BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

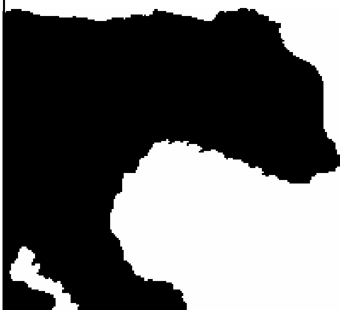
UM 1209

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

OPENING TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON



November 21, 2005

Table of Contents

I. Introduction 1
A. The Ramifications Of MEHC's Proposed Acquisition 1
B. Organization Of This Testimony 2
II. Infrastructure And Resource Investment 3
A. Does MEHC Due Diligence Justify The Purchase Premium? 5
i. MEHC Shows No Interest In Operational Efficiency Or Cost Cutting 5
ii. MEHC Does Not Need Efficiencies To Recover The Premium 7
B. MEHC Investment Benefit Analysis Actually Demonstrates Harm 9
i. Correcting MEHC's Analysis 11
ii. Update Forward Prices 14
iii. MEHC's Analysis Actually Shows A Net Harm To Customers 15
iv. The Above Calculated Harm Even Includes Disputed Benefits 15
C. Rate Effect Of Proposed Infrastructure Investment 18
D. Is MEHC's Eagerness To Invest In Infrastructure A Benefit? 21
i. We Assume Appropriate Investment 22
ii. Investment Is A Good Thing … Unless It's A Bad Thing 24
E. MEHC's Expected Return & The Iowa AFOR 25
i. Oregon's Experience With New Parent Company Expectations 25
ii. The Iowa AFOR 26
F. Global Climate Leadership 28
III. Financial Stability 30
IV. Customer Service 31
A. Service Quality Measures 31
B. Assistance to Low-Income Customers 32
C. Public Purpose Funding and SB 1149 32
V. Holding Company 34
A. The Repeal Of PUHCA 34
i. Conflicts Of Interest 35
ii. The Reality Of Regulating The Berkshire Behemoth 37
iii. Local Control 39
VI. Many Of MEHC's Commitments Have No Value 44
VII. Conclusion 45

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	)))))))))	OPENING TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON

1 My name is Bob Jenks, and my qualifications are listed in CUB Exhibit 101.

2 I. Introduction

3 A. The Ramifications Of MEHC's Proposed Acquisition

4 CUB's analysis of MidAmerican Energy Holdings Company's (MEHC) proposed
5 acquisition, based on a review of MEHC's Opening and Supplemental Testimony, a
6 review of data request responses, and our professional judgment, finds that MEHC's
7 proposed acquisition, as proposed, fails to provide customers with a net benefit. Our
8 analysis of MEHC's offered incremental investment shows it will further increase rates
9 with little or possibly negative benefit to customers. MEHC's lack of any serious
10 attention to PacifiCorp's operations or rates is troubling. CUB does not know how
11 MEHC can expect any party to find a net benefit for customers in a proposal devoid of
12 analysis on the rate impacts on customers of that proposal.

1 In addition to MEHC's investment exuberance, we are also concerned with
2 MEHC's expected financial return on its proposed acquisition. MEHC's regulated utility
3 in Iowa, MidAmerican Energy, earns strikingly more than Oregon utilities are authorized
4 to earn, and if MEHC's expectations for PacifiCorp are unrealistic, PacifiCorp may suffer
5 from its corporate parent's disappointment. A less quantifiable, but equally as concrete,
6 concern is the ramifications of the repeal of the Public Utility Holding Company Act
7 (PUHCA), on our now-exposed utility. If there were a utility acquisition PUHCA was
8 designed to prevent, this would have been it, and in light of the extensive holding
9 company structure of Berkshire Hathaway and MEHC, we wonder if PacifiCorp can be
10 adequately protected.
11 Finally, Warren Buffett, Berkshire Hathaway, and MEHC have demonstrated a
12 decided lack of leadership in addressing environmental issues, most notably the looming
13 threat of global warming.
14 If this round of testimony were to close the record, then the Commission's
15 judgment would be an easy one: rejection of the proposed acquisition. We acknowledge
16 that the record does not close today, and that MEHC has not claimed that its proposed
17 commitments represent a final offer, but the schedule for this proceeding is short, and
18 MEHC must quickly offer a better collection of commitments that provides clear and
19 substantial benefits to customers if it wants Commission approval of the application.

20 B. Organization Of This Testimony

21 CUB appreciates the outline proposed by Judge Smith, but notes that the
22 requirement to follow a presented outline was not placed on the Applicant for either its
23 Opening or Supplemental Testimony. In this testimony, we attempt to follow at least the

1 major headings as proposed by Judge Smith. Most of this testimony reflects the first
2 topic, Infrastructure and Resource Development. This represents the primary category of
3 benefits claimed by the Applicant, and, as such, is the focus of much of our analysis to
4 determine whether the Application produces a net benefit for customers.

5 We also note that CUB's outside witness, Jim Dittmer, began his discovery and
6 testimony before Judge Smith's order requesting a specific framework. Mr. Dittmer
7 discusses a variety of issues that relate to Judge Smith's categories of Financial Stability
8 and Holding Company, but his testimony also reviews MEHC's Application as a whole.
9 We believe his testimony contributes to the record of this case, even if it does not follow
10 the prescribed outline.

11 Finally, we note that Judge Smith's outline does not include a section on the
12 commitments proposed by MEHC. The Applicant lists these both in its Application and
13 Testimony. While we discuss various commitments throughout our testimony, we have
14 added a section to Judge Smith's outline responding to the Applicant's commitments and
15 listing the commitments, and identifying those that have no value.

16 II. Infrastructure And Resource Investment

17 In CUB's Opening Comments we raised the issue of MEHC's obsession with
18 infrastructure investment, and its utter lack of concern either for the operations of
19 PacifiCorp or for the effect of this dynamic on rates. Deeper and further review has only
20 heightened our concern.

21 The thrust of MEHC's testimony, and the greater part of its identified benefits of
22 the proposed transaction is that "MEHC is poised to deploy significant amounts of

1 capital," and "MEHC is committing investment dollars" toward PacifiCorp's
2 infrastructure.[1]
3 Associated with MEHC's infrastructure investments, which are the primary basis
4 of the proffered net benefit, MEHC has proposed to add about $579 million dollars to
5 revenue requirement through 2015, above and beyond PacifiCorp's current business
6 plan.[2] Neither MEHC's application nor its analysis of the transaction provide any hint of
7 operational efficiencies, any movement toward best practices, any synergies, future
8 benchmarking, or alternative business plans that might lead to lower costs. Any one of
9 these might explain how the higher revenue requirement from additional investments
10 might be offset with lower costs, or how regulatory lag could justify the $1.2 billion
11 premium[3] MEHC will pay if it buys PacifiCorp.
12 More relevant to this proceeding, however, is the fact that our analysis is unable
13 to confirm that the set of investments and very modest savings which are incremental to
14 PacifiCorp's existing business plan, and therefore attributable to MEHC's ownership, is
15 not a harm to customers, much less a benefit.
16 Our analysis in this section seeks to answer a number of questions. What does
17 MEHC's due diligence say about operational efficiencies? Do those efficiencies, or lack
18 thereof, justify the premium to be paid for PacifiCorp? Do the infrastructure investments
19 proposed by MEHC primarily benefit customers or shareholders?

[1] UM 1209 PPL/100/Abel/3.
[2] UM 1209 CUB Exhibit 102. MEHC Response to CUB data request 91.
[3] PPL/400/Goodman/11.

1 A. Does MEHC Due Diligence Justify The Purchase Premium?

2 This is, regrettably, our sixth ORS 757.511 proceeding in the last eight years. In
3 all of the previous applications, the due diligence of the applicant has included some
4 degree of assumptions regarding operational efficiencies, synergies, or alternative
5 business models. In the past cases, the analyses were performed for one of two, and
6 sometimes both, reasons: 1) the acquirer analyzed how to recover the premium it would
7 pay above book value through regulatory lag; and 2) the acquirer presented cost
8 efficiencies as an identifiable benefit for customers.

9 **i. MEHC Shows No Interest In Operational Efficiency Or Cost Cutting**

10 Yet, in this case, MEHC seems to have performed none of this analysis. It is
11 rather stunning to see an applicant, in its due diligence, simply accept the acquired
12 utility's business plan, without injecting any vision of its own into the application. What
13 is more than stunning, and is frankly unbelievable, is that there is no strategy to recover
14 the premium that MEHC will pay for PacifiCorp.

15 So is there, or is there not, a plan to cut costs and use regulatory lag to justify the
16 premium? If there is not, do Berkshire and MEHC have another strategy for recovering
17 the premium? It is hard to imagine that they do not.

18 The first question is factually very difficult to answer. It is difficult to answer
19 because MEHC provided no documents in response to data requests that said anything
20 about operational efficiencies, movement toward best practices, synergies, future
21 benchmarking, economies of scale, or alternative business plans. We could submit into
22 the record the entirety of the 276 pages of the due diligence documents we received as
23 proof that they contain no analysis of cost savings of any kind from the current

1 PacifiCorp business model, but this seems unwieldy. The documents we received were
2 in response to CUB data request 3:

3 Please provide all internal due diligence documents created by, or
4 reviewed by, MEHC and/or Berkshire Hathaway in assessing PacifiCorp
5 and in proceeding with the transaction. This request includes all studies,
6 valuations, analyses of current operations and future or potential
7 operations, financial models, consultants reports, minutes of governing
8 groups (board or board committee), informational memos, etc.

9 HIGHLY CONFIDENTIAL

10

11

12 [4]

13 END CONFIDENTIAL

14 Furthermore, when CUB asked, in CUB Data Request 53:

15 In regard to Berkshire Hathaway and MEHC's financial projections and
16 expectations for PacifiCorp:

17 a. Please provide all analysis, including assumptions, of future earnings in
18 ROR and ROE at PacifiCorp both with and without MEHC ownership.

19 MEHC responded:

20 HIGHLY CONFIDENTIAL

21
22
23
24 [5]

25

26

27

28 END CONFIDENTIAL

---

[4] UM 1209 CUB Exhibit 103. MEHC, Management Presentation. May 23, 2005. HIGHLY CONFIDENTIAL.
[5] UM 1209 CUB Exhibit 104. MEHC response to CUB data request 53. HIGHLY CONFIDENTIAL.

1 MEHC may wish to keep its plans for PacifiCorp private, because, once
2 identified, it serves to reason that customers would expect some guarantee that those
3 savings would not accrue entirely to shareholders, but would also be shared with
4 ratepayers who pay the cost of the system. We have no way to determine which of the
5 possibilities lies closer to the truth.

6 **ii. MEHC Does Not Need Efficiencies To Recover The Premium**

7 However, if the new owner really has no strategy for finding efficiencies (or even
8 if it does) to justify the premium over book that it will pay, is there another way for
9 MEHC to make enough money from PacifiCorp to justify paying a premium in excess of
10 $1 billion? Consider MEHC's answer to CUB Data Request 53-b:

11 In regard to Berkshire Hathaway and MEHC's financial projections and
12 expectations for PacifiCorp:

13 b. How long will it take for profit from PacifiCorp to pay for the purchase
14 price with and without the premium? Use whatever interest rates and
15 assumptions that were used in the due diligence analysis, and please
16 specify these rates and assumptions."

17 MEHC answers:

18 HIGHLY CONFIDENTIAL

19
20
21
22
23
24
25 [6]

26 END CONFIDENTIAL

27 A simple reading of this would be that the more we invest, the more we make.
28 However, the above answer would mean very different things if the utility were to be a

[6] UM 1209 CUB Exhibit 104. MEHC response to CUB data request 53. HIGHLY CONFIDENTIAL.

1 stand-alone enterprise or an affiliate of a holding company. A stand-alone utility gets the
2 fair regulated return on the investment it makes. If the utility invests more, while the rate
3 of return is stable, the amount of return grows larger.

4 When the utility is part of a holding company, however, the holding company can
5 carry debt elsewhere in the corporate tree, while investing that debt as equity in the
6 utility. Using double leverage, the holding company can collect a regulated return on
7 equity from the utility, which is higher than that of debt, while funding that equity with
8 debt somewhere else in the company. Same money; free profit for the shareholder. In
9 such a double-leverage arrangement, the holding company has an even higher incentive
10 to invest capital in the utility, because there is an added bonus: the ratepayer pays the
11 shareholders more for the use of the investment equity than it costs the shareholder to
12 borrow that same money.

13 In the meantime, in the absence of a cost-cutting analysis, there is this other way
14 for MEHC to earn enough money to justify the significant premium found in this case:
15 create a multi-tiered corporate structure which supports double leverage financing, and
16 invest as much as you can in the regulated utility. Using its multi-tiered corporate
17 structure to support the use of double-leverage financing, Berkshire and MEHC will
18 invest as much as they can in the regulated utility. This scenario best describes MEHC's
19 Application. MEHC claims that this willingness to invest is not just one of, but <u>the</u> major
20 benefit of this proposed transaction.

21 CONFIDENTIAL

22

23

1
2
3
4
5
6
7 [7]

8 END CONFIDENTIAL

9 However, as cost control and cost cutting are not part of MEHC's analysis of
10 PacifiCorp, we can only presume that expansion of the regulated asset base is the primary
11 strategy to justify the purchase premium.

12 This brings us to our next question: Does the infrastructure investment proposed
13 by MEHC financially benefit customers or MEHC shareholders?

14 B. MEHC Investment Benefit Analysis Actually Demonstrates Harm

15 In his Opening Testimony, Greg Abel described the proposed benefits of MEHC's
16 acquisition of PacifiCorp:

> 17 My testimony also provides evidence of the benefits to PacifiCorp's
> 18 customers, employees, and communities if the transaction is approved. In
> 19 my testimony and that of other MEHC witnesses, we are offering more
> 20 than 60 commitments to customers and states served by PacifiCorp.
> 21 Included in these commitments are reductions in PacifiCorp's costs
> 22 totaling more than $36 million over five years and more than $75 million
> 23 over a longer period. MEHC shareholders will also absorb $1 million of
> 24 costs of a system-wide demand-side management ("DSM") study. In
> 25 addition to these readily quantifiable benefits, MEHC is committing to
> 26 $1.3 billion of infrastructure investment in PacifiCorp's system.[8]

[7] UM 1209 CUB Exhibit 105, Rating Agency Presentation, January 30, 2004, page 5. CONFIDENTIAL.
[8] UM 1209 PPL/100/Abel/3.

1 Since this testimony was filed, CUB and other parties have raised questions
2 concerning how much of MEHC's proposed investment is incremental to what is already
3 expected of, and planned by, PacifiCorp, what the rate impacts of this investment might
4 be, and ultimately, does this really represent a net benefit to customers. In its response to
5 CUB data request 91, MEHC asserts a net present value benefit of $200 million for
6 customers from the benefits listed by Mr. Abel, and provides MEHC's analysis
7 supporting that benefit.[9]

8 MEHC asserts their response represents "projects that are incremental to those
9 previously committed to by PacifiCorp." The following table summarizes the
10 Company's analysis.

MEHC Quantified Benefit

Benefits	**NPV (2006-2015)**
Path C (net power cost reduction only)	4,287,000
Reduced Cost of Debt	15,947,000
Corporate Overhead Reductions	35,955,000
Emissions Reductions from Coal-Fuel Generation	492,346,000
Costs (Revenue Requirement Increase)	
Path C Upgrade	(35,312,000)
Emissions Reductions from Coal-Fuel Generation	(313,220,000)
Benefit (NPV)	**$200,002,000**

11 The primary driver behind this alleged benefit is the value of the emissions
12 reductions. The emissions reductions represent a $492 million benefit to customers
13 according to MEHC's analysis. Looking at it another way, without the emissions benefit,
14 this chart would project an almost $300 million harm. This emissions benefit, however,
15 comes with a very significant caveat:

[9] UM 1209 CUB Exhibit 102. MEHC response to CUB data request 91.

> The benefits resulting from reductions in emissions through the installation or upgrading of pollution control equipment have been calculated by assigning a market value per ton of emissions reduced. This value was derived from PacifiCorp's 2004 IRP. While there may not be a market for some of these emissions in the west at the current time, these emissions are traded in other parts of the country or are anticipated to be traded in the future. *As such, the quantified benefits are an imperfect surrogate for the potential value and resulting benefit of the emission reductions if and when the markets for these emissions develop*, and should not be considered as have been recognized for accounting purposes.[10]

i. Correcting MEHC's Analysis

In examining MEHC's quantification of net benefits, we first have to make the quantification consistent with MEHC's proposed commitments on overhead and cost of debt, then we have to ensure that the emissions values are consistent with the IRP, and finally we update the emissions input. These limited changes show that, even if we accept MEHC's claim of reductions in overhead and cost of debt and accept their methodology for calculating the net present value of benefits, the proposed investment creates a harm to customers.

a. Make Analysis Consistent With Commitment For Corporate Overhead Reduction

CUB Exhibit 102 shows that MEHC, in its analysis, projects a $6 million reduction in PacifiCorp's corporate overhead each year starting in 2007 and continuing through 2015. However, in its Application, MEHC is not committing to a $6 million reduction in corporate overhead through 2015. The commitment MEHC offers is only for 5 years:

> 39. Corporate Overhead Charges: MEHC commits that the corporate charges to PacifiCorp from MEHC and MEC will not exceed $9 million annually for a period of five years after the closing of the proposed

[10] UM 1209 CUB Exhibit 102. MEHC response to CUB data request 91. Emphasis added.

1 transaction. (In FY2006, ScottishPower's net cross-charges to PacifiCorp
2 are projected to be $15 million.)[11]

3 Correcting this error and projecting the $6 million reduction for only 5 years,
4 reduces the net present value of the corporate overhead reductions from $35,955,000 to
5 $22,737,000.

6 *b. Correction For Reduced Cost of Debt*

7 MEHC has offered a commitment that:

8 …over the next five years it will demonstrate that PacifiCorp's
9 incremental long-term debt issuances will be at a spread of ten basis points
10 below its similarly rated peers…If MEHC is unable to demonstrate to the
11 Commission's satisfaction that PacifiCorp has achieved at least a ten-basis
12 point reduction, PacifiCorp will accept up to a ten (10) basis point
13 reduction to the yield it actually incurred on any incremental long-term
14 debt issuances for any revenue requirement calculation effective for the
15 five-year period subsequent to the approval of the proposed acquisition. It
16 is projected that this benefit will yield a value roughly equal to
17 $6.3 million over the post-acquisition five-year period.[12]

18 First, the commitment applies only to debt that is issued in the first 5 years
19 following the acquisition. Second, and more importantly, the commitment applies to
20 revenue requirement calculations that are effective for the 5 year period after the
21 application. This means that, in a revenue requirement calculation made 7 years after the
22 application, the Commission would no longer be able to include a 10 basis point
23 reduction in the debt that was issued during the first 5 years.

24 MEHC's benefits analysis shows a value of $5.96 million for the first 5 years and
25 a net present value of $15.9 million through 2015. However, the restrictions on the
26 commitment, as proposed by MEHC, limit this benefit to 5 years of revenue requirement
27 calculations. MEHC's analysis identifies the value of a lower cost of debt as having a net

---

[11] UM 1209 PPL/309/Gale/7.
[12] UM 1209 PPL/309/Gale/7.

present value of $15,947,000. Restricting these benefits consistent with the commitment would reduce that net present value to $4,560,000.

c. Correction For IRP Projections Of Emissions Value

CUB Exhibit 102 shows how MEHC's analysis values the emissions reductions. MEHC values NO_x at $1907/ton in 2006, with the price increasing each year until it reaches $2393/ton in 2014. MEHC values mercury at $37,084/pound in 2006 with the price increasing each year until it reaches $46,539/pound in 2015. The source of these emissions prices is cited as PacifiCorp's 2004 IRP, Appendix C pages 35-38.[13] However, Appendix C of PacifiCorp's IRP, does not forecast prices for NO_x or Mercury until 2010. It is not clear what MEHC's source for emissions prices before 2010 is, but it isn't Appendix C of PacifiCorp's IRP.

More importantly, PacifiCorp makes clear in this section of its IRP that it does not expect any trading of NO_x and Mercury in the West until 2010.

In regard to NO_x, PacifiCorp's 2004 IRP says:

> The U.S. Environmental Protection Agency's NO_x State Implementation Plan (SIP) Call trading program was initiated for the eastern U.S. in 2004 under a shortened summer ozone trading season, with prices clearing around $2,000/ton… The SIP Call cap-and-trade program only affects units in the east; therefore, it has no bearing on PacifiCorp. Nonetheless, SIP Call market activity and allowance prices can serve as a guidepost for potential future NO_x policies transitioning into a national, annual trading program.
>
> Table C.5 shows the NO_x prices used in the IRP, which reflect a regulatory future that will impose annual emission limits on western generators beginning in 2010.[14]

In regard to Mercury, PacifiCorp's 2004 IRP says:

---

[13] UM 1209 CUB Exhibit 106. Excerpt: PacifiCorp 2004 IRP, Appendix C, pages 34-36.
[14] UM 1209 CUB Exhibit 106, Excerpt: PacifiCorp 2004 IRP, Appendix C, pages 34-36.

1 EPA has pursued Hg limits under section 111 of the 1990 CAA
2 Amendments with their proposed Clean Air Mercury Rule (CAMR) via a
3 cap-and-trade mechanism. Similarly, several Congressional proposals and
4 the Administration's Clear Skies Act call for Hg limits imposed under a
5 cap-and-trade structure. Mercury prices used in the IRP, shown in Table
6 C.6 are based upon PIRA's forecast for a cap-and-trade policy beginning
7 in CY 2010 with a "backstop" price of $35,000/lb, adjusted for inflation.[15]

8 PacifiCorp's IRP, which is supposed to be the source for the value of the
9 emissions reductions in MEHC's analysis, does not project emissions prices before 2010
10 for NO_x and Mercury because it projects emissions trading programs for these pollutants
11 to begin in 2010. MEHC's analysis is based on the value of the emissions reductions "*if*
12 *and when the markets for these emissions develop.*" Because the source for these
13 projections claims that markets are not expected to develop for NO_x and Mercury until
14 2010, then we must correct the analysis and remove the value of these emission
15 reductions before 2010.

16 This correction reduces the value of the Emission Reductions Benefits from
17 $492,366,000 to $451,412,000. The combination of this and the corrections for
18 Corporate Overhead and Cost of Debt reduce the net present value of MEHC's proffered
19 net benefit due to MEHC ownership of PacifiCorp from $200,002,000 to $145,850,000.

20 **ii. Update Forward Prices**

21 This fall, PacifiCorp updated its forecast of future emissions prices as part of its
22 Official Market Price Projection.[16] PacifiCorp's Market Price Projection shows the
23 updated prices for SO_2, NO_x, and Mercury. The updated forecast for SO_2 shows higher
24 prices through 2009, but significantly lower prices after 2010. The updated forecast for
25 NO_x now assumes that a NO_x cap-and-trade program will not be imposed until 2012, and

---

[15] UM 1209 CUB Exhibit 106, Excerpt: PacifiCorp 2004 IRP, Appendix C, pages 34-36.
[16] UM 1209 CUB Exhibit 108. Excerpt: PacifiCorp Market Price Projection.

will be "less stringent" than the current program in the East, because "the West does not have the same ground-level ozone problems experienced in the East." These updated assumptions significantly reduce the value of MEHC's proposed NO_x emission reductions. Finally, the new Mercury price forecasts are about 2% higher than the earlier forecast, primarily due to updating PacifiCorp's inflation projections.

Updating these forecasts to the most recent PacifiCorp projections further reduces the value of MEHC's emissions reductions from $451,412,000 to $239,540,000.

iii. MEHC's Analysis Actually Shows A Net Harm To Customers

CUB Exhibit 107 shows the results of MEHC's Quantified Benefit updated with the corrections and updates. Rather than showing a $200 million benefit, this analysis now shows a $77 million harm.

