY and only sent to Parties who are qualified under the Protective Order and Letter Agreement in the above-referenced docket);

- the original and 6 copies of the Redacted Direct Testimony of Ken Canon;

- the original and 6 copies of the Direct Testimony of Michael Gorman; and

- the original and 6 copies of the Direct Testimony of Lincoln Wolverton.

Please return one file-stamped copy of the each document in the self-addressed, stamped envelope provided. Thank you for your assistance.

Sincerely,

/s/ Ruth A. Miller
Ruth A. Miller

Enclosure
cc: Service List (via email)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Redacted Direct Testimony of Ken Canon, the Direct Testimony of Michael Gorman, and the Direct Testimony of Lincoln Wolverton on behalf of the Industrial Customers of Northwest Utilities, upon the parties, shown below on the official service list, via electronic mail, and via US Mail to those parties without a listed email address.

In addition, I HEREBY CERTIFY that I have this day served the foregoing Highly Confidential Direct Testimony of Ken Canon on behalf of the Industrial Customers of Northwest Utilities, upon the parties as indicated below with "Highly Confidential," whom are qualified under the protective order and letter agreement in Docket No. UM 1209, by causing the same to be mailed, postage-prepaid, through the US Mail.

Dated at Portland, Oregon, this 21st day of November, 2005.

/s/ Ruth A. Miller
Ruth A. Miller

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1209

In the Matter of	)
	)
MIDAMERICAN ENERGY HOLDINGS	)
COMPANY,	)
	)
Application for Authorization to Acquire	)
Pacific Power & Light, dba PacifiCorp.	)
	)

DIRECT TESTIMONY OF KEN CANON

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

REDACTED VERSION

(Highly Confidential Information is Redacted)

November 21, 2005

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Ken Canon. I am a partner in the law firm of Canon and Hutton. My
3 business address is 13400 S. Myrtle, Myrtle Creek, OR 97457.

4 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

5 **A.** For 28 years I have represented industrial customer interests on electric policy and
6 ratemaking issues in my role of Assistant General Counsel of Associated Oregon
7 Industries from 1978-1981 and as Executive Director of Industrial Customers of
8 Northwest Utilities ("ICNU") from 1981-2005. I have appeared before regulatory
9 commissions, including both the Oregon Public Utility Commission ("OPUC" or the
10 "Commission") and the Washington Utilities and Transportation Commission
11 ("WUTC"), public utility governing boards, governmental agencies, state legislatures,
12 and Congress. My qualifications are attached as Exhibit ICNU/101.

13 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

14 **A.** I am testifying on behalf of ICNU, which is a non-profit industrial trade association,
15 whose members are large industrial customers served by electric utilities throughout
16 the Pacific Northwest. Many members of ICNU are PacifiCorp customers in
17 Washington or Oregon.

18 **I. INTRODUCTION AND SUMMARY**

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 **A.** I will address the alleged benefits offered by MidAmerican Energy Holdings
21 Company ("MEHC" or the "Applicant") to PacifiCorp's (or the "Company")
22 customers. I also will compare those benefits to those offered by ScottishPower when
23 it requested authorization to acquire PacifiCorp in 1999. My testimony demonstrates

1 that this transaction as currently proposed does not benefit customers, but rather the
2 proposed transaction would harm PacifiCorp's customers if approved.

3 **Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.**

4 **A.** MEHC asserts that its Application "provides evidence of the benefits to PacifiCorp's
5 customers, employees, and communities if the transaction is approved."[1/] While the
6 Application touts "more than 60 commitments to the customers and states served by
7 PacifiCorp," many of those commitments: 1) are simply the continuation of activities
8 either underway or planned by PacifiCorp; or 2) represent the fundamental, baseline
9 obligations of any prudently run utility.[2/]

10 In addition, although MEHC maintains that these commitments demonstrate
11 that the proposed transaction is in the public interest, almost all of MEHC's proposed
12 "benefits" involve a commitment by MEHC to spend amounts collected from
13 customers in rates. MEHC, in eschewing rate credits or rate freezes, places little of
14 its own money at risk to create a tangible customer benefit.

15 Finally, the Application does not clearly identify benefits to individual states.
16 Most of the alleged "commitments" are system-wide, with no discussion of how they
17 would impact or benefit the different states within PacifiCorp's service area.
18 Therefore, many of these "commitments" could also create risks by increasing costs
19 for the system in order to provide benefits to specific states.

20 In short, MEHC is not proposing any meaningful benefits for customers;
21 however, as ICNU witness Michael Gorman explains, a change in ownership under

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[1/] PPL/100, Abel/3.
[2/] Id.

1 the terms proposed by MEHC poses significant risk to customers. Mr. Gorman
2 identifies the specific risks posed by MEHC ownership.

3 **Q. WHAT HAS BEEN YOUR EXPERIENCE WITH CHANGES IN**
4 **OWNERSHIP OF INVESTOR-OWNED UTILITIES IN THE PACIFIC**
5 **NORTHWEST IN RECENT YEARS?**

6 **A.** In the last nine years, I have been involved in at least eight regulatory proceedings
7 concerning the merger or acquisition of investor-owned utilities. Six of these were in
8 Oregon and two were in Washington. With the recent repeal of the Public Utility
9 Holding Company Act of 1935, it is likely that the trend of changes in utility
10 ownership could accelerate.

11 It was only six years ago that the Commission was considering
12 ScottishPower's proposal to acquire PacifiCorp. Notably, ScottishPower stated in its
13 1999 application that it took a "long-term view" of its investment in PacifiCorp and
14 used this as evidence of its commitment to capital investment.[3/] This perspective
15 obviously changed in a relatively short period of time. This highlights one of the
16 major problems with evaluating an application for approval of a proposed change in
17 utility ownership in the current environment.

18 In most applications, the applicant-buyer makes representations and
19 commitments to the Commission and to customers in order to show that the
20 acquisition overall is in the public interest and provides a net benefit to Oregon
21 customers. Once a change of ownership is secured, however, it is often difficult to
22 ensure that there is appropriate follow through on the representations and
23 commitments that formed the basis for approval. That is one reason why ICNU

[3/] Re ScottishPower, OPUC Docket No. UM 918, ScottishPower/28, Richardson/16 (June 2, 1999).

1 supports definite and certain customer benefits such as rate credits or a "rate freeze"
2 associated with a change in utility ownership. Meaningful and guaranteed rate credits
3 will provide a benefit that customers may obtain immediately after a change in
4 ownership is approved regardless of whether the purchaser quickly has a change of
5 heart and abandons the more speculative and unenforceable commitments made in the
6 application. MEHC has not offered any proposal whatsoever with respect to rate
7 credits or a rate freeze, which have been fundamental elements of many of the other
8 applications, including ScottishPower's application in 1999.

9 **Q. PLEASE SUMMARIZE THE PROPOSED TRANSACTION.**

10 **A.** MEHC has agreed to purchase PacifiCorp from ScottishPower for $9.4 billion. The
11 total purchase price consists of $5.1 billion in cash and approximately $4.3 billion in
12 currently outstanding net debt and preferred stock. The purchase price negotiated by
13 MEHC exceeds PacifiCorp's book value by $1.2 billion (the "Acquisition Premium").

14 The Application describes MEHC as a privately-held Iowa corporation
15 "engaged primarily in the production and delivery of energy from a variety of fuel
16 sources."[4/] MEHC's ownership, as of January 31, 2005, was as follows: Berkshire
17 Hathaway, Inc. (83.75% economic interest), Walter Scott, Jr. (15.89% economic
18 interest), David Sokol (0.25% economic interest), and Greg Abel (0.11% economic
19 interest).[5/]

20 If the proposed transaction is approved, PacifiCorp will be included under
21 MEHC's corporate structure as one of MEHC's business platforms. Greg Abel will

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4/ Application at 10.

5/ Id. at 3.

1 serve as the Chairman of the PacifiCorp Board of Directors if the proposed
2 transaction is successful.

3 **Q. IN LIGHT OF YOUR EXPERIENCE WITH THESE PREVIOUS UTILITY**
4 **ACQUISITION PROCEEDINGS, WHAT IS YOUR IMPRESSION OF**
5 **MEHC'S APPLICATION?**

6 **A.** MEHC's Application lacks any meaningful benefits to customers, and all indications
7 are that customers would be harmed if the proposed transaction was approved.

8 MEHC has made most of the same generalized representations included in
9 other applications, but MEHC also relies heavily on the notion that ScottishPower is
10 no longer willing to own PacifiCorp as a basis to claim that the proposed transaction
11 is in the public interest. MEHC states that "the chief benefit from the proposed
12 transaction is MEHC's willingness and ability to deploy capital to meet PacifiCorp's
13 significant infrastructure needs."[6/] MEHC has committed to specific capital
14 investment projects that it asks the Commission to accept as a benefit, and that it will
15 ask customers to fund. As I describe later in my testimony, MEHC has not, for the
16 most part, committed to "new" projects that were not contemplated prior to the
17 proposed transaction, and its commitments to certain projects are not legitimate
18 benefits. Moreover, approval of the proposed transaction on the basis of
19 commitments to specific projects creates the impression that such investments have
20 been deemed appropriate.

21 MEHC also has stated that it has not identified any opportunities for cost
22 savings, with the exception of the minor cost reductions alleged in the Application.
23 Cost savings and synergies have been a focus of many other applications. Attached

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[6/] Id. at 19.

1 as Exhibit ICNU/102 is an excerpt of the California Office of Ratepayer Advocates'
2 ("ORA") Report regarding MEHC's Application before the California Public Utilities
3 Commission ("CPUC"), in which ORA recommends that the CPUC reject MEHC's
4 application because MEHC has "not demonstrated that the request is in the public
5 interest."[7/] In commenting on the $1.2 billion Acquisition Premium paid by MEHC,
6 ORA states that "[w]ith a proposed purchase price in excess of book value, and only
7 minor savings identified by MEHC, ORA concludes that there must be synergies,
8 efficiencies, and cost savings that MEHC will pursue that it is not identifying to
9 justify the acquisition cost paid by MEHC."[8/] MEHC has proposed cost savings in
10 terms of an alleged reduction in corporate overhead and cost of debt, but as discussed
11 in Mr. Gorman's testimony, MEHC's claims regarding these amounts are highly
12 suspect.

13 MEHC's Application is uniquely harmful in that MEHC has committed to
14 attempt to recover its Acquisition Premium in rates in certain circumstances. This is
15 a definitive harm to customers that does not exist under ScottishPower's ownership
16 and was not present in the other acquisition applications that have been approved. If
17 the Commission is inclined to approve MEHC's Application, that approval must be
18 conditioned on excluding the cost of this "goodwill" from customers' rates.

19 Finally, MEHC appears to have reviewed PacifiCorp's operating plan for the
20 future and merely restated many of the Company's plans or studies under the guise of
21 "commitments" or "benefits" to customers. This is an insufficient basis for MEHC to
22 claim that customers benefit from the proposed transaction.

7/ ICNU/102, Canon/4.

8/ Id. at 15. ORA noted that in response to an ORA data request regarding potential cost savings, "MEHC stated that it 'has not performed a study of potential savings from the transaction.'" Id.

Q. YOU MENTIONED CUSTOMER BENEFITS. WHAT STANDARD HAVE YOU APPLIED TO EVALUATE THE PROPOSED TRANSACTION?

A. MEHC has filed essentially the same testimony and exhibits in Oregon and Washington, and MEHC's witnesses claim that customers will "benefit" from MEHC's proposals. In addition, MEHC has committed to apply its proposals to each state in a uniform manner, with some "state-specific" exceptions. Given MEHC's representations that the same Application and commitments satisfy Oregon's "net benefit" standard or the "no harm" standard applied by the WUTC in the past, each state should hold MEHC to its claims that customers will benefit from the proposed transaction.

MEHC's Application, however, currently does not meet the "no harm" test, and it certainly does not meet the "net benefits" standard required under Oregon law. As described in my testimony and in the testimonies that Mr. Gorman and Lincoln Wolverton have submitted for ICNU, the potential harms of the proposed transaction far outweigh the speculative and unenforceable "benefits" offered by MEHC. As a result, ICNU urges the Commission to deny the Application.

II. COMPARISON TO THE SCOTTISHPOWER APPLICATION

Q. HOW DOES THIS ACQUISITION COMPARE TO SCOTTISHPOWER'S ACQUISITION OF PACIFICORP?

A. In a number of ways, the two applications are very similar. In its application to acquire PacifiCorp in 1999, ScottishPower stressed:

1. Its experience in operating and transforming average-performing businesses into industry leaders;
2. That improvements would come faster and more efficiently because of the skills and expertise of ScottishPower;

1 3. Improved service to customers through customer service standards and
2 improvements to system performance;

3 4. Its expertise in cutting costs;

4 5. Its commitment to the business for the long-term;

5 6. That it would honor labor contracts;

6 7. That borrowing costs would be lower;

7 8. Local PacifiCorp decision making; and

8 9. Its ScottishPower values.

9 MEHC relies on many of the same elements to show that its proposal is in the public
10 interest and should be approved.

11 **Q. IF THE COMMISSION DETERMINED THAT THESE ELEMENTS WERE**
12 **IN THE PUBLIC INTEREST REGARDING SCOTTISHPOWER'S**
13 **ACQUISITION OF PACIFICORP, WOULDN'T THEY APPLY AS WELL TO**
14 **MEHC?**

15 **A.** No, for several reasons. First, since the ScottishPower approval the OPUC has
16 clarified that ORS § 757.511 requires the Applicant to demonstrate net benefits to
17 customers in order to gain approval. Just continuing what is already being done or
18 doing what any reasonable utility would do does not constitute a net benefit.

19 Second, the ScottishPower merger included several conditions that are absent
20 in MEHC's application. Notably, ScottishPower agreed to a guaranteed merger credit
21 to be paid to customers after the close of that transaction. In addition, ScottishPower
22 provided an additional $5 million endowment to the PacifiCorp Foundation.

23 ICNU opposed the ScottishPower merger despite these proposals for a number
24 of reasons, including the risk that ScottishPower would divert its money or attention

1 from PacifiCorp by engaging in other activities.[9/] ICNU proposed a number of
2 additional conditions for the Commission to adopt if it approved the merger, and one
3 such proposal would have required ScottishPower to file an annual report on the
4 status of the merger conditions.[10/] Such a condition would have been valuable in
5 determining whether ScottishPower has remained in compliance with its
6 commitments now that it wishes to divert its capital to ventures other than PacifiCorp
7 and has decided to sell the utility.

8 There are several elements in MEHC's application that raise significant
9 concerns that were not part of ScottishPower's application. Of greatest concern is
10 MEHC's commitment to recover its $1.2 billion Acquisition Premium under certain
11 circumstances. "Goodwill" was specifically excluded from PacifiCorp's utility
12 accounts in the ScottishPower acquisition, and MEHC's proposal to have the
13 opportunity to recover all or even a portion of the Acquisition Premium from
14 customers presents a substantial risk that is not present under the status quo. Mr.
15 Gorman addresses this point in more detail.

16 Finally, MEHC only has six years of regulated utility experience in the United
17 States.

18 **Q. HAS PACIFICORP INDICATED THAT IT MIGHT LACK ACCESS TO**
19 **CAPITAL IF SCOTTISHPOWER'S OWNERSHIP CONTINUES?**

20 **A.** Yes. On October 25, 2005, Judi Johansen, PacifiCorp's Chief Executive Officer
21 ("CEO"), made a presentation to the OPUC in which she stated:

[9/] Re ScottishPower, OPUC Docket No. UM 918, Order No. 99-616 at 10 (Oct. 6, 1999). Despite its opposition to the ScottishPower merger, ICNU was a party to the stipulations in the Enron/Portland General Electric ("PGE") merger, the Sierra Pacific/PGE merger proceeding, and the Puget Sound Energy merger proceeding in Washington.

[10/] Id. at 11.

> [O]ne of the first things that I think I'll draw to the Commission's attention . . . is where PacifiCorp stands today. And the issue of funding, the issue of access to capital, is, from a CEO's perspective, a very key and important issue for a utility. As you know, the nation's energy infrastructure is deteriorating and needs investment, it needs significant investment, and so does PacifiCorp's . . . . Our appetite and our need for capital is quite significant. And it is, frankly, greater than the desire of our current owner, Scottish Power, to invest in over the long-term. Now this tension that we face right now in terms of our appetite versus our current owner's desire to invest creates funding uncertainty. And on a year-to-year basis we have to decide what, if any – well, what of our capital budget will be funded by the parent.[11]

Q. ARE YOU CONCERNED THAT STATEMENTS REGARDING SCOTTISHPOWER'S UNWILLINGNESS TO INVEST ADDITIONAL CAPITAL IN PACIFICORP COULD BE CONSTRUED TO CREATE A "BENEFIT" OF THE MEHC ACQUISITION?

A. Yes, for several reasons. First, ScottishPower won approval of its application to acquire PacifiCorp based, in part, on its commitment to PacifiCorp for the long-term and on its willingness and ability to make investments to improve system performance and to enhance reliability. ScottishPower's representations that were adopted by the Commission and formed the basis for approval obviously have proven unreliable. This calls into questions the similar representations that are now being made by MEHC.

Second, ScottishPower's position presents a considerable challenge to the regulatory approval process for utility acquisitions. Utilizing statements such as Ms. Johansen's to justify a purchase by a successor utility will set a dangerous precedent. If a utility owner wishes to exit the utility business, it would merely need to state that it no longer will provide capital for the necessary and prudent operation of the utility.

[11] OPUC Docket No. UM 1209, Presentations to OPUC, Remarks of Judy Johansen, CEO, PacifiCorp, Tr. at 1:25 – 2:19 (Oct. 25, 2005).

1 ScottishPower should not be allowed to create a benefit for MEHC by refusing to
2 fulfill the responsibilities of any prudent utility owner, including the provision of
3 capital necessary to provide reliable utility service.

4 Finally, Ms. Johansen's statement should not be used as a basis for approving
5 MEHC's proposals. Rather, such statements provide a basis to investigate whether
6 ScottishPower is violating its merger commitments or operating PacifiCorp in an
7 imprudent manner.

8 **III. PROPOSED COMMITMENTS**

9 **Q. CAN YOU SUMMARIZE THE COMMITMENTS MADE BY MEHC IN**
10 **SUPPORT OF ITS APPLICATION?**

11 **A.** MEHC has proposed a list of "existing" and "new" commitments, but it is unclear
12 how MEHC has distinguished between those labeled "existing" and those determined
13 to be "new."

14 MEHC claims that most of the "existing" commitments are carried over from
15 ScottishPower's purchase of PacifiCorp, with appropriate modifications. A number
16 of the "new" commitments, however, are either reaffirmation of current PacifiCorp
17 commitments (i.e., Renewable Energy, Coal Technology) or continuation of current
18 activities (i.e., Community Involvement and Economic Development.) It appears that
19 MEHC considers many of these commitments "new" more because they are new to
20 MEHC, not because they provide some incremental or additional benefit to customers
21 as compared to PacifiCorp's current plans, operations, and obligations.

22 **Q. FROM YOUR PERSPECTIVE, ARE NEW COMMITMENTS IMPORTANT?**

23 **A.** Yes. In order to demonstrate that MEHC's application is in the public interest and
24 provides a net benefit to customers, MEHC must demonstrate benefits that are new,

1 tangible, substantial, and go beyond what a prudent utility is required to do to provide
2 reliable electric service. Mr. Gorman has identified many of the risks and potential
3 harms associated with MEHC ownership. Given these harms, MEHC must offer
4 appropriate protections to mitigate the risk and provide substantial and tangible
5 benefits in order to merely maintain the status quo.

6 **Q. DO MEHC'S "NEW" COMMITMENTS MEET THE CRITERIA OF**
7 **PROVIDING NEW BENEFITS?**

8 **A.** No. Many of the commitments that MEHC claims will benefit customers involve
9 projects that PacifiCorp has already studied or planned for or reflect actions that any
10 prudently run utility would undertake. For example, using ratepayer-backed funds to
11 pay for transmission upgrades or emission controls on coal plants are activities that
12 should be expected of any prudent utility.

13 Furthermore, a commitment to spend money on certain activities (i.e.,
14 transmission upgrades) without a detailed analysis of how much this would actually
15 benefit (or harm) customers does not provide enough information to allow a judgment
16 as to whether a new commitment leads to the creation of a new benefit.

17 In addition, several of the new commitments address financial issues,
18 specifically reduced cost of debt and corporate overhead charges. Combined, these
19 two issues may lead to a minimal reduction of costs for Oregon customers; however,
20 it is questionable whether there will be any reduction at all. Mr. Gorman addresses
21 this point in detail.

22 In any event, the commitments to these alleged cost reductions last for only
23 five years and are the only cost reductions identified in the Application. These
24 alleged cost reductions are overwhelmed by PacifiCorp's $834 million Oregon

1 revenue requirement, by other areas of risk, and by MEHC's other commitments that
2 involve the expenditures of rate-based funds.

3 Finally, noticeably absent from MEHC's alleged capital improvement
4 commitments is a timeline. MEHC makes many vague commitments, but for a
5 majority of these proposals, there is no specific date as to when the commitment will
6 be fulfilled. This lack of specificity is yet another reason that the Commission should
7 not view MEHC's statements as firm, enforceable commitments.[12/]

8 **Q. PLEASE DISCUSS THE SPECIFIC COMMITMENTS THAT MEHC**
9 **CLAIMS WILL PROVIDE A BENEFIT TO CUSTOMERS.**

10 **A.** The commitments that I discuss in detail can be broken down into two broad
11 categories: 1) commitments related to infrastructure and resource investments; and 2)
12 commitments related to customer service and other issues. For the reasons explained
13 below, these commitments for the most part represent plans that PacifiCorp already
14 has or are so speculative and unenforceable that they are essentially meaningless.

15 **Infrastructure and Resource Investments**

16 **Q. WHAT ARE SOME OF THE CAPITAL INVESTMENTS THAT MEHC**
17 **COMMITS TO?**

18 **A.** MEHC has identified approximately $1.3 billion in capital investments. The specific
19 projects identified by MEHC include:

20 1. An $812 million investment to implement an emissions reduction plan for
21 existing coal-fueled generation;

22 2. A $196 million investment in a transmission line from Mona to Oquirrh to
23 increase import capability into the Wasatch Front;

12/ This is not to say that ICNU believes that all the proposed capital expenditures are necessary or prudent. These issues will be evaluated in an appropriate rate proceeding.

3. A $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;

4. An $88 million investment in a transmission link between Walla Walla and Yakima or Vantage to enhance the ability to accept wind energy;

5. $75 million investment in the Asset Risk Program over three years (2007-2009);

6. $69 million investment in local transmission risk projects across all states; and

7. Commitment of MEHC resources and involvement in Rocky Mountain Area Transmission Study.

Attached as Exhibit ICNU/103 is a response to a data request in which MEHC and PacifiCorp have identified which of these commitments represent "new" projects and which already have been planned by PacifiCorp.

1. <u>Transmission and Resource Investments</u>

Q. ARE THE TRANSMISSION PROJECTS AND INVESTMENTS IDENTIFIED BY MEHC "NEW" PROJECTS?

A. No. Page one of Exhibit ICNU/103 states that although the Mona-Oquirrh project "was included in the budget, no commitment was made." However, pages three and four of this Exhibit is a response to a different data request that states that PacifiCorp has "approved funding" for certain aspects of the Mona-Oquirrh project and that the "commitment to the project is less than $6 million." This exhibit further indicates that the Mona-Oquirrh project was "identified and studied in PacifiCorp's 2004 [Integrated Resource Plan ("IRP")]." It is clear from these responses that MEHC's impression on what "new" projects it is offering to customers is more a matter of wordplay than of an actual demonstrable benefit that has not already been planned or committed to by PacifiCorp.