CUB Quantified Harm

Benefits	**NPV (2006-2015)**
Path C (net power cost reduction only)	4,287,000
Reduced Cost of Debt	15,947,000
Corporate Overhead Reductions	22,737,000
Emissions Reductions from Coal-Fuel Generation	239,540,000
Costs (Revenue Requirement Increase)	
Path C Upgrade	(35,312,000)
Emissions Reductions from Coal-Fuel Generation	(313,220,000)
Harm (NPV)	**($ 77,408,000)**

iv. The Above Calculated Harm Even Includes Disputed Benefits

In calculating this harm to customers, we simply updated the forward price curves, corrected the analysis for data included in PacifiCorp's IRP, and brought MEHC's analysis in line with its proposed commitments. Beyond that, for the purposes

1 of the analysis, we accepted MEHC's claimed benefits and methodology. However,

2 MEHC's claimed benefits themselves are in dispute.

3 *a. Dispute Over Corporate Overhead Reductions*

4 MEHC has proposed a commitment that would limit corporate overhead charges

5 to $9 million per year for 5 years, claiming this will save customers $6 million per year

6 because ScottishPower's net cross-charges to PacifiCorp are projected to be $15 million

7 in fiscal year 2006. MEHC provides little analysis beyond this statement to back up its

8 claim that this commitment will provide a $6 million benefit to customers.

9 However, the parties to this case have not been able to confirm this claim.

10 According to the Opening Comments of the OPUC Staff:

11 Staff's preliminary analysis of this claimed benefit shows it may be
12 nonexistent. First, staff believes that a more appropriate estimate of the
13 overall annual overhead charge is $11.7 million, not the claimed
14 $15 million. Further, MEHC fails to recognize that Pacific Power
15 Marketing (PPM), a PacifiCorp subsidiary, would stay with ScottishPower
16 if MEHC's application is approved. As such, without the ability to assign
17 a portion of overhead costs to PPM, PacifiCorp's allocation of corporate
18 overhead charges would result in an *increased* charge to PacifiCorp,
19 potentially resulting in higher costs for its customers. Staff estimates this
20 increase to corporate overhead costs for PacifiCorp would be
21 approximately $3 million annually.[17]

22 If you assume that MEHC will provide a reduction in corporate overhead costs of

23 $6 million per year for five years, then our analysis shows a harm of $77 million.

24 However, Staff's Comments state that, not only should we not assume this $6 million

25 savings, but the corporate overhead costs could increase by $3 million per year if this

26 application were approved. Under this scenario, the net present value of the harm to

27 customers would be over $100 million.

---

[17] UM 1209 Staff Opening Comments, page 4.

1 *b. Dispute Over Cost Of Debt*

2 In our analysis of the harm associated with MEHC's proposed emissions
3 reductions, we made an adjustment to MEHC's cost of debt savings to bring it into
4 alignment with the restrictions proposed in their commitments. We did not, however,
5 dispute whether this commitment was reasonable. However, we share the concerns of
6 CUB witness Jim Dittmer[18] and Staff[19] that enforcing this commitment would be nearly
7 impossible because it would be extremely difficult to measure.

8 *c. Dispute Over Clean Air Investments*

9 In our analysis we include the clean air investments as prudent investments that
10 are recoverable. Historically we know of no investment in environmental remediation
11 that CUB has opposed as an imprudent investment. We are, however doubtful of
12 MEHC's claim, made in Abel's direct testimony, that investing early will save money:

> 13 Emissions reductions at these plants will be required under existing and
> 14 emerging air quality requirements to ensure compliance with
> 15 environmental requirements to improve visibility at our national parks and
> 16 scenic areas. Committing now to projects that are likely to be required
> 17 benefits customers by allowing this equipment to be installed in an orderly
> 18 manner across PacifiCorp's large system. This ensures that projects are
> 19 installed in the most efficient manner, provides greater opportunities to
> 20 negotiate better contract terms and conditions that reduce cost and contract
> 21 risk, and allows the projects to be implemented during planned outages in
> 22 order to reduce replacement power costs.[20]

23 MEHC offers no analysis to back up this claim that implementing emission
24 reductions before they are required will reduce costs. While taking advantage of planned
25 outages can reduce costs, history suggests that the cost of technology declines as it is

---

[18] UM 1209 CUB/200/Dittmer/3&11.
[19] UM 1209 Staff Opening Comments, page 3.
[20] UM 1209 PPL/100/Abel/20.

introduced into the marketplace, and that it can be cheaper to wait for a technology to develop in the market. For example, an EPA news release in 2004 states that:

> A national emissions cap, combined with SO_2 allowance trading, has been effective both in terms of cost reduction and human health and environmental benefits since it began in 1995. Current estimates indicate compliance costs about 75 percent below those originally predicted by EPA. [21]

Of course there are environmental benefits to emissions reductions. Mercury reductions, in particular, will benefit families who live near PacifiCorp's coal plants. While we are skeptical of MEHC's claimed financial benefits of these emissions reductions, we do believe the environmental benefits are real. Our interest here is not to devalue environmental investments generally, or as they might be raised in a rate case, but to view the proposed commitments in light of the net benefits standard of ORS 757.511.

C. Rate Effect Of Proposed Infrastructure Investment

The above discussion of benefits reflects concerns that the financial benefits of the proposed incremental investment are less than the incremental costs that will put upward pressure on rates. CUB Exhibit 102 shows the revenue requirement impact, including return on rate base, depreciation expenses, and O&M expense, of the incremental investment that MEHC proposes above that proposed by PacifiCorp.

[21] UM 1209 CUB Exhibit 109. EPA news release.

Year	Incremental Increase In Revenue Requirement	Estimated Increase in Oregon Revenue Requirement*
2006	44,000	11,880
2007	500,000	135,000
2008	6,215,000	1,678,050
2009	36,059,000	9,735,930
2010	74,856,000	20,211,120
2011	78,847,000	21,288,690
2012	101,922,000	27,518,940
2013	98,240,000	26,524,800
2014	93,368,000	25,209,360
2015	89,141,000	24,068,070

*Calculated as Oregon being 27% of the system.

1 This chart shows that MEHC will increase PacifiCorp's revenue requirement by
2 up to $102 million per year when compared to ScottishPower's ownership. Oregon's
3 share of the Company's system load is currently about 28%, and is expected to decline a
4 little during this period. These numbers reflect a revenue requirement for Oregon that
5 will increase by about $27.5 million, which is 3.4% higher than current rates. This new
6 incremental investment is not happening in a vacuum. PacifiCorp is already committed
7 to significant new investment which it claims will increase rates by 4% per year during
8 this same period.[22]
9 CUB is disappointed that MEHC has not addressed the issue of rates. The issue
10 of how its proposed increased investment would affect customer rates was not addressed
11 in either its Opening or Supplemental Testimony. CUB Exhibit 110 contains MEHC's
12 answers to data requests we asked about the rate impacts of MEHC's proposed
13 ownership. In these answers, MEHC states that:

[22] UM 1209 PPL/200/Johansen/7.

> MEHC has not performed any analyses that show the expected changes to customer rates from that forecasted in PacifiCorp's business plan as a result of implementation of the commitments MEHC is making.[23]

We don't get it. How can MEHC claim that its ownership will provide a net benefit to customers when it has yet to analyze the effect of its plans on customers' rates? Rates are a fundamental part of utility service, and the rate impact of a potential owner's plans cannot be ignored when evaluating the proposed acquisition.

We do not argue here, nor have we in other cases, that rate increases inherently harm customers. On the other hand, investment for investment's sake, with no regard to the rate impact, cannot be assumed to benefit customers, and investment for the sake of shareholders is clearly a harm to customers. MEHC seems to believe that discussions about rate impacts should wait until a rate case. We disagree. Yes, the issue of whether these proposed investments were prudent will be addressed during a future rate case when the costs of these investments and the rate impacts are known. Under the current circumstances, however, we cannot wait until a future rate case to consider the impact these investments will have on rates; these investments are being offered as the primary benefit of MEHC's proposed ownership of PacifiCorp and we need to evaluate the benefit of this proposed ownership now.

We would also add that even prudent investments should be timed carefully. New investment will often cause rates to go up, even when that investment is prudent and cost effective. At the same time, customers, utilities, and regulators have to be concerned about the rate impacts of investments, even investments that are prudent. We argued in UE 115 that some investments, even if they were found to be prudent, were discretionary and, due to rate impacts, should have been delayed. A prudence review can tell us

[23] UM 1209 CUB Exhibit 110. MEHC's response to CUB data requests 7 and 34.

whether an investment should have been made. Evaluation of the rate impacts can inform us as to *when* an investment should be made.

Some of the cost of MEHC's proposed incremental investment may be offset by savings, but the only savings that are incorporated into proposed commitments are the savings in corporate allocation and cost of debt. CUB Exhibit 102 shows that these cost savings peak at $8.3 million in 2010, well below the $74.9 million cost increase projected for that year. In addition, as we have stated above, the parties to this case have not been convinced that these two benefits will be realized. Other savings, such as the value of emissions trading, were overstated in MEHC's benefit calculation.

The rate impacts of MEHC's proposal must be addressed if we are to properly evaluate the Application before us. It is difficult to see how a benefit can be found without addressing the rate impact, and finding ways to reduce that impact through cost control or rate credits.

D. Is MEHC's Eagerness To Invest In Infrastructure A Benefit?

As noted earlier, the crux of MEHC's "net benefit" case is its willingness to invest capital in PacifiCorp's system. We are certainly encouraged that a potential owner of PacifiCorp is willing to invest in the system, but is this willingness a benefit? It depends. It depends on whether one assumes that the current owner of PacifiCorp will continue to obey the law, follow Commission orders, and operate the utility in a way that avoids substantial earnings penalties. It depends on whether the investment is used to minimize long-term rates and maximize reliability, or whether it is used to maximize shareholder earnings.

i. We Assume Appropriate Investment

In testimony from Greg Abel of MEHC and Judy Johansen, there is a sense that ScottishPower may no longer be willing to make the annual $1 billion investments that PacifiCorp's business plan assumes. Abel states that, "ScottishPower has indicated that this business profile does not match well with its investors' expectations for regular dividends and returns on investment."[24] Ms. Johansen states that "[a]lthough ScottishPower has the capacity to fund PacifiCorp's investment requirement going forward," ScottishPower perceives PacifiCorp as a high risk investment because of the energy crisis experience, and ScottishPower could use the investment capital in other higher return opportunities.[25]

What are we to make of this? PacifiCorp must engage in the Integrated Resource Planning process when identifying prudent resource investments. To date, we have not seen a reluctance on PacifiCorp's part to identify or recommend investments. If anything, in the latest IRP process, LC 39, other parties suggested that PacifiCorp's proposed capital investment in a new coal facility be postponed using other less capital-intensive means. PacifiCorp has not accomplished as much of the IRP's 1400 MW of wind as we would have hoped for, but Oregon's electric utilities have always moved rather slowly with regard to renewables, and the uncertain state of the Production Tax Credit certainly interferes with planning wind investments. We know of no real evidence that ScottishPower has instructed PacifiCorp to renege on commitments found in past or

[24] UM 1209 PPL/100/Abel/11.
[25] UM 1209 PPL/200/Johansen/8.

1 current IRPs. MEHC too, does not assume that ScottishPower will renege on any current
2 commitments.[26]

3 MEHC may not be certain about ScottishPower's future investments, but we have
4 no hard evidence that ScottishPower will cause PacifiCorp to under-invest. Given that
5 such a choice to under-invest could implicate regulatory rulings that might lower
6 PacifiCorp's earnings compared to what it would earn had it invested prudently, we
7 would need a tangible reason in order to presume that ScottishPower would under-invest
8 in PacifiCorp. Yet, MEHC contrasts its attitude regarding a willingness to invest versus
9 the current ScottishPower attitude.

10 The transaction will enable PacifiCorp to become part of a large,
11 financially strong corporate group and will permit it to obtain needed
12 capital on favorable terms.

13 This is a very reassuring statement which certainly indicates that the owner will
14 be investing in PacifiCorp for years to come. But wait, the above statement is not from
15 MEHC's Application; rather it is from ScottishPower's Application in 1998.[27] So, was
16 ScottishPower telling us the truth then? Is MEHC telling us the truth now? There is no
17 factual evidence that can prove one way or another whether MEHC's commitment in
18 2005 is as valuable (or valueless) as ScottishPower's commitment was in 1998. The
19 Commission must use its best judgment to value MEHC's commitment to invest in
20 PacifiCorp.

---

[26] UM 1209 CUB Exhibit 111. MEHC response to CUB data request 8.
[27] UM 918 Scottish Power plc, Application, page 15.

ii. Investment Is A Good Thing … Unless It's A Bad Thing

Investment is a good thing if it is designed to reduce rates over the long-term and increase reliability. As we have seen, however, MEHC sees capital investment in a different light. MEHC's strategy is to:

CONFIDENTIAL

[28]

END CONFIDENTIAL

This strategy is very clear in MEHC's Application, and absent any cost-cutting analysis, it seems to be the sole justification of the premium paid over book value.

As we know, regulated utilities are not charities. Utilities invest in infrastructure to earn a return on the invested capital for the utility's shareholders. Not making the proper investments threatens the reliability and efficient operation of the system, and thereby threatens the utility's relationship with its regulators and customers, which in turn may lead to financial penalties.

MEHC will not invest capital unless it produces rewards for the shareholder. We discuss below what we think MEHC's expectations for its return may be based on MidAmerican Energy's experience in Iowa. We also discuss whether or not Oregon will meet those expectations. However, there is no doubt that MEHC's willingness to invest is a function of the return it receives, which may well not be the return it expects.

HF 577 was a bill in Iowa to allow pre-approval of utility investments. In a letter to the leaders of the Iowa Senate and House of Representatives, Greg Abel of MEHC, supports HF 577 by saying:

[28] UM 1209 CUB Exhibit 105, Rating Agency Presentation, January 30, 2004, page 5. CONFIDENTIAL.

> MidAmerican Energy will immediately apply the elements of the bill to construct 1,400 MW of new, rate-based electric generation in Iowa. Construction of this generation *would be subject to receiving acceptable regulatory treatment*, which includes a return on investment similar to that which the Company is allowed today.[29]

There is nothing earth-shattering about this missive, except that it reminds us that investment doesn't come free, and that MEHC's enthusiasm for investment is particularly sensitive to the rate of return it receives.

Given the above, though we certainly do not oppose investment in the system, we are doubtful of the benefit of MEHC's investment offerings. We have received the investment promise before from the very party who is now portrayed as investment shy, we assume PacifiCorp's owner – whoever that may be – will make the necessary and prudent investments in PacifiCorp, we are well aware that sometimes investment can be better for shareholders than for customers, and we are also aware that a utility's interest in investment rides heavily on rate treatment. Therefore, MEHC's promised willingness to invest in the system is not worth much.

E. MEHC's Expected Return & The Iowa AFOR

CUB is concerned that MEHC's experience in Iowa may lead it to have expectations that are unlikely to be met with PacifiCorp in Oregon.

i. Oregon's Experience With New Parent Company Expectations

While there may be a tendency to dismiss this concern because MEHC will have to live with the results of our regulatory approach, regardless of its expectations, we believe it is an important concern. We need to recognize that when a utility is purchased by an investor, and the utility investment fails to meet expectations, there are

[29] UM 1209 CUB Exhibit 112. Excerpt of MEHC response to CUB data request 14. Emphasis added.

1 repercussions. Our experience leads us to believe that ScottishPower did not fully
2 understand how regulation worked in Oregon when it purchased PacifiCorp, and that this
3 led to PacifiCorp not meeting ScottishPower's expectations. Now ScottishPower is
4 trying to sell PacifiCorp.

5 We had a similar experience with Enron. When Enron purchased PGE, it was the
6 nation's leading advocate of electric deregulation. The first action Enron took after
7 completing the purchase of PGE was to propose a radical form of deregulation in Oregon,
8 Docket UE 102. Enron's plan was rejected by the Commission, and the legislature then
9 ratified SB 1149 which guarantees rate regulation for most utility customers. Enron
10 quickly lost interest, and PGE was put up for sale where it has been for several years.

11 **ii. The Iowa AFOR**

12 In Iowa, MidAmerican Energy's rate of return in recent years has far exceeded the
13 authorized rate of return in Oregon, and the alternative form of regulation (AFOR)
14 adopted in Iowa ensures that MidAmerican Energy's return on equity will likely remain
15 far higher than what would typically be approved in Oregon.[30] The Iowa AFOR requires
16 a good faith attempt at adjustment within 30 days if the annual ROE falls below 10%, or
17 allows the utility to file for a general rate case. On the other end of the scale, if the
18 earnings are above 11.75%, a share of the over-earnings is used to reduce the rate base of
19 the utility, but there is no cap above which a general rate case would be triggered to
20 reduce rates. In addition, the utility somehow negotiated an agreement that established
21 the ratemaking principles for its $335 investment in new wind generation and associated
22 transmission in advance. Under that agreement, the utility is guaranteed recovery

[30] UM 1209 CUB Exhibit 113. MEHC response to Staff data request 2.

1 "without the need to establish prudence or reasonableness," with a return on equity of
2 12.2%![31]
3 CUB Exhibit 115 is the answer to our data request concerning the Iowa AFOR.
4 MEHC describes the AFOR as sharing with customers earnings above an ROE deadband:

5 In its retail electric business in Iowa, MEC has been subject to a revenue
6 freeze within a return on equity (ROE) dead band since 1997. MEC may
7 file for increased rates only if its ROE falls below the bottom of the dead
8 band. Earnings above the upper end of the dead band are shared with
9 customers…[32]

10 CONFIDENTIAL

11

12

13

14

15

16 [33]

17 END CONFIDENTIAL

18 Regulatory principles are based on a belief that there is a relationship between a
19 utility's return on equity and the level of risk a utility accepts. In Iowa, MEHC has
20 turned this principle on its head by gaining a return on equity which is greater than
21 normal on a new investment that is pre-approved with guaranteed recovery and no
22 prudence review. By Oregon standards, this is an absurdity.
23 In addition, MEHC has threatened to withhold investment in Iowa, unless it is
24 granted an acceptable return on equity – or what it considers to be acceptable – in

---

[31] UM 1209 CUB Exhibit 114. MEHC response to CUB data request 33. Excerpt: Stipulation and Agreement for Ratemaking Principles for Wind Energy Investment, pages 1-5.
[32] UM 1209 CUB Exhibit 115. Response to CUB data request 33.
[33] UM 1209 CUB Exhibit 116, Rating Agency Presentation, January 30, 2004, page 16. CONFIDENTIAL.

advance.[34] Currently, ScottishPower is managing PacifiCorp in a prudent manner, and making infrastructure investments where necessary under the regulatory systems of the PacifiCorp states. MEHC has stated that it also intends to make the necessary investments; in fact, they state they will make even more investments. MEHC has not conditioned these investments on a pre-approved, guaranteed return on equity. Not yet, anyway. Oregon should be clear that utilities are expected to make the prudent investment necessary to provide utility service. Oregon utilities are granted the opportunity to receive a return on equity that the Commission believes is reasonable, but utilities are not allowed to withhold prudent investments in order to pressure the Commission to grant the utility a return on equity that is greater than reasonable.

F. Global Climate Leadership

As we have said before, we believe that global climate change may well become the dominant policy and cost driver in the energy industry in the near future. MEHC's position as put forth in its very short testimony on global warming is a simple recognition that PacifiCorp has recognized a particular value in its planning process.[35]

MEHC is well aware that both its current utility asset (MEC) and its would-be utility asset (PacifiCorp) have generation portfolios dominated by coal resources. PacifiCorp's customers are concerned about the utility's coal assets and the link to global warming. In our opening comments in PacifiCorp's most recent least-cost planning docket, LC 39, we state:

> A coal-heavy utility like PacifiCorp may reasonably be targeted by governmental and societal responses to atmospheric carbon loading. Such a situation would prove exceedingly costly to both PacifiCorp

[34] UM 1209 CUB Exhibit 112, pages 16-17.
[35] UM 1209 PPL/100/Abel/19.

> shareholders and customers. Failing to look ahead and plan for such an eventuality is imprudent in the extreme. While we would like to see PacifiCorp avoid carbon-intensive coal generation for the sake of the planet, we also want to avoid exacerbating PacifiCorp's already significant carbon exposure for the sake of our pocketbooks.[36]

MEHC's effective silence on the connection between global warming and PacifiCorp's future is disturbing. It is decidedly not a benefit – either to PacifiCorp customers or to the general public interest – to have an owner of a coal-heavy utility that will not take an active leadership role in addressing global warming issues.

In response to CUB data request 12, MEHC provided several letters its staff had written to Congress in order to impart its position on climate change and the McCain-Lieberman bill. In a letter from MEHC's vice president of legislative and regulatory affairs, Jonathan Weisgall, MEHC makes its position quite clear: not only will MEHC not be a leader in providing solutions to the global warming challenge, MEHC's requirements for complete global agreement on a global warming response would virtually guarantee a complete policy failure.

> In the near-term, MidAmerican has agreed to participate with many others in the energy industry in the President's voluntary emission reduction program. … We believe a more appropriate climate policy would be based on the following principles: Focus in the near term on gaining a more thorough understanding of the potential challenges that climate change may create; … Work with other nations to develop a truly global climate policy that will require all countries to participate on a proportional basis.[37]

MEHC provided an Environmental Policy Statement from November 2004 that clearly establishes MEHC as an obstacle to practical and pragmatic solutions to the challenge of global warming.[38] That Environmental Policy Statement says that MEHC

[36] LC 39. CUB Opening Comments, page 3. May 23, 2005.
[37] UM 1209 CUB Exhibit 117. Letter from Jonathan M. Weisgall to Senator Tom Harkin's counsel. October 27, 2003.
[38] UM 1209 CUB Exhibit 118. MEHC Environmental Policy Statement.

has "serious reservations" about the Kyoto agreements. We could be convinced that MEHC is worried about the efficacy of the Kyoto Accord if MEHC had not then created practical obstacles to *any* international agreement. MEHC says that the principles of an international climate change framework should include "participation of all countries based on objective metrics" and "development of mechanisms … that will not artificially constrain economic growth."[39] This combined requirement of practical impossibilities and subjective economic tests will guarantee that an international framework will fail, and without such a framework MEHC will continue with business as usual.

Leadership means removing barriers and taking actions that set an example for others who are reluctant to move forward. Leadership is not creating barriers to make it hard for anybody to move forward.

MEHC's singular lack of leadership and direction on climate change takes PacifiCorp a step backward in comparison to its current owner. The home country of ScottishPower is subject to the Kyoto Accord, and ScottishPower has prided itself on a mature consideration of global warming. On this very significant issue, one that we truly think will dominate electric industry policy from now on, MEHC's ownership of PacifiCorp is both a step backwards and a considerable harm.

III. Financial Stability

Please see CUB Exhibit 200, the testimony of Jim Dittmer on behalf of CUB.

[39] UM 1209 CUB Exhibit 118. MEHC Environmental Policy Statement.

IV. Customer Service

CUB has yet to meet a utility that did not claim to be focused on customer service. While we raised concerns that Texas Pacific's business plan could lead to a degradation of service quality from lack of investment and aggressive cost cutting, this does not suggest that a utility owner who pledges to meet the responsibility that we expect can count customer service as a net benefit. A prudent utility is expected to meet the basic expectation of customers for good service quality.

MEHC's witness Brent Gale begins his section on customer service by stating:

> Based on MEC's experience, the transaction will not diminish PacifiCorp's performance in this area.[40]

Diminishing performance in service quality would clearly be considered a harm, but not diminishing it cannot be considered a benefit. We can also expect that it will not diminish under ScottishPower's continued ownership.

A. Service Quality Measures

MEHC has offered to extend existing service quality measures that currently apply to PacifiCorp for an additional 2 years. This stands in contrast to PGE's current stock distribution docket, UM 1206, where the "but for" circumstance carries far more risk than this proposed acquisition. In UM 1206, PGE agreed to extend its service quality measures for an additional 10 years.[41]

PacifiCorp is expected to meet these service quality standards through 2009, and is expected to continue operating prudently after that time. Additionally, it is unlikely that service quality performance would degrade significantly in a two-year period, even if

---

[40] UM 1209 PPL/300/Gale/10.
[41] UM 1206-UF 4218 Joint Testimony in Support of the Stipulation. Joint/100/7.

the service quality measures were not extended, given the expectations of a prudently operated utility.

B. Assistance to Low-Income Customers

There is little doubt that PacifiCorp's current business plan, which projects 4% increases each year, will place an additional burden on Oregon's low-income families. MEHC's proposed additional investment aggravates this problem. At this point we are not sure that the Applicant appreciates the magnitude of this issue and the importance of addressing it.

PacifiCorp and MEHC argue that the utility is in an investment cycle, and that the proposed infrastructure investments are cost-effective and prudent. However, these investments push rates higher in the short-term. CUB is concerned that this will create more problems for low-income customers, and lead to additional shut-offs which, besides being dangerous and painful for the customer, can add cost to the entire system. Such a result would not constitute a benefit for Oregon customers. Instead, we believe the Applicant should work with low-income advocates to develop mechanisms that will alleviate the burden that its business plan will place on low-income customers.