1 This exhibit also demonstrates that PacifiCorp is planning to evaluate the
2 Path-C upgrade as part of its 2004 IRP Update and that the Company has plans to
3 evaluate the Walla Walla-Yakima or Mid-C project as well.

4 **Q. DO THESE TYPES OF ISSUES EXTEND TO THE OTHER PROJECTS AND**
5 **INVESTMENTS IDENTIFIED BY MEHC?**

6 **A.** Yes. MEHC identifies the $75 million investment in PacifiCorp's Asset Risk
7 Program as a "new" commitment, but MEHC's due diligence materials indicate that
8 PacifiCorp [REDACTED]. Exhibit ICNU/104 is a copy
9 of [REDACTED]
10 [REDACTED]
11 [REDACTED]. This memorandum states that:

12–26 [REDACTED][13]

27 MEHC's due diligence materials demonstrate that PacifiCorp [REDACTED]
28 [REDACTED], despite MEHC's claims that
29 this is a new commitment.

[13] ICNU/104, Canon/4-5. Exhibit ICNU/104 reflects the code names used by MEHC for the project. PacifiCorp was referred to as "Venus," MEHC was "Mercury," and the project was "Apollo."

1 Finally, MEHC states that its commitment of resources and involvement in the
2 Rocky Mountain Area Transmission Study ("RMATS") is new, but [redacted]
3 [redacted]
4 [redacted]
5 [redacted]
6 [redacted]
7 [redacted][14]
8 [redacted]
9 [redacted]
10 [redacted]
11 [redacted]
12 [redacted] This only reinforces the point
13 that I discussed earlier regarding the difficulty in evaluating the commitments made
14 in these applications, and the necessity for additional, tangible, near-term benefits for
15 an application to be approved.

16 **Q. IS MEHC'S COMMITMENT TO INVEST IN AND IMPLEMENT A PLAN**
17 **FOR EMISSIONS REDUCTIONS A "NEW" COMMITMENT?**

18 **A.** No. First, MEHC acknowledges in its testimony that these controls likely will be
19 required by law in the near future. Complying with the law is a necessary part of
20 utility functioning, not a basis to conclude that MEHC is offering a "new"
21 commitment.

[14] Id. at Canon/5.

1 Second, Exhibit ICNU/103 reflects that PacifiCorp has already identified the
2 need for these controls. Thus, MEHC has committed to implementing plans that are
3 in place.

4 **Q. IS MEHC'S PROPOSAL TO INVEST IN TRANSMISSION UPGRADES AND**
5 **ENVIRONMENTAL MITIGATION A SIGNIFICANT BENEFIT?**

6 **A.** No. An applicant-purchaser in these proceedings should not be allowed to claim that
7 activities that any prudent utility would undertake are a benefit to customers.
8 Assuming the investments made by the utility are prudent, the costs will be recouped
9 from customers through rates including a reasonable rate of return. Furthermore,
10 MEHC has made no demonstration that these transmission investments will actually
11 benefit customers in Oregon as compared to customers in other states served by
12 PacifiCorp.

13 **Q. WOULD APPROVING MEHC'S APPLICATION ON THE BASIS OF THE**
14 **BENEFIT OF THESE COMMITMENTS POTENTIALLY CREATE**
15 **PROBLEMS IN TERMS OF THE FUTURE REVIEW OF ANY OF THESE**
16 **PROJECTS?**

17 **A.** Yes, possibly. Accepting a specific project as a customer benefit creates the
18 impression that such an investment is appropriate. When the Commission has to later
19 address the ratemaking treatment of any of these investments, it will create an
20 awkward record in terms of determining whether the cost of the investment should be
21 included in rates. This further demonstrates the inappropriateness of finding that
22 customers will benefit based on speculation about future investments.

23 Regardless of this issue, however, MEHC has left itself an "out" of its
24 commitment to specific projects, saying that "it is possible that upon further review a
25 particular investment might not be cost-effective or optimal for customers. If that

1 should occur, MEHC pledges to propose an alternative to the Commission with a
2 comparable benefit."[15/] This statement further highlights the lack of enforceability of
3 the representations upon which MEHC seeks approval and undermines any benefit
4 that the Commission should ascribe to MEHC's commitments to investments.

5 **2. Renewable Resources and Energy Efficiency**

6 **Q. MEHC HAS MADE OTHER COMMITMENTS REGARDING RENEWABLE**
7 **RESOURCES AND ENERGY EFFICIENCY. ARE THESE COMMITMENTS**
8 **A TANGIBLE BENEFIT?**

9 **A.** No. MEHC's "affirmation" of PacifiCorp's commitment to 1400 MW of cost-
10 effective renewable resources obviously is committing to a plan that is already in
11 place. So is MEHC's statement that it "supports and affirms" PacifiCorp's
12 commitment to consider utilization of "advanced coal-fuel technology . . . when
13 adding coal-fueled generation."[16/] Apart from already being part of PacifiCorp's
14 plans, commitments such as these are so nebulous that they are unenforceable and
15 provide no basis to approve the proposed transaction.

16 With respect to the proposed system-wide DSM study, it is unclear if
17 customers will benefit from such a study and if customers will be requested to bear
18 costs in excess of $1 million. In addition, the study appears to be largely duplicative
19 of such efforts already conducted by the Energy Trust of Oregon.

20 **Customer Service Guarantees and Other Commitments**

21 **Q. WHAT ARE SOME OF THE COMMITMENTS MADE BY MEHC THAT DO**
22 **NOT DEAL WITH CAPITAL INVESTMENTS?**

23 **A.** The other commitments that MEHC has made include:

15/ PPL/100, Abel/14 n.1.
16/ PPL/309 at 8.

1. An extension of customer service standards through 2011;
2. A Utah-specific commitment to increasing the number of corporate and senior management in Utah;
3. A 10 basis point reduction for five years in the cost of PacifiCorp's long-term debt;
4. A $30 million system-wide reduction (over five years) in corporate overhead; and
5. Uniform application of the commitments in all six states.

Q. DO CUSTOMERS BENEFIT FROM MEHC'S COMMITMENT TO EXTEND THE CURRENT SERVICE QUALITY MEASURES FOR APPROXIMATELY FOUR YEARS?

A. This is not a meaningful benefit. MEHC initially committed to extend these service standards for only two years. Regardless of MEHC's subsequent commitment to extend these standards through 2011, this is merely preservation of the status quo. PacifiCorp already committed in UE 147 to extending the service quality measures through 2014.[17/]

Q. WHAT ABOUT MEHC'S COMMITMENT TO INCREASE CORPORATE AND SENIOR MANAGEMENT POSITIONS IN UTAH?

A. A shift in focus to Utah likely would harm PacifiCorp's customers in the Pacific Northwest. It is unclear how workable it will be to have senior level corporate executives and management split between the Pacific Northwest and Utah.

Q. WILL CUSTOMERS BENEFIT FROM MEHC'S COMMITMENTS REGARDING THE REDUCTION IN PACIFICORP'S COSTS OF CORPORATE OVERHEAD COSTS AND LONG-TERM DEBT?

A. No. Mr. Gorman addresses each of these commitments in detail, but it appears that these proposals have been widely rejected as overstated and unenforceable. For

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17/ Re PacifiCorp, OPUC Docket No. UE 147, Order No. 03-528, Appendix at 4 (Aug. 26, 2003).

1 example, with respect to MEHC's proposal regarding the reduction in cost of debt,
2 the California ORA concluded that "MEHC needs far more support to prove its claim
3 that Berkshire Hathaway subsidiaries enjoy lower credit costs than a single affiliated
4 debt issuance compared to a small sample of companies' debt issuances spanning 18
5 months and including four different types of debt."[18/] ORA also states that MEHC's
6 proposal regarding a reduction in the cost of debt would "be difficult, if not
7 impossible, to enforce."[19/] This is consistent with the concerns that OPUC staff
8 expressed in opening comments regarding MEHC's Application about not being able
9 to verify this benefit.

10 Mr. Gorman's testimony demonstrates that MEHC has overstated the benefit
11 of the reduction on corporate overhead costs with respect to the amounts included in
12 Oregon rates.

13 **Q. WHAT OTHER REPRESENTATIONS HAS MEHC MADE TO SUPPORT**
14 **ITS APPLICATION?**

15 **A.** MEHC focuses on its unique blend of management discipline and vision and
16 willingness to efficiently invest capital. In addition, it touts the stability that it will
17 bring and that it plans to be a longer-term owner of PacifiCorp. MEHC also
18 emphasizes customer satisfaction, reliable service, employee safety, environmental
19 stewardship, and regulatory/legislative credibility.

20 As discussed earlier in my testimony, ScottishPower also made many of these
21 same representations in 1999, including the promise to be a long-term owner. Six
22 years later, however, it has decided to sell PacifiCorp. MEHC has stated that it

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[18/] ICNU/102, Canon/13.
[19/] Id.

1 intends to be the "last owner" of PacifiCorp; obviously, such generalized
2 representations and commitments are unenforceable and meaningless.

3 **Q. ARE THESE IMPORTANT ELEMENTS?**

4 **A.** They are elements that every potential purchaser will proclaim. To do otherwise
5 would likely make for a short regulatory process.

6 **Q. WHAT IS YOUR ULTIMATE CONCLUSION ABOUT THE BENEFITS**
7 **THAT MEHC HAS OFFERED?**

8 **A.** MEHC's Application does not demonstrate that Oregon customers will see a net
9 benefit from MEHC ownership or that the proposed transaction is in the public
10 interest. MEHC has put forth many of the same representations and promises that
11 other potential utility purchasers have made, but these statements are no more
12 enforceable or certain than those ScottishPower made in 1999. Many of the
13 commitments offered by MEHC preserve the status quo or implement plans that
14 PacifiCorp has already formulated, and commitments such as these provide no benefit
15 to customers. Given the potential harms and risks associated with MEHC's
16 ownership, MEHC has not demonstrated that the proposed transaction is in the public
17 interest.

18 **Q. WHAT ARE YOUR OVERALL OBSERVATIONS ABOUT THE PROPOSED**
19 **TRANSACTION?**

20 **A.** The proposed transaction, if approved, would seriously lower the bar for what is
21 required to meet the public interest and net benefit standard to acquire an Oregon
22 utility. Essentially, MEHC is arguing that its proposal to maintain the status quo,
23 when considered in light of its affiliation with Berkshire Hathaway, is enough to
24 warrant approval. There is not much else to MEHC's Application. Although ICNU

1 did not support ScottishPower's bid for PacifiCorp, I consider MEHC's proposal to
2 be worse for customers. Without any rate credits or a rate freeze to offset the
3 potential harms posed by MEHC ownership, there are few, if any, positives to this
4 Application. MEHC's general unwillingness to use its funds to pay for any of its
5 commitments, the financial issues discussed by Mr. Gorman, the shift of executives
6 and senior management to Utah, the threat of recovery of the Acquisition Premium,
7 MEHC's response to Senate Bill 408, and MEHC's approach to discovery in this
8 Docket all lead to one conclusion—customers will be worse off under MEHC's
9 ownership.
10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
11 **A.** Yes.

ICNU/101

Ken Canon Qualifications

Ken Canon

Ken Canon served as the Executive Director of Industrial Customers of Northwest Utilities (ICNU) from 1981-2005. ICNU represents its industrial members' electric energy interests before state regulatory commissions, state legislatures, Congress, the Bonneville Power Administration (BPA), the Northwest Power Planning Council and with individual electric utilities.

Canon served six years on the Oregon legislative Energy Policy Review Committee and was a member of the 1996 Comprehensive Review. Prior to 1981, Canon represented industries in legislative and regulatory arenas as the assistant legal counsel for Associated Oregon Industries.

Canon is a graduate of the Willamette University Law School and is a partner in the Canon and Hutton law firm. He lives in Myrtle Creek, Oregon.

ICNU/102

EXCERPT OF OFFICE OF RATEPAYER ADVOCATES' REPORT ON THE PROPOSED ACQUISITION OF PACIFICORP BY MIDAMERICAN ENERGY HOLDING COMPANY (OCT. 19, 2005)

Docket:	:	A. 05-07-010
Exhibit Number	:	
Commissioner	:	Comm. J. Bohn
Admin. Law Judge	:	ALJ T. Kenney
Witnesses	:	M. K. Bumgardner
	:	

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Office of Ratepayer Advocates' Report on the Proposed Acquisition of PacifiCorp by MidAmerican Energy Holding Company

San Francisco, California
October 19, 2005

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1 # 1. EXECUTIVE SUMMARY

2 Applicants request an order exempting the proposed aquistion of
3 PacifiCorp by MidAmerican Energy Holding Company (MEHC) from the
4 approval requirements of Section 854(a) of the Public Utilities Code (P.U. Code).
5 The Office of Ratepayer Advocates (ORA) has reviewed PacifiCorp/MEHC's
6 Application (A.) 05-07-070[1] and finds the following.

7 • The acquisition would result in $1.3 billion more in capital investment,
8 which would increase the costs California ratepayers pay PacifiCorp by
9 $5.3 million every year.

10 • The acquisition would increase operating costs by $3.5 million per year,
11 which would increase the costs California ratepayers pay PacifiCorp by
12 an additional $70,000 each year.

13 • MEHC claims that ratepayers would save $7.3 million annually, which
14 would result in a potential decrease of $145,000 a year for California
15 ratepayers. The economic benefits to ratepayers associated with the
16 proposed transaction are paltry.

17 • California ratepayers may ultimately have to pay an additional $121 a
18 year per ratepayer based upon PacifiCorp/MEHC's application.

19 • The acquisition of PacifiCorp by MEHC may increase PacifiCorp's debt
20 cost rather than decrease them based upon the evidence in the
21 Commission's possession.

22 • MEHC has not recognized any other synergies inherent in its acquisition
23 of another large utility in addition to the one it currently operates in the
24 mid-West.

25 • The majority of the other conditions appear to keep PacifiCorp's
26 California ratepayers neutral to the acquisition.

[1] Application of PacifiCorp and MidAmerican Energy Holdings Company for Exemption Under Section 853(b) From the Approval Requirements of Section 854(a) of the Public Utilities Code with Respect to the Acquisition of PacifiCorp by MidAmerican, filed July 15, 2005. (Application)

These results are contrary to ratepayer interest. In addition, PacifiCorp has currently expressed its intent to file a test year 2007 general rate case (GRC) application (presumably for higher rates.) Looking at these results in isolation warrants a denial of the Application. There are no net economic benefits to ratepayers associated with the acquisition, and the Applicants have not demonstrated that the request is in the public interest.

ORA recommends that this Commission reject the Applicants' request to have MEHC acquire PacifiCorp; but should the Commission authorize this acquisition, any approval needs to be conditioned on the implementation of the following requirements:

- PacifiCorp must postpone its planned general rate increase filing for one year to provide ratepayers sufficient guaranteed tangible benefits from the acquisition (rates would be held at current levels until January 1, 2008);

- Under no circumstances should ratepayers be required to pay the costs associated with acquisition premiums to a utility. Paying any part of the acquisition premium would make this transaction unbeneficial to ratepayers. Unless the Applicants agree that ratepayers will not pay any part of the acquisition premium, the proposed transaction should not be authorized.

- MEHC must pay all acquisition costs and will not allocate any of these costs to PacifiCorp's ratepayers.

- Upon completion of the transaction, PacifiCorp, its owners, and its affiliates will be governed by the California P.U. Code, the Commission's General Orders, Rules of Practice and Procedures, and all decisions and resolutions that PacifiCorp is currently required to follow.

- PacifiCorp and its new owners must provide California with the same operating and affiliate transaction reports that they will provide to the other states that it operates.

- PacifiCorp and MEHC must provide California ratepayers with the same benefits that are provided to other jurisdictions (Most Favored Nation Treatment.)

Unless the Commission includes these provisions as part of the proposed transaction, the Application should be denied.

2. OVERVIEW

A) PacifiCorp

PacifiCorp is an electric utility, incorporated in Oregon, with substantial operations in six western states. The six states in which it conducts regulated electric utility operations are the states of Washington, Oregon, Idaho, Utah, Wyoming and California.

PacifiCorp's electric operations in California are by far the smallest of those in any of these states, consisting of approximately 43,000 customers, $65 million of annual revenue, and about 2% of its system sales. The generation used to serve California customers is primarily located in other states, as is the vast bulk of the transmission system used by PacifiCorp to serve its California customers.[2]

PacifiCorp stated that prior to negotiating the acquisition by MEHC, it had already planned to file a separate general rate application in the late fall for a test year beginning January 1, 2007. The application further states that PacifiCorp's rates were last increased in late 2003, citing D. 03-11-019, and that its California territory electric rates average approximately 7.7¢/KWh.[3]

B) MidAmerican Energy Holding Company

MEHC is a privately-held company engaged in the production and delivery of energy from a variety of sources, including coal, natural gas, geothermal, hydroelectric, nuclear, wind and biomass. MEHC's global assets total approximately $20 billion and its 2004 revenues totaled approximately $6.6

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[2] Application (A.) 05-07-010 p. 2.

[3] A. 05-07-010, p. 2, fn 4.

billion.[4] An Iowa corporation, MEHC's major ownership interest of 83.75% belongs to Berkshire Hathaway Inc. [5]

With the repeal of the Public Utility Holding Company Act of 1935 (PUHCA), Berkshire Hathaway will exchange its convertible preferred stock in MEHC into common shares, increasing Berkshire Hathaway's 9.9% voting interest in MEHC to a voting interest of approximately 83.75% (or 80.5% on a diluted basis) of the common stock of MEHC. The exchange of Berkshire Hathaway's convertible preferred stock does not change the owners of MEHC, only their respective voting interests. The result is the matching of Berkshire Hathaway's voting interest with its ownership interest. The conversion does not affect the PacifiCorp transaction since MEHC remains the acquiring entity.[6]

C) ScottishPower

ScottishPower's 2004/05 Annual Report and Accounts states that the sale of PacifiCorp to MEHC for $9.4 billion will bring net proceeds of $5.1 billion, of which $4.5 billion will be returned to shareholders. MEHC will assume net debt of approximately $4.3 billion.[7]

D. 99-06-049 dated June 10, 1999, stated that ScottishPower was "incorporated in Scotland in 1989," "is a multi-utility business in the United Kingdom (U.K.) with 5 million customers," has "activities that span electricity generation, transmission, distribution and supply," has "provided electric service to the public for over 100 years," "is among the 25 largest investor-owned electric utilities in the world", "had assets of approximately $9 billion" in 1998, maintain

[4] Revised Direct Testimony of Gregory E. Abel, PPL/100, p. Abel/7.
[5] A. 05-07-010, p. 5.
[6] August 24, 2005 letter from Andrea Kelly, Managing Director to ALJ Kenney, p. 2.
[7] ScottishPower 2004/05 Annual Report and Accounts, p. 5.

1 PacifiCorp's U.S. debt market, and "provide access to U.K. and European debt
2 markets." ScottishPower claimed that the 1999 acquisition would:

3 • Enable PacifiCorp to become part of a large financially strong
4 corporation group and will permit it to obtain needed capital on
5 favorable terms.

6 • Stress standards of service which encompass a variety of areas, the
7 object of which is to enhance performance within the business and
8 increase customer satisfaction.[8]

9 **D) Proposed Acquisition**

10 On April 27, 2005, MEHC initiated the negations to acquire PacifiCorp
11 from ScottishPower.[9] On or about May 23, 2005, MEHC and ScottishPower
12 entered into an agreement to sell all of PacifiCorp's common stock to MEHC for
13 approximately $9.4 billion. Approximately $5.1 billion is cash and the remaining
14 $4.3 billion is net debt and preferred stock, which will remain outstanding at
15 PacifiCorp.[10] The sale of PacifiCorp's common stock includes transfer of control
16 of certain PacifiCorp subsidiaries that are associated with the regulated business.[11]

17 **E) Commission's Role in Authorizing this Transaction**

18 The Commission is charged with overseeing the acquisitions and mergers
19 of public utilities that serve California ratepayers,[12] as well as the sale of utility

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[8] D. 99-06-049

[9] MEHC's response to ORA 3rd Data Request 3.5.

[10] Direct Testimony of Gregory E. Abel, PPL/100, Abel/10.

[11] The following PacifiCorp subsidiaries which will be included in the transfer consist primarily of mining companies and companies created to handle environmental remediation and avoided deforestation carbon credits: Centralia Mining Company, Energy West Mining Company, Glenrock Coal Company, Interwest Mining Company, Pacific Minerals, Inc., Bridger Coal Company, PacifiCorp Environmental Remediation Company, PacifiCorp Future Generations, Inc., Canopy Botanicals, Inc., Canopy Botanicals, SRL, PacifiCorp Investment Management, Inc., and Trapper Mining, Inc. (A.05-07-010, p. 12).

[12] P.U. Code, Section 854. See Attachment A.

1 assets used for serving ratepayers,[13] and the purchase of utility stock.[14] The
2 Applicants contend that because PacifiCorp is not a California corporation,
3 Section 854(a) does not authorize the Commission to review the proposed
4 acquisition under that Section.[15] Instead, Applicants claim that the Commission
5 should exempt the transaction from review under Section 853(b)[16] of the P.U.
6 Code.

7 Section 854(a) provides in part:

8 "No person or corporation, whether or not organized under the laws of this
9 state, shall merge, acquire, or control either directly or indirectly any public utility
10 organized and doing business in this state without first securing authorization to do
11 so from the commission" Applicants argue that since PacifiCorp is a public
12 utility "doing business in this state" but is not "organized under the laws of this
13 state," Section 854(a) does not authorize this Commission to review the
14 transaction. Such an interpretation of Section 854(a) is contrary to the results of
15 over fifty reported cases in which the Commission has reviewed Section 854(a)
16 applications filed by utilities notwithstanding the fact that the utility being
17 acquired is incorporated in a state other than California.[17]

18 Most recently, the Commission reviewed the acquisition of Avista's
19 California gas service territory by Southwest Gas Corporation. D. 05-03-031
20 approved Southwest's acquisition of Avista's South Lake Tahoe service territory
21 of Avista pursuant to Sections 851 and 854 of the P.U. Code. As discussed further

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[13] Section 851. See Attachment A.

[14] Section 852. See Attachment A

[15] A. 05-07-010, p. 2 and note 2.

[16] The complete text of Section 853(b) is in Attachment A, but in part it states "the commission may….exempt any public utility….from this article if it finds that the application thereof with respect to the public utility is not necessary in the public interest."

[17] See Attachment B List of 854(a) applications and decisions involving utilities incorporated in other states.

1 in Section 4.E, the Commission approved a settlement between Avista, Southwest,
2 and ORA that recognized significant synergies and ratepayer benefits that would
3 result from the proposed transaction.

4 The Commission should exercise its authority pursuant to Sections 851 and
5 854 to review MEHC's proposed acquisition of PacifiCorp, as it did earlier this
6 year for Avista, and for dozens of other similar transactions in the past.

7 **3. FUTURE RATEPAYER IMPACTS**

8 In its application, MEHC and PacifiCorp identify several capital projects,
9 additional operating costs, and some cost savings that it would undertake. The
10 following table shows the impacts of these changes and the impact on California's
11 ratepayers.

PacifiCorp/MEHC Merger New Costs (Capital & Expense) (Dollars in thousands)			
Project Name Capital Costs	Expected Cost	Total Costs	Estimated California Allocation
Path C Upgrade	$ 78,000		
Mona-Oquirrh	$ 196,000		
Walla Walla-Yakima or Mid-C	$ 88,000		
Other Transmission and Distribution (Asset Risk Program)	$ 75,000		
Other Transmission and Distribution (Local Transmission Risk Projects)	$ 69,000		
Emission Reductions from Coal-Fueled Generating Plant	$ 812,000		
Total Expected Capital Plant Additions		$ 1,318,000	
Total California Future Expected Annual Impact			$ 5,272
Project Name Operating Costs			
Other Transmission and Distribution (Accelerated Distribution Circuit Fusing Program)	$ 1,500		
Other Transmission and Distribution (Saving SAIDI Initiative)	$ 2,000		
Total Expected Operating Expense Increase		$ 3,500	
Total California Future Expected Operating Effect			$ 70
Cost Savings			
Reduced Cost of Debt	$ (1,260)		
Corporate Overhead Charges	$ (6,000)		
Total Expected Cost Savings		$ (7,260)	
Total California Expected Cost Savings			$ (145)
Total Ultimate Expected Future Revenue Requirement in California			$ 5,197
Customer Expected Impact in California			$ 121

12

1 MEHC expects to add $1.3 billion in total system capital adds in the future,
2 which has an impact of increasing California customer costs by $5 million.[18] It
3 should be noted that none of the transmission or emission investment projects are
4 currently required by federal or state law or any federal or state regulatory
5 agency.[19] Assuming MEHC estimates its incremental capital additions, operating
6 expense increases, and cost savings correctly, the cost to ratepayers will be to
7 ultimately increase each customer's rates by potentially $121 per year. Based on
8 this evidence, the proposed merger would not provide economic benefits to
9 California ratepayers.

10 **4. RATEPAYER BENEFIT**

11 **A) Debt Financing**

12 MEHC claims that PacifiCorp's incremental cost of long-term debt will be
13 reduced as a result of the proposed transaction, due to the association with
14 Berkshire Hathaway. According to MEHC its utility subsidiaries have been able
15 to issue long-term debt at levels below their peers with similar credit ratings.
16 MEHC commits that over the next five years it will demonstrate that PacifiCorp's
17 incremental long-term debt issuances will be at a yield ten basis points below its
18 similarly rated peers. It offers that if it is unsuccessful in demonstrating that
19 PacifiCorp's long-term debt costs are ten basis points lower than similarly rated
20 peers, PacifiCorp will accept up to a ten basis point reduction to the yield it
21 actually incurred on any incremental long-term debt issuances for any revenue

[18] A. 05-07-010, Appendix No. 7, pp. 1, 2, 3, and 4, shows the support for the $1.3 billion in capital projects, 3.5 million in operating expenses, and 7.2 million cost savings. All costs were developed on an annual basis. Capital expenses were developed by multiplying capital costs by .2 as an approximation of return, taxes, and depreciation. California costs were calculated by multiplying total company expenses by .02, and per customer costs were calculated by dividing California costs by 43,000, the number of PacifiCorp customers living in California.

[19] MEHC's response to ORA 3rd Data Request 3.1.3.

1 requirement calculation effective for the five year period subsequent to the
2 approval of the proposed acquisition.[20]
3 MEHC states that it has "access to significant financial and managerial
4 resources thorough its relationship with Berkshire Hathaway, one of its owners,
5 whose debt rating is AAA." MEHC adds that its "global assets are approximately
6 $20 billion, with its 2004 revenues totaling $6.6 billion." Moreover, on a
7 consolidated basis, "MEHC's pro forma combined assets would be approximately
8 $34 billion, with combined revenues of about $9.6 billion." [21]
9 However, MEHC's credit rating from the various credit rating agencies are
10 only a BBB- from Standard & Poor's (S&P); Baa3 from Moody's Investor Service
11 (Moody's); and BBB from Fitch Ratings (Fitch).[22] These are significantly lower
12 than ScottishPowers credit ratings as discussed below.
13 MEHC provided an analysis of the ratings by stating S&P placed MEHC's
14 corporate rating and senior unsecured debt rating of BBB- on CreditWatch
15 Positive; Moody's noted its senior unsecured debt rating of Baa3, a positive rating
16 outlook; and, Fitch affirmed its senior unsecured debt rating at BBB, with a stable
17 outlook.[23]
18 With regard to PacifiCorp's credit rating, immediately after the acquisition
19 was announced, S&P placed PacifiCorp's secured debt on CreditWatch with
20 negative implications, explaining its current rating for PacifiCorp reflects
21 ScottishPower's consolidated credit profile and that the "negative implications"

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[20] Revised page to Abel Exh. PPL/101, p. 2
[21] A.05-07-010, p. 16.
[22] Table 2, Crediting Ratings – July 2005, Direct Testimony of Patrick J. Goodman, Revised 8/25/05, PPL/400, Goodman/7.
[23] A. 05-07-010, pp. 16-17.

1 observation is based on PacifiCorp's "weaker stand-alone metrics." S&P states it
2 will assess other factors as the transaction proceeds.[24]
3 Moody affirmed its rating of PacifiCorp's senior secured debt as A3 and
4 senior unsecured debt as Baa1. It changed its ratings outlook from stable to
5 developing. Moody did state it believed the acquisition would have positive long-
6 term benefits, particularly on large capital expenditure over the next several years
7 and that its "developing" rating outlook reflected short-term regulatory challenges
8 faced by PacifiCorp as it litigates pending rate cases and seeks regulatory approval
9 of the acquisition.[25]
10 Fitch declared PacifiCorp's debt rating of senior secured "A"; senior
11 unsecured "A-", was stable. It also noted that MEHC has the financial capability
12 to provide equity financing for PacifiCorp's ongoing capital expenditure
13 program.[26]
14 ScottishPower's 2004-2005 Annual Report identified its S&P credit ratings
15 as BBB+, Moody's Baa1, and Fitch BBB+. The Annual Report also stated that
16 ScottishPower's U.K. (long-term) credit rating for S&P to be A-, Moody's A3,
17 and Fitch A.
18 The basis for MEHC's claim that its subsidiaries obtain less expensive
19 credit is a three-page report, based on market data independently obtained from JP
20 Morgan and ABN AMRO. The report compares the September 2004 debt
21 issuance of MidAmerican Energy Company to debt issuances[27] of eight other
22 utilities, including PacifiCorp, between February 2003 and September 2004 and

[24] A. 05-07-010, p. 17.
[25] A. 05-07-010, p. 17.
[26] A. 05-07-010, p. 17.
[27] MidAmerican Energy issued Notes. The other debt issuances included Notes, First Mortgage Bonds, Senior Notes, and Secured.

1 concludes that MEHC's cost of debt was 10 basis points lower.[28] MEHC needs
2 far more support to prove its claim that Berkshire Hathaway subsidiaries enjoy
3 lower credit costs than a single affiliated debt issuance compared to a small
4 sample of companies' debt issuances spanning 18 months and including four
5 different types of debt.

6 MEHC provided information about one debt issuance over a year ago of a
7 single Berkshire Hathaway subsidiary. ORA requested a list of all debt issuances
8 from Berkshire Hathaway associated businesses by company for the last five
9 years, but MEHC indicated that it "is not in possession of any of the data
10 requested."[29]

11 ORA was therefore unable to substantiate MEHC's claim that its
12 subsidiaries were able to garner lower debt costs because of their affiliation with
13 Berkshire Hathaway. The strongest evidence before the Commission shows that
14 PacifiCorp's association with MEHC will raise its debt costs (S&P's CreditWatch
15 negative)[30] since MEHC's debt rating (BBB-)[31] is lower than ScottishPower's
16 debt rating (A-).[32] MEHC's offer that for the five year period subsequent to the
17 approval of the proposed acquisition PacifiCorp will accept up to a ten basis point
18 reduction for any revenue requirement calculation, if its incremental long-term
19 debt issuances are not ten basis points lower than that of similarly rated peers will
20 be difficult, if not impossible, to enforce.

21 **B) Corporate Overhead Charges**

22 MEHC commits that the corporate charges to PacifiCorp from MEHC and
23 MEC will not exceed $9 million annually for a period of five years after the

[28] MEHC's response to ORA 3rd Data Request 3.1.1.
[29] MEHC's response to ORA 3rd Data Request 3.1.3.
[30] A. 05-07-010, p. 17.
[31] A. 05-07-010, p. 16.
[32] A. 05-07-010, p. 17.

1 closing on the proposed transaction.[33] This results in a savings of $6 million per
2 year on a total company basis if the holding company provides the same services
3 as PacifiCorp Holding Inc. However, it is MEHC's plan to change the mix of
4 services. This change in mix will cause the shifting of costs from MEHC to
5 PacifiCorp such that the change in the holding company cost alone will not
6 provide an accurate indication of the costs/savings caused by the new owner. An
7 example of some of the services that may be reassigned to PacifiCorp could be
8 Strategic Planning and Environmental services.[34]

9 **C) Most Favored Nation Treatment**

10 Applicants have stated that they would include "Most Favored Nation"
11 treatment for agreements reached with other jurisdictions. With the exception of
12 commitments that are clearly state specific, MEHC has stated that it intends to
13 apply each commitment made in any of the state jurisdictions to all six states.[35]

14 **D) Traditional Holding Company Efficiencies**

15 When businesses merge or are acquired synergies may be acquired by
16 performing the same functions more efficiently. These efficiencies (synergies) are
17 obtained by allocating the fixed costs of an operation over a larger base while
18 maintaining marginal costs. Some areas where typical synergies occur for like
19 companies include consolidation and removal of duplicate facilities pertaining to:

20 - Accounting services;
21 - Administrative costs and services;
22 - Advertising costs;

[33] Revised page to Abel Exh. PPL/101, p. 2

[34] Strategic Planning and Environmental services were identified as services provided by ScottishPower (PacifiCorp's response to ORA 3rd Data Request 3.11.2) which were not identified as services MEHC will provide to PacifiCorp (MEHC's response to ORA 3rd Data Request 3.11.1.

[35] MEHC's and PacifiCorp's response to ORA 2nd set of data requests, question 2.1.

1 • Billing services;
2 • Financing services;
3 • Human resource costs and services;
4 • Legal costs and services;
5 • Medical costs and services;
6 • Purchasing functions;
7 • Regulatory functions, costs, and services;
8 • Research; and,
9 • Strategic Planning services;

10 MEHC has not provide any documents that support the existence of any
11 synergies, efficiencies, or cost savings other than the decrease in debt cost and
12 minor corporate service costs. When asked to identify whether MEHC has
13 evaluated these items for synergies and cost savings MEHC stated that it "has not
14 performed a study of potential savings from the transaction.[36] With a proposed
15 purchase price in excess of book value, and only minor savings identified by
16 MEHC, ORA concludes that there must be synergies, efficiencies, and cost
17 savings that MEHC will pursue that it is not identifying to justify the acquisition
18 cost paid by MEHC. Without additional synergies this acquisition must be denied
19 because the application has failed to show net economic benefits associated with
20 the acquisition. However, these potential synergies can be recognized by delaying
21 PacifiCorp's next general rate increase proceeding one year. This would also
22 ensure some credible and definitive economic benefits are realized by ratepayers
23 through this transaction.

[36] MEHC's response to ORA 3rd Data Request 3.12.

E) Delay in PacifiCorp's next GRC

PacifiCorp is currently in the process of preparing a Test Year 2007 general rate case. The rate case will not incorporate any of the future costs/savings of the new owner. California uses a forward looking test year and calculates the rates based upon a utility's estimated future operation. It is ORA's expectation that PacifiCorp will be proposing a rate increase in its GRC application.

ORA is concerned that MEHC may recognize consolidation savings during the next several years (benefits that they will not be identified in its application), while demonstrating only diminutive benefits (which will be offset by sizable capital costs in the future because of the expected future capital additions.) ORA's experience is that merged companies have substantial savings after merging.

In the SDG&E/SoCalGas merger the Commission found that the five year savings from the merger to be $288 million which were to be distributed to ratepayers and shareholders, 50/50, over a five year period.[37] Additionally, in the sixth year, all such merger benefits were allocated to ratepayers.[38]

The most recent energy acquisition involved the acquisition of Avista Corporation's (Avista) South Lake Tahoe district by Southwest Gas Corporation (Southwest). On July 21, 2004, Southwest and Avista entered into a purchase and sale agreement, subject to regulatory approval, by which Southwest would acquire Avista's South Lake Tahoe natural gas assets for approximately $15 million. On September 3, 2004, Avista and Southwest filed a Joint Application[39] requesting Commission authorization for the transaction. Among other things, Southwest proposed that it not be foreclosed from seeking in a future rate case the opportunity to recover the acquisition premium related to the transaction. A settlement was negotiated in the case between ORA, Avista, and Southwest.

[37] D. 98-03-073, p. 2, Summary.
[38] D. 98-03-073, Finding of Fact 8.
[39] A. 04-09-009

Among other things, the settlement provided that: 1) the base margin rates for the South Lake Tahoe district being purchased by Southwest would remain unchanged for the years 2005, 2006, 2007, and 2008 and 2) Southwest will not seek Commission authority to recover the acquisition premium associated with the transaction in that case or in any future regulatory proceeding. On March 17, 2005, the Commission approved the settlement and granted authority for the proposed transaction.[40] In that decision, the Commission concluded that P.U. Code Sections 851 and 854 governed the transaction.

In light of the decision in the Southwest acquisition case in which base margin rates were frozen for a four-year period, ORA has offered an extremely reasonable and modest proposal of a one-year rate deferral for the Northern California service territory of PacifiCorp in this case.

5. Company Safeguards

A) MEHC's and PacifiCorp's Proposed Regulatory Safeguards

Applicants' application contains a copy of the regulatory safeguards proposed by Applicants in this proceeding.[41] All but two of these safeguards are designed to keep California ratepayers neutral to the proposed transaction. The two safeguards that provide minimal benefit are offset over 35-fold by new planned costs that are not currently required by any federal or state regulatory agency or law.

B) ORA's Additional Proposed Safeguards

ORA's additional safeguards were developed mindful that California is only two percent of PacifiCorp's operation.

[40] D. 05-03-010

[41] A. 05-07-010, Appendix 7.

1 **1) Acquisition Premium**

2 In MEHC's and PacifiCorp's proposed safeguards, the Applicants threaten
3 to propose recovery of the acquisition premium in PacifiCorp's regulated retail
4 rates *if* the Commission in a rate order issued subsequent to the closing of the
5 transaction reduces PacifiCorp's retailed revenue requirement through the
6 imputation of benefits other than those benefits committed to in this transaction[42]

7 This proposal of Applicants is not a safeguard but an inappropriate attempt
8 by Applicants to force ratepayers to compensate shareholders for its acquisition
9 premium costs should the Commission recognize the acquisition's expected
10 benefits. This is contrary to the Commission's long standing policies.

11 "It has been the policy of this Commission, for accounting and rate making
12 purposes, to recognize the original cost of operating systems acquired by
13 purchase and to disregard the purchase price paid by the transferees. Under
14 such policy the consumers' rates reflect those costs associated with the
15 actual cost of constructing the facilities devoted to their use and will not be
16 subject to variations which might otherwise result in the event the purchase
17 price, whether less than or in excess of the actual installed cost, were to be
18 recognized in rate making purposes."[43]

19 A more recent decision, involving a different utility, amplified and clarified
20 this statement of policy:

21 "If a regulated utility purchasing dedicated property were allowed to pass
22 on to its customers a price higher than original cost, the parties to the
23 transaction would be in a position to frustrate the application of the original
24 cost standard by arranging a transfer of ownership at a premium. The seller
25 would receive, at the expense of future ratepayers, more than his original
26 cost and yet the willingness of the purchaser to pay such a premium would
27 have little significance since he himself would not bear the burden. On the
28 other hand, the willingness of a seller to accept a price below the
29 depreciated original cost can be persuasive evidence that the property has
30 suffered deterioration in value and is no longer worth depreciated original

[42] Revised pages to Gale Exh. PPL/301, pg. 3, Financial Integrity item C.

[43] D. 69490, quoting D. 63581. The Supreme Court of California denied a writ of review of D. 63581.

cost. The Commission may consider such evidence in establishing a rate base for ratemaking purposes."[44]

If the Commission ever allowed a utility to recover an acquisition adjustment in rates it would force the ratepayers to assume shareholder cost and risks, and force ratepayers to pay a premium that has no relation to the original cost of the system. Acquisition premiums are made by shareholders after they have evaluated the risk of acquiring the utility, and should never be charged to utility ratepayers. Furthermore, in this specific case, Applicants have failed to even request that the Commission even consider the reasonableness of the premium.

- Ratepayers should never be required to finance MEHC's acquisition premium. To do otherwise would make this transaction unbeneficial to ratepayers. The Commission should not approve the transaction unless Applicants agree that under no circumstances will ratepayers be forced to bear the cost of the acquisition premium.

2) Compliance with California's Decisions, Rules, and Laws

Article 12 of the California Constitution created the California Public Utilities Commission, subject to the control of the legislature, to fix rates and rules for public utilities operating inside the state of California. The Commission is governed by the California Constitution and the P.U. Code. Utilities are required to comply with the California P.U. Code, the Commission's General Orders, Rules of Practice and Procedures, and the Commission's resolutions and decisions that impact each utility. Upon completion PacifiCorp, the businesses that own it, and its affiliates need to be governed by California's Laws, Rules, and Decisions.

- Upon completion of the transaction, PacifiCorp, its owners, and its affiliates will be governed by the California P.U. Code, the

[44] D. 69490, citing D. 68841 (April 6, 1965.)

Commission's General Orders, Rules of Practice and Procedures, and all decisions and resolutions that PacifiCorp is currently required to follow.

3) Reporting Requirements

As stated earlier, California is only 2% of PacifiCorp's operation. However, the Commission and ORA have a long history of monitoring the impacts of acquisitions to ensure that ratepayers are not negatively impacted by the owner. ORA is not proposing additional reporting requirements specifically for California but recommends the following:

- PacifiCorp and its new owners provide the Commission with the same operating and affiliate transaction reports that it will provide to the other states in which it operates.

6. SYSTEM RELIABILITY

MEHC and PacifiCorp affirmed that it would continue to provide existing customer service guarantees and performance standards in each jurisdiction through 2009.[45]

Further, MEHC and PacifiCorp agreed that 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.[46]

MEHC and PacifiCorp further 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.[47] ORA is not opposed to this proposal.

[45] A. 05-07-010, Appendix 7, Customer Service, item A, p. 6.
[46] A. 05-07-010, Appendix 7, Customer Service, item B, p. 6.
[47] A. 05-07-010, Appendix 7, Customer Service Standards, p. 5.

ICNU/103

PACIFICORP RESPONSES TO OPUC
STAFF DATA REQUEST NO. 9
AND CITIZENS' UTILITY BOARD
DATA REQUEST NO. 5

CUB Data Request 5

Referring to the list of advantages bulleted on pages 18-19 of the Application, please identify which initiatives are new and which are already committed to or planned by PacifiCorp?

Response to CUB Data Request 5

a. $812 million investment in emissions reduction technology – **while PacifiCorp had previously identified a need to make investments in emission controls, the only project that had been approved and budgeted was the Huntington 2 project, leaving the remaining projects subject to additional planning and commitment**

b. $78 million investment in Path C transmission upgrade - **new**

c. $196 million Mona-Oquirrh transmission line – **while included in the budget, no commitment was made**

d. $88 million in Walla Walla-Yakima transmission link - **new**

e. $75 million in Asset Risk Program – **new**

f. $69 million in local transmission projects – **new**

g. 10 basis point reduction in cost of debt – **new**

h. $30 million reduction over five years in corporate overhead costs – **new**

i. Consideration of reduced-emission coal technologies – **affirmation of PacifiCorp commitment**

j. Affirmation of PacificCorp's goal of 1400 MW of cost-effective renewable resources – **affirmation of PacifiCorp commitment**

k. Reduction in sulfur-hexafluoride emissions – **new**

l. $1 million shareholder-funded system-wide DSM/energy efficiency study – **new**

m. Two year extension of customer service standards – **new**

n. Commitment of MEHC resources and involvement in RMATS, Frontier transmission, etc. – **new**

o. Uniform application of prior PacifiCorp transaction commitments in all six states – **new**

p. Utility own/operation option for consideration in renewable energy RFPs - **new**

UM-1209/PacifiCorp
August 19, 2005
OPUC Data Request 9

OPUC Data Request 9

PPL/200, Johansen/6 notes that PaciCorp has replaced and maintained transmission facilities. Referring to the transmission investments listed on PPL/100, Abel/14, line 9-Abel/15, line26. For each transmission investment listed, provide a discussion answering the following questions:

a. Has PacifiCorp identified the project as a needed improvement?
b. Has PacifiCorp budgeted funds to undertake the improvement?
c. Has the transmission improvements been identified or studied in the company's IRP?
d. Has any state adopted an IRP that includes the transmission investment?
e. Has the company undertaken a cost/benefit study regarding the transmission investment? If yes, please provide the study.

Response to OPUC Data Request 9

a. See Response to OPUC 9.e.

b. PacifiCorp has approved limited funds to complete corridor alternative selection and begin preliminary site and permitting feasibility analysis on the Mona-Oquirrh project. PacifiCorp has also approved funding to secure one substation site at Oquirrh to reduce the future risk of locating the substation in an area that has high economic growth of residential and commercial properties. The commitment to the project is less than $6 million.

   No funds have been committed for the other two projects specifically referenced in the testimony.

c. Only the "Mona – Oquirrh" transmission investment was identified and studied in PacifiCorp's 2004 IRP. This investment was associated with the CY 2009 Utah Combined-Cycle Combustion Turbine (CCCT) proxy resource identified in the Preferred Portfolio.

d. None of the commissions regulating PacifiCorp "adopt" the Company's IRPs. Washington has acknowledged the IRP with the Mona – Oquirrh transmission investment included in PacifiCorp's Preferred Portfolio. Utah has also acknowledged the IRP, but has declined to acknowledge the Action Plan. In lieu of Action Plan acknowledgement, the Utah Public Service Commission ordered that the IRP Action Plan be considered in the approval process for PacifiCorp's subsequent resource solicitations.

e. As was indicated in Response to OPUC 9.c, the Mona-Oquirrh transmission project was evaluated as part of the Company's 2004 IRP, and is a component of the Preferred Portfolio. The Company is planning on evaluating the benefit of the Path-C upgrade as part of its 2004 IRP Update filing that is scheduled to be filed informally with the Commissions in October. As wind projects are identified as part of RFP 2003B, the Company will evaluate the benefits of the wind project and the Walla Walla - Yakima or Mid-C commitment for cost-effectiveness.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1209

In the Matter of	)
	)
MIDAMERICAN ENERGY HOLDINGS COMPANY,	)
	)
	)
Application for Authorization to Acquire Pacific Power & Light, dba PacifiCorp.	)
	)
____	)

DIRECT TESTIMONY OF MICHAEL P. GORMAN

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

November 21, 2005

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Michael Gorman, and my business address is 1215 Fern Ridge Parkway,
3 Suite 208, St. Louis, MO 63141-2000.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a consultant in the field of public utility regulation and a principal in the firm of
6 Brubaker & Associates, Inc., energy, economic, and regulatory consultants.

7 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 **A.** These are set forth in Exhibit ICNU/201.

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 **A.** I am appearing on behalf of the Industrial Customers of Northwest Utilities
12 ("ICNU").

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

14 **A.** I will comment on potential negative retail customer impacts created by
15 MidAmerican Energy Holdings Company's ("MEHC" or the "Applicant") proposal
16 to acquire PacifiCorp and its request for authorization to exercise substantial
17 influence over the policies and actions of PacifiCorp. MEHC is proposing to acquire
18 from PacifiCorp Holding Companies, Inc. ("PHI") all of PHI's outstanding shares of
19 PacifiCorp common stock. The Applicants have executed a stock purchase
20 agreement, and request specific actions related to the same.

21 **Q. PLEASE IDENTIFY POTENTIAL RATEPAYER HARM CREATED BY THE**
22 **PROPOSED ACQUISITION.**

23 **A.** In reviewing the potential impact on PacifiCorp's retail customers, I assessed the
24 proposed transactions in terms of the following:

1 1. Financial stability. This concerns PacifiCorp's ability to attract capital under
2 reasonable prices, terms, and conditions to fund needed infrastructure
3 investments and reliability and environmental improvements;

4 2. PacifiCorp's rate stability;

5 3. MEHC's ability to operate PacifiCorp; and

6 4. PacifiCorp's cost of service and retail rates.