C. Public Purpose Funding and SB 1149

In our Opening Comments and in this Testimony, we raise concerns about how the consolidation of the electric industry with the repeal of PUHCA will affect state energy policy. Public purpose funding, the Energy Trust of Oregon, and Senate Bill 1149 are symbolic of that concern.

Oregon's energy policy is different than that of Iowa, Illinois, or most other states. We allow direct access for large industrial customers. We have a portfolio of energy

1 choices for residential and small business customers. We fund energy efficiency and
2 renewable energy development through the Energy Trust of Oregon, an independent non-
3 profit organization. Oregon's system was developed as an alternative to the deregulation
4 proposal of Enron, and the deregulation experience of California, Pennsylvania, and other
5 states. CUB strongly believes that the last few years have proven that the Oregon model
6 for energy policy is a superior model to anything else we have seen. We are proud of our
7 role in developing it.
8 Oregon's model works. It has made PGE and PacifiCorp national leaders in retail
9 green power sales. The Energy Trust has proven to be a more effective vehicle for
10 energy efficiency investment than the utility programs of the 1990s. SB 1149 has
11 allowed Oregon to pursue renewable development through traditional integrated resource
12 planning, through voluntary retail programs that the utilities must offer, and through
13 Energy Trust programs.
14 This is a different model than MEHC has experienced. In Iowa, MEHC invests in
15 energy efficiency, but does it through MidAmerican Energy, its utility, not through an
16 independent non-profit. MEHC's support for the Oregon energy model is a fundamental
17 issue. Energy policy is a state responsibility, and Oregonians stand to lose a great deal if
18 the consolidation of the electric industry leads to a one-size-fits-all, lowest-common-
19 denominator energy policy. While MEHC has offered commitments on energy
20 efficiency, those commitments are unrelated to Oregon's model for energy efficiency
21 development.
22 MEHC proposes to fund a study of market potential for energy efficiency and
23 MEHC commits to meeting its portion of the Northwest Power and Conservation

Council's energy efficiency targets for Washington, Oregon, and Idaho.[42] It is not clear that these commitments add any additional benefit to Oregon customers, because of the work of the Energy Trust in identifying and acquiring energy efficiency. More importantly, these commitments could lead MEHC to desire to standardize the delivery of energy efficiency programs across PacifiCorp's service territory. CUB believes that removing energy efficiency programs from the Energy Trust, where those programs are consolidated with PGE and NW Natural, and are effectively delivered, would be of considerable harm to Oregon customers. There has not been, but there must be, a promise from MEHC (not just PacifiCorp) to support and enhance Oregon's existing state energy policies.

V. Holding Company

PUHCA was not drafted accidentally. The collapse of holding companies in the 1930s taught the country a number of lessons, and the Public Utility Holding Company Act was designed to prevent not only the corporate abuse of utilities that led to the collapse, but also to prevent the structures and practices that permitted those abuses in the first place.

A. The Repeal Of PUHCA

In her comments on behalf of CUB, Lynn Hargis details a number of the protections that were lost with the repeal of PUHCA. These are not abstract protections. Indeed, when looked at in the context of a structure such as the Berkshire Behemoth, those lost protections were valuable indeed, and must be effectively replaced at the state level in order to ensure that MEHC's proposed acquisition of PacifiCorp is in the public

[42] UM 1209 PPL/309/Gale/9.

1 interest. After all, it was state and local regulation that PUHCA opponents argued made
2 PUHCA obsolete.[43]

3 In her comments, Hargis discusses the reintroduced risks to utilities from mergers
4 and acquisitions. Of the numerous lost protections, many relate directly to the size and
5 spread of holding companies. Not unrelated to the extensive tendrils that holding
6 companies can have, many other lost PUHCA protections relate to the inherent conflicts
7 of interest that arise as more and more unregulated companies share the corporate fold
8 with a regulated utility.

9 i. Conflicts Of Interest

10 The following are four utility protections that were lost with PUHCA repeal, and
11 are detailed in the comments of Hargis:

12 • LOST: Prohibition of non-utilities owning utilities
13 • LOST: Prohibition of utilities diversifying into non-utility businesses
14 • LOST: Limits on financial transactions with a utility
15 • LOST: Limits on affiliate transactions

16 *a. Risks*

17 These four lost protections in particular addressed the problems that arise when a
18 regulated utility is part of the same corporate structure as non-regulated businesses. It is
19 important to note that, under these circumstances, there **WILL** be conflicts of interest.
20 Whether or not those conflicts are allowed to affect utility operations or Oregon
21 ratepayers remains to be seen, but that those conflicts exist is simply a fact of life if
22 PacifiCorp is to join the Berkshire Behemoth. When a corporate parent controls both a
23 regulated electric utility as well as a natural gas supplier and/or an independent

[43] UM 1209 CUB Exhibit 119. David L. Sokol. Discarding PUHCA. March/April 2002.

1 generator,[44] there cannot but be a situation where one subsidiary could benefit from the
2 utility. The conflicts of interest cannot be avoided, so it is important to be sure that the
3 conflicts remain in the "interest" arena, and do not proceed into the action arena.
4 *b. Possible Remedies*
5 Certainly a comprehensive master services agreement will be needed as a first line
6 of defense to protect PacifiCorp from subsidizing other Berkshire subsidiaries. Also, a
7 regularly updated list of all PacifiCorp affiliates should be clearly present at PacifiCorp
8 for those employees who deal with outside companies, such that an affiliate interaction
9 does not go unnoticed. Conversely, all Berkshire subsidiaries need to be well acquainted
10 with and educated about PacifiCorp's status as a regulated affiliate, such that they do not
11 unwittingly fail to keep track of interactions with PacifiCorp.
12 Though the above tasks require time and diligence, they are, in the sense of these
13 tasks being relatively concrete, easily accomplished. More difficult to achieve, however,
14 is protecting customers from being used in affiliate planning and strategy. MEHC has
15 already run into trouble with accusations of using its market power inappropriately,[45] and
16 as its market power grows – which would be difficult to avoid given Berkshire's desire to
17 expand its energy holdings – protections such as master services agreements will not be
18 adequate. Berkshire and MEHC's market power could give them the opportunity to
19 manipulate what the lower of cost or market appears to be, and it may be necessary to
20 look at other regions of the country where Berkshire does not have market power to
21 assess what the appropriate charge for services provided to or services provided by
22 PacifiCorp should be.

---

[44] UM 1209 PPL/402/Goodman/1.
[45] UM 1209 CUB Exhibit 120. Excerpt: FERC Order in Docket No. PA04-18-000. MidAmerican Energy Company, Order Approving Audit Report and Directing Compliance Actions, page 1. September 29, 2005.

ii. The Reality Of Regulating The Berkshire Behemoth

The following lost protections are also detailed in the comments of Hargis. It is an extensive list, and with good reason. The collapse of holding companies in the 1930s demonstrated that, as corporate structures became more complex and convoluted, the opportunities for misdealing and accounting stunts increased precipitately.

- LOST: Prohibition on most foreign companies/countries owning US utilities
- LOST: Limit on number of utility systems in a single holding company
- LOST: Limit on geographic spread of utilities
- LOST: The watchdog provisions
- LOST: Limit on utility size
- LOST: Limits on corporate complexity
- LOST: Bankruptcy protection
- LOST: Authority to require maintenance of books and records

a. Roosevelt's Experience Has Considerable Bearing Today

In her comments on behalf of CUB, Lynn Hargis of Public Citizen states:

> The enactors of PUHCA assumed that state regulators under state law could effectively regulate a holding company incorporated in the same state as the operating utility, whereas states could not effectively regulate multi-state holding companies.[46]

Though PUHCA has been repealed, there is little reason to believe that the concerns of the enactors of PUHCA have dissipated. What has changed since PUHCA's enactment that gives the states the tools they need to effectively regulate multi-state holding companies? Those who fought to repeal PUHCA argued that state regulation has matured and is more robust than it was in the 1930s. While this may be true, the problem with this argument is that state regulation has not developed to deal with multi-state holding companies, because, for the past 70 years, it hasn't had to.

[46] UM 1209 Comments of Lynn Hargis on Behalf of the Citizens' Utility Board, page 7.

1 Indeed, despite Roosevelt's strong Public Service Commission when governor of
2 New York State, combined with a newly created State Power Authority for planning New
3 York's hydroelectric projects, he was unable to influence his state's electricity rates
4 because of the massive holding companies holding the state's utilities.[47] While regulation
5 may have developed since Roosevelt's tenure as governor of New York, his best efforts
6 at the time proved to be insufficient, and stand as testimony to both the importance, and
7 the difficulty in establishing protections for PacifiCorp if it is to join Buffett's energy
8 empire. State regulatory bodies may have developed since the early 1900s, but so have
9 the complexities of corporate structures and accounting.

10 *b. Res Ipsa Loquitor*[48]

11 Leaving the repeal of PUHCA aside for a moment, if one has any questions about
12 Berkshire and MEHC's willingness to use their political muscle to further their business
13 interests, one need look no further than MidAmerican Energy's AFOR in Iowa, described
14 earlier. It is a remarkable display of regulatory generosity.

15 *c. Possible Remedies*

16 The size of holding companies made it impossible for Roosevelt to properly
17 regulate them when he was governor of New York . Here too the vast expanse of the
18 Berkshire Behemoth is far greater than what Staff or intervenors can adequately penetrate
19 or understand, and so it may be necessary to look elsewhere to garner information on how
20 a less-enveloped utility may behave.

21 Though Portland General Electric does not pertain directly to this transaction, we
22 have found that having two regulated, investor-owned electric utilities in Oregon has

---

[47] UM 1209 Comments of Lynn Hargis on Behalf of the Citizens' Utility Board, pages 3-4.
[48] "The thing speaks for itself."

1 provided a balance and comparator which has given the Commission and the parties a
2 more clear sense of operating conditions in Oregon. It may be necessary, from the very
3 beginning, to prohibit Berkshire from acquiring any further territory in the state of
4 Oregon such that we preserve our diversity of utilities, and do not find ourselves trying to
5 assess a single Oregon regulated utility's operations in a vacuum.

6 **iii. Local Control**

7 The repeal of the Public Utility Holding Company Act ("PUHCA" or "the Act")
8 was a goal near and dear to Warren Buffett and Berkshire, and they lobbied hard, and
9 unfortunately successfully, to bring the Act to its knees.[49] PUHCA, designed to keep
10 utilities from being swallowed by massive and complex holding company structures, was
11 the primary hurdle between Buffett and Berkshire's desire to invest billions of dollars in
12 the energy industry. MEHC's proposed acquisition of PacifiCorp will be the first major
13 utility acquisition post-PUHCA, and it is a prime example of why Buffett and Berkshire
14 wanted the Act repealed.

15 *a. Utah – Part I*

16 What does "local control" mean for a utility that serves 6 states? The merger of
17 Pacific Power & Light with Utah Power has threatened Oregon's access to Northwest
18 hydro resources, cost Oregon's Commission and intervening parties an incredible amount
19 in time and resources that would not have otherwise been needed, and continues to
20 pressure PacifiCorp to pursue resources such as coal which are unlikely to be in Oregon
21 customers' long-term interest, but which would provide economic development for

[49] UM 1209 Comments of Lynn Hargis on behalf of the Citizens' Utility Board, page 37.

PacifiCorp's east-side states. We are already struggling to maintain local control of our utility and MEHC has promised that this issue will not go away.

Though MEHC has committed to keeping PacifiCorp's headquarters in Portland,[50] it has also committed to moving executive positions to Utah and an unnamed number of support staff,[51] despite PacifiCorp's current, substantial presence there.[52]

b. Des Moines

What does this mean in the context of MEHC's Application? It means that the threat to Oregon ratepayers of losing their voice in PacifiCorp's operations is greater than ever. Salt Lake City is closer geographically closer to Des Moines and may be culturally closer as well. PacifiCorp is a coal-heavy utility, as is MidAmerican Energy. Wyoming and Utah stand to gain a great deal in cementing PacifiCorp's comfort and familiarity with coal by joining MidAmerican Energy's coal-heavy experience. As mentioned earlier, MEHC's enthusiasm for capital investment does nothing to allay our fears that MEHC's proposed acquisition of PacifiCorp may drag Oregon ratepayers into the responsibility of paying for a coal plant with a 50-year life.

c. Washington D.C., The United Kingdom, and Beyond

It should also be noted that MEHC's operations are not limited to this country; it has operations in the United Kingdom, the Netherlands, and the Philippines as well.[53] Berkshire too has companies that operate internationally.[54] It is impossible to foresee what role these influences may play in the future of PacifiCorp, but, if this Application is approved, it should not be forgotten that PacifiCorp's corporate parent will be playing his

---

[50] UM 1209 PPL/309/Gale/11.
[51] UM 1209 PPL/101/Abel/5.
[52] UM 1209 CUB Exhibit 121. MEHC & PacifiCorp responses to Staff data request 118.
[53] UM 1209 PPL/402/Goodman/1.
[54] UM 1209 CUB Exhibit 122. MEHC response to CUB data request 42.

1 chess pieces all over the globe. A central tenet of PUHCA that was lost with the Act's
2 repeal, was that a public utility – which provides an essential service to people, society,
3 and the economy – better serves its customers when the utility's interests are focused
4 solely on the community it serves. In a report to President Roosevelt, William Douglas,
5 the 3rd Chairman of the SEC wrote:

> 6 When fully executed it [PUHCA] will provide a large degree of
> 7 decentralization in the utility industry and cause a return of that industry
> 8 from Wall Street to Main Street. [55]

9 *d. Utah – Part II*

10 From ScottishPower's commitments at the time of its acquisition of PacifiCorp:

> 11 ScottishPower intends to maintain PacifiCorp's corporate offices in
> 12 Portland, OR, as well as establish its U.S. headquarters there.[56]

13 Quite frankly, we still don't understand what MEHC intends to do with
14 PacifiCorp's headquarters or the heart of PacifiCorp's decision-making personnel. There
15 is little doubt that they have made some sort of commitment to Utah to move at least
16 some senior personnel from Portland to Salt Lake City. In his testimony, Greg Abel
17 states:

> 18 PacifiCorp and MEHC commit to increasing the number of corporate and
> 19 senior management positions in Utah to better reflect the relative size of
> 20 Utah's retail load compared to the retail loads of the other states.[57]

21 Though MEHC has committed to keeping PacifiCorp's corporate headquarters in
22 Oregon,[58] any reduction in Oregon's influence in PacifiCorp's operations is a clear and
23 serious harm to its Oregon customers. It is difficult to imagine how MEHC would move

[55] William O. Douglas, 3rd Chairman of the SEC, Report to President Roosevelt . Also cited in UM 1209 Comments of Lynn Hargis on Behalf of the Citizens' Utility Board, page 7.
[56] OPUC Order No. 99-00616. Appendix-Stipulation 5, page 15.
[57] UM 1209 PPL/101/Abel/5.
[58] UM 1209 PPL/309/Gale/11.

executives from Portland to Utah without reducing Oregon's influence. MEHC has said that:

> MEHC believes the number of executive-level positions should be roughly equal between Utah and Oregon.[59]

ScottishPower learned the lesson (at least we think they learned it) that making inconsistent commitments to various states leads to problems, as both states will attempt to enforce those commitments. We are concerned that MEHC is making this same mistake.

What does MEHC mean when they say that the number of corporate and senior management positions will increase in Utah to reflect the relative size of Utah's retail load, and at the same time that the number of executive-level positions should be roughly equal between Utah and Oregon? Utah's retail load is greater than Oregon's. Currently, other than the CEO, Portland and Salt Lake City both have 7 executive-level positions.[60] Once you account for the corporate headquarters positions (CEO, CFO, CAO, and General Counsel) most of the Vice-President level executives are already in Utah. The commitment to move positions from Portland to Salt Lake City and the claim of keeping an equal balance between the two are in conflict with each other.

In addition, while MEHC has offered a commitment to retain the corporate headquarters in Oregon, we are not sure if they have the same definition of corporate headquarters that we do. The following is MEHC's explanation of a corporate headquarters:

---

[59] UM 1209 CUB Exhibit 121. MEHC & PacifiCorp responses to Staff data request 118.
[60] UM 1209 CUB Exhibit 121. MEHC & PacifiCorp responses to Staff data request 118.

> MEHC defines "corporate headquarters" to mean the location of a portion of senior management and corporate functions (e.g. accounting, human resources, legal, information technology, etc.).[61]

Missing from this definition is the location of the CEO and CFO. Under MEHC's definition, the CEO, the CFO and most of the vice-presidents could be in Utah, but PacifiCorp would still be "headquartered" in Oregon.

Oregon needs to be concerned about a shift of senior management to Utah. PacifiCorp is a combination of two systems (Pacific Power and Utah Power) in two separate geographical areas (the Pacific Coast and the Rocky Mountains). These two systems have serious differences when it comes to consideration of resource mix, the environmental effects of energy production, and the fairness of system-wide cost allocation versus cost causality. These differences are magnified because the territories themselves are significantly different: the east side is a fast growing, summer-peaking system with significant load variation due to weather, while the west side has more stable load growth, and comparatively stable weather variation.

e. Possible Remedies

We do not know what specific plan underlies MEHC's commitment to move executives to Utah or if it is consistent with the spirit of its commitment to maintain PacifiCorp's headquarters in Oregon. The Commission should seek strong commitments from MEHC that, not only will the so-called "headquarters" stay in Portland, but that the CEO, the CFO, the CAO, and the General Counsel will continue to be based in Oregon. It is also clear that "corporate headquarters" must be clearly-defined.

Furthermore, PacifiCorp may be multi-state, and MEHC and Berkshire Hathaway may be global, but utilities in Oregon must reflect and respect the citizens and policies of

[61] UM 1209 CUB Exhibit 123. MEHC response to CUB data request 58.

the state. MEHC must provide more clarity on how it intends to honor state and local policies and sensibilities.

VI. Many Of MEHC's Commitments Have No Value

As part of its filing, MEHC has incorporated 55 commitments that it claims form the basis of a net benefit that would result from this transaction.[62] Our review of these commitments indicates that some of the commitments have no value at all, a few create harms, some require further explanation in order to determine whether they have value, and some may create a value that is difficult to ascertain or quantify.

This section is not intended to be a thorough analysis of all the commitments. Other parts of this testimony have reviewed many of the commitments and assessed the net present value of those commitments. This section is to identify a discrete, yet large, group of commitments that either provide no benefit or even cause harm. We assume that a commitment contains no value if it restates existing state law, if it describes what a prudent utility would do in any case, if it contains a promise that the Commission could require under its general authority, or if it is superfluous or redundant given the current state of affairs in Oregon.

Our review has identified 21 commitments that contain no value and one that is a harm. We tried to be conservative, and chose not to include another 7 commitments in this group by giving them the benefit of the uncertainty. The identification of this group of 22 does not, by inference, imply that the remainder have value. As we stated above, this group is obviously valueless on its face, and other commitments may or may not contain value upon deeper exploration.

[62] UM 1209 PPL/309/Gale/1-11.

1 We use the commitments provided in PPL/309/Gale and attempt to group them
2 into categories of meaninglessness. Several commitments could be placed into more than
3 one category.

4 Compliance with state law 5, 7, 29
5 Commission's current authority...2, 4, 6, 8, 9, 18, 31, 32
6 Assumed to be prudent utility action 20, 37, 40, 42, 48
7 Superfluous or redundant to current state of affairs...........1, 10, 24, 33, 49

8 Commitment 17 is an absolute harm because it implies that there is a legitimate
9 argument that the acquisition premium could be recovered in rates.

10 # VII. Conclusion

11 MEHC's Opening Testimony claims that their application provides benefits to
12 Oregon customers through their commitments to reduce costs and deploy capital to invest
13 in PacifiCorp's infrastructure.[63] In our testimony, CUB has shown that the proposed
14 application does not provide a benefit to customers. There are significant doubts as to
15 whether the cost savings proposed are real and measurable. Even if they are, they do not
16 come close to offsetting the significant rate increases associated with the incremental
17 investment proposed by MEHC.

18 CUB has shown that increasing PacifiCorp's ratebase investment is a business
19 opportunity that MEHC sees in PacifiCorp, and it is through the double-leveraged
20 structure of MEHC that MEHC can recover the premium it may pay for PacifiCorp.

21 It would have been helpful if MEHC had considered PacifiCorp's rates and costs
22 when conducting its due diligence on PacifiCorp. It would have been helpful if MEHC

[63] UM 1209 PPL/100/Abel/3.

had addressed the affects of their business plan on rates and costs in their Opening or Supplemental Testimony. Unfortunately, they did not. Instead, MEHC has left it up to Staff and the intervenors to analyze the effect that MEHC's proposed ownership would have on PacifiCorp's rates. CUB has done so, and it is not a pretty picture. Customers are facing significant rate hikes as ScottishPower makes investments in PacifiCorp's infrastructure. MEHC will add hundreds of millions of additional dollars that would be an additional burden on ratepayers if this deal is accepted.

In addition, CUB's analysis raises concerns over the loss of utility protections that were in place under PUCHA, and the loss of an owner of PacifiCorp who understands the need to address global warming.

If the record of this proceeding were to close today, the Commission would have an easy time making a decision, because MEHC's ownership, as proposed in their commitments, would not benefit customers.

WITNESS QUALIFICATION STATEMENT

NAME:	Bob Jenks
EMPLOYER:	Citizens' Utility Board of Oregon
TITLE:	Executive Director
ADDRESS:	610 SW Broadway, Suite 308 Portland, OR 97205
EDUCATION:	Bachelor of Science, Economics Willamette University, Salem, OR
PREVIOUS EXPERIENCE:	Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 173, UG 152, UM 995, UM 1050, UM 1071, UM 1147, and UM 1121. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates. Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.
MEMBERSHIP:	National Association of State Utility Consumer Advocates Board of Directors, OSPIRG Citizen Lobby Telecommunications Policy Committee, Consumer Federation of America Electricity Policy Committee, Consumer Federation of America

UM-1209/PacifiCorp
October 25, 2005
CUB Data Request 91

CUB Data Request 91

Please provide all work papers and documentation detailing and analyzing the estimated $200 million in benefits stemming from MEHC's proposed $1.3 billion infrastructure investment referenced at Abel/3.

MEHC's Response to CUB Data Request 91

Attachment CUB 91 -1 on the enclosed CD shows the calculation of the estimated $200M of benefits. Supporting workpapers are found in Confidential Attachments CUB 91 -2 and 91 -5 on the enclosed Confidential CD and Attachments CUB 91 -3 and 91 -4 on the enclosed non-confidential CD.