7 **Financial Stability**

8 **Q. PLEASE IDENTIFY THE MAJOR CONSIDERATIONS IN A REVIEW OF**
9 **THE FINANCIAL STABILITY OF THE PROPOSED TRANSACTION.**

10 **A.** In assessing the potential impact on PacifiCorp's financial stability, I considered
11 PacifiCorp's credit standing and ability to access both debt and equity capital.
12 Toward this objective, I have reached the following conclusions:

13 • MEHC's weak credit rating and highly leveraged capital structure is a
14 significant threat to PacifiCorp's financial integrity under the proposed
15 corporate structure. MEHC's weak financial position creates a significant risk
16 to PacifiCorp's financial stability.

17 • Berkshire Hathaway has made significant commitments to support MEHC, its
18 utility affiliates, and PacifiCorp. However, this commitment is subject to
19 change. Berkshire Hathaway's ownership of MEHC has resulted in
20 significant benefits to MEHC and its existing operating utility affiliates that
21 include significant capital investment commitments and, according to MEHC
22 witnesses, a reduction in operating utility affiliates' cost of debt. This
23 commitment, unfortunately, is subject to change. If Berkshire Hathaway's
24 investment outlook changes and its commitment to MEHC is reduced or
25 withdrawn, this could place significant uncertainty on PacifiCorp's long-term
26 financial integrity. MEHC's stand-alone credit profile is not adequate to
27 ensure PacifiCorp's long-term financial health.

28 **Q. WILL PACIFICORP'S FINANCIAL STABILITY POTENTIALLY CHANGE**
29 **AS A RESULT OF THE TRANSACTION?**

30 **A.** Yes. ScottishPower has a stronger credit rating and a stronger balance sheet than
31 does MEHC. ScottishPower's Standard & Poor's ("S&P") bond rating is A-, which
32 is a full rating category higher than MEHC's BBB- S&P rating. Also,

1 ScottishPower's common equity ratio of total capital (including short-term debt) is
2 48%. This common equity ratio is significantly higher than the 28.6% common
3 equity ratio proposed for MEHC after its acquisition of PacifiCorp.[1/]

4 Consequently, to the extent PacifiCorp's credit rating is impacted by its
5 affiliation with its parent company, its access to capital under MEHC ownership may
6 be weaker, and its borrowing cost may be at higher prices and at terms and conditions
7 that are not as favorable as they are under continued ScottishPower ownership.

8 Of course, Berkshire Hathaway's commitment to MEHC may mitigate this
9 concern, but as noted above, and as described in more detail below, Berkshire
10 Hathaway's long-term commitment is not backed by an irrevocable pledge or
11 contractual obligation, and is therefore subject to change. As such, PacifiCorp's
12 ability to attract capital over the long-term may not be as favorable under the
13 proposed transaction, and it may be at higher cost than under continued ownership by
14 ScottishPower.

15 **Q. PLEASE DESCRIBE WHY MEHC COULD THREATEN PACIFICORP'S**
16 **FINANCIAL STABILITY IF THE TRANSACTION IS APPROVED.**

17 **A.** Under the proposed transaction, MEHC represents PacifiCorp's only access to
18 external common equity capital. Consequently, MEHC's financial health and access
19 to capital is critical in a review of PacifiCorp's financial stability if the transaction is
20 approved.

21 If MEHC is unable to attract capital on its own, it will not be able to provide
22 PacifiCorp with equity infusions. An inability to attract additional external equity
23 capital could cause PacifiCorp's own credit to erode and may prevent it from

[1/] PPL/400, Goodman/5.

1 accessing external debt markets if it is not able to balance its capital structure with a
2 reasonable mix of debt and equity capital. This, in turn, could prevent PacifiCorp
3 from attracting capital needed to fund utility capital expenditures and debt
4 retirements.

5 **Q. WHY IS MEHC'S ACCESS TO CAPITAL A CONCERN?**

6 **A.** MEHC is a highly leveraged holding company with minimum investment grade
7 rating from all major credit rating agencies.[2/] MEHC's consolidated capital structure
8 prior to its acquisition of PacifiCorp is composed of 77% debt.[3/]

9 MEHC's stand-alone ability to support PacifiCorp is tenuous, largely because
10 of its highly leveraged capital structure and its minimum investment bond rating. In
11 addition, MEHC and its subsidiaries are currently facing significant capital demands
12 related to funding large capital expenditures in the existing utility subsidiaries and
13 meeting significant debt retirements through 2009. All of these factors could
14 significantly impede MEHC's stand-alone ability to provide adequate capital support
15 to PacifiCorp.

16 MEHC's weak stand-alone financial condition is offset by a commitment by
17 Berkshire Hathaway to make significant capital investments into MEHC. However,
18 the long-term direction of Berkshire Hathaway's commitment to MEHC is unclear
19 and does not provide adequate assurance that MEHC will be able to properly support
20 PacifiCorp.

[2/] PPL/400, Goodman/7.
[3/] Id. at Goodman/5.

Q. PLEASE DESCRIBE MEHC'S NEAR-TERM CAPITAL OBLIGATIONS TO SUPPORT ITS EXISTING OUTSTANDING DEBT AND UTILITY OPERATIONS.

A. MEHC has other significant capital expenditure obligations at its operating utility subsidiaries. These financial obligations include funding capital expenditures, operating projects, and large construction programs of more than $2.0 billion in 2005.[4/]

Also, MEHC and its subsidiaries must fund over $5 billion of scheduled debt retirements through 2009.[5/] These capital commitments over the next five years total approximately 36% of MEHC's total long-term capital of $13.9 billion.[6/]

On a parent company stand-alone basis, MEHC also faces significant capital demands. Specifically, MEHC faces parent company debt retirements over the next five years of approximately $1.5 billion.[7/] Also, MEHC's acquisition capital is very expensive and creates a significant annual capital cost. MEHC's parent company's subordinated debt interest rate is as high as 11%, and these securities will not begin to retire until year 2010. MEHC has approximately $1.6 billion of acquisition-related capital in calendar year 2005.[8/] On a stand-alone parent company basis, MEHC faces significant debt retirements and capital servicing costs over the next five years.

MEHC's ability to produce revenue to service its debt retirements and capital cost is derived entirely by dividend receipts from its operating utility affiliates. Further, MEHC's consolidated financial statement shows that all the operating

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[4/] PPL/403, Goodman/47.
[5/] Id. at Goodman/81.
[6/] PPL/400, Goodman/5.
[7/] PPL/403, Goodman/51.
[8/] Id. at Goodman/76.

1 revenue produced at MEHC is derived entirely from its operating utility affiliates.[9]
2 Accordingly, MEHC's only ability to service parent company debt retirement
3 obligations and to meet its expensive acquisition capital costs is derived from
4 dividend payments from its operating utility affiliates.

5 MEHC's ability to access capital markets is critical for it to meet its
6 obligations to its current operating utility affiliates and fund maturing debt.

7 **Q. WOULD MEHC'S ABILITY TO MEET ALL THESE CAPITAL**
8 **OBLIGATIONS BE IMPAIRED IF ITS BOND RATING WERE**
9 **DOWNGRADED TO BELOW INVESTMENT GRADE?**

10 **A.** Yes. A single negative credit rating downgrade of MEHC would push it to below
11 investment grade. Losing an investment grade bond rating could severely impair
12 MEHC's ability to attract capital, or at an absolute minimum, could significantly
13 increase its cost of capital and require it to accept less favorable terms and conditions
14 in security issuances. This is significant because MEHC currently plans to access
15 debt markets to supplement internal cash flow in order to meet the capital expenditure
16 and debt refinancing obligations noted above.[10]

17 Concerning a possible credit downgrade, MEHC states that it does not have
18 any credit agreements that require termination or material change in collateral
19 requirements repayment schedules in the event of a downgrade in its credit ratings.
20 However, it does note that in conjunction with its wholesale marketing and trading
21 activities MEHC must meet credit quality standards required by counterparties.
22 MEHC states that if its credit rating declines below investment grade, it may be

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[9] Id. at Goodman/40.
[10] Id. at Goodman/47.

1 required to post cash collateral, letters of credit, or other similar credit support to
2 facilitate ongoing wholesale marketing and trading activities. Under such a
3 circumstance, MidAmerican estimates that its potential collateral requirements would
4 be approximately $151 million,[11] which is more than twice the amount of its current
5 letter of credit commitments.[12]

6 For all of these reasons, MEHC's current weak credit standing and significant
7 capital obligations place it at significant risk of not being able to meet all of its capital
8 obligations going forward without continued capital support from Berkshire
9 Hathaway.

10 **Q. PLEASE DESCRIBE THE CREDIT RATING AGENCY'S STATEMENTS**
11 **CONCERNING MEHC'S CURRENT CREDIT STANDING.**

12 **A.** S&P and Moody's have both expressed concern about MEHC's potential access to
13 capital. Attached as Exhibit ICNU/202 is a September 2005 S&P Report that stated:

> 14 Standard & Poor's ratings on MEHC reflect the company's ability to
> 15 meet its financial obligations from dividend distributions from its
> 16 diverse portfolio of energy assets. The company's creditworthiness is
> 17 ultimately derived from the total quality of the residual distributions
> 18 from these subsidiaries. Standard & Poor's has made this analytical
> 19 judgment based on MEHC's extensive use of nonrecourse project
> 20 financing, limited interdependency among the individual business
> 21 units, **and the perception that MEHC would abandon equity**
> 22 **investments when the economics of the stand-alone business unit**
> 23 **so dictate**.[13]
>
> 24 MEHC will need to maintain its access to capital markets, as it has
> 25 some large maturities to fund in the coming years. Maturities at the
> 26 parent over the next five years include trust-preferred redemptions of
> 27 $189 million in 2005 and $234 million each year through 2009.
> 28 MEHC will also have debt maturities of $260 million in September
> 29 2005, zero in 2006, $550 million in 2007, $1 billion in 2008, and zero

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[11] Id. at Goodman/50.
[12] Id. at Goodman/74.
[13] ICNU/202, Gorman/2 (emphasis added).

1 in 2009. MEHC has adequate cash on hand to fund these maturities.
2 MEHC has no ratings triggers embedded in its financing documents.[14/]

3 In addition, in June 2005, Moody's affirmed its Baa3 senior unsecured rating
4 for MEHC, and noted the following credit strengths and credit challenges facing
5 MEHC:

6 **OWNERSHIP AND BUSINESS ORGANIZATIONAL**
7 **STRUCTURE PROVIDES DEGREE OF FINANCIAL AND**
8 **OPERATIONAL FLEXIBILITY**
9 Moody's views the increased investment by majority owner
10 Berkshire Hathaway to be a favorable indication of the company's
11 continuing commitment to MEHC and the energy sector. It is
12 expected that additional equity down streamed to MEHC will
13 represent a substantial majority of the cash requirements for the
14 acquisition of PacifiCorp. In addition, the terms of the existing zero
15 coupon convertible preferred stock, which was designed to prevent
16 Berkshire Hathaway from becoming subject to the Public Utility
17 Holding Company Act (PUHCA), provides for its conversion to
18 common equity in the event that PUHCA were to be repealed by
19 Congressional legislation. We also view the existing substantial
20 investment by the majority owner in the form of parent company
21 subordinated debt to be predominately equity-like given the unique
22 characteristics of this instrument. The interest on the instrument is
23 deferrable at MEHC's option for up to five years, and the ownership
24 of the subordinated debt cannot be transferred.

* * *

25 **HIGH CONSOLIDATED LEVERAGE AS A RESULT OF**
26 **ACQUISITION ACTIVITY**
27 The Baa3 senior unsecured rating also considers the large parent debt
28 burden resulting from debt-financed acquisitions.

* * *

29 **LARGE CAPITAL EXPENDITURES AT MEC IN THE NEXT**
30 **SEVERAL YEARS FOR GENERATION CONSTRUCTION**[15/]

[14/] Id. at Gorman/3.
[15/] Id. at Gorman/5.

Q. SHOULD THE COMMISSION BE CONCERNED ABOUT BERKSHIRE HATHAWAY'S LONG-TERM COMMITMENT TO MEHC?

A. Yes. I am not aware of any Berkshire Hathaway guarantees that it will provide MEHC with needed capital funding. However, Berkshire Hathaway's commitment to MEHC has been noted by credit rating agencies. Specifically, S&P has noted that since 2000, Berkshire Hathaway has invested nearly $3.4 billion into MEHC, and that Berkshire Hathaway's Chairman and CEO, Warren Buffett, has stated willingness to commit up to $10 to $15 billion in MEHC for investments in the U.S. electric industry. S&P also notes that Berkshire Hathaway is expected to make a large equity-like contribution to MEHC for its acquisition of PacifiCorp.[16/] If the Berkshire Hathaway equity investments are not made, MEHC's credit rating could be lowered to below investment grade, impairing MEHC's ability to meet its significant capital obligations.

Since Berkshire Hathaway's commitments are not firm or contractual, it would be speculative and inappropriate to count on these promises, especially since failure to follow through with the planned acquisition equity funding could severely impact MEHC's financial strength and its ability to support PacifiCorp.

Q. HOW COULD PACIFICORP BE IMPACTED IF MEHC IS NOT ABLE TO SUPPORT ITS CAPITAL PROGRAM?

A. S&P has already placed PacifiCorp's credit rating on watch with negative implications because of the proposed acquisition.[17/] Further, in reviewing MEHC's credit rating, S&P has stated clearly that it expects Berkshire Hathaway to make

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16/ Id. at Gorman/2.
17/ ICNU/203, Gorman/1.

1 significant equity contributions to MEHC to allow MEHC to fund its acquisition of
2 PacifiCorp. If Berkshire Hathaway does not meet these expectations, both MEHC's
3 and PacifiCorp's credit ratings could be negatively impacted.

4 Concerns about the final financing arrangements for MEHC's proposed
5 acquisition of PacifiCorp are significant because the Applicant has not finalized its
6 funding plan to complete the transaction. The expectation is for Berkshire Hathaway
7 to make a $3.4 billion equity infusion into MEHC (either common stock or preferred
8 equity), and the remainder would be funded by $1.7 billion of debt (either third-party
9 market debt issuance or Berkshire Hathaway loans),[18/] with the final funding plan and
10 security issuances to be determined by the Applicant at the time of closing. Also of
11 importance is the Applicant's acknowledgement that there is no contractual or legal
12 obligation for Berkshire Hathaway to comply with the expected funding plan.
13 Accordingly, PacifiCorp's credit rating could be threatened at the outset of the
14 proposed transaction if the funding plan used by MEHC to acquire PacifiCorp
15 increases MEHC's leverage more than anticipated in the Company's filing.

16 If MEHC's credit rating is negatively impacted, its bond rating could fall to
17 below investment grade, which could severely limit its liquidity at a time when it has
18 significant capital obligations.

19 PacifiCorp could be detrimentally impacted by a below investment grade
20 parent company because PacifiCorp currently has plans for over $1 billion a year of
21 capital improvements to its utility systems.[19/] If PacifiCorp's credit rating is eroded

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[18/] ICNU/202, Gorman/3; PPL/400, Goodman/8.
[19/] PPL/400, Goodman/13.

and it cannot rely on equity capital from its parent company, PacifiCorp's ability to fund this significant capital expenditure program could be severely eroded or its cost of capital could increase, possibly significantly. Further, PacifiCorp may have to scale back its capital expenditures because its access to capital may be constrained by a credit-weak parent company and an inability to attract external equity capital and thus maintain a capital structure with a reasonable mix of debt and equity.

Q. HAVE CREDIT ANALYSTS EXPRESSED A CONCERN ABOUT POSSIBLE LONG-TERM CHANGES TO BERKSHIRE HATHAWAY'S CORPORATE CULTURE AND INVESTMENT STRATEGY?

A. Yes. In 2003, Moody's issued a reporting stating:

> **EXTRAORDINARY INFLUENCE OF CHAIRMAN DRIVES CORPORATE CULTURE**
>
> Berkshire Hathaway operates on a decentralized basis, with managers of the individual business units empowered to make operating decisions for their respective business. Warren E. Buffett, the chairman of Berkshire's Board of Directors, in consultation with Charles T. Munger, vice chairman of the Board, makes investment and capital management decisions for the group. Mr. Buffett, together with other members of his family, owns approximately 38% of Berkshire's stock (by aggregate voting power).
>
> **Because of the substantial ownership interest and enormous influence of the Chairman, governance issues are of particular interest to creditors of the group**. Moody's expects that the organization's historically conservative operating philosophy will prevail over the medium term, but we believe that **succession to the chairman's position could have significant implications for the governance and future business strategy and, therefore, the rating of Berkshire Hathaway**.[20]

[20] ICNU/204, Gorman/2 (emphasis added).

1 More recently, Fitch Ratings has also stated concern about the long-term
2 management of Berkshire Hathaway and its direction after Mr. Buffett retires.
3 Specifically, Fitch Ratings states as follows:

4 Berkshire's ratings are based primarily on Berkshire's exceptionally
5 strong capitalization, as well as its diversified sources of earnings,
6 substantial financial flexibility, and the strong operating performance
7 of its primary insurance and noninsurance subsidiaries. **The Negative
8 Rating Outlook is driven by the very high level of "key person
9 risk" at Berkshire, which is placing increasing pressure on its
10 ratings, and, to a lesser extent, Berkshire's increased use of debt to
11 fund finance subsidiaries**. Fitch's ratings of Berkshire also consider
12 current investigations by the New York Attorney General's Office and
13 the SEC into nontraditional or loss mitigation insurance products
14 (commonly called finite risk reinsurance).

15 The ratings also consider Berkshire's catastrophe excess of loss
16 exposures, as well as Berkshire's appetite for acquisitions.

17 Berkshire has an outstanding long-term success record that Fitch
18 attributes in great part to the talents of Mr. Buffett. Mr. Buffett's
19 reputation with shareholders allows the company to adopt strategies
20 and accumulate capital in ways that would generally not be accepted at
21 other public companies. Such unique attributes include Berkshire's
22 historic concentrated investments in a limited number of equity
23 securities and its current maintenance of a $40 billion cash position.
24 Although the 74-year-old Mr. Buffett is reportedly in good health and
25 has expressed no intention of retiring, Fitch does not believe that Mr.
26 Buffett's talents can be easily replaced, or that Berkshire's current
27 strategies would be sustainable in his absence. Thus, Fitch believes it
28 is unlikely that Berkshire would be able to operate with the attributes
29 that have historically allowed it to achieve 'AAA' ratings after the
30 inevitable departure of Mr. Buffett. Berkshire has not made its
31 succession plans public, **nor has it indicated if its operational,
32 investment, acquisition, or capital strategies would change under
33 the next generation of management**.[21/]

[21/] ICNU/204, Gorman/7, 8-9 (emphasis added).

1 **MEHC's Common Equity Ratio Commitment to PacifiCorp**

2 **Q. MEHC HAS COMMITTED THAT PACIFICORP WILL NOT PAY**
3 **DIVIDENDS UP TO ITS PARENT COMPANY, IF ITS COMMON EQUITY**
4 **RATIO FALLS BELOW 40%. WILL THIS COMMITMENT MITIGATE ANY**
5 **OF THE FINANCIAL INTEGRITY IMPLICATIONS YOU DESCRIBED**
6 **ABOVE?**

7 **A.** No. While PacifiCorp may be able to retain earnings in order to meet common equity
8 capital requirements, it would not provide PacifiCorp with an access to external
9 common equity to meet potentially large capital expenditure requirements while
10 maintaining a balanced PacifiCorp capital structure.

11 **Q. CAN MEHC MANIPULATE THE COMMON EQUITY RATIO**
12 **BENCHMARK IN ORDER TO HELP PACIFICORP TO CONTINUE TO PAY**
13 **DIVIDENDS TO MEHC?**

14 **A.** Yes. MEHC commits to precluding PacifiCorp from paying dividends up to its
15 parent company in the event its common equity ratio falls below 40%. However,
16 MEHC would measure the common equity ratio as the product of common equity
17 capital, divided by total long-term capital, composed of preferred equity capital, long-
18 term debt, and common equity.[22/]

19 Notably missing from this equity ratio calculation is short-term debt. In the
20 event MEHC needed cash distributions from PacifiCorp to satisfy its own capital
21 demands, it could require PacifiCorp to begin using short-term debt to pay down
22 long-term debt in order to artificially increase its common equity ratio calculated in
23 accordance with MEHC's proposed formula.

24 Hence, I recommend that the Commission require a minimum common equity
25 ratio target to be the product of common equity capital divided by total capital,

[22/] PPL/400, Goodman/15.

1 including both short-term, long-term debt, preferred equity, and common equity.
2 Further, to the extent the Company would rely on any other unconventional capital
3 source to fund assets included in rate base or construction work in progress, these
4 funding sources should also be included in the development of the minimum common
5 equity ratio benchmark.

6 **MEHC's Ability to Reliably Operate PacifiCorp**

7 **Q. HOW DOES MEHC PLAN TO ENSURE PACIFICORP'S RELIABLE**
8 **OPERATION IF THE ACQUISITION IS APPROVED?**

9 **A.** PacifiCorp's current CEO and president, Judi Johansen, states that MEHC intends to
10 retain PacifiCorp's current management team.[23/] Accordingly, the reliable operation
11 of PacifiCorp will largely be dependent on MEHC's ability to retain PacifiCorp's
12 current management team or attract experienced utility managers that are capable of
13 fulfilling this responsibility.

14 I recommend that the Commission direct MEHC to demonstrate its ability to
15 retain PacifiCorp's current management team or replace it with an experienced and
16 capable management team in order to ensure that PacifiCorp's operations are carried
17 out in a safe, reliable, and competent manner. This is a critical disclosure to verify
18 that MEHC will be able to competently and reliably operate PacifiCorp's utility
19 system.

20

[23/] PPL/200, Johansen/10.

1 **<u>Rate Stability of the Proposed Transaction</u>**

2 **Q. IS MEHC PROPOSING FREQUENT RATE CHANGES FOR PACIFICORP'S**
3 **CUSTOMERS UNDER THE PROPOSED TRANSACTION?**

4 **A.** Ms. Johansen estimates that PacifiCorp's rate will have to increase by 4% for the
5 foreseeable future in order to support PacifiCorp's increased cost of service, including
6 its large capital expenditure program.[24/]

7 **Q. WILL PACIFICORP'S RETAIL CUSTOMERS POTENTIALLY**
8 **EXPERIENCE GREATER RATE INSTABILITY OR GREATER RATE**
9 **INCREASE PRESSURE UNDER MEHC OWNERSHIP AS COMPARED TO**
10 **THE STATUS QUO?**

11 **A.** Most likely, yes. While utility rates are typically set to fully recover the utility's cost
12 of service, MEHC will have an added incentive to try to increase rates, and thus,
13 ensure PacifiCorp can meet expected cash distribution to MEHC. This incentive
14 would come from MEHC's very high debt leverage structure and the need to extract
15 cash flows from its operating utility affiliates in order to service its significant debt
16 obligations.

17 As noted above, MEHC's consolidated capital structure is projected to contain
18 approximately 70% debt after the acquisition of PacifiCorp. Further, MEHC's parent
19 company debt retirement and cost of capital obligations are very significant. The
20 cash flow available to MEHC to support this significant capital obligation is limited
21 to dividend distributions from its utility affiliates. Accordingly, extracting significant
22 cash from its operating utility affiliates to meet its significant debt service obligations
23 is critical to MEHC. Thus, MEHC will have an incentive to aggressively increase
24 retail rates in order to maximize its cash flow receipts from utility affiliates.

[24/] PPL/200, Johansen/7.