Attachment CUB 91 -1

MEHC Original

Quantified Net Benefits as of 8/18/05

($000)

Benefits	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	NPV
Path C (net power cost reduction only)	$ -	$ -	$ -	$ -	$ -	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 7,500	$ 4,287
Reduced Cost of Debt	$ 400	$ 600	$ 859	$ 1,726	$ 2,376	$ 2,735	$ 3,797	$ 4,079	$ 4,843	$ 4,843	$ 26,257	$ 15,947
Corporate Overhead Reductions	$ -	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 54,000	$ 35,955
Emission Reductions from Coal-Fuel Generation (1)	$ -	$ 1,920	$ 23,528	$ 52,008	$ 85,864	$ 107,588	$ 129,875	$ 136,375	$ 140,806	$ 142,056	$ 820,020	$ 492,346
												$ 548,535

Revenue Requirements (2)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	NPV
Path C Upgrade	$ -	$ -	$ -	$ -	$ (10,743)	$ (10,359)	$ (9,995)	$ (9,649)	$ (9,321)	$ (9,010)	$ (59,077)	$ (35,312)
Emission Reductions from Coal-Fuel Generation	$ (44)	$ (500)	$ (6,215)	$ (36,059)	$ (64,113)	$ (68,488)	$ (91,928)	$ (88,591)	$ (84,046)	$ (80,131)	$ (520,116)	$ (313,220)
												$ (348,532)
											NPV of Net Benefits	$ 200,002
											Discount Rate:	7.31%

Non-Quantified Benefits

Path C Upgrade (3)	In addition to the net power cost reduction, this project enhances reliability and facilitates delivery of power from a wind project in Idaho. There is a possibility that this project could result in deferring construction of a resource within the 2004 IRP Preferred Portfolio. The Path C investment is being evaluated as part of the IRP update to be filed in October 2005.
Mona-Oquirrh (3)	Not currently quantified, however, the project enhances reliability, facilitates acceptance of renewable resources and enhances system optimization.
Walla Walla - Yakima Transmission (3)	Not currently quantified - benefits will be quantified in future RFP processes. The line will help the Pacific Northwest region integrate wind resources into the power system and implement resource planning recommendations made by the Northwest Power and Conservation Council.
Other Transmission & Distribution Matters	Not currently quantified, but will improve system reliability
Future Generation Options	Not currently quantified - benefits will be quantified in future RFP processes
Renewable Energy (3)	Not currently quantified - benefits will be quantified in future RFP processes
Coal Technology	Not separately quantified - benefits included in emissions reductions from coal-fueled generation
Greenhouse Gas Emission Reductions (SF6)	Not currently quantified, but clearly offers long-term societal benefits
Energy Efficiency and DSM Management	Not readily quantifiable, but the benefits should include reduced fuel use, with related environmental and economic benefits, as well as direct customer benefits that may accrue from eliminating or postponing procurement of additional transmission/distribution and generation facilities
Customer Service Extension	Not readily quantifiable, but clearly offers benefits
Community Involvement and Economic Development	Not readily quantifiable, but clearly offers benefits
Corporate Presence	Not readily quantifiable, but clearly offers benefits
Regional Transmission	Based on estimates using a representative year, if MEHC's leadership results in transmission construction, it could provide regional benefits between $60 million and $990 million annually

(1) These benefits and costs represent projects that are incremental to those previously committed to by PacifiCorp. The benefits resulting from reductions in emissions through the installation or upgrading of pollution control equipment have been calculated by assigning a market value per ton of emissions reduced. This value was derived from PacifiCorp's 2004 IRP. While there may not be a market for some of these emissions in the west at the current time, these emissions are traded in other parts of the country or are anticipated to be traded in the future. As such, the quantified benefits are an imperfect surrogate for the potential value and resulting benefit of the emission reductions if and when the markets for these emissions develop, and should not be considered as having been recognized for accounting purposes. Additional benefits are inherent in making emissions reductions. The benefits of cleaner air for customers and citizens are difficult to quantify and have not been fully included for purposes of calculating the benefits herein. Furthermore, the investment in emission controls allows the facilities to continue to supply cleaner, low cost electricity to PacifiCorp customers which, when combined with other sources of generation, such as wind and gas, provide a balanced generation portfolio and reduce adverse impacts to customers in the event that fuel, transportation, natural gas supply and other potentially uncontrollable forces increase the cost of a certain type of generation which, in turn, ensures a lower cost, stable source of energy for PacifiCorp's customers. These benefits, likewise, are difficult to quantify and have not been quantified for purposes of inclusion in the calculated benefits. Revenue requirements do not include the cost of purchased power for the reduction in output due to the addition of pollution control equipment

(2) Revenue requirements include return on rate base, depreciation expenses, and O&M expense where available

(3) Projects enhancing the viability of renewable generation clearly offer societal benefits in the form of portfolio diversification, reduced emissions and conservation of fossil fuel resources

Attachment CUB 91-1

Emission Reductions	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
SO2 Emission Reductions (tons)	-	-	7,626	26,406	35,951	40,490	47,763	50,311	50,594	49,732	
NOX Emission Reductions (tons)	-	628	7,530	12,304	21,322	27,395	30,237	30,541	30,799	30,222	
Mercury Emission Reductions (lbs)	-	18	90	172	231	288	444	447	452	433	
Emission Prices (1)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
SO2 Price ($/ton)	$ 481	$ 559	$ 648	$ 753	$ 877	$ 899	$ 921	$ 944	$ 967	$ 997	
NOX Price ($/ton)	$ 1,907	$ 1,955	$ 2,004	$ 2,054	$ 2,105	$ 2,158	$ 2,210	$ 2,265	$ 2,321	$ 2,393	
Mercury Price ($/lb)	$ 37,084	$ 38,011	$ 38,962	$ 39,936	$ 40,934	$ 41,958	$ 42,965	$ 44,039	$ 45,140	$ 46,539	
Value of Reductions	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
SO2 Total	$ -	$ -	$ 4,942	$ 19,884	$ 31,529	$ 36,401	$ 43,989	$ 47,493	$ 48,924	$ 49,583	$ 282,745
NOX Total	$ -	$ 1,228	$ 15,086	$ 25,269	$ 44,882	$ 59,118	$ 66,824	$ 69,175	$ 71,486	$ 72,322	$ 425,390
Mercury Total	$ -	$ 692	$ 3,499	$ 6,856	$ 9,453	$ 12,069	$ 19,061	$ 19,707	$ 20,396	$ 20,152	$ 111,885
	$ -	$ 1,920	$ 23,528	$ 52,008	$ 85,864	$ 107,588	$ 129,875	$ 136,375	$ 140,806	$ 142,056	$ 820,020

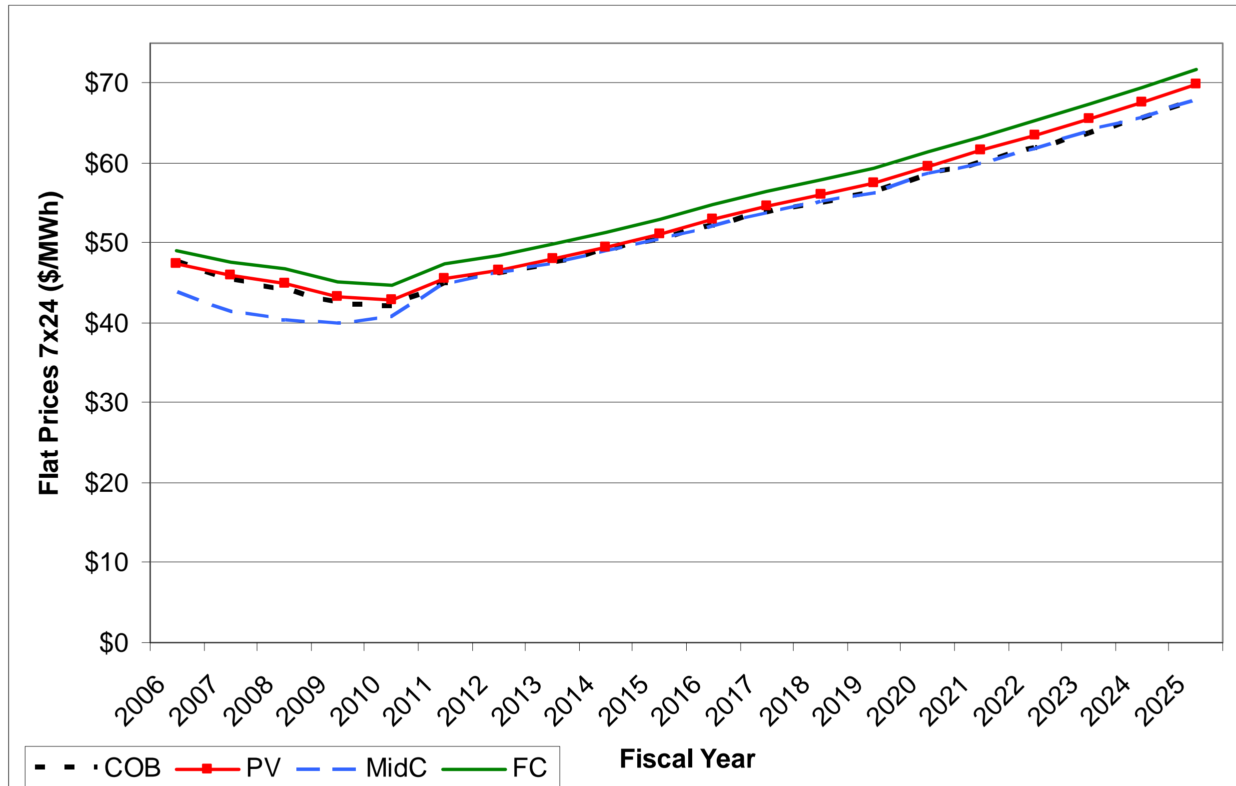
(1) PacifiCorp 2004 IRP, Appendix C pp. 35-38

CUB Exhibit 103 is Highly Confidential

CUB Exhibit 104 is Highly Confidential

CUB Exhibit 105 is Confidential

Figure C.4 – Wholesale Market Prices



Emission Costs

Sulfur Dioxide (SO_2)

Current vintage allowance prices have been on the rise in 2004, trading at about $215/ton at the beginning of the year and rising to near $500/ton by late summer. Spot SO_2 prices hit an all time high in mid-July 2004, when the market cleared well above $600/ton. The recent rise in SO_2 prices has been sparked by an increasing price spread between low and high sulfur bituminous coals in the east. As the price premium for low sulfur bituminous coal has grown, generators have been acting on the coal price incentive to switch to higher sulfur coals and to use more credits. At the same time, market players with a long position in the SO_2 market have been reluctant to sell given an uncertain regulatory future. This behavior has reduced market liquidity and has added to SO_2 price volatility.

Long-term SO_2 prices are expected to continue their upward climb as tighter emissions limits become more likely. The Clear Skies Act, EPA's proposed Clean Air Interstate Rule (CAIR), and several proposals in Congress all call for further limits on national SO_2 emissions. Any regulatory future that lowers emissions limits will reduce the available supply of SO_2 credits and exert upward pressure on allowance prices. Table C.4 lists the spot SO_2 emission costs used in the IRP. The prices are derived from PIRA projections that assume that tighter SO_2 limits will be fully implemented by 2010.

Table C.4 – SO_2 Spot Price Forecast

Calendar Year	SO_2 ($/Ton)
2005	395
2006	481
2007	559
2008	648
2009	753
2010	877
2011	899
2012	921
2013	944
2014	967
2015	997
2016	1,028
2017	1,061
2018	1,096
2019	1,133
2020	1,172
2021	1,212
2022	1,254
2023	1,298
2024	1,343
2025	1,391

Nitrogen Oxides (NO_X)

The U.S. Environmental Protection Agency's NO_X State Implementation Plan (SIP) Call trading program was initiated for the eastern U.S. in 2004 under a shortened summer ozone trading season, with prices clearing around $2,000/ton. (See Appendix A for background on emission allowance trading programs.) An expanded SIP Call trading program will begin in 2005, when a full 5-month summer trading season is anticipated to push prices higher relative to 2004. In fact, SIP Call 2005 vintage allowances have been trading above $3,000/ton. The SIP Call cap-and-trade program only affects units in the east; therefore, it has no bearing on PacifiCorp. Nonetheless, SIP Call market activity and allowance prices can serve as a guidepost for potential future NO_X policies transitioning into a national, annual trading program.

Table C.5 shows the NO_X prices used in the IRP, which reflect a regulatory future that will impose annual emissions limits on western generators beginning in 2010. The NO_X forecast is derived from PIRA forecasts, which reflect the marginal cost of selective catalytic reduction (SCR) equipment operated over a full year, rather than over a 5-month summer ozone season.

Table C.5 – NO_X Price Forecast

Calendar Year	NO_X ($/Ton)
2010	2,105
2011	2,158
2012	2,210
2013	2,265
2014	2,321
2015	2,393
2016	2,468
2017	2,547
2018	2,631
2019	2,720
2020	2,813
2021	2,908
2022	3,010
2023	3,115
2024	3,224
2025	3,337

Mercury (Hg)

Mercury was addressed under section 112 of the Clean Air Act (CAA) Amendments of 1990, which covers the regulation of hazardous air pollutants. However, source identification and associated rules are not currently defined or enforced. Enforcement under section 112 prohibits the use of a cap-and-trade program to reduce Hg emissions. As a result, EPA has continued down the path of creating best achievable control technology (BACT) standards that would be imposed upon the electric generating sector.

At the same time, EPA has pursued Hg limits under section 111 of the 1990 CAA Amendments with their proposed Clean Air Mercury Rule (CAMR) via a cap-and-trade mechanism. Similarly, several Congressional proposals and the Administration's Clear Skies Act call for Hg limits imposed under a cap-and-trade structure. Mercury prices used in the IRP, shown in Table C.6, are based upon PIRA's forecast for a cap-and-trade policy beginning in CY 2010 with a "backstop" price of $35,000/lb, adjusted for inflation. The notion of a "backstop" price is included as part of the Clear Skies Act and serves as a safety valve should markets soar and reflects the considerable amount of uncertainty that persists regarding the cost to control mercury emissions.

Table C.6 – Mercury Price Forecast

Calendar Year	Mercury Hg ($/lb)
2010	40,934
2011	41,958
2012	42,965
2013	44,039
2014	45,140
2015	46,539

Calendar Year	Mercury Hg ($/lb)
2016	47,982
2017	49,517
2018	51,151
2019	52,890
2020	54,689
2021	56,548
2022	58,527
2023	60,576
2024	62,696
2025	64,890

Carbon Dioxide (CO_2)

There are currently no national regulated standards for CO_2 emissions, although voluntary emission reduction programs and trading markets exist. Several legislative proposals incorporate mandatory CO_2 emission reductions and the establishment of a related trading market, but it remains a significantly contentious issue. In addition, the Kyoto Protocol, while not applying directly in the U.S., may still play an indirect role in terms of placing pressure on U.S. corporations to voluntarily reduce greenhouse gas (GHG) reductions. Other factors include existing and potential state-level regulations as state officials react to public concern.

The IRP imposes CO_2 credit prices reflecting the likelihood of a CO_2 policy that begins in the CY 2010 to CY 2012 timeframe. The base case CO_2 cost is set at an inflation adjusted $8/ton CO_2 (2008$) price. This price level is consistent with the upper range of offsets currently available and with offset costs emerging internationally. In recognition of the timing uncertainty, initial CO_2 costs are probability-weighted. Costs begin to appear in CY 2010, but they are multiplied by a probability of 0.5. Likewise, CY 2011 prices are multiplied by a probability of 0.75. By CY 2012, the full inflation adjusted $8/ton CO_2 cost adder is imposed, growing at inflation from thereafter. Table C.7 lists the CO_2 prices used in the IRP.

Table C.7 – CO_2 Price Forecast

Calendar Year	CO_2 ($/Ton)
2010	4.19
2011	6.45
2012	8.80
2013	9.02
2014	9.25
2015	9.54
2016	9.83
2017	10.15
2018	10.48
2019	10.84
2020	11.21
2021	11.59
2022	11.99
2023	12.41
2024	12.85

Attachment CUB 91 -1

With CUB Adjustments

Quantified Net Benefits as of 8/18/05
($000)

Benefits	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	NPV
Path C (net power cost reduction only)	$ -	$ -	$ -	$ -	$ -	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 7,500	$ 4,287
Reduced Cost of Debt	$ 400	$ 600	$ 859	$ 1,726	$ 2,376						$ 5,961	$ 4,560
Corporate Overhead Reductions	$ -	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ -	$ -	$ -	$ -	$ 30,000	$ 22,737
Emission Reductions from Coal-Fuel Generation (1)	$ -	$ -	$ 6,071	$ 21,468	$ 24,605	$ 30,626	$ 78,015	$ 83,328	$ 87,715	$ 80,167	$ 411,995	$ 239,540
												$ 271,124
Revenue Requirements (2)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**	**NPV**
Path C Upgrade	$ -	$ -	$ -	$ -	$ (10,743)	$ (10,359)	$ (9,995)	$ (9,649)	$ (9,321)	$ (9,010)	$ (59,077)	$ (35,312)
Emission Reductions from Coal-Fuel Generation	$ (44)	$ (500)	$ (6,215)	$ (36,059)	$ (64,113)	$ (68,488)	$ (91,928)	$ (88,591)	$ (84,046)	$ (80,131)	$(520,116)	$ (313,220)
												$ (348,532)
% increase from 170 rates	0.00%	0.02%	0.21%	1.20%	2.13%	2.28%	3.06%	2.95%	2.80%	2.67%		
											NPV of Net Benefits	$ (77,408)
											Discount Rate:	7.31%

Non-Quantified Benefits

Path C Upgrade (3)	In addition to the net power cost reduction, this project enhances reliability and facilitates delivery of power from a wind project in Idaho. There is a possibility that this project could result in deferring construction of a resource within the 2004 IRP Preferred Portfolio. The Path C investment is being evaluated as part of the IRP update to be filed in October 2005.
Mona-Oquirrh (3)	Not currently quantified, however, the project enhances reliability, facilitates acceptance of renewable resources and enhances system optimization.
Walla Walla - Yakima Transmission (3)	Not currently quantified - benefits will be quantified in future RFP processes. The line will help the Pacific Northwest region integrate wind resources into the power system and implement resource planning recommendations made by the Northwest Power and Conservation Council.
Other Transmission & Distribution Matters	Not currently quantified, but will improve system reliability
Future Generation Options	Not currently quantified - benefits will be quantified in future RFP processes
Renewable Energy (3)	Not currently quantified - benefits will be quantified in future RFP processes
Coal Technology	Not separately quantified - benefits included in emissions reductions from coal-fueled generation
Greenhouse Gas Emission Reductions (SF6)	Not currently quantified, but clearly offers long-term societal benefits
Energy Efficiency and DSM Management	Not readily quantifiable, but the benefits should include reduced fuel use, with related environmental and economic benefits, as well as direct customer benefits that may accrue from eliminating or postponing procurement of additional transmission/distribution and generation facilities
Customer Service Extension	Not readily quantifiable, but clearly offers benefits
Community Involvement and Economic Development	Not readily quantifiable, but clearly offers benefits
Corporate Presence	Not readily quantifiable, but clearly offers benefits
Regional Transmission	Based on estimates using a representative year, if MEHC's leadership results in transmission construction, it could provide regional benefits between $60 million and $990 million annually

(1) These benefits and costs represent projects that are incremental to those previously committed to by PacifiCorp. The benefits resulting from reductions in emissions through the installation or upgrading of pollution control equipment have been calculated by assigning a market value per ton of emissions reduced. This value was derived from PacifiCorp's 2004 IRP. While there may not be a market for some of these emissions in the west at the current time, these emissions are traded in other parts of the country or are anticipated to be traded in the future. As such, the quantified benefits are an imperfect surrogate for the potential value and resulting benefit of the emission reductions if and when the markets for these emissions develop, and should not be considered as having been recognized for accounting purposes. Additional benefits are inherent in making emissions reductions. The benefits of cleaner air for customers and citizens are difficult to quantify and have not been fully included for purposes of calculating the benefits herein. Furthermore, the investment in emission controls allows the facilities to continue to supply cleaner, low cost electricity to PacifiCorp customers which, when combined with other sources of generation, such as wind and gas, provide a balanced generation portfolio and reduce adverse impacts to customers in the event that fuel, transportation, natural gas supply and other potentially uncontrollable forces increase the cost of a certain type of generation which, in turn, ensures a lower cost, stable source of energy for PacifiCorp's customers. These benefits, likewise, are difficult to quantify and have not been quantified for purposes of inclusion in the calculated benefits. Revenue requirements do not include the cost of purchased power for the reduction in output due to the addition of pollution control equipment

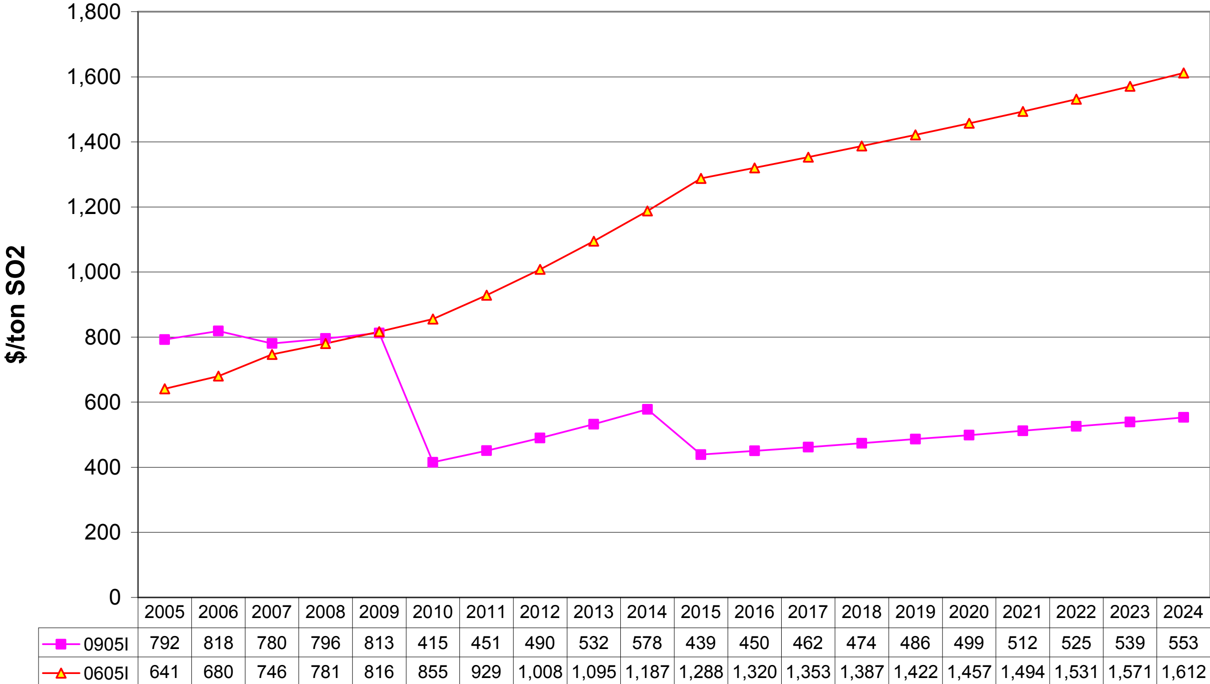
(2) Revenue requirements include return on rate base, depreciation expenses, and O&M expense where available

(3) Projects enhancing the viability of renewable generation clearly offer societal benefits in the form of portfolio diversification, reduced emissions and conservation of fossil fuel resources

ALLOWANCE PRICE PROJECTION: *UPDATED FOR 0905*

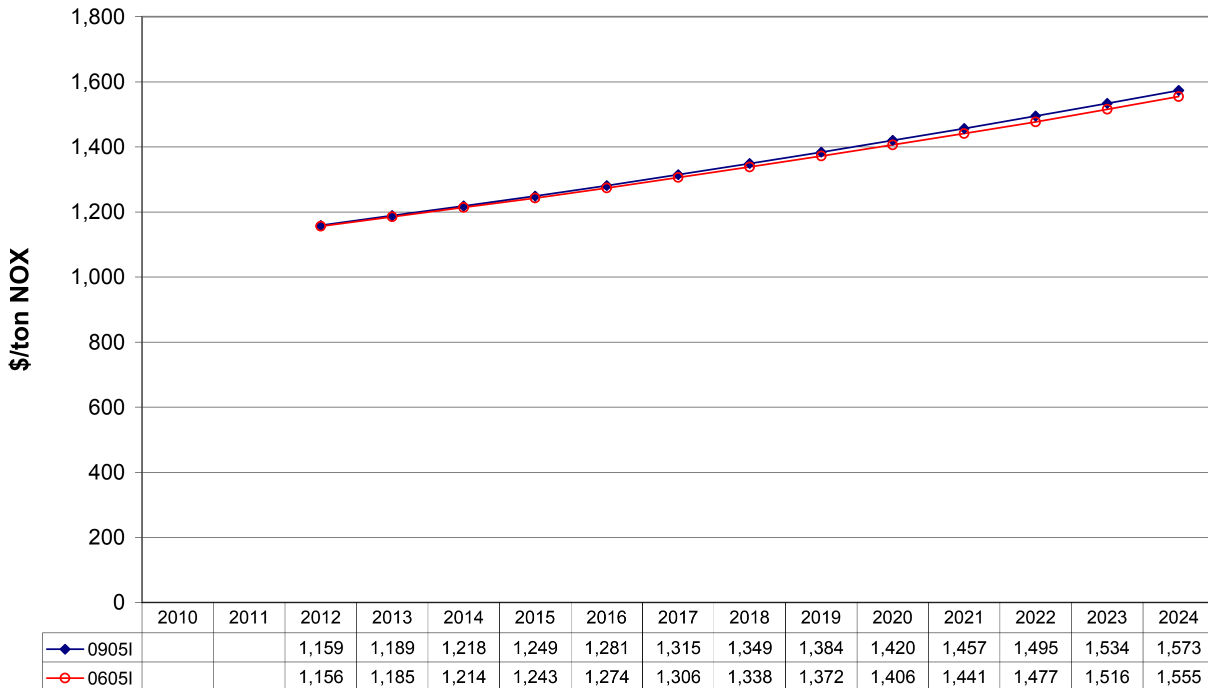
The SO_2 and NO_X allowance price forecasts were updated for the September 9th inflation. The SO_2 price trajectory is based upon the August 2005 Emissions Market Intelligence Service report issued by PIRA with the following adjustments. New SO_2 allowance prices were adopted to align with a PIRA update and EPA's Clean Air Interstate Rule (CAIR). CAIR requires 2 existing Acid Rain Program allowances for each ton of emissions beginning in 2010 and 2.86:1 in 2015. This surrender ratio applies to Eastern states, but does not apply in the West. Effectively, this lowers allowance prices by a factor of 2 in 2010 and 2.83 in 2015. The plot below illustrates the difference since 0605. SO_2 primarily impacts coal plants, which are rarely price setting. Therefore, this change has very little effect on market prices.