1 **Q. IF THE TRANSACTION IS APPROVED, SHOULD THE COMMISSION BE**
2 **ESPECIALLY CONCERNED ABOUT HOW MEHC CAPITALIZES**
3 **PACIFICORP?**

4 **A.** Yes. As noted in the proposed acquisition funding plan, approximately $1.7 billion of
5 the $5.1 billion required for purchase of PacifiCorp's equity will be funded by
6 issuance of external debt. Thus, it is clear that MEHC will use debt financing to
7 make equity contributions into PacifiCorp. This is of concern for at least two reasons.
8 First, MEHC could effectively arbitrage a debt issuance by using the proceeds to
9 make equity investments in PacifiCorp. Since PacifiCorp's authorized return on
10 equity investments will almost certainly be higher than MEHC's cost of debt, MEHC
11 could increase its profit by issuing debt securities to make equity contributions to
12 PacifiCorp. For example, assume that MEHC's cost of debt is 4%, and it makes an
13 equity contribution into PacifiCorp of $100 million. If PacifiCorp's authorized return
14 on equity was 10%, then PacifiCorp would be permitted to earn after-tax earnings of
15 $10 million, and MEHC's debt interest cost would be $4 million. Hence, using the
16 debt proceeds to make equity infusions into PacifiCorp would increase cash flows
17 available to MEHC by approximately $6 million.

18 Second, by increasing PacifiCorp's common equity ratio of total capital,
19 MEHC could increase PacifiCorp's cost of service, retail rates, and cash flow from
20 retail operations. Increasing PacifiCorp's overall cost of capital and internal cash
21 flows could then increase PacifiCorp's cash distribution to MEHC, which would in
22 turn support MEHC's significant debt obligations.

23 Consequently, while PacifiCorp's capital structure may not be managed to
24 minimize its overall rate of return, it could be manipulated to enhance PacifiCorp's

1 earnings and cash flows and its dividend distributions to MEHC. This is of course at
2 odds with PacifiCorp's obligation to provide least cost, high quality utility service.

3 **PacifiCorp's Cost of Service Implications**

4 **Q. PLEASE OUTLINE THE PROPOSED TRANSACTION'S POTENTIAL**
5 **IMPACT ON PACIFICORP'S COST OF SERVICE.**

6 **A.** Considerations for PacifiCorp's cost of service based on the proposed transaction
7 include the following:

8 1. Under what circumstances will PacifiCorp attempt to seek recovery of the
9 acquisition premium?

10 2. What is the potential impact on PacifiCorp's overall cost of capital?

11 3. What is the impact on PacifiCorp's allocated share of the parent company's
12 affiliate service cost?

13 4. What is the potential impact on ensuring least cost public utility service
14 coincident with Senate Bill 408 in the state of Oregon?

15 **Q. HAS THE COMPANY PROPOSED TO SEEK RECOVERY OF THE**
16 **ACQUISITION PREMIUM FROM PACIFICORP'S RETAIL CUSTOMERS?**

17 **A.** Mr. Goodman states that MEHC will not propose to recover the acquisition premium,
18 which is estimated to be $1.2 billion, in PacifiCorp's retail rates, provided that in rate
19 orders subsequent to the completion of the transaction, PacifiCorp's retail revenue
20 requirements do not include merger-related benefits other than those pledged by
21 MEHC. If PacifiCorp's revenue requirements <u>do</u> include other merger-related
22 benefits, Mr. Goodman states that MEHC and PacifiCorp may request in rate
23 hearings a symmetrical adjustment to recognize the acquisition premium in retail
24 revenue requirements. This is in effect a hammer MEHC seeks to hold over
25 customers in an attempt to limit their positions in rate cases.

1 **Q. DO YOU BELIEVE IT IS APPROPRIATE UNDER THIS SO-CALLED**
2 **MATCHING OR SYMMETRICAL ADJUSTMENT CONCEPT TO CHARGE**
3 **RATEPAYERS FOR AN ACQUISITION PREMIUM OR GOODWILL?**

4 **A.** Absolutely not. ScottishPower agreed to a condition of its acquisition of PacifiCorp
5 that it will never seek to recover this premium from customers.[25/] Elimination of this
6 condition, combined with the assertion that MEHC may, at some time, seek recovery
7 of an acquisition premium, results in harm to customers.

8 **Q. IS IT APPROPRIATE FOR MEHC AND PACIFICORP TO LEAVE OPEN**
9 **THE ABILITY TO SEEK RECOVERY OF THE $1.2 BILLION**
10 **ACQUISITION PREMIUM IN RETAIL RATES?**

11 **A.** No. I recommend that the Commission reject in this proceeding the concept of
12 recovering any amount of the acquisition adjustment in future regulated rates. This is
13 particularly true since neither MEHC nor PacifiCorp has identified any explicit
14 verifiable long-term savings created by MEHC's proposed acquisition of PacifiCorp.

15 Further, the record in this case clearly establishes that the proposed acquisition
16 is intended to enhance MEHC's value as part of Berkshire Hathaway's strategic focus
17 to make significant investments in the U.S. electric utility industry. While this has
18 strategic value to MEHC and its primary investor, Berkshire Hathaway, the proposed
19 acquisition provides little or no overall benefits to PacifiCorp and its retail customers.
20 In fact, given the double-leveraged nature of this transaction, as discussed above, I
21 believe customers will be harmed under this transaction as compared to ownership
22 under the status quo.

[25/] Re ScottishPower, OPUC Docket No. UM 918, Order No. 99-616, Appendix-Stipulation 5 at 6 (Oct. 6, 1999).

1 Therefore, MEHC and PacifiCorp should not be allowed the opportunity to
2 complicate future rate cases by requesting to recover a significant acquisition
3 premium in future rates. If the Commission approves this acquisition, it should
4 explicitly reject MEHC's proposal to allow any portion of the acquisition premium to
5 be recovered in rates from PacifiCorp's customers.

6 **Q. IF THE COMMISSION APPROVES THE ACQUISITION, SHOULD IT**
7 **CLEARLY STATE THAT MEHC AND PACIFICORP WILL NOT BE**
8 **PERMITTED TO RECOVER INCOME TAX EXPENSE IN RETAIL**
9 **REVENUE REQUIREMENTS TO THE EXTENT THOSE TAXES ARE NOT**
10 **PAID TO STATE AND FEDERAL TAXING AUTHORITIES?**

11 **A.** Yes. Retail customers should only be obligated to pay PacifiCorp's income tax
12 expenses to the extent that PacifiCorp actually pays income tax to federal and state
13 taxing authorities. If ScottishPower or MEHC implements legal tax sheltering
14 financial corporate structures that reduce or eliminate PacifiCorp's income tax
15 payable on the earnings produced from utility operations, then the revenue
16 requirements establishing retail rates should not include income tax expense that will
17 not be paid to taxing authorities.

18 **Q. WHAT ARE MEHC'S PLEDGED BENEFITS OF THE TRANSACTION?**

19 **A.** The primary revenue requirement benefits pledged to PacifiCorp include a five-year
20 guaranteed ten basis point reduced cost of marginal debt. This claimed benefit
21 amounts to savings of $6.3 million over five years.[26/] The second claimed benefit
22 relates to reduced service company fees. MEHC asserts that reduced service
23 company costs will lower PacifiCorp's cost of service by $5.0 million per year.[27/]

[26/] PPL/400, Goodman/9.
[27/] PPL/500, Specketer/10.

1 MEHC estimates that PacifiCorp's customers will pay lower service company costs if
2 the merger is approved.

3 **Q. WHY HAVE YOU CONCLUDED THAT MEHC'S PLEDGE OF A 10 BASIS**
4 **POINT INCREMENTAL DEBT SAVINGS TO PACIFICORP IS NOT**
5 **SIGNIFICANT?**

6 **A.** MEHC and PacifiCorp's pledge in this respect does not establish whether there are
7 any real savings to PacifiCorp created by the proposed merger. The relevant issue is
8 whether PacifiCorp's cost of capital will be lower under MEHC ownership, not
9 merely whether its cost of debt would be lower under the strict terms pledged by
10 MEHC. In other words, the pledge is a red herring because it does not clearly
11 establish any savings to PacifiCorp created by the proposed transaction.

12 **Q. PLEASE EXPLAIN.**

13 **A.** MEHC proposed that the debt interest savings pledge be measured as the difference
14 between PacifiCorp's marginal cost of debt compared to the marginal cost of debt of
15 other utility companies with similar bond ratings. However, the relevant issue here is
16 whether PacifiCorp's bond rating will be maintained, improved, or weakened under
17 MEHC's ownership relative to the status quo. If PacifiCorp's credit rating is at all
18 negatively affected by the transaction, the credit erosion could have a much higher
19 cost impact on PacifiCorp's cost of debt than the promised incremental debt cost
20 savings.

21 **Q. DOES MEHC WITNESS GOODMAN RECOGNIZE THAT THE PROPOSED**
22 **ACQUISITION COULD CAUSE A REDUCTION IN PACIFICORP'S**
23 **CREDIT RATING?**

24 **A.** Yes. Mr. Goodman notes at page 10 of his direct testimony that S&P has placed
25 PacifiCorp's credit rating on credit watch with negative implications. S&P is

1 concerned about PacifiCorp's weaker stand-alone credit metrics. In a May 25, 2005
2 report, S&P Rating Service placed PacifiCorp on credit watch with negative
3 implications and put MEHC on credit watch with positive implications due to the
4 proposed acquisition announcement.

5 S&P states that PacifiCorp's credit rating is based on ScottishPower's
6 consolidated credit profile, which is weaker than PacifiCorp's stand-alone credit
7 metrics. S&P also states that PacifiCorp's credit rating following completion of the
8 transaction will be assessed based on the financing structure of the acquisition and
9 MEHC's resulting consolidated credit worthiness, the benefit of any ring-fencing
10 mechanisms that MEHC structures around PacifiCorp, and the Utility's stand-alone
11 credit metrics.[28/]

12 **Q. HAS MEHC WITNESS GOODMAN RECOGNIZED THAT IF**
13 **PACIFICORP'S CREDIT RATING IS DOWNGRADED BECAUSE OF THE**
14 **ACQUISITION, THERE WILL BE AN INCREASE IN PACIFICORP'S COST**
15 **OF DEBT?**

16 **A.** Yes. Mr. Goodman estimates that a one-notch credit downgrade to PacifiCorp's
17 credit rating would increase PacifiCorp's cost of borrowing by 10 to 15 basis
18 points.[29/] He stated that if S&P alone downgraded PacifiCorp, that would increase
19 PacifiCorp's cost of borrowing by approximately 5 basis points.[30/] Indeed,
20 PacifiCorp's cost of debt could increase as a result of the proposed acquisition.

21 Furthermore, if PacifiCorp's credit rating is downgraded as a result of the
22 acquisition, this could not only increase its marginal cost of debt relative to the status

28/ ICNU/203, Gorman/1.
29/ PPL/400, Goodman/10.
30/ Id.

1 quo, but it could make PacifiCorp's borrowing terms and conditions more onerous.
2 For example, a reduced credit rating may prevent PacifiCorp from issuing bonds that
3 are callable or require it to issue bonds with a shorter term to maturity. The non-
4 callable bonds will place PacifiCorp at greater risk of being locked out of a declining
5 interest rate market. Moreover, issuing bonds with shorter maturities places
6 PacifiCorp at greater risk of higher market interest costs. Hence, more onerous terms
7 and conditions on bond issuance increases PacifiCorp's interest rate and refinancing
8 risks.

9 **Q. IS THE PLEDGED DEBT INTEREST COST SAVINGS SIGNIFICANT?**

10 **A.** No. MEHC estimates this savings to PacifiCorp to be $6.2 million over five years, or
11 roughly $1.2 million per year. Still, this small annual savings will not be passed
12 through to customers until after PacifiCorp changes its retail rates.

13 As described above, there is significant uncertainty as to whether MEHC can
14 support PacifiCorp's long-term financial integrity. Hence, this potential risk to
15 PacifiCorp far outweighs the very small debt cost savings estimated.

16 **Q. CAN THE PLEDGED DEBT INTEREST SAVINGS BE VERIFIED IN A**
17 **FUTURE RATE PROCEEDING?**

18 **A.** No. It would be very difficult to verify whether PacifiCorp's actual cost of debt has
19 declined due to the acquisition. Hence, it would be very difficult to determine
20 whether MEHC has actually achieved its objective of reducing PacifiCorp's marginal
21 cost of debt. PacifiCorp's cost of debt can be impacted by many factors, including
22 the security's terms and conditions, duration, and call/put provisions. It would be an

extremely difficult and very complicated analysis to review all debt issues issued by other similar rated utility companies to validate the claimed debt cost savings.

Q. IS MEHC'S CLAIM FOR REDUCTION IN SERVICE COMPANY FEES VALID?

A. The estimated reduction of PacifiCorp's service company fees was based on MEHC's understanding of ScottishPower's charges to PacifiCorp, in comparison to the capped charges proposed by MEHC. Importantly, MEHC has not undertaken a review of the amount of service company charges that have actually been permitted to be recovered in PacifiCorp's retail rates. Hence, MEHC has not established whether its proposed service company fees are lower than those built in PacifiCorp's retail rates. Accordingly, the Company's claim that retail ratepayers will benefit through reduced service company fees has not been clearly established, and this claimed benefit for PacifiCorp's retail customers is without merit.

Q. ARE THERE OTHER FACTORS THAT PLACE SIGNIFICANT DOUBT AND UNCERTAINTY ON MEHC'S PROPOSED REDUCTION IN PACIFICORP'S SERVICE COMPANY CHARGES?

A. Yes. First, the proposal to cap service company fees at $9 million over the next five years will not benefit retail customers unless retail rates are changed to reflect this alleged reduction in PacifiCorp's service company costs. Specifically, MEHC has not committed to a PacifiCorp rate reduction as part of this filing. Hence, customers will not receive any of this claimed five-year temporary service company benefit unless rates are changed to modify PacifiCorp's cost structure in retail rates.

Second, and more importantly, the temporary commitment is not a guarantee that MEHC service company charges to PacifiCorp will be lower than current charges

1 after year five. The bottom line is that, over time, MEHC's service company costs
2 may increase dramatically as it gains experience regarding exactly what it is going to
3 take to provide PacifiCorp the corporate services it needs for day-to-day executive,
4 regulatory, accounting, planning, and legal services. As such, there may be little to
5 no long-term savings of corporate service fees for PacifiCorp.

6 This is evident in the fact that MEHC's claimed reduction in corporate service
7 company costs is a relatively small portion of the amount of service company fees
8 currently built into PacifiCorp's retail rates. Specifically, as I understand it, retail
9 rates in Oregon were based on $11.4 million service company fees, which is only
10 approximately 20% higher than MEHC's estimated corporate service cost of just over
11 $9.5 million.[31/] Also, the $11.4 million is not a net number; in other words, it does
12 not reflect the revenue PacifiCorp receives from ScottishPower. Finally, MEHC has
13 not factored in the portion of charges that would be attributed to PPM. Hence,
14 MEHC's claimed reduction in corporate service costs is a rather meager reduction
15 from PacifiCorp's actual service company fees recovered in retail rates. Again, as
16 MEHC gains experience on what actually it's going to take to operate PacifiCorp, its
17 estimated service fees may increase.

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

19 **A.** Yes.

[31/] PPL/500, Specketer/10.

ICNU/201

Michael Gorman Qualifications

1 **Qualifications of Michael Gorman**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** Michael P. Gorman. My business mailing address is P. O. Box 412000, 1215 Fern Ridge
4 Parkway, Suite 208, St. Louis, Missouri 63141-2000.

5 **Q. PLEASE STATE YOUR OCCUPATION.**

6 **A.** I am a consultant in the field of public utility regulation with Brubaker & Associates,
7 Inc., energy, economic and regulatory consultants.

8 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK**
9 **EXPERIENCE.**

10 **A.** In 1983 I received a Bachelors of Science Degree in Electrical Engineering from
11 Southern Illinois University, and in 1986, I received a Masters Degree in Business
12 Administration with a concentration in Finance from the University of Illinois at
13 Springfield. I have also completed several graduate level economics courses.

14 In August of 1983, I accepted an analyst position with the Illinois Commerce
15 Commission ("ICC"). In this position, I performed a variety of analyses for both formal
16 and informal investigations before the ICC, including: marginal cost of energy, central
17 dispatch, avoided cost of energy, annual system production costs, and working capital. In
18 October of 1986, I was promoted to the position of Senior Analyst. In this position, I
19 assumed the additional responsibilities of technical leader on projects, and my areas of
20 responsibility were expanded to include utility financial modeling and financial analyses.

21 In 1987, I was promoted to Director of the Financial Analysis Department. In this
22 position, I was responsible for all financial analyses conducted by the staff. Among other
23 things, I conducted analyses and sponsored testimony before the ICC on rate of return,

1 financial integrity, financial modeling and related issues. I also supervised the
2 development of all Staff analyses and testimony on these same issues. In addition, I
3 supervised the Staff's review and recommendations to the Commission concerning utility
4 plans to issue debt and equity securities.
5 In August of 1989, I accepted a position with Merrill-Lynch as a financial
6 consultant. After receiving all required securities licenses, I worked with individual
7 investors and small businesses in evaluating and selecting investments suitable to their
8 requirements.
9 In September of 1990, I accepted a position with Drazen-Brubaker & Associates,
10 Inc. In April 1995 the firm of Brubaker & Associates, Inc. ("BAI") was formed. It
11 includes most of the former DBA principals and Staff. Since 1990, I have performed
12 various analyses and sponsored testimony on cost of capital, cost/benefits of utility
13 mergers and acquisitions, utility reorganizations, level of operating expenses and rate
14 base, cost of service studies, and analyses relating industrial jobs and economic
15 development. I also participated in a study used to revise the financial policy for the
16 municipal utility in Kansas City, Kansas.
17 At BAI, I also have extensive experience working with large energy users to
18 distribute and critically evaluate responses to requests for proposals ("RFPs") for electric,
19 steam, and gas energy supply from competitive energy suppliers. These analyses include
20 the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle
21 unit feasibility studies, and the evaluation of third-party asset/supply management
22 agreements. I have also analyzed commodity pricing indices and forward pricing

methods for third party supply agreements. Continuing, I have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

Q. HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A. Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the regulatory commissions in Arizona, California, Delaware, Georgia, Illinois, Indiana, Iowa, Michigan, Missouri, New Mexico, New Jersey, Oklahoma, Oregon, Tennessee, Texas, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q. PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A. I earned the designation of Chartered Financial Analyst ("CFA") from the Association for Investment Management and Research ("AIMR"). The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of AIMR's Financial Analyst Society.

ICNU/202

EXCERPT OF STANDARD & POOR'S AND MOODY'S REPORTS ON MIDAMERICAN

Return to Regular Format

ɘsearch:
MidAmerican Energy Holdings Co.

Publication date: 07-Sep-2005
Primary Credit Analyst(s): Scott Taylor, New York (1) 212-438-2057; scott_taylor@standardandpoors.com

Corporate Credit Rating	
	BBB-/Watch Pos/--

Outstanding Rating(s)	
MidAmerican Energy Holdings Co.	
Sr unsecd debt	
Local currency	BBB-/Watch Pos
Sr secd debt	
Local currency	BBB-/Watch Pos
Pfd stk	
Local currency	BB/Watch Pos
CE Electric U.K. Funding Co.	
Corporate Credit Rating	BBB-/Stable/A-3
Sr unsecd debt	
Foreign currency	BBB-
Kern River Gas Transmission Co.	
Corporate Credit Rating	A-/Negative/--
Sr secd debt	
Local currency	A-
ɿAmerican Energy Co.	
ᴗorporate Credit Rating	A-/Stable/A-1
Sr unsecd debt	
Local currency	A-
Sr secd debt	
Local currency	A
CP	
Local currency	A-1
Pfd stk	
Local currency	BBB+
Northern Natural Gas Co.	
Corporate Credit Rating	A-/Watch Pos/--
Sr unsecd debt	
Local currency	A-/Watch Pos
MidAmerican Funding LLC	
Sr unsecd debt	
Local currency	BBB+
Sr secd debt	
Local currency	BBB+
Northern Electric PLC	
Corporate Credit Rating	BBB-/Stable/A-3
Yorkshire Electricity Group PLC	
Corporate Credit Rating	BBB-/Stable/--
Yorkshire Power Group Ltd.	
Corporate Credit Rating	BBB-/Stable/A-3
ınsecd debt	BBB-
Northern Electric Distribution Ltd.	
Corporate Credit Rating	BBB+/Stable/--
Sr unsecd debt	

Local currency	BBB+
Yorkshire Electricity Distribution PLC	
Corporate Credit Rating	BBB+/Stable/A-2
Sr unsecd debt	
' ocal currency	BBB+
unsecd debt	
Foreign currency	NR

Corporate Credit Rating History	
June 3, 1999	NR
July 27, 1999	BBB-

Rationale

The 'BBB-' corporate credit rating on MidAmerican Energy Holdings Co. (MEHC) is on CreditWatch with positive implications. The rating on MEHC was placed on CreditWatch on May 25, 2005, following the company's announcement that is purchasing PacifiCorp from Scottish Power PLC for $9.4 billion, including $5.1 billion in cash and the assumption of $4.3 billion in net debt and preferred stock. The positive CreditWatch listing for MEHC reflects Standard & Poor's Ratings Services expectation that the acquisition will be financed primarily with an equity infusion from MEHC's ultimate parent, Berkshire Hathaway Inc. (AAA/Stable/A-1+), a practice consistent with past acquisitions.

Des Moines, Iowa-based MEHC has about $3 billion of debt and $1.8 billion of trust-preferred securities outstanding at the holding company level.

Because the outlook on MEHC was positive before the acquisition announcement, an upgrade is not entirely contingent on the transaction being completed. Likewise, if the acquisition is completed, any upgrade will depend on the final financing structure of the acquisition.

Standard & Poor's ratings on MEHC reflect the company's ability to meet its financial obligations from dividend distributions from its diverse portfolio of energy assets. The company's creditworthiness is ultimately derived from the total quality of the residual distributions from these subsidiaries. Standard & Poor's has made this analytical judgment based on MEHC's extensive use of nonrecourse project financing, limited interdependency among the individual business units, and the perception that MEHC would abandon equity investments when the economics of the stand-alone business unit so dictate.

MEHC's business profile is a '5' (satisfactory). Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable). The business risk score reflects the wide mix of businesses that MEHC operates, including rather low-risk pipeline and transmission and distribution, the medium-risk integrated utility, and the higher-risk unregulated electric generation in the U.S. and the Philippines and its cyclical real estate services. If the acquisition of PacifiCorp is consummated, MEHC's business profile score will likely remain '5'. Standard & Poor's considers MEHC a diversified energy company, comparable with the project developers included in that group. Compared with other developers, MEHC's business risk is low, due to its limited exposure to the electricity trading and marketing function and other unregulated ventures in comparison with its exposure to the purely regulated delivery businesses that lack commodity risk.

There is potential volatility in distributions to the parent due to subsidiary-level leverage and structural features in nonrecourse debt that could result in cash being trapped at the subsidiary level. However, the financial resources of Berkshire Hathaway provide some flexibility, which is incorporated in the rating.

Consolidated credit metrics have shown improvement in recent years due to the acquisition of two large pipeline assets. Funds from operations (FFO) interest coverage has improved to 3.1x for 2004 from 2.3x for 2002 (with equity treatment for trust-preferred securities), while over the same time period, FFO to debt improved to about 12.9% from about 9.3%. For the 12 months ended June 30, 2005, these numbers slipped a bit to 2.7x and 12.4%, but Standard & Poor's expects year-end 2005 credit metrics to be consistent with 2004.

Of the trust-preferred securities, MidAmerican Capital Trust I, II, and III account for $1.48 billion.