SO2 Price Forecast Update



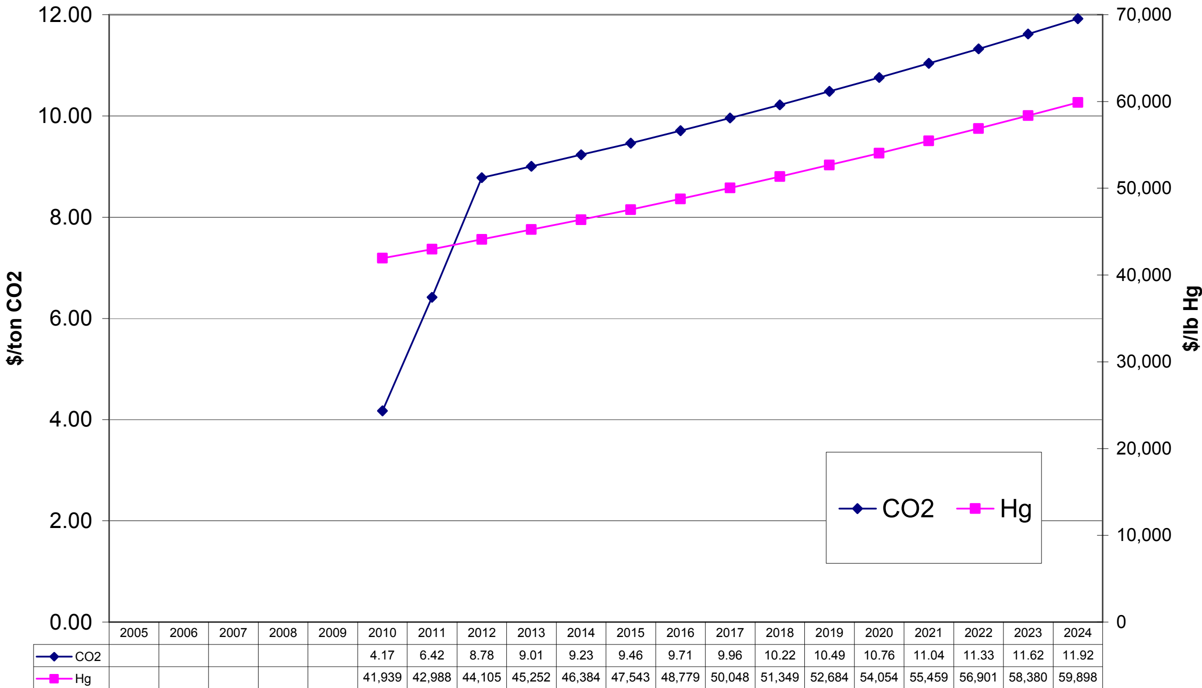
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
0905I	792	818	780	796	813	415	451	490	532	578	439	450	462	474	486	499	512	525	539	553
0605I	641	680	746	781	816	855	929	1,008	1,095	1,187	1,288	1,320	1,353	1,387	1,422	1,457	1,494	1,531	1,571	1,612

The NO_X price forecast reflects PacifiCorp's belief that by 2012 some form of annual NO_X cap-and-trade program will be imposed in the West. Considering the West does not have the same ground-level ozone problems experienced in the East, the forecast assumes that the NO_X trading program imposed in 2012 will be less stringent than what is currently targeted under EPA's Clean Air Interstate Rule (CAIR) for Eastern states. As a result, the marginal control technology is assumed to be selective non-catalytic reduction (SNCR) as opposed to selective catalytic reduction (SCR). The only change in the NO_x forecast is the effect of the change in inflation assumptions.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
0905I			1,159	1,189	1,218	1,249	1,281	1,315	1,349	1,384	1,420	1,457	1,495	1,534	1,573
0605I			1,156	1,185	1,214	1,243	1,274	1,306	1,338	1,372	1,406	1,441	1,477	1,516	1,555

Mercury and CO_2 prices remain unchanged, other than inflation adjustments required to align with the September 9, 2005 inflation update. Mercury prices reflect co-benefits from the installation of SO_2 and NO_X controls with a cap-and-trade program beginning in 2010. The CO_2 price forecast continues to be probability weighted in 2010 and 2011. Under this approach, CO_2 costs begin to appear in 2010, but the likelihood of this occurring is assigned a probability of 0.5. By 2011, the probability is 0.75, and by 2012, a CO_2 policy is assumed to be fully implemented.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
CO2						4.17	6.42	8.78	9.01	9.23	9.46	9.71	9.96	10.22	10.49	10.76	11.04	11.33	11.62	11.92
Hg						41,939	42,988	44,105	45,252	46,384	47,543	48,779	50,048	51,349	52,684	54,054	55,459	56,901	58,380	59,898

Units less than 25 MW are assumed to be exempt from any future air policy that caps emissions. This is consistent with provisions included in both the existing national SO_2 trading program, the NO_X SIP Call rules and CAIR. Similarly, units operating in Canada or Mexico are assumed to be exempt from future U.S. imposed air policies. However, given Canada's adoption of the Kyoto Protocol, units operating in British Columbia and Alberta are subject to the CO_2 prices outlined above.

EPA Announces Results of Annual Sulfur Dioxide Auction

Contact: Dave Ryan, 202-564-7827 / ryan.dave@epa.gov

EPA today announced the results of the 13th annual acid rain allowance auction held yesterday at the Chicago Board of Trade. The annual auction, which gives private citizens, brokers and power plants an opportunity to buy and sell sulfur dioxide (SO2) allowances, is part of EPA's cap and trade program to reduce acid rain. One of the goals of the Acid Rain Program is to cap SO2 emissions from coal-burning power plants at 8.95 million tons starting in 2010.

An EPA progress report released last September on the cap and trade program shows SO2 emissions from electric power generation in 2003 are down by close to seven million tons from 1980 levels.

A national emissions cap, combined with SO2 allowance trading, has been effective both in terms of cost reduction and human health and environmental benefits since it began in 1995. Current estimates indicate compliance costs about 75 percent below those originally predicted by EPA. Emissions are already more than five million tons below 1990 levels, and acid deposition in the eastern United States has declined by 30 percent or more in certain areas, resulting in improvements in lakes and streams.

The Clean Air Act established an annual national cap on SO2 emissions. Each year, EPA issues allowances to existing sources within that cap. In addition, the Clean Air Act mandates that a limited number of those allowances are withheld and auctioned. The auctions help ensure that new electric generating plants have a source of allowances beyond those allocated initially to existing units. Proceeds from the auctions are returned to sources in proportion to the allowances withheld. In addition to allowances offered by EPA, private parties may offer allowances for sale in the auction.

EPA emphasizes that no matter how many allowances a source purchases, it cannot emit SO2 at a level that would violate the health-based national ambient air quality standard.

Detailed results of this year's acid rain auction and information about how the trading program works are available on EPA's Web site: http://www.epa.gov/airmarkets/auctions . Preliminary data for 2004 reveal emission levels lower than the previous year. http://www.epa.gov/airmarkets/cmprpt/index.html

For further technical information, call Kenon Smith of EPA's Clean Air Markets Division at 202-343-9164.

Results of 2004 S02 Allowance Auction

Private citizens, brokers and power plants bought and sold 250,011 tons of sulfur dioxide (SO2) at the 12th annual acid rain allowance auction on March 22 at the Chicago Board of Trade. An EPA progress report on the Acid Rain Program released in November 2003 details the emissions reductions resulting from the program http://www.epa.gov/airmarkets/cmprpt/index.html.

Each "allowance" is the equivalent of one ton of acid rain-causing SO2, which is emitted from power plants. EPA's Acid Rain Program uses a market-driven cap-and-trade system to cut SO2 emissions from power plants. SO2 emissions from electric power generation continue to decline, down by more than 7 million tons since 1980, improving human and environmental health, earlier, and at less cost, than would have occurred with more conventional approaches.

The auction, conducted by the Chicago Board of Trade, includes two "vintages" of allowances. Vintage describes the earliest year an allowance may be applied against SO2 emissions. In addition to year 2004 allowances, the Clean Air Act mandated that EPA auction additional allowances seven years in advance to help provide stability in planning for capital investment. These advance allowances will be usable in 2011.

Summary Results of the 2004 SO2 Allowance Auction:
http://www.epa.gov/airmarkets/auctions.

EPA has been working with the Chicago Board of Trade, as well as the power industry and brokers and traders, since the program's inception. The result is a viable SO2 allowance market and a demonstration that a mandatory emissions cap along with emissions trading can improve the environment at a lower cost than traditional control approaches. Detailed results of this year's acid rain auction and information about how the trading program works are available on EPA's Web site: http://www.epa.gov/airmarkets/auctions

A national emissions cap, combined with SO2 allowance trading, has been effective both in terms of cost reduction and human health and environmental benefits since the program began in 1995. Current estimates indicate compliance costs 75 percent below those originally predicted by EPA. Acid deposition in the eastern United States has declined by approximately 30 percent, and many lakes and streams are showing signs of recovery.

The Clean Air Act established an annual national cap on SO2 emissions. Power plants hold annual allowances that they can use to cover SO2 emissions up to the cap level. In addition, the Clean Air Act mandates that a limited number of those allowances are withheld and auctioned. The auctions help ensure that new electric generating plants have a source of allowances beyond those allocated initially to existing units.

UM-1209/PacifiCorp
September 7, 2005
CUB Data Request 7

CUB Data Request 7

In regard to the testimony of witnesses Abel and Gale, who address the major policy issues implicated by the filing:

a. Why is there no discussion of low, reasonable, or stable rates in the testimony?

b. In the same testimony, why is there no discussion of efficient operation of the utility with an eye toward lowering costs and rates?

c. How does MEHC approach the balance between infrastructure investment and maintaining the lowest reasonable rate?

Response to CUB Data Request 7

a. & b. MEHC has demonstrated through its oversight of the regulated operations of MEC, Kern River and Northern Natural Gas that it can deploy capital and drive efficiency gains in a manner that enhances rate stability or reduces the amount of required rate increases that are necessary. MEHC expects to be able to accomplish similar results for PacifiCorp, but it will need to become more familiar with the operations of PacifiCorp, the needs of its states and the flexibility of the regulatory processes before it can determine when, how and how much can be achieved.

c. The following is overly simplified but descriptive with respect to capital expenditures for MEHC's regulated businesses such as MEC. Capital is first devoted to those projects (1) required for compliance with laws and regulations; (2) required for safety of employees and customers; and (3) required for adequate and reliable near-term service. Then capital is allocated for projects that achieve longer-term adequate and reliable service.
The phrase "adequate and reliable service" includes consideration of opportunities for efficiency gains. With respect to the longer-term projects, priority is given to those projects that provide net benefits to customers. In assessing projects, a variety of plans are used as benchmarks such as the risk management plan and the worst performing circuit plan.

UM-1209/PacifiCorp
September 16, 2005
CUB Data Request 34 MEHC

CUB Data Request 34 MEHC

In regard to PacifiCorp's current business plans:

a. Please provide PacifiCorp's capital investment projections as of its most recent IRP. Please break the numbers out by year and by project where practical and by general area where it isn't.

b. In regard to (a), what are the expected rate impacts of these investments all other things being equal and if PacifiCorp were to file annual rate cases? Are these impacts still consistent with the annual 4% increase indicated at PPL/200/Johansen/7?

c. Does MEHC intend to operate within these rate expectations? Please provide any documents or analysis that supports the answer.

MEHC's Response to CUB Data Request 34

c. To date, MEHC has not performed any analyses that show the expected changes to customer rates from that forecasted in PacifiCorp's business plan as a result of implementation of the commitments MEHC is making. However, MEHC does not anticipate at this point that the overall changes to revenue requirements resulting from the implementation of its commitments will be significantly different from the rate increases forecasted by PacifiCorp. The timing of rate increases may be different due to differences in capital expenditure schedules resulting from MEHC's commitments, but on an overall basis, MEHC does not anticipate significant differences in incremental rate increases and therefore expects to generally operate within the rate expectations referenced in the question.

Regarding parts a and b, please see PPW's response to this request.

UM-1209/PacifiCorp
September 7, 2005
CUB Data Request 8

CUB Data Request 8

In Mr. Abel's discussion of the benefit of MEHC's willingness to invest capital in PacifiCorp territories (100/Abel/11):

a. Does MEHC assume that ScottishPower would not make the same prudent investments in infrastructure?

b. Does the capital investment benefit assume that ScottishPower was going to renege on commitments made in its last and/or current IRPs?

Response to CUB Data Request 8

a. Mr. Abel assumes there is a possibility that ScottishPower would not evaluate the projects in the same way as MEHC would, as ScottishPower would have a higher cost of debt and a shorter investment horizon. It is also possible some of those projects might not be completed because of a lack of capital.

b. No.

Greg Abel
President

June 19, 2001

The Honorable Stewart Iverson, Jr.
Majority Leader
Iowa Senate
State Capitol Building
Des Moines, Iowa 50319

The Honorable Brent Siegrist
Speaker
Iowa House of Representatives
State Capitol Building
Des Moines, Iowa 50319

The Honorable Mary Kramer
President
Iowa Senate
State Capitol Building
Des Moines, Iowa 50319

The Honorable Christopher Rants
Majority Leader
Iowa House of Representatives
State Capitol Building
Des Moines, Iowa 50319

Dear Legislative Leaders:

MidAmerican Energy supports the passing of a modified version of HF577, including provisions for rate-based generation, an emissions reduction process and removal of plant siting restrictions. MidAmerican Energy will immediately apply the elements of the bill to construct 1,400 MW of new, rate-based electric generation in Iowa. Construction of this generation would be subject to receiving acceptable regulatory treatment, which includes a return on investment similar to that which the Company is allowed today. Specifically, MidAmerican will pursue an extension of the key elements of the regulatory plan utilized by the Company in the past four years.

The total investment in Iowa from this plan is estimated to be at least $1.5 billion over seven years. The economic development associated with this plan includes the investment, an estimated increase of $3.6 million in annual property taxes, up to 1,600 jobs during the construction period and hundreds of long-term and skilled operating jobs, with approximately $6 million in annual payroll.

MIDAMERICAN ENERGY HOLDINGS COMPANY
666 GRAND AVENUE • P.O. BOX 657 • DES MOINES, IOWA 50303-0657 • 515-242-4000 • FAX: 515-242-4031

The plan includes 900 MW of new coal-fueled generation and a 500 MW combined-cycle, natural-gas-fueled plant. The permitting and design process on the 500 MW combined-cycle unit would begin immediately, and the first phase of the plant would be operational in the summer of 2003, with final completion and full operation occurring in 2005, subject to permitting approvals. MidAmerican Energy Holdings Company will divert to the Iowa project, two natural gas turbines currently being utilized by its unregulated affiliate for a project in Wisconsin (identical to the Cordova project in Illinois). Planning for coal-fueled units totaling 900 MW will also begin immediately, and we anticipate the coal units to be operational by 2007.

Because of the unique ownership of MidAmerican and our access to significant capital, and our experience in developing power generation throughout the world, MidAmerican can and will execute on this commitment.

I appreciate your efforts in addressing this critical issue in the special session. I also commend your team's willingness to modify the bill, thereby ensuring Iowa can move forward to address energy security, reliability and price stability.

Sincerely,

MIDAMERICAN ENERGY HOLDINGS COMPANY
666 GRAND AVENUE • P.O. BOX 657 • DES MOINES, IOWA 50303-0657 • 515-242-4000 • FAX: 515-242-4031

UM-1209/PacifiCorp
August 19, 2005
OPUC Data Request 2

OPUC Data Request 2

Regarding PPL/100, Abel 11 lines 11-13: Please provide

a. Where applicable, the current authorized returns (or range of returns if a point estimate is not available) for each of the regulated business held by MEHC. Please break out the individual components such as return on equity, cost of preferred stock, cost of debt, and capital structure for each regulated business.

b. The actual earned returns, both overall and return on equity, by the regulated businesses for the past 5 calendar years. Please identify and explain any assumptions or normalization adjustments made.

c. Mr. Abel's current estimate of the range of "reasonable returns" he would expect for PacifiCorp over the next five years, if the transaction were approved, given current economic conditions. Does this estimate include the premium of the purchase price above book? If yes, provide return estimates adjusted to eliminate the premium. Please indicate if this estimate is a return on equity or total return.

d. Repeat "c" except using a ten-year period.

Response to OPUC Data Request 2

a. **MidAmerican Energy Company**
In the states of Iowa and Illinois, MidAmerican Energy Company operates under alternative regulatory plans. In Iowa, the alternative regulatory plan applies only to electric operations, while in Illinois, it applies to both electric and natural gas operations. In both states a threshold return on equity must be exceeded before the mechanisms are triggered. As such, there are no traditional authorized returns for the services subject to the alternative regulatory plans.

Regulatory Capital Structures
Most recent capital structures used under alternative regulatory plans

As of 12/31/2004	Iowa - Electric		Illinois - Elec. & Nat. Gas	
Component	Weight	Cost	Weight	Cost
Long-Term Debt	44.15%	6.25%	47.32%	5.91%
Preferred Stock	1.06%	4.58%	0.94%	4.70%
Common Equity	54.79%	N/A	51.74%	N/A

Most recent capital structure used under traditional rate base/rate of return regulation

As of 12/31/2001	Iowa - Natural Gas	
Component	Weight	Cost
Long-Term Debt	43.63%	7.29%
Preferred Stock	3.05%	6.17%
Common Equity	53.32%	10.75%
		9.01%

MidAmerican Energy Company also has retail electric and natural gas operations in South Dakota. While these operations are subject to traditional rate base/rate of return regulation, both the previous electric and natural gas rate proceedings in South Dakota resulted in a negotiated settlement that did not specify an allowed return.

MidAmerican Energy Company also operates a small retail natural gas operation in Nebraska. This business is subject to regulation by the municipality that is served. Again, no allowed rate of return was specified in the city ordinance approving the rates under which service is billed in that jurisdiction.

Kern River Gas Transmission Company
The last Kern River Gas Transmission Company general rate case proceeding resulted in a black-box settlement approved by the Federal Energy Regulatory Commission. The order approving the settlement provided a pre-tax return that effectively resulted in a 13.25 % ROE, with a levelized capitalization structure of 70 % debt and 30 % equity.

Northern Natural Gas Company
Northern Natural Gas Company's last rate case consummated in a settlement, approved by the Federal Energy Regulatory Commission, that mentioned only an authorized overall before tax rate of return of 13.42%. There was no discussion of capital structure or a traditional nominal rate of return.

b. The following are average overall returns on rate base and on stockholder's equity for the indicated entities. For MidAmerican Energy, the returns are retail earned returns that include margins earned on wholesale sales.

MidAmerican Energy Company

	Overall Earned Return	Earned Return on Equity
2000	9.73%	11.59%
2001	9.32%	11.09%
2002	10.31%	12.99%
2003	10.47%	13.88%
2004	10.43%	13.93%

Kern River Gas Transmission Company
Kern River Gas Transmission Company does not calculate these figures.

Northern Natural Gas Company

	Overall Earned Return	Earned Return on Equity
2001	Northern Natural Gas Company was purchased by MidAmerican Energy Holdings Company on August 16, 2002.	
2003	6.73%	5.5%
2004	6.69%	12.4%

c. Under any economic conditions, Mr. Abel's concept of a reasonable rate of return is that described by the U.S. Supreme Court in the *Hope* and *Bluefield* cases. Thus, a reasonable rate of return is one that allows the utility an opportunity to earn a return upon the value of the property that it employs for the convenience of the public that is equal to that generally being earned at the same time and in the same general part of the country on investments in other business undertakings, which are attended by corresponding risks and uncertainties. The return should also be sufficient to assure confidence in the financial integrity of the firm so as to maintain its credit and attract capital on reasonable terms and conditions.

Ordinarily Mr. Abel would not expect a reasonable return on a public utility investment to include the recovery of any premium paid above book value. By the same token, Mr. Abel would not expect a reasonable return to deny the opportunity to recover legitimate and prudently incurred costs by excluding such from the public utility's cost of service. Additionally, Mr. Abel would not expect benefits to be imputed from the acquisition company or other parent company to the subsidiary public utility without also including, symmetrically, costs incurred by the acquisition company or other parent company, for instance an acquisition premium, in the subsidiary public utility's cost of service.

d. See response to part c above.

STATE OF IOWA

IOWA UTILITIES BOARD

IN RE:	)	**RATEMAKING PRINCIPLES FOR WIND ENERGY INVESTMENT**
	)	
MIDAMERICAN ENERGY COMPANY	)	

STIPULATION AND AGREEMENT

Article I - Introduction

The Honorable Thomas J. Vilsack, Governor of the state of Iowa, has established a goal of 1000 megawatts (MW) of renewable energy such as wind power in the state by 2010. The Honorable Rod Blagojevich, Governor of the state of Illinois, and members of the South Dakota Public Utilities Commission have also urged the development of more renewable energy in the Midwest. Renewable energy such as wind power will not create air pollution, will help prevent the depletion of non-renewable resources used for electric generation, does not rely on out-of-state resources and will have an important positive impact on economic development in Iowa. At the time of this Stipulation and Agreement (Stipulation), MidAmerican Energy Company (MEC) owns or has under long-term contract approximately 125 MW of renewable energy.

Subject to the terms and conditions of this Stipulation and subject to final approval of this Stipulation in its entirety and without condition or modification by the Iowa Utilities Board (Board), MEC agrees to construct a minimum of an additional 310 MW (nameplate rating) of wind power facilities in Iowa (Project) as its commitment toward the renewable energy goal

established by Governor Vilsack and the expressions of support for the development of renewable energy made by representatives of Illinois and South Dakota. The Project is expected to require an investment of approximately $323 million (plus associated transmission costs) and will be dedicated to public service and subject to regulation by the Board. The first of the Project's wind power facilities is expected to begin service in late 2004, with the Project completed by 2007.

Article II – Purpose

This Stipulation and attached Appendices have been prepared and executed by the signatories for the purpose of stipulating to their mutually-agreed position in the ratemaking principles case regarding the Project, to be commenced by MEC pursuant to Section 476.53 of the Iowa Code. MEC commits to commencing such case as soon as feasible after the enactment of legislation consistent with that in Appendix 1. All signatories to this Stipulation agree to support or not oppose such legislation.

In consideration of the mutual agreements set forth, the signatories stipulate that the Board should issue an order that allows the terms and provisions of this Stipulation to be fully implemented.