Berkshire Hathaway and its affiliates, which are prohibited by the indenture's terms from transferring the securities to a nonaffiliated entity, hold these. The other trust-preferred securities do not contain any transfer prohibitions. Standard & Poor's examines credit ratios assuming that all the trust-preferred securities are debt and also assuming that all are equity. In determining the rating, the CalEnergy Trust securities are given typical equity treatment of about 40%, while the MidAmerican Capital Trusts that re held by Berkshire Hathaway are given 100% equity treatment. This is based on Standard & Poor's view that because these trusts represent Berkshire Hathaway's equity investment in MEHC, and are nontransferable, management would treat them in an equity-like manner. Indeed, MEHC's and Berkshire Hathaway's managements have told Standard & Poor's that if the need arises, these securities would be restructured before any default.

Standard & Poor's continues to expect stable performances from MEHC's regulated U.S. assets. The pipelines, Kern River Gas Transmission Co. (A-/Negative/--) and Northern Natural Gas Co. (A-/Watch Pos/--), and electric utility MidAmerican Energy Co. (A-/Stable/A-1) continue to support holding-company debt and offset lower returns from the company's U.K. investments in CE Electric U.K. Funding Co. (BBB-/Stable/A-3). Debt ratings on the U.K. investments currently remain investment grade, but MEHC forecasts little or no distributions from them for the foreseeable future, as excess cash will be used to fund debt maturities. Separately, CE Casecnan Water and Energy Co. Inc. (B+/Positive/--) and the other Philippine geothermal power plants continue to perform well after legal settlements in 2003, which reduced risk related to industry restructuring and boosted liquidity at the projects, freeing up cash for distributions. MEHC expects to use cash generated in the Philippines together with cash generated in the U.K. to fund maturities in the U.K. PacifiCorp will become a large dividend producer over time, if the acquisition is consummated, but dividends will be suppressed in the early years due to high regulatory capital needs.

Liquidity

MEHC has adequate liquidity and access to capital to meet ongoing financial obligations. MEHC maintains revolving, unsecured credit facilities of $100 million, which it is in the process of expanding to $400 million, to support liquidity needs and LOCs. As of Dec. 31, 2004, there were no borrowings, but $70 million of capacity was taken with LOCs. Total unrestricted cash at the parent and subsidiaries was $828.2 million as of June 30, 2005, which is sufficient, given MEHC's stable distribution profile and limited equity commitments.

In acquiring PacifiCorp, MEHC will purchase all of PacifiCorp's outstanding shares for about $5.1 billion in cash. PacifiCorp's long-term debt and preferred stock will remain outstanding. MEHC expects to fund the acquisition either wholly by Berkshire Hathaway or with proceeds from an investment by Berkshire Hathaway of about $3.4 billion in zero-coupon nonvoting convertible preferred stock or common stock and the issuance by MEHC to third parties of about $1.7 billion of long-term senior notes, preferred stock, or other securities with equity characteristics.

MEHC will need to maintain its access to capital markets, as it has some large maturities to fund in the coming years. Maturities at the parent over the next five years include trust-preferred redemptions of $189 million in 2005 and $234 million each year through 2009. MEHC will also have debt maturities of $260 million in September 2005, zero in 2006, $550 million in 2007, $1 billion in 2008, and zero in 2009. MEHC has adequate cash on hand to fund these maturities. MEHC has no ratings triggers embedded in its financing documents.

Portfolio Quality

Lenders benefit from a portfolio diversified among energy investments in regulated and unregulated businesses (see below). Diversification is both geographic and technological with investments in the '.S., the U.K., and Philippines. However, U.S. investments in natural gas pipelines and electricity and gas distribution dominate the portfolio cash flows. The PacifiCorp acquisition would add to that dominance. MEHC has set up each investment as a special-purpose entity, either directly or indirectly, with the intent of making each one self sufficient and bankruptcy remote from the parent, and PacifiCorp would be no exception.

This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

UNITED STATES
Americas

June 2005

Contact	Phone
New York	
Richard Donner	1.212.553.1653

Midamerican Energy Holding Company

Credit Strengths

- Diversified geographic and business operations provide a varied cash flow stream.
- Large bulk of debt levels consists of non-recourse debt and also includes $1.5 billion of trust preferred securities issued to Berkshire Hathaway, which are subordinate to senior debt, have deferral provisions and are non-transferable by Berkshire.
- Ownership and business organizational structure provides degree of financial and operational flexibility.
- US utility operates in a constructive regulatory environment in Iowa and Illinois.

Credit Challenges

- High consolidated leverage as a result of acquisition activity.
- Large capital expenditure requirements at MEC in the next several years for generation construction.

Credit Strengths

DIVERSIFIED GEOGRAPHIC AND BUSINESS OPERATIONS PROVIDE A VARIED CASH FLOW STREAM

The Baa3 senior unsecured long term debt rating of MEHC is supported by the quality of cash flows from its regulated and non-regulated platforms. Regulated subsidiaries, including MEC, the UK distribution companies (Northern Electric and Yorkshire Electricity) and the pipeline businesses Kern River Gas Transmission Company (KRGT) and Northern Natural Gas (NNG), provide for lower business risk and more stable cash flow. In addition, MEHC owns CE Generation LLC, which holds a portfolio of US geothermal and gas generation projects, and also owns geothermal projects and a hydroelectric facility in the Philippines.

On May 26, 2005, Moody's affirmed the ratings of MEHC and the rating outlook remained positive. This action followed the announcement that MEHC plans to acquire PacifiCorp (PacifiCorp, Baa1 senior unsecured) from Scottish Power plc (SP, Baa1 senior unsecured) for $9.4 billion, including $5.1 billion in cash and the assumption of about $4.3 billion of net debt of PacifiCorp.

Moody's Investors Service
Global Credit Research

The ratings affirmation considers Moody's expectation that a significant portion of the $5.1 billion in cash will be funded through a substantial equity contribution to MEHC from its major shareholder Berkshire Hathaway Inc. While the precise amount and terms of the equity contribution from Berkshire Hathaway are not known at this stage, the rating affirmation incorporates Moody's expectation that it will be sufficient to at least support the current ratings.

The positive rating outlook was maintained because it reflects Moody's view that the acquisition of PacifiCorp will have long-term positive benefits for MEHC. The transaction has the potential for increased diversification and stability of MEHC's sources of earnings and cash flow from regulated utility operations. The transaction is also expected to result in an organization with a more diversified customer base, service territory and generation portfolio. The positive outlook also considers MEHC's successful track record in operating other regulated utility businesses.

LARGE BULK OF DEBT LEVELS CONSISTS OF NON-RECOURSE DEBT AND ALSO INCLUDES $1.5 BILLION OF TRUST PREFERRED SECURITIES ISSUED TO BERKSHIRE HATHAWAY, WHICH ARE SUBORDINATE TO SENIOR DEBT, HAVE DEFERRAL PROVISIONS AND ARE NON-TRANSFERABLE BY BERKSHIRE

OWNERSHIP AND BUSINESS ORGANIZATIONAL STRUCTURE PROVIDES DEGREE OF FINANCIAL AND OPERATIONAL FLEXIBILITY

Moody's views the increased investment by majority owner Berkshire Hathaway to be a favorable indication of the company's continuing commitment to MEHC and the energy sector. It is expected that additional equity down streamed to MEHC will represent a substantial majority of the cash requirements for the acquisition of PacifiCorp. In addition, the terms of the existing zero coupon convertible preferred stock, which was designed to prevent Berkshire Hathaway from becoming subject to the Public Utility Holding Company Act (PUHCA), provides for its conversion to common equity in the event that PUCHA were to be repealed by Congressional legislation. We also view the existing substantial investment by the majority owner in the form of parent company subordinated debt to be predominately equity-like given the unique characteristics of this instrument. The interest on the instrument is deferrable at MEHC's option for up to five years, and the ownership of the subordinated debt cannot be transferred.

US UTILITY OPERATES IN A CONSTRUCTIVE REGULATORY ENVIRONMENT IN IOWA AND ILLINOIS

Credit Challenges

HIGH CONSOLIDATED LEVERAGE AS A RESULT OF ACQUISITION ACTIVITY

The Baa3 senior unsecured rating also considers the large parent debt burden resulting from debt-financed acquisitions.

LARGE CAPITAL EXPENDITURES AT MEC IN THE NEXT SEVERAL YEARS FOR GENERATION CONSTRUCTION

Moody's also considers the significant cash funding requirements over the next several years related to the development and construction of three generation facilities, including the 517 mw natural gas fired combined cycle unit, the 790 mw coal fired plant in Council Bluffs, and a 360 mw wind power facility. MEC received approval from the Iowa Utilities Board (IUB) under a settlement agreement for a rate freeze from Dec. 31, 2000 through 2005, as well as the reinstatement of the revenue sharing provisions of the 1997 pricing plan. In conjunction with the construction of the wind project, MEC proposed on 5/27/03, a rate freeze extension through December 31, 2010, with a portion of the revenues in the last four years to be applied towards an offset to some of the capital costs associated with the construction of the three proposed generation facilities in Iowa. The IUB approved MEC's filing in October 2003. A third settlement agreement was approved by the IUB on January 31, 2005, in conjunction with a further expansion of the wind power project. This settlement extends the rate freeze through December 31, 2011. Additionally, if MEC's Iowa retail electric returns on equity fall below 10% in an any consecutive 12 month period after January 1, 2006, MEC may seek to file for a general rate increase, but only after a 30 day good faith negotiation period with all related parties.

Company Description

MidAmerican Energy Holdings Company is based in Des Moines, Iowa, and is a privately-owned global provider of energy services. MidAmerican provides electric and natural gas services to 5 million customers worldwide.

Related Research

Industry Outlook:

U.S. Electric Utilities, January 2005 (91075)

Rating Methodology:

Global Regulated Electric Utilities, March 2005 (91730)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Financial Statement Ratios

Financial Statement Ratios: MidAmerican Energy Company

To access any Financial Statement Ratios or to download them in .csv format, click on the link above.

ICNU/203

STANDARD & POOR'S REPORT ON PACIFICORP AND MIDAMERICAN REGARDING ACQUISITION ANNOUNCEMENT

STANDARD &POOR'S | RATINGSDIRECT

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Research:

Research Update: MidAmerican Ratings Put On Watch Pos, PacifiCorp Rtgs On Watch Neg Re Acquisition Announcement

Publication date: 25-May-2005
Primary Credit Analyst(s): Scott Taylor, New York (1) 212-438-2057; scott_taylor@standardandpoors.com
Anne Selting, San Francisco (1) 415-371-5009; anne_selting@standardandpoors.com

Credit Rating: BBB-/Watch Pos/--

Rationale

On May 25, 2005, Standard & Poor's Ratings Services placed its 'A-/A-2' corporate credit rating on PacifiCorp on CreditWatch with negative implications and its 'BBB-' corporate credit rating on MidAmerican Energy Holdings Co. (MEHC) on CreditWatch with positive implications.

The rating actions follow the announcement by Scottish Power PLC (A-/Stable/A-2) that it has agreed to sell PacifiCorp to MEHC for $9.4 billion, including $5.1 billion in cash, and the assumption of $4.3 billion in net debt and preferred stock.

In addition, Standard & Poor's placed its 'A-' rating on Northern Natural Gas Co. on CreditWatch with positive implications, reflecting the fact that Northern Natural's rating is capped at a level three notches above the rating on MEHC, and that it can support an 'A' rating on a stand-alone basis.

The CreditWatch listing reflects the fact that the current 'A-' corporate credit rating on PacifiCorp is based on ScottishPower's consolidated credit profile, whose solid financial performance has compensated for the U.S. utility's weaker stand-alone metrics. The positive CreditWatch listing for MEHC reflects Standard & Poor's expectation that the acquisition will be financed primarily with the infusion of equity from MEHC's ultimate parent, Berkshire Hathaway Inc. (AAA/Stable/A-1+), a practice consistent with past acquisitions.

If the transaction proceeds, Standard & Poor's will assess the financing structure of the acquisition, MEHC's resulting consolidated creditworthiness, the benefit of any ring-fencing mechanisms that MEHC structures around PacifiCorp, and the utility's stand-alone credit metrics. Standard & Poor's will also consider MEHC's history of strong operations and regulatory management at its only U.S.-based regulated utility, MidAmerican Energy Co. (A-/Stable/A-1), as well as any necessary support for PacifiCorp's sizable capital expenditures over the near term.

The acquisition will require regulatory approval from each of the six states that PacifiCorp operates, which will take at least a year. As details of the merger become clear, Standard & Poor's will update the CreditWatch listings as appropriate.

Ratings List

	To	From
Ratings Placed On CreditWatch Negative		
PacifiCorp		
Corp credit rating	A-/Watch Neg/A-2	A-/Stable/A-2
Senior secured debt	A-/Watch Neg	A-
Senior unsecured debt	BBB+/Watch Neg	BBB+
Subordinated debt	BBB+/Watch Neg	BBB+
Preferred stock	BBB/Watch Neg	BBB
Commercial paper	A-2/Watch Neg	A-2

Ratings Placed On CreditWatch Positive

	To	From
MidAmerican Energy Holdings Co.		
Corporate credit rating	BBB-/Watch Pos/--	BBB-/Positive/--
Senior unsecured	BBB-/Watch Pos	BBB-
Preferred stock	BB/Watch Pos	BB
Northern Natural Gas Co.		
Corporate credit rating	A-/Watch Pos/--	A-/Positive/--
Senior unsecured debt	A-/Watch Pos	A-

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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ICNU/204

EXCERPT OF MOODY'S AND FITCH RATINGS REPORTS ON BERKSHIRE HATHAWAY

This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

August 2003

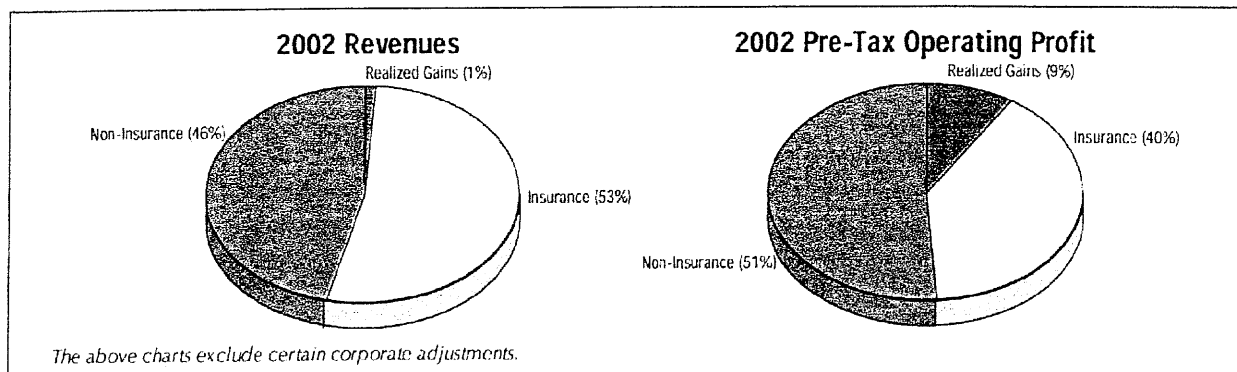
Contact	Phone
New York	
Sarah Hibler	1.212.553.1653
Alan Murray	
Ted Collins	

Berkshire Hathaway Inc.

Company Profile

DIVERSIFICATION OF EARNINGS AND SUCCESSFUL INVESTMENT STRATEGY SUSTAIN CREDIT STRENGTH

Berkshire Hathaway Inc. (Berkshire) is a holding company (senior debt rated Aaa) that is engaged, through its subsidiaries, in property/casualty insurance and reinsurance as well as in a diverse group of non-insurance businesses. Berkshire's three largest subsidiary operations – National Indemnity, GEICO, and General Re, are all currently rated Aaa for insurance financial strength by Moody's – account for over three-quarters of Berkshire's equity capitalization and are among the leaders in their respective markets. Berkshire's non-insurance operations, which have expanded in recent years, primarily through acquisitions, should remain a significant contributor to the group's consolidated earnings in the future, while continuing to provide free cash flow (unregulated) to the holding company.

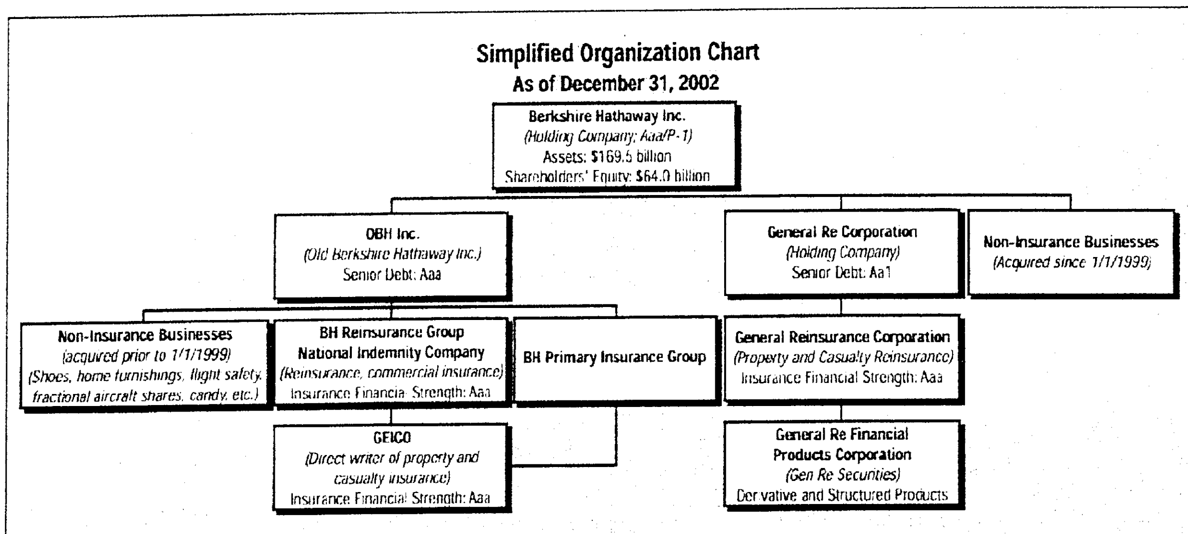


The above charts exclude certain corporate adjustments.

Berkshire also holds meaningful minority interests in several prominent financial and consumer products firms through its large portfolio of common stocks, which are mostly held at National Indemnity. Berkshire's investment management strategy continues to focus on long-term total return; this strategy has, over time, generated substantial capital and share value appreciation for the company. It has both benefited from and leveraged Berkshire's reinsurance businesses, but it has also recently contributed to volatility in the group's capitalization.

In Moody's opinion, the company's fundamental business structure is well suited to its long-term management strategy. We expect that Berkshire Hathaway will maintain its substantial fundamental strengths well into the future.

Moody's Investors Service
Global Credit Research



Note: For a description of insurance entities and non-insurance segments, please refer to Appendix 1.

Company Analysis

EXTRAORDINARY INFLUENCE OF CHAIRMAN DRIVES CORPORATE CULTURE

Berkshire Hathaway operates on a decentralized basis, with managers of the individual business units empowered to make operating decisions for their respective businesses. Warren E. Buffett, the chairman of Berkshire's Board of Directors, in consultation with Charles T. Munger, vice chairman of the Board, makes investment and capital management decisions for the group. Mr. Buffett, together with other members of his family, owns approximately 38% of Berkshire's stock (by aggregate voting power).

Because of the substantial ownership interest and enormous influence of the Chairman, governance issues are of particular interest to creditors of the group. Moody's expects that the organization's historically conservative operating philosophy will prevail over the medium term, but we believe that succession to the chairman's position could have significant implications for the governance and future business strategy and, therefore, the rating of Berkshire Hathaway.

STRONG MARKET POSITIONS AT PRINCIPAL INSURANCE OPERATIONS, THOUGH PERFORMANCE HAS BEEN DISAPPOINTING AT GENERAL RE

General Re: Negative Outlook Reflects Weakened Financial Fundamentals

General Reinsurance Corporation (General Re), together with Kölnische Rückversicherungs-Gesellschaft AG (Cologne Re) – collectively the General Re Group – ranks among the four largest reinsurance groups worldwide.

In Moody's opinion, General Re's global reach, full-service underwriting capabilities, and large risk assumption capacity – together with its historical record of long-term profitability and internal capital generation – should enable the firm to sustain its competitive advantages well into the future. Significant deterioration in the group's operating performance in the period 1999-2001, however, particularly in its casualty lines and coupled with losses from the September 11 terrorist attacks, have resulted in capital depletion at General Re.

The group's operating performance (as well as the industry's) during this period clearly exposed a failure to maintain underwriting vigilance, and is on a level that Moody's considers to be incompatible with the group's Aaa ratings, which currently carry negative outlooks.

General Re's rating currently relies more heavily on its parent than it has in the past given the deterioration in its surplus. Both the parent and other Berkshire affiliates have provided tangible support to General Re, but this support is not unconditional or perpetual, and hence the negative outlook for General Re's ratings. In the interim, management has taken aggressive action to strengthen the company's underwriting and performance monitoring practices.

(For additional information, refer to Moody's Report on General Re published in June 2003.)

Berkshire Hathaway Reinsurance Group: An Opportunistic Underwriter with Substantial, Though Diminished, Capitalization

Berkshire Hathaway Reinsurance Group (BHRG), led by National Indemnity Company, is one of the most highly capitalized reinsurance groups in the world, supported by its holdings of most of Berkshire's common stock portfolio. BHRG provides large limit or "super catastrophe" excess-of-loss re/insurance and individual risk business on a worldwide basis, covering both natural and man-made catastrophes, including terrorism.

The group's competitive advantage in this sector is supported by its ability to leverage its substantial capitalization to provide unusually large underwriting limits to clients without incurring the costs associated with reliance on retrocessions. In periods of strong demand for, and limited supply of, reinsurance capacity, this business has the potential to generate very strong cash flow and profit margins; a single loss event can, however, result in large claim payments, leading to significant earnings volatility.

Moody's expects that BHRG will continue to write business on an opportunistic basis and that it will look for creative ways to leverage its considerable capital strength. The group's appetite to write large terrorism-based coverages during a period characterized by heightened demand and a limited supply of reinsurance capacity is an example of this strategy at work.

Over the past five years, National Indemnity's statutory surplus has declined to almost $16 billion in 2002 from a high of $27 billion in 1998 as a result of several factors: a) approximately $6 billion in cumulative dividends over the past five years; b) an almost $6 billion reduction in surplus as a result of the implementation of Codification of Statutory Accounting Principles, primarily recording deferred tax liabilities; c) volatility in the company's common stock portfolio; d) offset by strong statutory earnings. We would note that the cumulative dividends from National Indemnity have been utilized primarily to fund Berkshire's acquisitions over the past several years, resulting in a transfer of capital within the Berkshire group. Furthermore, while statutory accounting principles changed, deferred tax liabilities on the group's unrealized investment gains were always an economic reality. We believe that the company is committed to maintaining its superior capitalization, and that it will not allow its statutory surplus to decline to levels as to affect its unique position and business prospects.

GEICO: A Leading Direct Auto Insurance Writer Poised for Further Growth

GEICO Group is the fifth largest private-passenger automobile insurer in the USA, and distributes its products primarily through direct-marketing channels. Contributing to GEICO's long-term success are its excellent brand, efficient operations and low expense profile, focused underwriting approach, and relatively modest exposure to large losses associated with natural and man-made catastrophes.

GEICO's direct-writing strategy has enabled the company to be among the lowest-cost personal lines insurers in the US, resulting in a significant competitive advantage relative to larger agency-based insurers. The group's ability to strategically target specific customer segments has contributed to GEICO's generally solid underwriting performance over the course of many years.

Historically, GEICO has aggressively expanded its market share through heavy advertising and competitive premium rates. Recent growth has continued as some price competition from the company's personal lines competitors has lessened – resulting in both rate increases and policy in force growth. In the future, Moody's expects that GEICO will demonstrate a preference for profitability over premium growth, and that the group will be able to sustain its competitive advantages in this segment.

Primary Insurance Group Focuses on Niche Markets

The Berkshire Hathaway Primary Insurance Group consists of a diversified array of smaller property and casualty companies that underwrite classes of business requiring specialized underwriting knowledge and skills. All of Berkshire's primary insurance underwriting activities are guided by a culture that encourages rejection of underpriced risks. Some primary operations have recently benefited significantly from improved pricing in selected lines.

NON-INSURANCE BUSINESSES GENERATE SIGNIFICANT GROWTH THROUGH ACQUISITIONS, FURTHER DIVERSIFYING BERKSHIRE'S REVENUES AND EARNINGS

In addition to its flagship insurance/reinsurance businesses, Berkshire is engaged in a number of non-insurance businesses that operate in the building materials, apparel, consumer products, publishing, energy supply, equipment leasing and retail sectors. These businesses typically have established positions in their respective markets and are managed as stand-alone companies. Collectively, the non-insurance operations contributed approximately 45% of Berkshire's revenues (excluding realized investment gains) over the past two years and have been major contributors to pretax operating profits (approximately $3.4 billion in 2002).

Berkshire focuses on acquisition candidates with enduring franchises that produce consistently high-quality earnings and good returns on equity, while using minimal financial leverage. Because of the group's decentralized operating structure, acquired companies continue to operate autonomously with the implicit support of the parent company (and in certain cases, explicit support).

Sizable Commitments to the Energy Sector through MidAmerican Energy

MidAmerican Energy Holdings Company ("MEHC") is a U.S.-based privately owned global energy company which is well diversified in its sources of power generation, predominantly coal and natural gas, along with some geothermal, nuclear and hydro energy sources. With about $18 billion in total assets, MEHC ranks within the top quartile of regional and national utilities in the United States. Berkshire currently holds an economic interest in MEHC of 80.2% (on a fully diluted basis), but Berkshire's voting interest is only 9.7% at present and therefore Berkshire does not fully consolidate MEHC in its financial statements but rather applies the equity method.

Berkshire increased its investment in MidAmerican by approximately $1.7 billion in 2002, doubling its total investment in the company to approximately $3.4 billion. A significant portion of this increase was used to fund the Kern River and Northern Natural Gas acquisitions. Berkshire has also stated its willingness to commit up to $10 billion more to MEHC to fund growth through acquisitions.

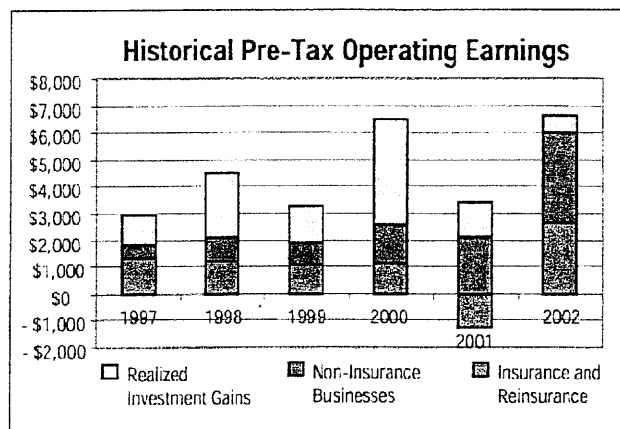
MEHC continues to operate with a high degree of financial leverage resulting from its overall strategy of growth through acquisitions. Nevertheless, Moody's believes that the company will continue to be well positioned to compete effectively in the future given the company's size, diverse revenue base, growing proportion of regulated businesses and conservative management team – which is committed to improving MEHC's capital structure.

(For additional information, refer to Moody's Report on MidAmerican Energy Holding Company published in December 2002).

PROFITABILITY: WELL-POSITIONED FOR CYCLE TURN IN REINSURANCE & COMMERCIAL LINES; ACQUISITIONS BOLSTER PROFITABILITY OF NON-INSURANCE BUSINESSES

Underwriting results over the past several years, particularly at General Re, have exhibited substantial margin compression due to a combination of factors, including the cumulative impact of industry-wide underwriting and adverse claim trends in commercial insurance lines, together with losses from the World Trade Center catastrophe. Nevertheless, General Re and BHRG together are well positioned to benefit from the current upturn in the underwriting cycle and to create a world class reinsurance franchise – one with strong, innovative underwriting discipline and global reach.

Revenues from Berkshire's non-insurance businesses have been positively impacted by its series of significant acquisitions in 2000, 2001 and 2002 and most recently in 2003 by its acquisition of McLane Company, a wholesale distributor of grocery and non-food items. Overall, the non-insurance businesses are continuing to produce good results for Berkshire in a difficult economic environment. Nevertheless, some individual business lines, such as those for subsidiaries operating in the commercial/industrial construction and aviation industries, experienced significant margin compression in the second quarter. Moody's believes that Berkshire's non-insurance businesses are likely to remain significant contributors to the group's overall consolidated earnings, while continuing to provide free cash flow (unregulated) to the holding company.



Historically, realized gains have been a significant portion of earnings, reflecting management's total return strategy. Moody's believes, however, and management has also indicated, that the future financial performance of its investment portfolio – given the company's tremendous historical success – may well not measure up to past performance.

INVESTMENTS: MAXIMIZING LONG-TERM TOTAL RETURN; MARKET VOLATILITY AND SINGLE-ISSUER RISK IN EQUITY PORTFOLIO

The investment portfolios of Berkshire's insurance and non-insurance subsidiaries are managed by the holding company, except for an equity portfolio of GEICO, which is managed by the operating company. Berkshire's portfolio management strategy focuses on maximizing long-term total return. The insurance group accounts for more than two-thirds of the total consolidated assets and nearly all of the invested assets.

Major Common Stock Investments

As of December 31, 2002	Cost	Market
American Express Company	$1,470	$5,359 $
The Coca-Cola Company	1,299	8,768
The Gillette Company	600	2,915
H&R Block, Inc.	255	643
M&T Bank	103	532
Moody's Corporation	499	991
The Washington Post Company	11	1,275
Wells Fargo & Company	306	2,497
Others	4,621	5,383
Total Common Stocks	**$9,164**	**$ 28,363**

The investment portfolio consists primarily of the common stocks of a group of major US firms and investment-grade, fixed maturity securities. In recent years, Berkshire's equity portfolio returns have significantly under-performed its historical averages, highlighting the downside of equity market volatility and concentration risk in the investment portfolio. The group has also opportunistically invested in below investment grade bonds, which are housed primarily at Berkshire's insurance/reinsurance operations. Although generating significant returns, these bonds further leverage an already strained capital base at Gen Re.

STRONG LIQUIDITY AND CASH FLOW FROM OPERATIONS

Berkshire boasts strong operating cash flows from both its regulated insurance subsidiaries and its non-insurance businesses. These cash flows, together with the marketable securities in its investment portfolios, provide Berkshire with strong liquidity. Without prior regulatory approval, Berkshire is allowed to receive up to approximately $2.45 billion in the form of dividends from its regulated insurance subsidiaries in 2003. Because of generally poor underwriting results during the past few years, Berkshire's non-insurance businesses have provided a steadily increasing percentage of the company's operating profits. Notably, there are no regulatory barriers for Berkshire to overcome in order to upstream profits from these non-insurance businesses to the holding company.

Berkshire's concentrated holdings of the common stock of a relatively small number of large companies remains a concern, given that the sale of a significant portion of the portfolio could have a material adverse impact on the market value of one or more of those companies' shares. Berkshire also maintains substantial fixed income portfolios at its re/insurance companies. We believe that management has carefully controlled its exposure to cash outflows from catastrophe losses, thereby mitigating the likelihood of it needing to sell a significant portion of its securities portfolio. Moody's believes that cash flows from operations should remain strong, albeit susceptible to fluctuation.

RESERVES AND RISK MANAGEMENT ARE KEY CONSIDERATIONS IN REINSURANCE

During 2001 and 2002, General Re recorded a total of $2.1 billion worth of charges arising from increases to loss reserve estimates for prior year occurrences. Subsequently, and together with its affiliates, General Re entered into a stop-loss reinsurance contract with members of the Berkshire Reinsurance Group (Columbia Insurance Company and National Indemnity Company) in order to insulate General Re's capital from further adverse claim trends.

Reserve adequacy nevertheless remains a concern for long-tail casualty writers such as General Re because of their susceptibility to adverse claim trends at their ceding client companies, and in light of what Moody's considers to be systemic reserve deficiencies among US commercial insurers on business written during the period 1997-2001. This trend has been exacerbated by a rash of litigation affecting corporate directors & officers' liability policies in recent years.

GEICO's operations, which consist primarily of short-term exposures for private-passenger automobile business, appear to be conservatively reserved. Reserve adequacy is not typically a major concern for personal line insurers focusing on auto and other short-tailed business.

Contingent catastrophe loss exposures – part of National Indemnity's excess-of-loss reinsurance business – cannot be explicitly reserved for, and claim costs from those exposures are not charged against earnings until a loss occurs. Retroactive or finite risk contracts written by National Indemnity may be somewhat exposed to adverse claim trends, however, to the extent that the pace of actual claims payouts exceeds pricing expectations. The group's excellent capital base supports these and other possible contingencies.

Berkshire had net latent liability claims of $6.6 billion at December 31, 2002 (including $5.2 billion in retroactive finite reinsurance limits written by BHRG). A majority of the reserves for those exposures are held on an incurred-but-not-reported basis, reflecting continuing uncertainty about the emergence and the ultimate resolution of the claims. While the ultimate costs of such exposures are difficult to gauge at this time, Moody's continues to view the group as being reasonably well funded for such exposures.

EXCELLENT, ALTHOUGH SOMEWHAT DIMINISHED, CAPITAL STRENGTH WITH MODEST HOLDING COMPANY LEVERAGE

As of June 30, 2003, Berkshire Hathaway reported consolidated GAAP equity of $70.6 billion (from $64 billion at year-ended 2002). The group's exceptional capital strength provides it with a high degree of financial flexibility (e.g. to conduct acquisitions, with or without the need for debt financing) and is also a key competitive strength in the group's reinsurance operations, enabling it to significantly influence pricing, terms and conditions on large-risk contracts. Capital growth historically has been sustained by a combination of market value appreciation in the group's common stock portfolio and by healthy earnings at both the insurance and non-insurance operations. Earnings have also been further diversified and strengthened by the group's significant acquisitions in 2000, 2001 and 2002.

Berkshire's financial leverage (excluding non-guaranteed operational debt associated with its finance and financial products businesses) has consistently been and remains modest, amounting to 5.9% of total capitalization (or about 8.4% of tangible capitalization, excluding goodwill of approximately $22.3 billion related primarily to the General Re acquisition).[1]

Berkshire utilizes operational debt to fund its finance and financial products businesses (BH Finance, Gen Re Securities, XTRA, and Berkadia). As of June 30, 2003, the company's operational debt totaled $3.6 billion. In calculating Berkshire's debt leverage ratios, Moody's excludes non-guaranteed operational debt. The corporate debt securities issued by XTRA, Inc., R.C. Willey Home Furnishings, NetJets, and Berkadia are explicitly guaranteed by Berkshire. However, neither the policyholder obligations of its insurance subsidiaries, nor the corporate debt securities issued by General Re Corporation and General Re Funding Corporation, carry guarantees from Berkshire. Moody's expects that Berkshire's core debt leverage will remain modest given management's stated principle of using debt sparingly.

KEY RATING EXPECTATIONS

- Berkshire will maintain modest levels of financial leverage and a superior level of capital adequacy.
- Maintenance of conservative operating and financial principles that have guided Berkshire's management.
- Return to superior core operating returns at Gen Re without meaningful exposure to further underwriting losses on business written in prior years or capital erosion from other sources.

1 While not included in the above calculation, Moody's also considers MEHC's unsecured debt as contributing to the leverage profile of Berkshire Hathaway.

FitchRatings Insurance

Rating Report

Berkshire Hathaway
and affiliates

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Senior Debt	AAA	NR	12/18/01
Long-term Issuer	AAA	NR	12/18/01

NR - Not rated.

Rating Outlook
Negative

Affiliate Ratings
Columbia Insurance Co.
Fairfield Insurance Co.
General Reinsurance Corp.
General Star Indemnity
General Star National Insurance Co.
Genesis Insurance Co.
Genesis Indemnity Ins. Co.
Government Employees Insurance Co.
National Fire and Marine Insurance Co.
National Indemnity Co.
National Indemnity of Mid America
National Indemnity of The South
National Liability and Fire Insurance Co.
National Reinsurance Corp.
Wesco-Financial Ins. Co.
Insurer Financial Strength.................. AAA
GEICO Corp.
Senior Debt.. AAA
General Re Corp.
Senior Debt.. AA+

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July 5, 2005

■ Summary Rationale
On April 19, 2005, Fitch Ratings revised the Rating Outlook to Negative from Stable on the 'AAA' long-term issuer and unsecured senior debt ratings of Berkshire Hathaway Inc. (Berkshire) and its wholly owned subsidiary GEICO Corporation (GEICO Corp.). Fitch also assigned a 'AAA' rating to $3.75 billion of senior notes issued by Berkshire's subsidiary, Berkshire Hathaway Finance Corporation (BHFC), and guaranteed by Berkshire. Additionally, Fitch affirmed all other ratings (see list). The Rating Outlook for all other ratings is Stable. On May 12, 2005, Fitch assigned its 'AAA' rating to an additional $1.5 billion of BHFC senior debt.

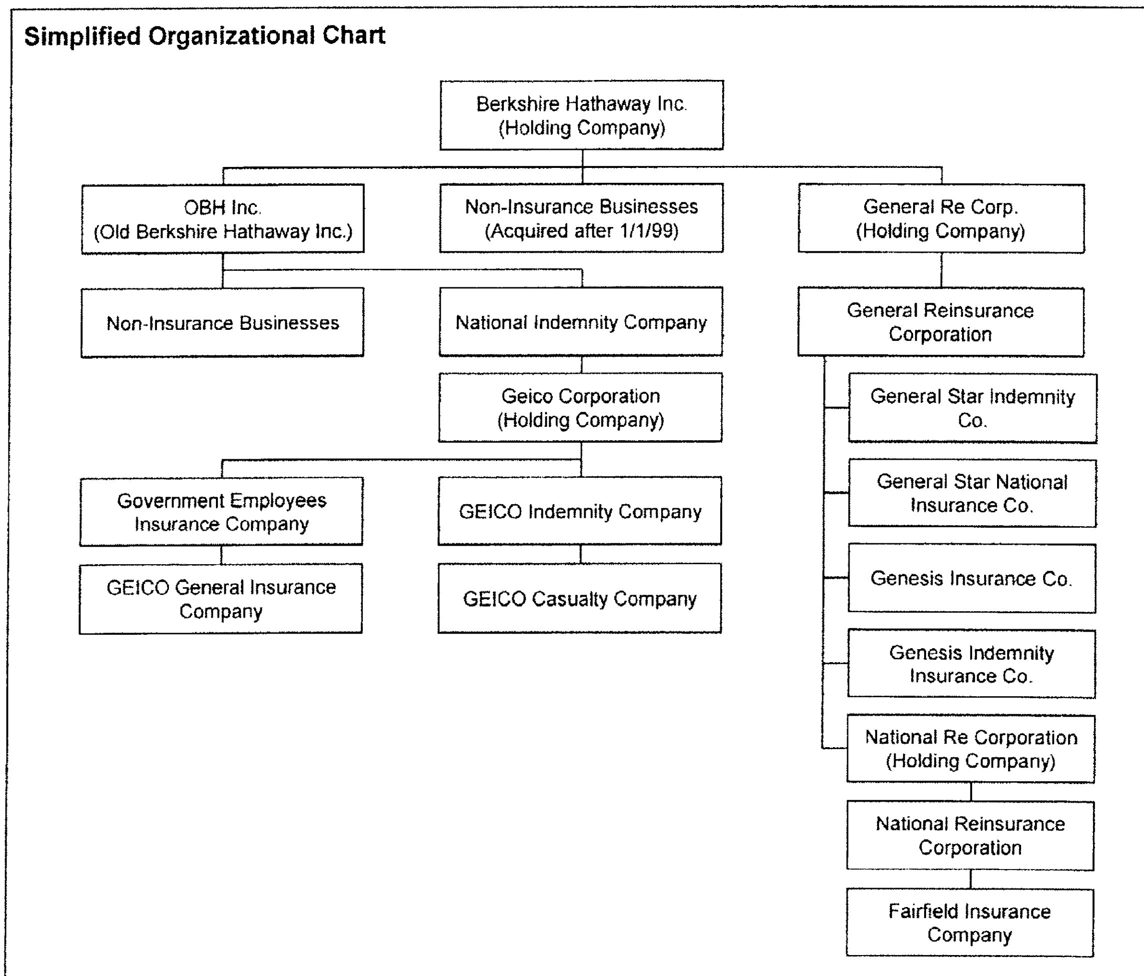
Berkshire's ratings are based primarily on Berkshire's exceptionally strong capitalization, as well as its diversified sources of earnings, substantial financial flexibility, and the strong operating performance of its primary insurance and noninsurance subsidiaries. The Negative Rating Outlook is driven by the very high level of "key person risk" at Berkshire, which is placing increasing pressure on its ratings, and, to a lesser extent, Berkshire's increased use of debt to fund finance subsidiaries. Fitch's ratings of Berkshire also consider current investigations by the New York Attorney General's Office and the SEC into nontraditional or loss mitigation insurance products (commonly called finite risk reinsurance).

The ratings also consider Berkshire's catastrophe excess of loss exposures, as well as Berkshire's appetite for acquisitions.

■ Rating Expectations
Fitch expects Berkshire's underwriting results will be volatile with very good underwriting profits in most years, partially offset by very large occasional losses.

The high exposure to equity investments will cause volatility in the absolute level of surplus. However, surplus is expected to remain high compared to peers.

Finite risk reinsurance contracts written will generate occasional adverse development subject to the limits of the contracts. Fitch also anticipates a softening in demand for finite risk products as the result of regulatory scrutiny.



■ Company Description

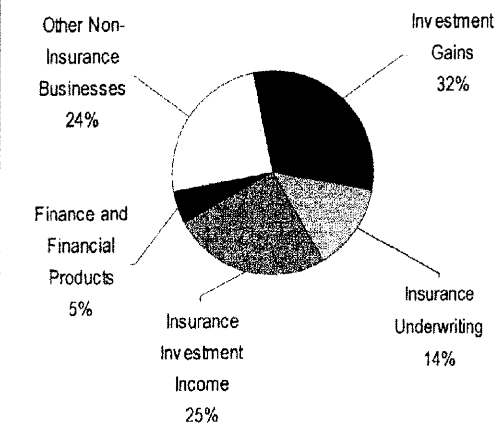
Berkshire and its subsidiaries engage in both primary insurance and reinsurance of property and casualty risks as well as a number of businesses in the apparel, building products, energy, financial products, aviation services, distribution and retail business sectors. A breakdown of Berkshire's businesses based on identifiable assets and operating income can be seen in the charts on page 3. While the determination is highly variable due to the volatility of insurance earnings and assets, Berkshire's primary business is insurance. Berkshire's principal insurance businesses include: General Reinsurance; GEICO; and National Indemnity.

Berkshire's finance and financial products business has grown significantly in recent years, particularly in terms of identifiable assets and debt issuance.

Berkshire is managed by Warren E. Buffett, who has served as its chairman and CEO since 1970. Mr. Buffett is Berkshire's largest shareholder, with a 31% economic interest in Berkshire's common stock.

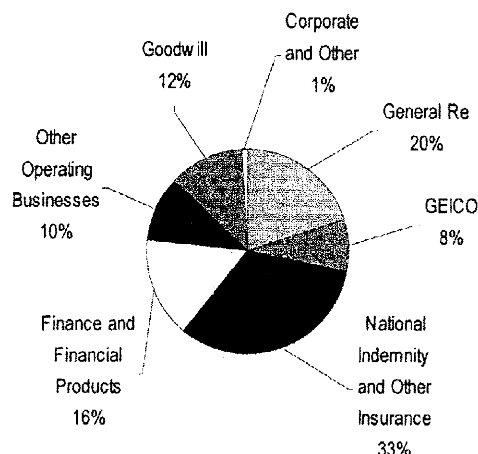
Berkshire has an outstanding long-term success record that Fitch attributes in great part to the talents of Mr. Buffett. Mr. Buffett's reputation with shareholders allows the company to adopt strategies and accumulate capital in ways that would generally not be accepted at other public companies. Such unique attributes include Berkshire's historic concentrated investments in a limited number of equity securities and its current maintenance of a $40 billion cash position. Although the 74-year-old Mr. Buffett is reportedly in good health and has expressed no intention of retiring, Fitch does not believe that Mr. Buffett's talents can be easily replaced, or that Berkshire's current strategies would

Berkshire Hathaway Sources of Pretax Earnings for the Year Ended Dec. 31, 2004



Sources: Berkshire Hathaway, Fitch Ratings.

Berkshire Hathaway Identifiable Assets (As of Dec. 31, 2004)



Sources: Berkshire Hathaway, Fitch Ratings.

be sustainable in his absence. Thus, Fitch believes it is unlikely that Berkshire would be able to operate with the attributes that have historically allowed it to achieve 'AAA' ratings after the inevitable departure of Mr. Buffett. Berkshire has not made its succession plans public, nor has it indicated if its operational, investment, acquisition, or capital strategies would change under the next generation of management.

Products

General Reinsurance sells property/casualty and life/health reinsurance coverage worldwide. In North America, General Reinsurance writes primarily excess of loss reinsurance on both a treaty and facultative basis. Outside of North America, General Reinsurance writes primarily treaty reinsurance through Cologne Re, in which it owns a 91% interest. General Reinsurance also has a Lloyd's operation through its Faraday Holdings Ltd. (Faraday) subsidiary. General Reinsurance writes a wide range of life reinsurance, primarily on a proportional treaty basis. However, its health reinsurance business is written predominately on an excess treaty basis.

General Reinsurance sells finite risk reinsurance products. These products have recently come under scrutiny by various regulatory agencies including the U.S. Securities and Exchange Commission, the New York Attorney General's office and others. General Reinsurance has received requests for information on its finite risk business from these agencies. General Reinsurance is also the subject of a probe by the U.S. Attorney in Richmond, Va., related to medical malpractice insurer Reciprocal of America (ROA), which was placed into receivership in January 2003. Prosecutors are said to be examining whether General Reinsurance helped ROA hide details of its deteriorating financial situation and helped executives disguise loans as reinsurance. News reports indicate that investigators want to know if General Reinsurance participated an alleged program to deceive state regulators and ROA's policyholders. More recently, General Reinsurance has received subpoenas related to finite risk reinsurance transactions with American International Group. General Reinsurance is cooperating fully with these investigations.

While Fitch does not currently expect the outcome of these investigations to result in any material decline in Berkshire's capital position, Fitch does believe General Reinsurance may have suffered some reputation damage due to its involvement in several transactions. Furthermore, Fitch believes the investigations, which included the questioning of Mr. Buffett's possible role in a loss portfolio transfer arrangement with American International Group, further highlights the key person risk at Berkshire. Regulators have stated publicly that Mr. Buffett is not a target of their investigations.

GEICO sells private passenger auto insurance to customers in 49 states and the District of Columbia.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1209

In the Matter of	)
	)
MIDAMERICAN ENERGY HOLDINGS COMPANY,	)
	)
Application for Authorization to Acquire Pacific Power & Light, dba PacifiCorp.	)
	)

DIRECT TESTIMONY OF LINCOLN WOLVERTON

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

November 21, 2005

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

2 **A.** My name is Lincoln Wolverton. I do business through East Fork Economics, P.O.
3 Box 620, La Center, WA 98629, where I am the owner and principal consultant.

4 **Q. BY WHOM ARE YOU EMPLOYED?**

5 **A.** I am a consultant for the Industrial Customers of Northwest Utilities ("ICNU"). My
6 qualifications are summarized in Exhibit ICNU/301.