Terms:

1. MEC commits to construct, own and operate a minimum of an additional 310 MW of wind power facilities in Iowa, representing a projected investment of approximately $323 million plus the costs of associated transmission.
2. As soon as feasible after the enactment of legislation consistent with that in Appendix 1, MEC shall file with the Board a request for a certificate to construct the Project. The signatories to this Stipulation agree to support the request, as well as any request for expedited approval or other relief to enable the first of the wind power facilities to be placed in service by late-2004 and to enable completion of the Project by 2007.
3. As soon as feasible after the enactment of legislation consistent with that in Appendix 1, MEC shall file with the Board a request pursuant to Code Section 476.53 for

ratemaking principles for the Project. The signatories to this Stipulation agree to support the request and the following ratemaking principles:

a. The Iowa jurisdictional portion of MEC's prudently incurred capital costs, operation and maintenance expenses and other actual costs of the Project shall be included in MEC's regulated electric rates. MEC shall be permitted to include in rates the actual costs of the Project, up to the Iowa jurisdictional portion of the $323 million projection and $12 million in associated transmission costs, without the need to establish prudence or reasonableness. MEC shall be required to establish the prudence and reasonableness of any Project investment and transmission costs in excess of the foregoing calculated amounts before the Iowa jurisdictional portion of such excess can be included in rates.

b. The depreciation life of the Project for ratemaking purposes shall be 20 years.

c. The allowed return on common equity investment (ROE) on the portion of the Project included in Iowa electric rate base shall be 12.2%.

d. The Iowa jurisdictional portion of any revenues from the sale of renewable energy credits and carbon dioxide credits associated with the Project shall be recorded above-the-line by MEC in the accounts specified in Appendix 2 and included in the revenue sharing calculations of items "g" and "h".

e. The Iowa jurisdictional portion of any federal production tax credits associated with the Project shall be recorded above-the-line by MEC in the accounts specified in Appendix 2 and included in the revenue sharing calculations of items "g" and "h".

f. Until MEC's next Iowa electric rate case decision after January 1, 2011, the Iowa jurisdictional portion of wholesale sales revenue associated with all generating units included in MEC's Iowa jurisdictional electric rate base (including the wind power facilities of the Project) shall be recorded above-the-line in the accounts specified in Appendix 2 and included in the revenue sharing calculations of items "g" and "h".

g. Element 3 of the Settlement Outline incorporated by reference in the Settlement in Docket Nos. RPU-01-3 and RPU-01-5 provides for the customer portion of shared revenues during the period 2001 through 2005 to be used to reduce AFUDC on generating plant investment committed to by December 31, 2005. The wind power Project which is the subject of this Stipulation shall be considered a "generating plant investment committed to by December 31, 2005" for the purpose of that Settlement, and the customer portion of shared revenues, after offsetting the AFUDC on the Greater Des Moines Energy Center (GDMEC) and the Council Bluffs 4 (CB 4) generating plant investments, shall be applied sequentially to the Iowa jurisdictional portion of rate base as follows: first, to reduce to zero the AFUDC on the Project; second, to be accrued in an interest bearing account and used to accelerate depreciation on the CB 4 investment until it reaches zero; third, to accelerate depreciation on the investment in the Project until it reaches zero; fourth, to accelerate depreciation on the investment in GDMEC until it reaches zero. In the event there is money left in the accounts after the above, it shall be returned to ratepayers in a manner approved by the Board. Interest on the

amount accrued in the interest bearing account and used to accelerate depreciation on the CB 4 investment will be determined based on the monthly average U.S. Treasury 3-year constant maturities rate as reported by the Federal Reserve Board Statistical Release H. 15 and shall accrue on the average monthly balance in the account.

h. If MEC's calculated ROE on Iowa jurisdictional electric operations in calendar year 2006, 2007, 2008, 2009 or 2010 exceeds 11.75%, then 40% of the annual revenues for that year between 11.75% and 13% ROE, 50% of the revenues between 13% and 14% ROE, and 83.3% of the revenues in excess of 14% ROE that is the customer portion of shared revenues shall be applied sequentially as set out in Term 3 "g", above. MEC shall be entitled to retain the revenues that are not the customer portion of shared revenues. The methodology to be used to calculate the jurisdictional ROE is set forth in Appendix 3.

i. MEC commits not to seek any general increase in Iowa electric base rates to become effective before January 1, 2011, unless its Iowa jurisdictional ROE on electric operations falls below 10% in any 12-month period after January 1, 2006. If MEC's Iowa jurisdictional ROE on electric operations, as calculated pursuant to Appendix 3, falls below 10% in a 12-month period after January 1, 2006, all signatories to this Stipulation shall conduct 30 days of good faith negotiations to modify the Stipulation to provide MEC with a reasonable opportunity to earn an Iowa jurisdictional ROE between 10% and 11.75% on electric operations. If no agreement is reached at the end of the 30 days, MEC shall have the ability to file for a general increase in electric base rates. The signatories to this Stipulation may oppose MEC's request for such general increase in electric rates, but not on the grounds that such request violates this Stipulation.

j. MEC has assumed that through December 31, 2010, the costs of compliance with environmental requirements to reduce emissions at existing coal-fired generating plants will be $214,090,000 for capital improvements and $45,478,000 for incremental operations and maintenance (O&M) expenses. If, at any time prior to January 1, 2011, the Board issues an order or orders in proceedings under Code Section 476.6 (25) that authorize MEC to cumulatively spend more than $325 million in capital and O&M expenses for such environmental improvements before January 1, 2011, then all signatories to this Stipulation shall conduct up to 30 days of good faith negotiations to determine whether to modify the Stipulation to provide MEC a reasonable opportunity to recover the environmental costs in excess of $325 million. If no agreement is reached at the end of 30 days, MEC shall have the ability to file a request with the Board seeking recovery of the environmental costs in excess of $325 million. The signatories to this Stipulation may oppose MEC's request, but not on the grounds that such request violates this Stipulation.

k. The signatories commit not to commence or support a rate reduction proceeding regarding MEC's electric rates prior to January 1, 2011.

l. MEC may continue to recover the costs of energy efficiency expenditures pursuant to Section 476.6(19), alternate energy production purchases pursuant to Section 476.43 and alternate energy revolving loan fund payments pursuant to Section 476.46 through the rate mechanisms approved and in place at the time of this Stipulation.

m. Nothing in this Stipulation shall prohibit the Board from approving changes in electric rates designed to minimize or eliminate rate disparities based on customer location or rate disparities not justified by the costs of providing utility service or other important public policy considerations; provided that any such changes in rates shall be designed in the aggregate to be revenue neutral to MEC.

Article III – Joint Motion

The signatories shall jointly file this Stipulation in the ratemaking principles proceeding related to the Project, commenced by MEC pursuant to Section 476.53. The signatories shall also file with the Board a joint motion requesting that the Board accept the Stipulation without condition or modification.

Article IV – Condition Precedent

This Stipulation shall not become effective unless and until the Board accepts the same in its entirety without condition or modification.

Article V – Privilege and Limitation

This Stipulation is made pursuant to Iowa Code §17A.10 and 199 I.A.C. §7.2(11). The Stipulation shall become binding upon the signatories upon its execution; provided, however, that if this Stipulation does not become effective in accordance with Article IV above, it shall be null, void and privileged. This Stipulation is intended to relate only to the specific matters referenced herein, and no signatory waives any claim or right that it may otherwise have with respect to any matter not expressly provided for herein. Except as expressly provided in this

UM-1209/PacifiCorp
September 16, 2005
CUB Data Request 33

CUB Data Request 33

In regard to Alternative Forms of Regulation:

a. Please list and describe the AFOR that currently apply to MEC and any other MEHC subsidiary.

b. Please provide a copy of any analyses or testimony that MEC and any other MEHC subsidiary have produced about AFOR.

When does MEHC feel that AFOR are appropriate? Please describe the circumstances and the pros and cons.

MEHC's Response to CUB Data Request 33

a. MidAmerican Energy Company (MEC) is subject to some form of AFOR in most of its retail regulated businesses.

In its retail electric business in Iowa, MEC has been subject to a revenue freeze within a return on equity (ROE) dead band since 1997. MEC may file for increased rates only if its ROE falls below the bottom of the dead band. Earnings above the upper end of the dead band are shared with customers, either through reductions to the amount of the cost of future resources to be included in rate base or through direct credits. While the terms of this revenue freeze have varied somewhat over time, the basic concepts have remained the same. The current dead band is a range from 10% to 11.75%, with the customer portion of revenue sharing above 11.75% used to reduce the amount of the cost of future resources included in rate base.

In its Iowa and South Dakota gas businesses, MEC has been subject to an Incentive Gas Supply Procurement Plan (IGSPP) since 1995. This plan compares MEC's actual achieved cost of gas to an index price, with variances shared between MEC and customers.

MEC has operated under a legislatively-mandated electric rate freeze in its Illinois jurisdiction since 1997. This rate freeze is combined with sharing of earnings if the ROE on gas and electric operations combined exceeds a specified index (a published long-term interest rate plus premium).

b. Testimony and analyses produced about AFOR related to MEC's retail electric business in Iowa are provided in Attachments CUB 33-1 through CUB 33-10 on the enclosed CD. Testimony and analyses produced about AFOR related to MEC's gas businesses are provided in Attachments CUB 33-11 through CUB 33-

23 on the enclosed CD. [Note – Attachment CUB 33 -7 is confidential and is provided on the enclosed Confidential CD. Many other attachments were confidential when originally filed but are no longer being treated as confidential.]

MEHC believes as a general proposition that use of an appropriately structured AFOR can provide benefits to utility customers that cannot be realized under traditional rate-of-return regulation. MEHC believes this is so because an AFOR can be structured to provide stronger incentives for efficient use of all resources than traditional regulation offers.

MEHC has some reservations about the use of AFORs, however, because in actual practice AFORs are often not structured appropriately. Care needs to be taken that the incentives provided by AFORs will actually produce the desired results. Examples of the problems that can arise if AFORs are inappropriately structured include: (1) requirements that are too narrowly focused or incomplete may cause a utility to focus on one area at the expense of others that are equally important; (2) AFORs that provide for penalties, but no rewards, offer incentives only to maintain adequate service, but no incentives for excellence; or (3) assessment of financial penalties for service problems may be counter-productive, robbing a utility of the resources it needs to fix those problems.

MEHC also believes that AFORs work most effectively where a substantial degree of trust exists between the regulators and the utility. Most AFORs require some sort of performance on the part of the utility. If an inadequate level of trust exists for the regulators to be comfortable the utility will be honest in its reporting of that performance, AFORs can become a source of significant contention.

In summary, MEHC supports use of appropriately structured AFORs in those cases where regulators are comfortable with the structure of those AFORs and have confidence in the utility's integrity in reporting on its performance related to them.

JONATHAN M. WEISGALL
VICE PRESIDENT
LEGISLATIVE AND REGULATORY AFFAIRS

VIA FAX AND E-MAIL

October 27, 2003

Lloyd Ritter, Counsel
Office of the Honorable Tom Harkin
731 Hart Senate Office Building
Washington, DC 20510

Dear Lloyd:

Thank you for soliciting MidAmerican's position on the upcoming Senate vote on the McCain-Lieberman climate change bill. We truly appreciate Senator Harkin's consideration of our views.

MidAmerican believes that Congress must move the country forward with balanced energy and environmental policies that promote fuel diversity, economic growth and security, and a cleaner environment. We are proud to be one of the world's largest developers of renewable energy projects, both domestically and internationally. MEHC's electric generation portfolio includes wind, geothermal, biomass, and hydroelectric sources, in addition to coal, nuclear and natural gas generation. To underscore our commitment to fuel diversity, in Iowa alone we are investing $2 billion in the world's largest land-based wind energy project, a state-of-the-art 790 megawatt clean coal plant, and a high efficiency combined cycle natural gas facility.

Though we applaud some of the steps Senators McCain and Lieberman have taken to address concerns raised over their earlier climate change bill, we continue to believe that a short-term carbon cap is not the appropriate way to address a long-term, global concern. All studies demonstrate that even were the United States to adopt the Kyoto Protocol, the impact on greenhouse gas concentrations would be negligible. At the same time, the additional stress that a short-term carbon cap would place on natural gas supplies due to fuel-switching from coal could serve as a substantial drag on economic recovery.

MIDAMERICAN ENERGY HOLDINGS COMPANY
1200 NEW HAMPSHIRE AVENUE, N.W. SUITE 300 • WASHINGTON, D.C. 20036-6812 • 202-828-1378 • FAX: 202-828-1380

In the near-term, MidAmerican has agreed to participate with many others in the energy industry in the President's voluntary emission reduction program. We also believe the United States should pursue a global climate policy that is long-term in outlook, applies to all countries on a measurable, proportional basis, and does not place arbitrary limitations on economic growth. We do not believe that the Kyoto Protocol meets these criteria.

We understand the desire of Senators McCain, Lieberman and others to "do something" now to reduce emissions of carbon dioxide and other greenhouse gases. However, we do not believe that this approach provides a viable road map for dealing with long-term climate concerns, even as it would place real burdens on the American economy. We believe a more appropriate climate policy would be based on the following principles:

*Focus in the near term on gaining a more thorough understanding of the potential challenges that climate change may create; opportunities for mitigation; and research, development and deployment of "no regrets" emissions reduction technologies. Such technologies would reduce emissions of other pollutants, increase efficiency and develop alternative fuel sources where they are most economical.

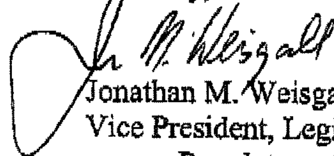
*Work with other nations to develop a truly global climate policy that will require all countries to participate on a proportional basis (rather than the permanent exemptions and arbitrary reduction requirements included in Kyoto).

*Support development and deployment of next generation technologies that will allow all countries to meet their growing demands for economic growth and higher quality of life while reducing greenhouse gas emissions as deemed scientifically appropriate.

We also believe it is absolutely essential that Congress enact a national energy policy that provides market-based incentives for the development of renewable energy resources such as wind, biomass and geothermal, as well as energy efficiency and research and development programs. These incentives, such as a long-term extension of the wind energy production tax credit (PTC), are essential to the economic feasibility of projects such as MidAmerican's Iowa wind farm.

Thank you again for contacting us in advance of this important vote, and we look forward to working with Senator Harkin on this and other important environmental issues.

Sincerely,



Jonathan M. Weisgall
Vice President, Legislative and
Regulatory Affairs

MidAmerican Energy Holdings Company Environmental Policy Statement
November 2004

Environmental respect is a core value of MidAmerican Energy Holdings Company (MEHC). One element of the Company's overall commitment to environmental respect is the adoption of business strategies and promotion of public policies that foster a healthier and sustainable environment. We will develop sustainable operations and implement environmental projects designed to leave a clean, healthy environment for our children and future generations. We also will work with governments at all levels in creating responsible laws and regulations reflecting sound public policy.

MidAmerican Energy believes that energy production and delivery is a vital component of economic and social development throughout the world. Through responsible practices and policies, we work to provide energy to homes and workplaces while maintaining our commitment to healthy, sustainable communities. Not only should these values not be in conflict, but rather they are compatible and interdependent.

Our views on public policies related to the environment and energy production and delivery can be summarized through the following principles:

1) governments and private industries should work together to ensure that citizens have an abundant supply of affordable energy using the full array of resources available;
2) environmental programs should provide citizens with continuing progress toward cleaner natural surroundings;
3) environmental challenges should be addressed primarily at the level at which they occur – state and local matters locally, regional challenges regionally, national issues through national programs, and global challenges through international cooperation;
4) regulatory programs should take advantage of economically efficient options for maximizing environmental and be implemented in the most flexible manner possible.

With regard to major environmental issues, MEHC believes:

1) Governments at all levels should encourage the development and deployment of renewable energy resources:

MEHC is one of the world's largest developers of renewable energy projects, including wind, geothermal, hydroelectric, biomass and solar energy. The Company strongly supports efforts at all levels to promote increased use of renewables through regulatory streamlining and cost-effective financial incentives. The United States' Congress' recent (October 2004) extension and expansion of the production tax credit for generating electricity from renewable resources will allow MidAmerican to complete one of the

world's largest land-based wind energy production projects when completed in Spring of 2005.

The company continues to also pursue a major expansion of its geothermal electricity production facilities in California's Imperial Valley. These production tax credits help offset the upfront capital costs of developing renewable energy facilities while making these projects price competitive. Unfortunately, the episodic nature of the United States Congress' action on renewable energy tax credits has led to a great deal of uncertainty in financial markets regarding these projects. Either as part of comprehensive energy legislation or other measure, the Federal government should enact a long-term extension of these renewable energy production tax credits for all forms of renewables. A five to ten year extension of these renewable energy tax credits would provide the certainty needed for developers and investors to allow the deployment of renewables in the United States to increase dramatically.

In view of the increasing number of states that are establishing renewable portfolio requirements for electric generators, Congress should direct the U.S. Department of Energy to develop uniform definitions for "green" electricity and tracking systems for renewable credits.

2) Governments should complete the transition to performance-based regulation of emissions to create the conditions under which environmental performance levels can be achieved in the most cost-effective manner possible.

In the early 1990s, the United States Congress, industry and environmental advocacy organizations reached a historic agreement to change the way the Federal government would regulate emissions of sulfur dioxide (SO2) from power plants. Rather than focus on program or technology-specific approaches to emissions reductions, the Clean Air Act of 1990 established a national cap for total emissions and allowed effected entities to comply in the most efficient manner possible through the use of tradable emissions reduction credits. In the years that followed, private parties exceeded anticipated emissions reduction levels at a fraction of the cost of more traditional approaches to regulation.

President Bush has proposed extending this approach to emissions reductions to other types of power plant emissions, including NOx (nitrogen oxide – the primary smog precursor) and mercury through the Clear Skies Initiative. MidAmerican Energy Holdings Company strongly supports this market-based approach to emissions reductions and believes Congress should act at the earliest date possible to pass legislation based on the Clear Skies proposal.

3) Governments must support the construction of critical energy infrastructure projects that provide benefits across political jurisdictions in order to ensure that broadly economically and socially beneficial projects can be developed expeditiously and efficiently.

Electric transmission and natural gas transportation require extensive networks that must be built and maintained with the highest degree of environmental sensitivity. At the same time, to enable energy supplies to be delivered to areas of energy demand, government policies should seek to minimize duplicative, non-contemporaneous regulatory processes and frivolous legal challenges to energy infrastructure projects. A robust network of electric transmission facilities and natural gas pipelines is critical to a reliable and affordable energy supply.

Too often projects are blocked or subject to lengthy delays for narrow reasons that have little to do with responsible stewardship. This can be a particular problem with regard to developing renewable energy resources which are generally location-specific and remote from population centers.

In the United States, the review of natural gas pipeline construction applications has long been the sole responsibility of the Federal Energy Regulatory Commission (FERC) with input received from other federal agencies, state and local governments, and private individuals and organizations. In light of some challenges to this authority that have been brought to the Courts in recent years, Congress should clarify in statute that FERC maintains exclusive jurisdiction over siting and certificating interstate natural gas pipelines. Federal energy legislation proposed in the 108th Congress also would extend limited FERC siting authority to electric transmission facilities that are deemed critical by the U.S. Department of Energy. MidAmerican believes that Congress should pass these measures at the earliest date possible.

4) Governments Must Work Cooperatively to Develop Workable, Effective Responses to Concerns Regarding Global Climate Change.

There is broad-based concern throughout the international community that increasing concentrations of carbon dioxide and other so-called greenhouse gases (GHGs) in the atmosphere may serve to alter global climate patterns. This concern over global climate change (sometimes referred to as global warming) led to international negotiations to prevent potentially harmful accumulations of GHGs culminating in the Kyoto Treaty of 1998.

The Kyoto Accords have been highly controversial, but recent commitments to sign these agreements by a number of large countries have made it likely that the Treaty will enter into force for signatories in early 2005. Most experts agree, however, that the impact of the Kyoto Treaty entering into force will be extremely limited. Some industrialized countries, notably the United States and Australia, have not signed the agreement, fast-growing developing companies such as China and India are not party to it, and participating countries agreed to make achieving emission reduction targets non-binding.

MidAmerican Energy Holdings Company has expressed serious reservations regarding both equitability and effectiveness of the Kyoto agreements. MEHC believes the international community should move immediately to consideration of a truly global

agreement that addresses concerns over potential climate change from a long-term perspective that focuses on technology deployment.

The fundamental principles of a workable international climate change framework should include:

*participation of all countries based on objective metrics with allowances for de minimus economies, not politically determined participation levels that exclude countries where emissions levels are growing most rapidly;
*development of mechanisms such as carbon intensity targets or emissions offset requirements that will not artificially constrain economic growth;
*prioritization of long-term technology development versus short-term growth caps;
*focus on deployment of existing technologies to developing countries in order to achieve efficiency-based emissions reductions that provide complimentary benefits in terms of public health, air and water quality.

ELECTRICPERSPECTIVES

March/April 2002

DISCARDING PUHCA

By David L. Sokol

David Sokol is chairman and CEO of MidAmerican Energy Holdings Company.

Using an outdated 1935 law to help control abuses in the 21st century energy marketplace not only doesn't make sense, it also prevents those markets from functioning.

Military historians often quote the maxim that one of the great failings of many generals is that they plan to fight the "last war." They cite the example of France building a supposedly impregnable string of defenses along its border with Germany after World War I to guard against future invasion. Of course, this defense—called the Maginot Line—proved an historic misallocation of resources that tragically failed to protect France in the next war.

As policymakers respond to the twin energy shocks of 2001—the California energy crisis and the collapse of Enron—they should avoid the inevitable temptation to fight the last war. Re-regulating electricity and natural gas markets, or freezing them in their current semi-evolved state, would be a mistake that will hamstring the industry and the American economy for decades to come. These nonsolutions will prove no more viable to ensuring consumer and investor protection than the Maginot Line did in safeguarding the French in 1940. We cannot meet the energy challenges of the new century with an industry structure that was outmoded at the end of the last.

Calls to maintain the Public Utility Holding Company Act of 1935 (PUHCA) are prime examples of Maginot Line mentality. And the U.S. Court of Appeals' recent PUHCA-based remand of the Securities and Exchange Commission's (SEC) approval of the American Electric Power/Central and South West (AEP-CSW) merger—in spite of the approval of the Federal Energy Regulatory Commission (FERC) and 11 state public utility commissions (and of more than $2 billion in anticipated economic benefits)—increases the urgency for Congress to move forward with PUHCA repeal and other needed market modernizations.

To keep PUHCA in force while the rest of the business world progresses not only is a mark of futility, but also is a burden to an industry that requires greater investment and efficiency.

Don't Build Barriers to Free Markets

Consumers have saved tens of billions of dollars since Congress began the process of opening wholesale electricity markets to competition 10 years ago. But on the transmission side of the industry, the status quo industry structure is not serving consumers well. A recent study commissioned by FERC demonstrated that electricity consumers are spending more than $1 billion per year too much for electricity as a result of transmission bottlenecks. And growth in electricity consumption continues to outpace increases in interstate transmission capacity.

Consumers' gains from competition would be lost under re-regulation, while sorely

needed transmission expansion will continue to be seriously constrained by allowing PUHCA to remain in full force. What relevance do these core energy and economic issues have to the California crisis and the Enron collapse? The answers are, respectively, some and none at all.

The problems in California have been widely discussed elsewhere, and I would generally concur with the view that an ill-designed state-level retail competition plan, overburdened infrastructure, and uncoordinated environmental and energy policies combined to create a massive failure in a market stuck somewhere between regulation and competition. Updating federal laws to clarify regulatory jurisdiction, eliminating barriers to investment, and improving infrastructure can only help prevent future Californias. PUHCA did nothing to protect customers or investors there; in fact, it may have exacerbated the problem since the law's arcane hurdles for investment tend to discourage transmission expansion.

With regard to Enron, the first and most important thing to note is that this type of collapse could happen to any company—in any industry—that is willing to misuse accounting to conceal, rather than reveal, its underlying business fundamentals. Sunbeam, Waste Management, and other companies outside the energy business engaged in similar tactics with comparable results. In fact, it is a testament to the vitality of energy markets that a dominant player such as Enron could vaporize almost overnight without causing even a glitch in the market.

Using Enron as an excuse not to move forward with market modernization is politically easy. For those who don't know the difference between a regulated utility and an energy marketer, this type of misinterpretation is also understandable. What's more disturbing is when policymakers and market participants who should know better use this type of argument to further some other agenda. It's an internally inconsistent position to say that the laws we have aren't working, but that we shouldn't work to update them.

In order to glean any useful policy lessons from these two situations, policymakers must lay aside hackneyed arguments designed to further particular political agendas. Instead, they need to conduct a responsible discussion of the real issues. To return to the Maginot analogy, if we don't understand the specific facts, we run the risk of simply building a longer wall and digging a deeper trench, defenses that are destined to fail.

PUHCA: Useful Once...

PUHCA made sense 67 years ago, when there was no other state or federal statutory framework to control the misuse of the holding company structure. The stock market crash of 1929 and the Depression exposed excessive leveraging and Byzantine holding company structures within the relatively new and mostly unregulated electric and gas utilities. These holding companies were organized to allow revenues from monopoly utilities to be passed through numerous corporate shells to finance highly speculative investments. When these schemes collapsed, shareholders were left holding worthless securities, and ratepayers suffered as well. Congress responded by passing a number of landmark laws to create a more manageable structure for the energy industry.

With the establishment of the SEC and the Federal Power Commission (forerunner of FERC) in the mid-1930s, PUHCA was designed to give the SEC more power to effectively regulate interstate commerce. At the same time, states began creating or

enhancing their own utility regulatory bodies to ensure that customers of monopoly utilities paid no more than "just and reasonable" rates.

PUHCA required electric and gas utilities to be no more than one organizational step removed from their ultimate corporate parent and required that multistate utilities pass a so-called "physical integration" standard to justify their participation in multiple state markets. In practice, this served as a tool to break up the old holding companies into units that could be regulated effectively by state utility commissions. SEC studies have shown that PUHCA accomplished this goal by 1953.

Electricity and gas markets have changed completely since the 1930s. Today, FERC and state agencies closely regulate utilities. The SEC retains full authority over securities functions, and the Federal Trade Commission and Justice Department have well-established antitrust authority. And, as we have seen with Enron, once internal abuses are exposed, the response is swift and severe.

...Not Relevant Now
PUCHA—the most blatantly out-of-date energy law—should be repealed for three main reasons. First, the Act keeps new investment out of the energy industry. With few exceptions, mergers and acquisitions of utilities subject to PUHCA have been by other domestic and foreign utilities. Investment by entities outside the industry has been virtually nonexistent, as they avoid the burdens imposed by the Act. For example, MidAmerican's largest investor, Warren Buffett, has publicly announced his intention to spend as much as $10 billion to $15 billion on the industry after the law is repealed. Those are resources that could be invested, at reasonable capital cost, in improving electric infrastructure (particularly in transmission and distribution) where MidAmerican and nontraditional investors are either currently prohibited from, or severely limited in, investing. Why would we want to stop one of the nation's only triple-A rated companies from supplying large amounts of capital to the industry?

Second, the physical interconnection requirements of PUHCA are incompatible with the development of an independent transmission grid, and they actually mandate regional concentrations of potential market power. This effectively forces a utility to control sufficient transmission rights in a region to interconnect geographically dispersed distribution services areas. The U.S. Court of Appeals decision rejecting the AEP-CSW merger readily noted that this requirement may be "outdated," but in light of PUHCA's "plain language" that a holding company's system must be confined to a single area or region, it held that "only Congress can make that decision." These interconnection requirements not only are counter-productive, but they also push in the opposite direction of 40 years of federal antitrust policies designed to promote asset dispersion rather than concentration.

Finally, PUHCA repeal legislation will place regulatory authority where it belongs—at state and federal utility commissions. In contrast, the SEC openly admits that it has no expertise in energy markets and no reason to be involved in their regulation beyond enforcing the securities laws that apply to all other publicly traded companies.

FERC, SEC, and state public utility commissioners have all endorsed PUHCA repeal as part of a national energy plan. FERC commissioners and staff have consistently testified that PUHCA is an impediment to the type of multistate regional transmission organizations that market participants and independent experts agree are critical to establishing vibrant, nondiscriminatory, wholesale electricity markets.

An End to Uncertainty

Why, though, should Congress repeal PUHCA now when there is so much uncertainty in electricity markets? Simply stated, the law is the reason for much of this uncertainty.

PUHCA is a static structural barrier as ill-suited to regulating dynamic 21st century energy markets as the French trenches were to stopping tanks and planes. State and federal rate regulation and access to books and records are the flexible tools that provide real, effective protection for electric and gas consumers. Indeed, given the pervasive regulation that utilities face, these companies are probably least likely to engage in the types of excesses that led to Enron's fall. And the PUHCA repeal bills before Congress will enhance state and federal regulators' ability to look at utility holding company books.

Keeping PUHCA in place diverts attention and resources from the critical challenge of building a regulatory framework that will provide new investment, flexibility, transparency, and ideas for the industry. Spending tens of millions of francs (at 1930 rates, no less) on the Maginot line not only did nothing to protect France in World War II, it also kept the military from mastering new tactics of armored and aerial combat that had emerged by the end of World War I. Similarly, maintaining PUHCA in the name of consumer and investor protection prevents progress in areas that would benefit them.

Maginot Line Thinking

No regulatory structure can prevent a company such as Enron from bending or breaking existing securities laws, misusing accounting, or hiding compensation arrangements for senior officers behind questionable partnerships. But existing laws other than PUHCA can, and do, effectively protect consumers against the consequences of these actions. The untold story of the Enron collapse is that effective state and federal regulation left customers of its two primary regulated assets, Portland General Electric (PGE) and Northern Natural Gas, unaffected by their corporate parent's collapse. The fact is that Enron has been trying to sell PGE for years and owned less gas pipeline at its demise than it did in 1985. Enron's business strategy wasn't to earn solid returns in regulated industries, but to achieve spectacular returns in speculative markets. Intellectual honesty demands we admit that PUHCA neither helped nor hurt Enron's customers and investors. It provided no additional protection, and its absence would not have made the Enron situation any worse. State regulators, not PUHCA, protected PGE.

Some in Congress have suggested that electric- and gas-trading markets should be subject to some form of federal oversight, whether through FERC, SEC, or the Commodities Futures Trading Commission. This is far more in line with the state of energy markets today than making the false argument that PUHCA can prevent future Enron- or California-like debacles. Congress and the Administration should take a serious look at this proposal.

It's time to repeal PUHCA and free the hands of those who know the energy industry best so that they can make the investments that are needed for a 21st century energy infrastructure. PUHCA's barriers to progress cannot simply be avoided. They must be removed.

© copyright Edison Electric Institute

20050929-3035 Issued by FERC OSEC 09/29/2005 in Docket#: PA04-18-000

UNITED STATES OF AMERICA 112 FERC ¶ 61,346
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

MidAmerican Energy Company Docket No. PA04-18-000

ORDER APPROVING AUDIT REPORT AND
DIRECTING COMPLIANCE ACTIONS

(Issued September 29, 2005)

1. In this order, we approve the attached Audit Report (Report) prepared by the Division of Operational Audits (Operational Audits), Office of Market Oversight and Investigations. The Report contains Operational Audits staff's findings and recommendations with respect to MidAmerican Energy Company's (MidAmerican) compliance with the Commission's rules, regulations, and requirements. During the audit, staff found three main areas of non-compliance. First, MidAmerican permitted its wholesale merchant function to use network service to import power into MidAmerican's system to make possible off-system sales. Second, MidAmerican provided transmission services to its wholesale merchant function that were not available to non-affiliates. Third, MidAmerican did not require its wholesale merchant function to comply with applicable tariff provisions regarding the designation of network resources.

2. The Commission directs MidAmerican to enact the Report's recommended corrective actions, including the procedural remedies outlined in this order. In addition, in order to resolve this audit, MidAmerican has agreed to build the transmission projects outlined in this order designed to reduce congestion at two flowgates.[1]

Background

3. On June 3, 2004, Operational Audits issued a letter to MidAmerican in Docket No. PA04-18-000 announcing that it was commencing an audit to determine whether MidAmerican was in compliance with: (1) Standards of Conduct and Open Access Same

---

[1] The projects MidAmerican agrees to build will alleviate congestion on the Quad Cities West and Montezuma West flowgates.

UM-1209/PacifiCorp
October 25, 2005
CUB Data Request 89

PPW's Response to OPUC Data Request 118

Regarding executive-level positions, the following is the current breakdown:

(b) Portland, Oregon

- Judi Johansen (President and CEO, PacifiCorp)
- Richard Peach (CFO, PacifiCorp)
- Andy Haller (General Counsel)
- Andy MacRitchie (EVP, Strategy, Regulation and Government Affairs)
- Matthew Wright (EVP, Power Delivery)
- Stan Watters (SVP, Commercial and Trading)
- David Mendez (Chief Accounting Officer)
- Linda Wah (VP, Human Resources)

(c) Salt Lake City, Utah

- Rich Walje (President, Utah Power)
- Barry Cunningham (SVP, Generation)
- Karen Gilmore (VP Customer Service)
- Dee Jense (President, Interwest Mining)
- Doug Larson (Vice President, Regulation)
- Jeff Larsen (Vice President)
- Ernie Wessman (Vice President, Resources Development)

UM-1209/PacifiCorp
September 16, 2005
CUB Data Request 42

CUB Data Request 42

Please provide a list of all subsidiaries and affiliates of Berkshire Hathaway and MEHC.

MEHC's Response to CUB Data Request 42

The subsidiaries of Berkshire Hathaway Inc. as listed on its web site are as follows:

a. Acme Brick Company;
b. Ben Bridge Jeweler;
c. Berkshire Hathaway Group;
d. Berkshire Hathaway Homestates Companies;
e. Borsheim's Fine Jewelry;
f. Buffalo NEWS, Buffalo NY;
g. Central States Indemnity Company;
h. Clayton Homes;
i. CORT Business Services;
j. CTB Inc.;
k. Fechheimer Brothers Company;
l. FlightSafety;
m. Fruit of the Loom®;
n. Garan Incorporated;
o. GEICO Auto Insurance;
p. General Re;
q. Helzberg Diamonds;
r. H.H. Brown Shoe Group;
s. International Dairy Queen, Inc.;
t. Johns Manville;
u. Jordan's Furniture;
v. Justin Brands;
w. Larson-Juhl;
x. McLane Company;
y. MidAmerican Energy Holdings Company;
z. MiTek Inc.;
aa. National Indemnity Company;
bb. Nebraska Furniture Mart;
cc. NetJets®;
dd. The Pampered Chef®;
ee. Precision Steel Warehouse, Inc.
ff. RC Willey Home Furnishings;

gg. Scott Fetzer Companies;
hh. See's Candies;
ii. Shaw Industries;
jj. Star Furniture;
kk. United States Liability Insurance Group;
ll. Wesco Financial Corporation; and
mm. XTRA Corporation.

The key business operations of MEHC are listed and described in the testimony of MEHC witness Abel, at page 8, and in Item No. 1.03.01 (MEHC 10-K) of the Electronic Document Room. An MEHC organizational chart is provided as Item No. 1.01.03 of the Electronic Document Room.

UM-1209/PacifiCorp
September 16, 2005
CUB Data Request 58

CUB Data Request 58

Please define "corporate headquarters" as used on PPL/301/Gale/7.

MEHC's Response to CUB Data Request 58

MEHC defines "corporate headquarters" to mean the location of a portion of senior management and corporate functions (e.g., accounting, human resources, legal, information technology, etc.).

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

Docket No. UM 1209

In the Matter of the Joint Application of	)
MidAmerican Energy Holdings Company and	)
PacifiCorp dba Pacific Power & Light	)
Company for an Order Authorizing the Proposed	)
Transaction.	)
	)

DIRECT TESTIMONY OF JAMES R. DITTMER

On Behalf of the
Citizens' Utility Board of Oregon

November 21, 2005

1 **Q. Please state your name and address.**

2 A. My name is James R. Dittmer. My business address is 740 Northwest Blue Parkway,
3 Suite 204, Lee's Summit, Missouri 64086.

4 **Q. By whom are you employed?**

5 A. I am a Senior Regulatory Consultant with the firm of Utilitech, Inc., a consulting
6 firm engaged primarily in utility rate work. The firm's engagements include review
7 of utility rate applications on behalf of various federal, state and municipal
8 governmental agencies, as well as industrial and consumer groups. In addition to
9 utility intervention work, the firm has been engaged to perform special studies for
10 use in utility contract negotiations.

11 **Q. On whose behalf are you appearing?**

12 A. Utilitech, Inc. has been retained by the Citizens' Utility Board of Oregon ("CUB") to
13 review the joint application of MidAmerican Energy Holdings Company ("MEHC")
14 and PacifiCorp d/b/a Pacific Power & Light Company ("PacifiCorp") to receive an
15 order from the Oregon Public Utility Commission ("OPUC") or ("Commission")
16 authorizing a proposed transaction whereby MEHC would acquire all the
17 outstanding common stock of PacifiCorp and PacifiCorp would thereafter become an
18 indirect wholly owned subsidiary of MEHC. (Hereinafter MEHC and PacifiCorp
19 will sometimes be referred to as "Applicants" or "Joint Applicants." I would also
20 note that I am working on an identical docket filed by the Joint Applicants before the
21 Washington Utilities and Transportation Commission ("WUTC") on behalf of the

1 Public Counsel Section of the Washington Attorney General's Office ("Public
2 Counsel").

3 **Q. What is the purpose of your testimony?**

4 A. Within this testimony I will describe the transaction being proposed by the
5 Applicants, discuss some the claimed benefits of the transaction, as well as describe
6 the disadvantages and risks of the proposed transactions. I also discuss why without
7 proper safeguards, I believe the transaction exposes ratepayers to potential
8 detriments, and therefore, in the absence of adoption of such safeguards should be
9 rejected by the Oregon Public Utility Commission. Finally, I recommend a number
10 of conditions that should be considered before approval of the transaction occurs.

11 **Q. Have you prepared an exhibit which sets forth your qualifications?**

12 A. Yes. Attached as CUB Exhibit 201 is a statement of my qualifications.

13 **Q. Could you please summarize the more significant conclusions and**
14 **recommendations that you are presenting within this prefiled direct testimony?**

15 A. Some of my more significant findings upon a review of MEHC testimony as well as
16 responses to discovery in this case include:

17 - MEHC cites many claimed "benefits" of the proposed acquisition. However,
18 upon review, most claimed benefits are not unique to MEHC ownership, and in
19 fact, should be expected from any PacifiCorp management or owners. Further,
20 of the few claimed benefits that arguably could be considered unique to MEHC
21 ownership, I believe some are suspect, some will be difficult to quantify or

1 prove at a later date, and in any event, such claimed economic benefits are *de*
2 *minimis* to PacifiCorp's system-wide revenue requirement.

3 • There is exposure to detriments resulting from MEHC and ultimately
4 Berkshire Hathaway ownership, including without limitation, potential cross
5 subsidization of other MEHC or Berkshire Hathaway holdings, potential
6 premature or excessive investment in PacifiCorp's infrastructure without
7 regard to timely need or rate impact, potential exposure to aggressive
8 regulatory or statutory proposals that may be advocated by a large and diverse
9 super parent multi-state holding company such as Berkshire Hathaway, and
10 potential exposure to cost of service rate development that considers a capital
11 structure that does not reflect the *true* or *actual* capital costs or income tax
12 costs of MEHC financings that underlie the purchase of PacifiCorp assets.

13 • The transaction should only be approved if, pursuant to Oregon precedent,
14 there is a determination that the transaction provides a demonstrated net benefit
15 for ratepayers. Further, the transaction should only be approved if conditions
16 are imposed that safeguard utility ratepayers from many of the potential
17 detriments identified above. Specifically, approval of the transaction should be
18 conditioned upon:

19 o A commitment that no Berkshire Hathaway ownership or operating costs
20 will ever be pushed down to MEHC or PacifiCorp. In the alternative, if
21 Berkshire is unwilling to make such a commitment and therefore ever
22 desires to push down ownership or operating costs to MEHC and
23 ultimately PacifiCorp, Berkshire Hathaway should commit to making

personnel, books and records available to the extent that MEHC is required to make its personnel, books and records available for inquiry and inspection.

- Asymmetrical pricing guidelines, which are applicable in Oregon pursuant to statute, should be followed with regard to PacifiCorp transactions with MEHC, other MEHC subsidiaries, *as well as any Berkshire Hathaway controlled subsidiary.*
- *Positive* time sheet reporting should be required of any MEHC or MEHC subsidiary's officers or employees who routinely or occasionally work on activities that benefit PacifiCorp.

Q. Please describe the more significant elements and characteristics of the proposed acquisition?

A. As this Commission is well aware, currently ScottishPower owns 100% of PacifiCorp's common stock.[1] Under the transaction as proposed, ScottishPower will sell all common stock which it holds to MEHC for a value of approximately $9.4 billion, consisting of approximately $5.1 billion in cash plus retention of PacifiCorp-specific net debt and preferred stock totaling approximately $4.3 billion. I note at this point that MEHC is a majority-owned (83.75%) subsidiary of Berkshire Hathaway, Inc. which also owns regulated and non-regulated energy subsidiaries. Finally, Berkshire Hathaway is a holding company owning subsidiaries engaged in a number of business activities, with controlling ownership held by Warren Buffett.

[1] In actuality, all PacifiCorp common stock is held by PacifiCorp Holdings, Inc. ("PHI"), which in turn is wholly owned by ScottishPower. Therefore it is technically more accurate to state that ScottishPower indirectly owns 100% of PacifiCorp's common stock.

1 **Q. Please expand upon MEHC's business structure and business platforms.**

2 A. MEHC is a privately-held global company engaged in a number of regulated, as well
3 as unregulated energy ventures. The details of the six major business platforms are
4 described and discussed in greater detail in the direct testimony of MEHC's
5 president and chief operating officer, Mr. Gregory Abel. That said, I would
6 emphasize herein simply a few of MEHC's major "energy business" holdings.
7
8 First, one of MEHC's major holdings consists of MidAmerican Energy Company
9 ("MEC") which is a vertically integrated electric and natural gas utility,
10 headquartered in Des Moines, Iowa, providing regulated electric and gas service in
11 the states of Iowa, Illinois, Nebraska and South Dakota. Another significant
12 holding of MEHC consists of CalEnergy Generation, which owns geothermal and
13 natural gas generating stations in the United States and the Philippines. Finally, I
14 note that MEHC owns two interstate natural gas pipelines providing service from
15 Texas to the upper Midwest (Northern Natural Gas Company) as well as from
16 Wyoming to Southern California (Kern River Gas Transmission Company). As I
17 will discuss in an ensuing section of testimony, ownership of such related energy
18 businesses arguably presents opportunities for "synergies" as well as the sharing of
19 intellectual properties, but also presents the dangers of affiliate abuse through self-
20 dealings between companies that have a common parent.
21
22 According to the direct testimony of MEHC witness Mr. Patrick J. Goodman,
23 MEHC's consolidated capital structure as of March 31, 2005 – obviously prior to the

1 planned acquisition of PacifiCorp stock – consisted of 77.1% long term debt, 0.6%
2 preferred securities of MEHC's subsidiaries, and 22.3% of stockholders' equity.
3 Such capitalization is debt leveraged to a much greater extent than is typical of
4 regulated energy utilities.

5 **Q. You stated in an earlier answer that 83.75% of MEHC was owned by Berkshire**
6 **Hathaway, Inc. While perhaps many readers know of the business activities of**
7 **Berkshire Hathaway, for completeness of the record, could you please expand**
8 **upon the business activities of Berkshire Hathaway?**

9 A. Berkshire Hathaway, Inc. is a holding company wholly-owning, or in some instances
10 holding a majority ownership interest in, numerous subsidiaries with diverse
11 business operations. A significant number of such holdings include businesses
12 engaged in reinsurance as well as direct insuring of property and casualty risks.
13 Berkshire Hathaway also wholly owns businesses engaged in the manufacture of
14 carpet, paint, industrial coatings, insulation, building products, engineering software,
15 and footwear. Other diverse business holdings include: training of aircraft and ship
16 operators, home furnishing retailers, fine jewelry retailers, and business and
17 consumer lending institutions.
18
19 While Berkshire Hathaway is also a non-majority owner of a number of common
20 stocks (much like a typical mutual stock fund) it has a history of, and stated goal to,
21 acquire "whole companies" *for the long term.* Finally, at the risk of stating what is
22 commonly known, Warren Buffett – the world's second richest man – is the
23 Chairman of Berkshire Hathaway with a controlling ownership interest. To say the

least, Berkshire Hathaway is a very large, diverse and unique business with a long and interesting history – controlled by one man.

Q. What are the MEHC and PacifiCorp claimed benefits or advantages of the proposed transaction?

A. The joint application makes the following claim of "benefits" the transaction will produce for customers:

- $812 million investment in emissions reduction technology for existing coal plants which, when coupled with the use of reduced emissions technology for new coal-fueled generation, would be expected to reduce the SO_2 emissions rate by more than 50%, to reduce the NOx emissions rate by more than 40%, to reduce the mercury emissions rate by nearly 40%, and to avoid an increase in CO_2 emissions rate;

- $78 million investment in a Path C transmission upgrade to increase the transfer capability between PacifiCorp's east and west control areas;

- At least a 10 basis point reduction for five years (cumulatively $6.3 million in claimed interest cost savings) in the cost of PacifiCorp's issuances of long term debt;

- At least a $30 million reduction (over five years) in corporate overhead costs;

- Consideration of reduced-emissions coal technologies such as IGCC and super-critical;

- Affirmation of PacifiCorp's goal of 1400 MW of cost-effective renewable resources, including 100 MW of new wind energy within one year of the close of the transaction and up to 400 MW of new wind energy after the transmission line projects are completed;

- Reduction in sulfur hexafluoride emissions;

- $1 million shareholder-funded system-wide study designed to further demand-side management and energy efficiency programs where cost effective;

- A 2-year extension of the customer service standards and performance guarantees;

- A commitment of MEHC's resources and involvement, in cooperation with the PacifiCorp states, to look into transmission projects beneficial to the region, such as the Rocky Mountain Area Transmission Study ("RMATS") and the Frontier Transmission Line Project;

- Uniform application of the commitments from the prior PacifiCorp-ScottishPower transaction in all six states; and

- Offering a utility own/operate option for consideration in renewable energy RFPs.

Q. Do you concur with MEHC's and PacifiCorp's claims that the above-delineated events constitute "benefits" or "advantages" of the proposed transaction?

A. All but three of the noted "advantages" are not unique to, nor can they credibly be linked to, consummation of the transaction and ownership by MEHC. Specifically, all above-noted indications of willingness to invest in – or "consideration" to invest in – are not a "benefit" or "advantage" unique to MEHC ownership. If the suggested investments are prudent and economic, it should be expected that PacifiCorp, even under continued ScottishPower ownership, would engage in such investments. Other non-investment "considerations" or "offerings" could and should be undertaken by PacifiCorp under continued ScottishPower ownership if such actions are deemed efficient, reasonable or prudent. Finally, I do not believe the "extension" of *existing* customer service standards and performance guarantees reasonably rises to the status of a "benefit" or "advantage" of the transaction inasmuch as they are – by definition – already *existing.*

1 **Q. In your previous answer you indicated that "all but three" of the**
2 **MEHC/PacifiCorp-claimed advantages of the transaction were *not* unique to**
3 **MEHC ownership. Please expand upon the three claimed benefits that you**
4 **appear to agree are unique to MEHC ownership of PacifiCorp stock.**

5 A. First, the promise of *at least* a 10 basis point reduction in the cost of new debt
6 issuances, would appear to be a "benefit" unique to the transaction. Similarly, the
7 promise of at least a $30 million reduction, over a five-year period, in corporate
8 overhead costs would also appear to be a "benefit" unique to the transaction.
9 Finally, the promise of a $1 million shareholder-funded system-wide study
10 designated to further demand-side management and energy efficiency programs
11 where cost effective, would also appear to be a "benefit" that might only be
12 reasonably expected to occur with MEHC ownership.

13 **Q. Do you agree that the three noted events can be legitimately characterized as**
14 **"benefits" attributable solely to MEHC's acquisition?**

15 A. I believe that viewed in isolation the promise of $6.3 million in long term debt
16 interest cost savings, over a five-year period, assuming such savings can be
17 accurately quantified, could qualify as a legitimate economic benefit uniquely
18 resulting from the transaction. I believe it is debatable whether true and accurate
19 interest cost savings can be quantified. More importantly, however, I note the
20 savings promised – a PacifiCorp-system-wide average of a little more than $1
21 million per year – are *de minimis* to PacifiCorp's system-wide revenue requirement
22 determination. Such amount will not be felt by ratepayers as it will essentially be
23 lost in the rounding. Similarly, the promise of a one-time $1 million shareholder-

1 funded study of demand-side management and energy efficiency programs, while
2 appealing from a public relations stand point, is also *de minimis* to PacifiCorp
3 ratepayers in the grand scheme of things.
4
5 Turning to the claimed benefit of $30 million of corporate overhead costs, I first note
6 that what MEHC is claiming is that ScottishPower parent-company overhead costs
7 being pushed down to PacifiCorp will be reduced by approximately $6 million per
8 year for the next five years. However, according to PacifiCorp, such ScottishPower
9 parent company costs only first began to be pushed down to PacifiCorp beginning in
10 Fiscal Year 2005. (See PacifiCorp's response to Washington Public Counsel Data
11 Request No. 17, that has been attached as CUB Exhibit 202) I do not know to what
12 extent such recently-imposed ScottishPower costs have been historically, or might in
13 the future be, reflected within PacifiCorp's retail rates. However, in order to make a
14 claim of parent-company overhead cost savings, it would seem that
15 MEHC/PacifiCorp would have to declare with certainty that all such newly-imposed
16 ScottishPower costs either have been, or shortly will be, reflected within the
17 development of PacifiCorp's retail rates. I do not observe where any such claim has
18 been made, and accordingly, both the existence and magnitude of such claimed
19 savings is at least suspect.
20
21 In summary, with regard to the point of MEHC/PacifiCorp claimed "benefits," as
22 previously discussed, the majority of such events cannot be legitimately claimed as
23 events or outcomes unique to MEHC ownership. Further, regarding the three

1 claimed benefits that arguably are unique to MEHC ownership, I submit that such
2 claimed benefits are suspect, maybe difficult to quantify, and in any event, are *de*
3 *minimis* relative to the magnitude of the transaction and PacifiCorp's retail rate
4 levels.