7 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

8 **A.** ICNU has asked me to examine MidAmerican Energy Holdings Company's
9 ("MEHC") application to acquire PacifiCorp from ScottishPower, and discuss
10 MEHC's proposals for providing capital for PacifiCorp's investments and in relation
11 to the Revised Protocol, PacifiCorp's interstate allocation methodology. My
12 testimony focuses on the issue of "Infrastructure and Resource Investments," as
13 identified in Administrative Law Judge Smith's November 1, 2005 Ruling.

14 **Q. HAVE YOU REVIEWED MEHC'S PROPOSALS REGARDING CAPITAL**
15 **INVESTMENT FOR PACIFICORP?**

16 **A.** Yes. PacifiCorp has stated that its capital forecast indicate that the Company will
17 require annual investment of at least $1 billion for the next five years.[1/] MEHC has
18 stated that it is willing to deploy the capital necessary to accomplish the capital
19 investments. In particular, MEHC has committed to certain specific transmission
20 investments in PacifiCorp's system.[2/] For example, MEHC has committed to
21 pursuing the "Path C Upgrade," which consists of increasing Path C capacity from
22 Southeastern Idaho to Northern Utah. MEHC estimates that this project will cost

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1/ PPL/200, Johansen/7.
2/ PPL/100, Abel/4.

1 approximately $78 million. MEHC also has identified the "Mona-Oquirrh" project,
2 which will "increase the import capability from Mona to the Wasatch Front" in
3 Utah.[3/] MEHC estimates this project will cost approximately $196 million. Finally,
4 MEHC proposes the "Walla Walla-Yakima or Mid-C" project, which is estimated to
5 cost approximately $88 million.

6 **Q. DO YOU HAVE ANY COMMENTS REGARDING THESE CAPITAL**
7 **INVESTMENTS?**

8 **A.** Yes. It appears that little, if any, or these investments are not already accounted for in
9 PacifiCorp's plans. Regarding the transmission projects, PacifiCorp has indicated in
10 responses to data requests that the Mona-Oquirrh project was included in the
11 Company's 2004 Integrated Resource Plan ("IRP") and that it has plans to evaluate
12 the other transmission projects identified by MEHC. In addition, the project was
13 implicit in PacifiCorp's application for a certificate of convenience to construct its
14 Currant Creek project and deliver power to the Wasatch Front.

15 MEHC also has stated a commitment to implement measures to reduce
16 emissions from PacifiCorp's coal-fired generating facilities and greenhouse gas
17 emissions will benefit customers by allowing the equipment to be installed in an
18 orderly manner across PacifiCorp's system.[4/] MEHC also notes that these measures
19 are likely to be *required* in the future.[5/]

3/ Id.
4/ Id. at Abel/20.
5/ Id.

1 **Q. ARE YOU FAMILIAR WITH PACIFICORP'S INTERJURISDICTIONAL**
2 **ALLOCATION METHODOLOGY?**

3 **A.** Yes. I have reviewed both the Original Protocol proposed by PacifiCorp and the
4 Revised Protocol.

5 **Q. HAVE THE ISSUES REGARDING THE REVISED PROTOCOL BEEN**
6 **RESOLVED IN OREGON OR WASHINGTON?**

7 **A.** The OPUC has adopted the Revised Protocol as its allocation methodology, but
8 ordered workshops to continue to develop a fully functional "Hybrid" Method. The
9 OPUC concluded that a fully functional Hybrid Method would be used to compare to
10 the Revised Protocol and could be utilized as a structural protection mechanism for
11 Oregon ratepayers.

12 PacifiCorp is required to file its proposed Hybrid Method with the OPUC on
13 December 1, 2005. In my view, PacifiCorp's draft Hybrid Method has been modified
14 in order to turn the Hybrid Method into a version of the Revised Protocol. In the draft
15 Hybrid Method, significant changes to the resource assignments in the original
16 Hybrid method were made without adequate support. The result is to reduce the
17 revenue requirement differences between the Hybrid Method and the Revised
18 Protocol.

19 Issues related to a structural protection mechanism to address the costs
20 associated with Utah load growth were not resolved in the Revised Protocol. These
21 issues are being debated in multi-state process workgroup meetings sponsored by
22 PacifiCorp. PacifiCorp filed a load growth report on October 20, 2005 with the
23 OPUC. PacifiCorp's load growth report has not proposed a structural protection

1 mechanism that would protect slower growing states from cost shifts associated with
2 Utah load growth.

3 The WUTC used the Original Protocol for interjurisdictional allocation
4 purposes in PacifiCorp's last rate case, but the WUTC is considering the issue as to
5 whether to adopt Revised Protocol on a permanent basis in PacifiCorp's current rate
6 case in Washington.

7 **Q. HOW DO THE INTERSTATE ALLOCATION ISSUES RELATE TO THE**
8 **CAPITAL INVESTMENTS PROPOSED BY MEHC?**

9 **A.** Given the substantial capital investments that MEHC intends to make, it is important
10 that an allocation methodology be put in place to protect customers from the costs of
11 Utah load growth and the cost of projects that are necessary to serve Utah customers.

12 **Q. HOW DOES THE ALLOCATION ISSUE RELATE TO THE MERGER**
13 **PROPOSAL?**

14 **A.** It appears that some of the capital investments identified by MEHC are primarily
15 related to infrastructure needs in Utah. Indeed, PacifiCorp has stated that such
16 investments are necessary in Utah, where growth has "outpaced all forecasts."[6/]
17 Developing an appropriate allocation methodology or providing other conditions that
18 will protect customers from additional costs incurred primarily to serve Utah load are
19 necessary to ensure that customers suffer no harm as a result of MEHC's
20 commitments. Thus, any MEHC capital "benefits" should be properly attributed to
21 the appropriate states. Attributing "benefits" to Oregon based on an allocation

[6/] Martin Rosenberg, The Scots Retreat – ScottishPower Sells PacifiCorp to MidAmerican, Energybiz Magazine, Sept.-Oct. 2005.

1 methodology that does not account for Utah load growth overstates the value of the
2 merger.

3 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING INTERSTATE**
4 **ALLOCATION ISSUES AS THEY RELATE TO THIS PROCEEDING?**

5 **A.** Yes. In July 1988, the OPUC and the WUTC issued orders approving the merger of
6 Pacific Power & Light ("PP&L") and Utah Power & Light ("UP&L") (the "Merger").
7 In approving the Merger, each Commission expressed concern about the impact of
8 merging the higher-cost UP&L system with the lower-cost PP&L system. The WUTC
9 stated:

10 Staff witness Folsom correctly points out the discrepancy in average
11 system cost between Pacific Power and Utah Power. The Commission
12 continues to be concerned about the effects on Pacific's ratepayers of
13 merging with a higher cost system, and believes that any integration of
14 the power supply function for the two companies should be done in a
15 manner consistent with Pacific's least-cost planning process, now
16 getting under way. In the meantime, the Commission views Pacific's
17 current average system costs as the appropriate basis for rates.[7/]

18 The OPUC commented:

19 Second, the stipulation provides that pre-merger generation and
20 transmission facilities of Pacific and Utah Power shall remain
21 the responsibility of the Pacific and Utah divisions,
22 respectively. This will ensure that the higher cost facilities
23 located in Utah will not have a negative impact on Oregon
24 ratepayers.

* * *

25 Applicants have committed indefinitely that Pacific's
26 customers will not be harmed by the merger and will not
27 subsidize benefits to Utah Power customers. Applicants
28 recognize that if the merger results in higher costs, those costs
29 will be borne by the merged company's shareholders.
30 Applicants further agree that shareholders will assume all risks
31 that may result from less than full system cost recovery if

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[7/] Re PacifiCorp, WUTC Docket No. U-87-1338AT, Second Suppl. Order at 13 (July 13, 1988).

1 interdivisional allocation methods differ among the various
2 jurisdictions.[8/]

3 These statements plainly reflect the concerns of the WUTC and the OPUC regarding
4 the impact of higher Utah costs harming customers in PacifiCorp's other states.

5 **Q. WHAT IS YOUR SUGGESTION FOR THE COMMISSION IN THIS**
6 **PROCEEDING?**

7 **A.** If the Commission is inclined to approve the proposed transaction, I suggest that it
8 adopt a condition that is similar to the commitment made by PacifiCorp in the PP&L-
9 UP&L Merger. Specifically, there should be a condition that shareholders will bear the
10 cost responsibility of differing allocation methodologies. As I have noted above, the
11 issues surrounding the interjurisdictional cost allocation are unresolved and it is
12 important that such a commitment be in place if the proposed transaction is approved.

13 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

14 **A.** MEHC is proposing significant capital investments as a "benefit" of the proposed
15 merger. This proposed "benefit" may actually be a significant risk to Oregon
16 ratepayers, in part because issues related to interjurisdictional cost allocation have not
17 been resolved. To address this concern, I recommend that MEHC be required to
18 assume all risks that may result from less than full system cost recovery if
19 interdivisional allocation methods differ among the various jurisdictions.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 **A.** Yes.

[8/] Re PacifiCorp, OPUC Docket No. UF 4000, Order No. 88-767 (July 15, 1988).

ICNU/301

Lincoln Wolverton Qualifications

WITNESS QUALIFICATION STATEMENT

Name:	Lincoln Wolverton
Business Address:	East Fork Economics, PO Box 620, LaCenter, WA 98629
Education:	B.A., 1963, Dartmouth College, English and French M.A., 1971, University of Washington, Economics Ph.D Candidate, 1971, University of Washington, Economics
Work Experience:	Boeing Computer Services, Consulting Division, Seattle, 1973 – 1978 Portland General Electric, 1978 – 1981 Public Power Council, Vancouver, WA, 1981-1986 Resource Management International, Manager, Portland Office, 1986 – 1987 East Fork Economics, Owner, 1987 – present

November 16, 2005

CAREER SUMMARY

LINCOLN WOLVERTON

Home:

35011 North Fork Road
La Center, WA 98629
(360) 263-2713

East Fork Economics:

P.O. Box 620
La Center, WA 98629
(360) 263-3675 (Same FAX)
lwolv@worldaccessnet.com

CAREER SUMMARY

1/88 - present	Independent Consultant, Owner East Fork Economics La Center, Washington
2/86 - 1/88	Manager, Portland Office Resource Management International Portland, Oregon
1/81 - 2/86	Director of Technical Projects Public Power Council Vancouver, Washington
5/78 - 1/81	Economist Corporate Planning Division Portland General Electric Co. Portland, Oregon
7/73 - 5/78	Project Economist The Consulting Division Boeing Computer Services, Inc. Seattle, Washington
9/71 - 7/73	Research Consultant Institute for Governmental Research University of Washington
1/67 - 9/71	Graduate Student/Research and Teaching Assistant Department of Economics University of Washington
Education:	A.B., English and French Dartmouth College, 1963
	M.A., Economics University of Washington, 1970
	Ph.D. Candidate Economics University of Washington, 1971
	Economic Fields: Natural Resources, Labor

EMPLOYMENT HISTORY

January 1988 - present | Owner, Consultant
East Fork Economics

The firm specializes in litigation support, Pacific Northwest regulated utility rates, forecasting and planning, least cost planning, strategic planning, transmission issues and economic analyses and testimony. Recent work has included:

- Representative of Utah industrial group in PacifiCorp's decision to build its Currant Creek plant, including testimony on its economics and comparisons to alternatives.

- Representative of industrial group in deliberations and development of comments regarding formation of regional transmission organizations, including issues of structure, pricing, reliability and benefits and costs. Organizational deliberations included the Independent Grid Operator (IndeGO), RTO West, Grid West and the Federal Energy Regulatory Commission's Standard Market Design.

- Provision of technical support to deliberations regarding and development of rules to implement open direct access in the state of Oregon. Testimony was prepared and presented regarding rates and structural issues regarding direct access in Oregon proceedings involving PacifiCorp and Portland General Electric.

- Analysis and provision of testimony in merger proceedings involving Scottish Power and PacifiCorp and Portland General Electric and Enron.

- A management audit of the load-forecasting process of the Allegheny Power System's West Penn utility. The audit included examination of the structure of the forecasting group both within the West Penn utility and the Allegheny Power System, evaluation of the process for developing forecasts, including contributions from demand-side resources, and examination of the public-review procedures. Included was a look at the relationship of West Penn and its neighbor utilities to which it sells or for which it transmits power.

- Development of a financial/operating risk analysis model that looks at net revenues to the Bonneville Power Administration given variations in loads, resource performance, markets for sale of surplus power and hydroelectric conditions. The model simulates operations of the BPA system given distributions of weather, economics, hydro conditions and

thermal performance in the several markets into which BPA sells its power.

- Development of a 10-year revenue-requirement/financial-results for BPA that looks at the impacts of load growth, resource selection, rates and financing methods. The model produces rate and cash flow impacts over the 10 years and revenue requirements by utility function.

- Assistance to industries in relations with their local utilities on rate matters and potential cogeneration opportunities.

- Analysis of impact of innovative rate design on telephone company revenues, customer acceptance.

- Support of intervention by large industrial firm in rate proceeding of investor-owned utility on revenue-requirements and rate-design issues. Work included analyses of and testimony on rate-design proposals regarding seasonality and capacity/energy proposals.

- As a member of the Northwest Power Planning Council's Scientific and Statistical Advisory Committee on Demand Forecasting, assistance to primary Northwest electricity planning body on load forecasting.

- Service as Technical Director of the Association of Public Agency Customers (APAC), a group of industries that buy substantial quantities of electric power from consumer-owned utilities in the Pacific Northwest.

- Expert testimony in issues of lost income from automobile accident.

- An analysis of the load/resource impact of the February 1989 cold-weather spell.

- Analyses of BPA's budget and revenue outlooks in support of BPA customer positions on the need for rate increases.

- Analyses and negotiation of open-access pilot programs for Puget Sound Energy, Portland General Electric, and PacifiCorp.

- Consultant for Industrial Customers of Northwest Utilities in Enron/Portland General Electric merger.

- Technical expert in negotiations for Puget Sound Energy Schedule 48, a deregulation tariff for industrial customers.

- Industrial representative on City of Seattle's Rate Advisory Committee, looking at revenue requirements, cost of service and industrial margins.

- Analyses of competitive power bids for industrial customer.

EMPLOYMENT HISTORY (Continued)

February 1986 - January 1988 — Manager, Portland Office
Resource Management
International, Inc.

Responsibilities included managing the Portland office of Resource Management International, a Sacramento, California, based energy consulting firm with extensive experience in electric utility rates, load forecasting and strategic planning. Besides management duties, the work involved:

- Service as technical director of the Association of Public Agency Customers (APAC), a group of industries that buy substantial quantities of electric power from consumer-owned utilities in the Pacific Northwest.

- Writing Federal Energy Regulatory Commission license application chapters on Need for Power for a hydroelectric development project on behalf of a Pacific Northwest client.

- Providing expert testimony on rates and revenue requirements in the 1987 Bonneville Power Administration 1987 Rate Proceeding.

- Investigating opportunities for power purchase by California clients from Pacific Northwest utilities.

- Providing analyses and expert testimony on damages for failure to perform under contract in Oregon civil proceeding between resource developer and potential utility purchaser. Analysis including valuation of a business opportunity that was lost.

January 1981 - February 1986 — Director of Technical Projects
Public Power Council

Responsibilities in this position included direction of the technical effort of the Public Power Council staff and its member committees in matters involving Bonneville Power Administration wholesale rates, resource costs, cost effectiveness and other regional power planning issues. Performance of these tasks involved

direction of PPC staff work, hiring and supervision of consultants and communication with PPC's Executive Committee, the Northwest Power Planning Council and senior staff at BPA. The work involved:

- Direction of Public Power Council rate proceedings before BPA, including selection and training of consultants and staff witnesses.

- In conjunction with other customer groups of BPA, direction of PPC's portion of a Joint Customer Proposal in 1982 (along with the Direct Service Industries and private utilities in the region), a Northwest utilities rate proposal in 1983 (along with the private utilities in the region) and a three-party customer proposal in 1985.

- Participation in and (as a staff member) facilitation of a strategic planning exercise for public power in the Northwest that resulted in a redirection of PPC's role.

- Negotiation of a 20-year BPA Power Sales Contract for Residential Exchange energy. Negotiations took place over a one-year period and required analyses of many proposals for contract provisions.

- Participation in marathon negotiations among BPA and all its customers on 20-year power sales contracts to be offered to all BPA's utility and Direct Service Industrial customers.

- Participation in the development of the first two Northwest Energy Plans by the Northwest Power Planning Council as a member of the Scientific and Statistical Advisory Committee on Load Forecasting and Rate Design.

- Direction of PPC's technical effort, participation in legal strategy development and design of PPC's proposal for a rate test (ceiling) to protect BPA's preference customers under the Regional Power Act. The proposal was the result of nearly two years of negotiation, analysis and technical modelling.

- Appearance as an expert witness in BPA rate proceedings and in United States District Court on rate and Rate Ceiling matters.

- Direction of PPC's efforts in response to BPA's analysis of its options for the region's aluminum companies. Analysis involved examination of the economics of aluminum smelting worldwide.

In addition to the above specific tasks, I have acted as an adviser on strategy to public power entities in the Northwest.

May 1978 - January 1981 — Economist
Corporate Planning Division
Portland General Electric

Responsibilities while in the Load Planning and Policy Analysis Departments included supervision of the 20-year electric energy consumption forecast and of special studies on energy matters. Preparation of the forecast required projections of the local economy, consideration of the social and political environment in which the company operates, an understanding of the regional electricity generation system of which PGE is a part, and knowledge of the rate-making procedures for a regulated utility. The work involved:

- Development of a multi-sector personal income forecasting model for the seven counties served by PGE.

- Estimation of statistical equations for consumption of electricity in several final-demand sectors.

- Direction of the preparation and publication of the 1978 Electric Energy Consumption Forecast document for PGE.

- Validity testing of an econometric load-forecasting model developed for PGE. The tests included a simulation of history.

- Design and direction of the development of a computer system that integrated the forecasting model with models of the regional electric generation system, the construction program of the company and its rate-making process. In the integrated model, the company's cost structure and capital base were linked to the rate-setting process. The model was designed both as a forecasting and "what if" simulation tool.

- Testimony in proceedings before the Oregon Energy Facility Siting Council.

- Consultation with other PGE divisions on macro- and microeconomic issues arising locally and nationally, including interpretation and analysis of the Wharton Econometric Forecasting Associates models.

- Special studies on the economics of home-weatherization and solar water-heating programs.

- Analysis of termination options for company's nuclear power plants.

July 1973 - May 1978 — Project Economist
The Consulting Division

Boeing Computer Services, Inc.

Responsibilities included direction of the Washington State Econometric Model and economic and econometric analyses of a wide variety of topics, such as:

- Development of an econometric forecasting model of the State of Washington containing over 200 equations and identities, with extensive industrial-sector detail.

- Preparation and delivery of a quarterly briefing on the national economy for the Boeing Commercial Airplane Company management.

- Development of a passenger traffic forecasting model for Air Panama.

- Design and development of user documentation for the Wharton Econometric Forecasting Associates econometric software system.

- Internal consulting to the Engineering Division of Boeing Commercial Airplane Company on energy economics.

EMPLOYMENT HISTORY (Continued)

These studies required computer analyses, substantial report writing and supervision of others working on the same project, as well as substantial client contact.

I also assisted in the testing and design of a number of the modules of the Wharton Econometric Forecasting System.

September 1971 - July 1973

Research Consultant
Institute for Governmental Research
University of Washington

Responsibilities included co-direction of a study of the 1970-71 recession in the Seattle area. The study was done under a subcontract to the RAND corporation. It involved an econometric analysis of employment in the Seattle area, preliminary design of a household survey of unemployed persons in the area and selection of a subcontractor to implement the survey. In addition, a major analysis of the preliminary survey results was performed by me before I went to the Boeing Company.

January 1967 - September 1971

Graduate Student/Teaching and Research Assistant
Department of Economics
University of Washington

While a student at the University of Washington, I was a teaching assistant for introductory macroeconomics and elementary price theory for undergraduates. In addition, I was a research assistant in natural-resource economics.

PROFESSIONAL ASSOCIATIONS

Member, Northwest Power Planning Council's Statistical and Scientific Advisory Committee on Demand Forecasting.

PERSONAL

Family status	Married, two grown children
Citizenship	U.S.A.
Health	Excellent
Pastimes	Winemaking Cooking Music appreciation Gardening Computer programming

NON-PROFESSIONAL AFFILIATIONS

Director, Gardner School Board. Owner, Salishan Vineyards, Inc.

MILITARY SERVICE

U.S. Army, October 1964 - October 1966. Service in Germany and France.

LANGUAGE PROFICIENCY

Fluent in reading, writing and speaking French.

Record of Testimony
Submitted by
Lincoln Wolverton

Utility	Proceeding	Subject of Testimony	Before	Client	Date
Portland General Electric Company		Load forecasts	Oregon Public Utility Commission	PGE	1979
Portland General Electric Company		Load forecasts	Energy Facility Siting Council	PGE	1979
Bonneville Power Administration	1981 Rate Case	BPA costs, restructuring	BPA	Public Power Council	1981
Bonneville Power Adminiistration	WP-83	Revenue requirements, DSI rate design, preference customer rate test,	BPA/FERC	Public Power Council	1983
Bonneville Power Adminiistration	WP-85	Preference customer rate test, revenue crediting, cost allocation, DSI industrial margin	BPA/FERC	Public Power Council	1985
Bonneville Power Adminiistration	VI-86	Aluminum company variable rate	BPA/FERC	Public Power Council	1986
Bonneville Power Adminiistration	WP-87	Aluminum company variable rate, preference customer rate test, cost of service, revenue requirements	BPA/FERC	Association of Public Agency Customers	1987
Bonneville Power Adminiistration	WP-91	Preference customer rate test, revenue crediting, cost allocation, financial goals, interruptible rates, unbundling of transmission costs	BPA/FERC	Association of Public Agency Customers	1991
Bonneville Power Adminiistration	WP-93	Vintaged rates, financial risk planning, interim rate adjustments, preference customer rate test, revenue requirements, cost of service, rate design	BPA/FERC	Association of Public Agency Customers	1993
Bonneville Power Administration	WP/TR-96 TC-96	Rate design, revenue requirements, industrial margins, eligible customer under open-access tariff	BPA	Association of Public Agency Customers	1995
Puget Sound Power & Light and Washington Natural Gas	UE-960195 UE-951270	Puget Power/Washington Natural Gas merger support	Washington Public Utilities Commision	Industrial Customers of Northwest Utilities	1996
Puget Sound Power & Light	OA96-161-000 et al	Open access tariff recommendations, load forecasts	FERC	Industrial Customers of Northwest Utilities	1996-98
Generic	UM827	Marginal cost	OPUC	Industrial Customers of Northwest Utilities	1997
Enron/Portland General Electric	UE102	Competitive Choice (upcoming testimony)	OPUC	Industrial Customers of Northwest Utilities	1997

Record of Testimony
Submitted by
Lincoln Wolverton

Utility	Proceeding	Subject of Testimony	Before	Client	Date
Washington Water Power	UE971422	Banded Rate discrimination, over-earnings	WUTC	Industrial Customers of Northwest Utilities	1997
PacifiCorp	UM918	PacifiCorp / Scottish Power merger	OPUC	Industrial Customers of Northwest Utilities	1999
Bonneville Power Administration	WP-02	BPA general rate case	BPA	Industrial Customers of Northwest Utilities	2000-2001
Bonneville Power Administration	SN-03	Safety Net Cost Recovery Adjustment Clause proceeding	BPA	Industrial Customers of Northwest Utilities	2003
PacifiCorp	UM-1081	Direct Access Transmition	OPUC	Industrial Customers of Northwest Utilities	2004
PacifiCorp	Docket 03-035-29	PacifiCorp Application for Certificate of Convenience for Currant Creek	Utah Public Service Commission	UAE Intevention Group	2004