5 **Q. Thus far we have discussed MEHC-*claimed* and/or *potential* benefits of MEHC**
6 **ownership. Are there potential detriments to MEHC ownership?**

7 A. Yes. As discussed by other witnesses appearing on behalf of CUB, there are financial
8 risks associated with the debt levels that are above industry averages that MEHC
9 intends to maintain. Beyond the financial risks associated with high levels of debt
10 leverage, I believe there exists significant *potential* detriment through ultimate
11 ownership by the super-parent Berkshire Hathaway. Such detriments can exist in the
12 form of the sheer economic and political influence that can be wielded by an entity
13 with the size and diversity of Berkshire Hathaway. Further, detriments can result for
14 PacifiCorp ratepayers in the form of utility rates that could subsidize the operating
15 results of other businesses owned by MEHC or Berkshire Hathaway.

16 **Q. Please expand upon the claim that ratepayers could be harmed through the**
17 **payment of utility rates that contain subsidies for other businesses owned by**
18 **MEHC or Berkshire Hathaway.**

19 A. Utility ratepayers could end up paying excessively high rates that, intentionally or
20 unintentionally, are subsidizing Berkshire Hathaway's or MEHC's non-utility
21 business ventures. The means by which subsidization of non-utility operations can
22 occur are many and varied.

23

First, subsidies can arise when the utility is not fully or adequately compensated for utility resources which are used by, or shared with, unregulated non-utility operations. Examples may include free or under-priced use of office space, interest free or below-market-rate loans, credit guarantees, and free or under-priced use of customer data which was accumulated through the utility's billing procedures.

Subsidization can also occur through unfair transfer prices charged for goods or services sold/purchased in and among the utility and its unregulated affiliates. Historically in the regulated communications industry, utility regulators were confronted with issues concerning the appropriate and equitable price that telephone equipment manufacturing affiliates should charge regulated telephone operations. Similarly, electric utility regulators have been confronted with pricing issues surrounding sales of coal by a wholly-owned coal mining subsidiary to an affiliated utility company.

Where personnel, facilities and other resources are "shared," inequitable allocation methods to distribute joint or common costs can also lead to ratepayer subsidization of non-utility operations. It is not uncommon for diversified utilities to share a number of "services" including accounting systems, billing systems, human resources, risk management, finance/treasury functions, information systems (computer hardware and software support), telecommunication systems and support, marketing, as well as senior executive management. When many services are

1 shared, inequitable allocation procedures can lead to subtle but persistent
2 subsidization.
3
4 Finally, subsidization may occur when risks are inappropriately shifted from the non-
5 utility affiliate to the utility subsidiary. Examples could include utility loans and
6 credit guarantees to non-utility operations — where interest rates charged do not
7 reflect the difference in risk between the utility and non-utility operations.
8 Similarly, insurance policies that cover utility and non-utility operations need to
9 appropriately consider the risk exposure being imposed by the utility versus non-
10 utility operations.

11 **Q. Your prior answer provided fairly generic concerns of subsidization that could**
12 **occur under nearly any ownership structure when utilities and**
13 **unregulated/non-utility businesses are commonly owned. Are the problems you**
14 **suggest to be *possible* a real threat in the instant case?**

15 A. Very much so. First, it needs to be understood that the very dangers of which I
16 spoke in my prior answer were, to a significant extent, limited by utility ownership
17 restrictions contained within the Public Utility Holding Company Act of 1935
18 ("PUHCA"). This extensive and far-reaching piece of legislation that has been in
19 effect for 70 years was passed following a litany of utility ownership abuses that
20 occurred from the beginning of the 20th century until passage of the noted
21 legislation. Specifically, prior to passage of PUHCA, utilities that were owned by
22 holding companies that also owned unregulated businesses were being charged
23 exorbitant prices for goods and services being provided by unregulated affiliates.
24 With the passage of PUHCA, holding companies were limited to owning energy

1 utilities for which operations were confined to a single state — unless they were
2 willing to be registered as a multi-state holding company subject to extensive
3 reporting requirements and numerous other operating restrictions. With the recent
4 repeal of PUHCA, many of the reporting requirements and ownership limitations
5 that have for 70 years provided utility ratepayer protection are now gone.
6 Accordingly, state regulators will need to be ever more vigilant in establishing rules
7 and conditions that will attempt to provide the same consumer protection that
8 PUHCA has historically provided. But specifically in answer to the question posed
9 herein, PacifiCorp ownership by MEHC and ultimately by MEHC's *super*
10 *conglomerate parent* Berkshire Hathaway again raises the risk for the affiliate
11 abuses that predated the passage of PUHCA.
12

13 All the foregoing having been stated, I believe it is reasonable to point out two facts
14 regarding the instant case. First, MEHC and PacifiCorp have already volunteered a
15 number of reporting requirements and conditions that should help detect and restrict
16 potentially abusive transactions – at least with regard to dealings between
17 PacifiCorp, MEHC and other MEHC-owned subsidiaries. Further, while I am
18 hardly well studied in Warren Buffett's or Berkshire Hathaway's business practices,
19 I would simply state that over the years the various articles and accounts I have read
20 have been complimentary of Mr. Buffett's business successes as well as his
21 business ethics. That said, we all know things change. Well-intentioned and
22 honorable management can be, and occasionally has been, replaced by executives
23 with a much shorter time horizon for success, a much higher target in terms of
24 achieving reasonable financial success (*i.e.*, returns), and certainly less honorable
25 characteristics. If the regulators are inclined to allow this transaction to occur, they

1 should not forget the lessons well-learned in the first third of the 20th century (prior
2 to passage of PUHCA). The regulators should not assume that even if there is little
3 evidence to suggest that Mr. Buffett or Berkshire Hathaway have historically
4 "misbehaved," there is no certainty that the next person or persons in charge of
5 Berkshire Hathaway will share Mr. Buffett's ethics. It goes without saying that Mr.
6 Buffett, who is in his mid-70s, will not be in charge of Berkshire Hathaway for too
7 many more years. And finally, it should be noted that Warren Buffett is but one man
8 — he does not individually manage or control all the numerous subsidiaries owned
9 by Berkshire Hathaway. Accordingly, if the proposed transaction is to be approved,
10 it should only be done so with conditions that will enable regulators to identify and
11 prohibit abusive affiliate transactions while preserving the financial integrity of the
12 regulated utility. Or in other words, it should only be approved with conditions that
13 would prohibit "detriments" to ratepayers.

14 **Q. What conditions and reporting requirements have MEHC and PacifiCorp**
15 **already volunteered in efforts to allay the parties' concerns over potential**
16 **affiliate abuse?**

17 A. In Exhibit 309 attached to the direct testimony of MEHC witness Mr. Brent Gale are
18 listed a number of commitments that MEHC has made with regard to its acquisition
19 of PacifiCorp. In the interest of not unduly expanding and duplicating the record, I
20 will not list each of the numerous MEHC-offered commitments herein, nor will I
21 discuss the need or propriety of MEHC/PacifiCorp-offered commitments with
22 which I agree – or certainly do not take exception to. Suffice it to say, unless I
23 specifically take an exception with, or suggest an expansion to an already-

1 volunteered commitment, I believe MEHC's commitments are good if not
2 absolutely necessary before OPUC approval of the transaction is granted.

3 **Q. Please proceed by discussing the modifications or expansions that you would**
4 **advocate be adopted before OPUC approval of the transaction.**

5 A. First, I note that MEHC has agreed to many MEHC and PacifiCorp reporting
6 requirements. MEHC has agreed to allow Commission (and presumably intervenor)
7 "access" to MEHC and PacifiCorp books and records, as well as to make MEHC and
8 PacifiCorp employees, officers, agents, etc. available to testify before this
9 Commission and "to provide information relevant to matters within the jurisdiction
10 of the Commission." Further, MEHC and PacifiCorp agree to notify the
11 Commission of proposed acquisitions and changes in effective control of PacifiCorp
12 by virtue of merger, combination, or transfer of stocks or assets. While MEHC and
13 PacifiCorp have agreed to many "reporting" and "access" requirements, I note that
14 CUB Counsel advises me the Oregon Public Utility Commission would have access
15 to these same persons and documents pursuant to Oregon statute.
16
17 As a general proposition, many of these reporting, notification and "access"
18 commitments should be extended and elevated to the Berkshire Hathaway super-
19 parent level. The need for, relevance of, and level of detail and access to documents
20 and individuals at the Berkshire Hathaway level could be fluid over time and perhaps
21 controversial in this and future proceedings. Yet, given the degree of control that
22 Berkshire Hathaway ultimately holds indirectly over MEHC/PacifiCorp, as well as
23 the potential abuse which could occur through transactions between MEHC and/or

1 PacifiCorp and other existing or future businesses owned and controlled by
2 Berkshire Hathaway, it is imperative that regulators have knowledge of, and access
3 to, at least certain records of Berkshire Hathaway, as well as the ability to query
4 knowledgeable Berkshire Hathaway representatives of at least relevant events or
5 transactions.

6 **Q. Are you suggesting that regulators have unfettered access to Berkshire**
7 **Hathaway books and records, as well as representatives knowledgeable of**
8 **transactions actually or potentially affecting PacifiCorp's operations?**

9 A. Ideally, yes. However, I am cognizant that given the size and complexity of
10 Berkshire Hathaway, it is not necessary or practical for regulators to be
11 knowledgeable of all transactions and events occurring at the Berkshire Hathaway
12 super parent level. Further, so long as Berkshire Hathaway is not pushing down
13 parent company costs to MEHC and ultimately PacifiCorp — as I believe are
14 Berkshire Hathaway's current intentions — there is little to fear in the way of
15 excessive super parent company *ownership* or *overhead* costs being charged to
16 PacifiCorp ratepayers. On this latter point, if Berkshire Hathaway commits to now
17 and forevermore *not* direct charge or allocate down any ownership or overhead costs
18 to MEHC, then I do not see a need to demand access to Berkshire Hathaway's books
19 and records that deal with the super parent's ownership and operating costs.
20 However, if that commitment is not made in this case, then the regulators should
21 have access to all of Berkshire Hathaway's books and records — to the same extent
22 that MEHC has volunteered access to MEHC's books and records.

1 **Q. Thus far you have only addressed *potential* Berkshire Hathaway parent**
2 **company charges that might at some point be pushed down to MEHC and**
3 **ultimately PacifiCorp. Do you also have concerns regarding transactions that**
4 **might arise between PacifiCorp and other MEHC holdings, or between**
5 **PacifiCorp and other Berkshire Hathaway holdings?**

6 A. Yes. Other than corporate governance services, the purchase of goods and services
7 from other MEHC or Berkshire Hathaway subsidiaries represent a large exposure for
8 the ratepayer to affiliate abuse. As previously noted, prior to the passage of PUHCA,
9 utilities were purchasing products from commonly-owned non-utility affiliates at
10 exorbitant prices — costs that were in turn being passed on to captive utility
11 customers in the form of higher rates. PacifiCorp's ownership by Berkshire
12 Hathaway, with its many and varied business holdings, again creates an environment
13 for cozy relationships that could lead to non-competitive pricing of goods and
14 services being purchased by PacifiCorp from other businesses owned and controlled
15 by Berkshire Hathaway.

16 **Q. How should goods or services purchased by a regulated utility such as**
17 **PacifiCorp from unregulated affiliates be priced?**

18 A. Whenever a good or service is provided by an affiliate to the utility company or by
19 the utility company to an affiliate, an attempt should be made to identify a market
20 price, the fully allocated cost of providing/producing each good or service, as well as
21 any relevant tariff price when applicable. If a state commission or the Federal
22 Energy Regulatory Commission ("FERC") tariff has been approved, such tariff price
23 should serve as the transfer price. In the absence of an authoritative tariff price, if

1 the good or service is provided *by the subsidiary or affiliate to the utility*, the transfer
2 price should be established at *the lower of cost or market.* Conversely, if the good or
3 service is provided *by the utility to the subsidiary or affiliate*, the transfer price
4 should be at *the higher of cost or marke*t. I understand that Oregon presently has
5 statutes that require implementation of the asymmetrical pricing guidelines such as I
6 described. As such, I will not herein further describe the need for, and equity in,
7 such guidelines. Suffice it to say, however, that the statutorily imposed pricing
8 guidelines should extend to dealings with all MEHC *as well as Berkshire Hathaway*
9 *subsidiaries.*

10 **Q. Do you believe it will always be possible to identify a market price to compare to**
11 **the fully allocated cost associated with providing a good or service?**

12 A. I think it may be difficult at times to obtain an uncontroverted market price for a
13 product, good or service being sold/purchased in and among PacifiCorp,
14 PacifiCorp's immediate parent — namely, MEHC, as well as all of the subsidiaries
15 controlled by Berkshire Hathaway. While I am somewhat sympathetic to this
16 argument or concern, I nonetheless believe a reasonable effort should be made to
17 adhere to the pricing principles set forth above — particularly for large individual or
18 recurring transactions. If the Commission is concerned that the "burden" and
19 "controversy" associated with the implementation of the above-noted transfer pricing
20 guidelines may exceed the benefits of such policies, I recommend that it establish a
21 minimum threshold transaction amount that would trigger the search for a market
22 price to compare to the fully allocated cost of the good or service. Specifically, I
23 recommend that when the annual or one-time payments for *each type* of non-tariffed

1 good or service exceeds $500,000 that PacifiCorp automatically be required to obtain
2 market price data and solicit bids to compare to the fully allocated cost of
3 producing/providing the good or service from any affiliate. Such efforts to
4 determine a market price should be well documented — and such documentation
5 should be retained between rate cases for potential regulatory review.
6
7 Finally, I would concede that it may be difficult to determine a market price for
8 administrative corporate services being provided by parent MEHC and potentially
9 from super parent Berkshire Hathaway (assuming Berkshire Hathaway declines to
10 commit to *never* push down any ownership or operating costs being incurred at such
11 super parent level). In the absence of a definitive market price I would concede that
12 it will often be necessary to directly assign and/or allocate the fully distributed cost
13 of such "joint" or "common" ownership services.

14 **Q. Is rigid adherence to the asymmetrical pricing guidelines likely to result in**
15 **excessive regulatory oversight, or perhaps worse, driving PacifiCorp away from**
16 **having any transactions with any Berkshire Hathaway subsidiaries that might**
17 **actually be able to provide the most competitive product or service?**
18 A. No, I think one needs to consider the practical implications of adherence of the
19 asymmetrical pricing guidelines for PacifiCorp, MEHC and any Berkshire Hathaway
20 subsidiary. First, realistically, PacifiCorp's primary service that any
21 MEHC/Berkshire Hathaway affiliate might purchase is limited to regulated electric
22 service. As such, the price for such service will be the tariff rate. Arguably there
23 could be opportunities for PacifiCorp to rent poles to a cable subsidiary that might

1 currently or in the future be owned by Berkshire Hathaway. But those situations or
2 opportunities should be rare – the unique exception rather than the rule.
3
4 The more probable scenario will more likely arise if PacifiCorp desires to purchase a
5 good or service from a Berkshire Hathaway controlled subsidiary. In this situation,
6 under asymmetrical pricing, PacifiCorp should be expected to obtain competitive
7 market prices from affiliated as well as non-affiliated companies, and to compare
8 such competitive market prices to the cost that PacifiCorp might incur to produce or
9 provide the good or service being sought. Now, if for instance, PacifiCorp seeks to
10 buy furniture for its corporate offices, and Berkshire Hathaway's wholly-owned
11 subsidiary Nebraska Furniture Mart desires to compete for such business,
12 competitive bids for such furniture should be sought from non-utility affiliates
13 furniture retailers as well as Nebraska Furniture Mart (with the possible exception if
14 this Commission establishes a minimum threshold under which this requirement
15 might be waived). Receiving competitive bids should be standard utility business
16 practice – seeking to receive the best value for the quality and quantity of goods and
17 services being acquired. In other words, utilities should be expected to receive
18 competitive bids for service – whether dealing with affiliated or non-affiliated
19 companies. With regard to the requirement that the utility should, theoretically, also
20 quantify the *potentially lower* cost of producing the furniture itself, I believe a simple
21 statement by the utility that it does not engage in the manufacture or retailing of
22 furniture, and therefore could never compete with furniture manufacturers or
23 retailers, would suffice.

If, on the other hand, a utility is seeking engineering services or perhaps a long term coal supply with specific qualifications, I believe it is very reasonable, and indeed it would be expected, that PacifiCorp would evaluate owning or providing these services itself. For instance, in the case of the engineering support sought, PacifiCorp should be able to document that outsourcing the services to an affiliate or non-affiliate is more economical than hiring additional employees to undertake the work. Similarly, PacifiCorp should be expected to evaluate the option of simply owning a coal lease and mining the coal itself versus buying coal from an affiliate or non-affiliate.

Thus, in summary on this point, the asymmetrical pricing guidelines that I am proposing as a condition for approval of the transaction, are not envisioned to be unduly burdensome, nor to lead to burgeoning regulation. Rather, they are simply intended to prevent affiliate pricing abuse, and generally speaking, should be adhered to in the normal course of prudently carrying out PacifiCorp's normal business operations.

Q. Do you have any concerns about the reporting and accounting requirements that have been agreed to by MEHC and PacifiCorp as a condition of the transaction?

A. I believe at least one element of the MEHC proposed time reporting needs to be defined and/or expanded. By way of background I would first note that with the repeal of PUHCA, MEHC does not intend to establish a separate "Service Company"

1 subsidiary to carry out many administrative or governance functions of MEHC that it
2 intends to, in turn, push down to PacifiCorp as well as its other subsidiary holdings.
3 Under PUHCA, MEHC as a multi-state registered holding company, would have
4 been required to effectively establish a not-for-profit service company to carry out
5 joint administrative functions of MEHC. With the repeal of PUHCA, the
6 requirement for establishment of such Service Company is eliminated. While
7 MEHC touts the elimination of the requirement to establish a Service Company
8 subsidiary as a benefit by virtue of less complexity, I believe the establishment of
9 such a Service Company subsidiary did tend to better define which employees were
10 working generally for the good of all commonly owned subsidiaries versus which
11 employees were working for the exclusive benefit of specific subsidiaries.
12
13 According to the testimony of MidAmerican Energy Company ("MEC") witness Mr.
14 Thomas Specketer, the same functions that would have taken place at the Service
15 Company level under PUHCA will, with the repeal of PUHCA, be carried out either
16 at the MEHC parent company level, or at the MEC subsidiary level. As a result of
17 this planned organization change, PacifiCorp will be receiving direct charges and
18 presumably *allocated* charges from both MEHC and sister subsidiary MEC.
19 Receiving direct or allocated charges from each parent/affiliate is not necessarily
20 inequitable, inefficient or avoidable. It does, however, present another complexity to
21 the regulatory process.
22

1 On Table 1 included in Mr. Specketer's testimony, under the topic of "Cost
2 Allocations," MEHC offers the following condition:

3 MEHC will have in place a time reporting system adequate to support
4 the allocation of costs of executives and other relevant personnel to
5 PacifiCorp.

6 In my opinion, this condition should be better defined or perhaps expanded.
7 Specifically, I would recommend that any employee or officer of MEHC or MEC
8 that routinely, or even occasionally, works for the specific and exclusive benefit of
9 PacifiCorp, and thus ends up direct charging his loaded payroll costs to PacifiCorp's
10 operations, should be required to adhere to *positive* time sheet reporting rather than
11 merely *exception* accounting.

12 **Q. What do you mean by "exception" time reporting?**

13 A. "Exception" time reporting occurs when an employee's time is charged to a "home"
14 or normal responsibility center *except for* when the employee charges his or her time
15 to a different company, function or responsibility center. *Positive* time sheet
16 reporting, on the other hand, requires employees and officers to account for all
17 activities undertaken in some detail for all hours of the day – not just the *exception* to
18 those hours charged to the officer's or employee's normal responsibility center.

19 **Q. Why do you recommend that "exception" time reporting not be accepted?**

20 A. "Exception" time reporting makes it very easy for employees to forget or overlook
21 minor jobs performed outside his or her home responsibility center. Indeed, I have
22 observed situations where some diversified company employees did not write down
23 many hours devoted to areas outside their normal responsibility center — arguing

1 that they must complete their "normal" work in addition to any special projects
2 assigned.
3
4 Additionally, with "exception" time reporting non-productive time may end up, by
5 default, being charged to the normal or "home" responsibility center rather than
6 being equitably allocated to all subsidiaries who benefit from that employee's efforts.
7 By *non-productive time* I am referring to events such as training, vacation, sick
8 leave, holidays, etc.
9
10 Finally, without a requirement for positive time sheet reporting, it becomes virtually
11 impossible to verify that employees are accurately and equitably assigning their time.
12 "Exception" time sheet accounting is virtually unauditable inasmuch as there is little
13 or no trail to investigate how an employee is spending time that is being charged to a
14 home responsibility center by default.

15 **Q. Does the employee time sheet reporting and other corporate reporting**
16 **requirements which you have outlined ensure that there will be little or no**
17 **controversy surrounding the assignment or allocation of parent company,**
18 **service company or utility company resources between utility and non-utility**
19 **business lines?**

20 A. No. However, implementation of such requirements should, at a minimum, highlight
21 events or areas that require additional investigation. Furthermore, the various
22 reporting requirements should provide documentation, or an audit trail, for the rate
23 case auditor to use if and when an area of concern is identified.

1 **Q. Has MEHC proposed a method for assigning or allocating "common," "shared"**
2 **or "ownership" costs between MEHC, MidAmerican Energy Company and**
3 **PacifiCorp?**
4 A. First, MEHC appears to advocate *direct* assignment of any costs that are incurred for
5 the exclusive or unique benefit of a benefiting MEHC subsidiary, including
6 PacifiCorp. Mr. Specketer also addresses the allocation of common or shared costs.
7 Specifically, Mr. Specketer advocates employment of a two-factor formula that
8 considers benefiting subsidiaries' assets and payroll for purposes of allocating
9 MEHC and MEC "shared costs" that were not directly assigned to any benefiting
10 subsidiary. I do not, at this time, take exception to the two-factor approach
11 suggested by Mr. Specketer. That said, I believe the issue of allocating "common"
12 or "shared services" costs should be eligible for review and challenge, based upon
13 relevant facts and circumstances at the time of future rate proceedings. In other
14 words, adoption of the two-factor formula should not be binding upon this
15 Commission in future rate proceedings.

16 **Q. What is the approximate capitalization of PacifiCorp at this point in time?**
17 A. As taken from Table 1 of MEHC witness Mr. Patrick Goodman, PacifiCorp's stand-
18 alone capital structure as of March 31, 2005 consisted of the following components:

PacifiCorp's Stand-Alone Capital Structure at March 31, 2005		
Capital	$ in millions	% of Total Capital
Total Long Term Debt	$3,629.0	51.41%
Preferred Securities of Subsidiaries	$52.5	0.74%
Shareholders' Equity	$3,377.1	47.84%
Total Capitalization	$7,058.6	100.00%

1 **Q. What is MEHC's consolidated capital structure *prior to* the planned PacifiCorp**
2 **acquisition?**
3 A. As also shown on Table 1 of Mr. Goodman's testimony, MEHC's pre-acquisition
4 capital structure consists of the following:

MEHC's Pre-Acquisition Consolidated Capital Structure		
Capital	$ in millions	% of Total Capital
Total Long Term Debt	$10,718.3	77.10%
Preferred Securities of Subsidiaries	$89.3	0.64%
Shareholders' Equity	$3,093.7	22.25%
Total Capitalization	$13,901.3	100.00%

5 **Q. How does MEHC intend to fund the acquisition?**
6 A. The purchase price of the PacifiCorp common stock is expected to be $5.1 billion.
7 MEHC expects to fund this purchase through an equity infusion provided by
8 Berkshire Hathaway in the form of common stock or zero-coupon convertible non-
9 voting preferred stock in the amount of $3.4 billion. According to the direct
10 testimony of MEHC witness Mr. Patrick Goodman, the remaining $1.7 billion
11 purchase price is expected to be funded with long term unsecured debt, preferred
12 stock, or other securities with equity characteristic to third parties to be issued by
13 MEHC. That stated, Table 1 included within Mr. Goodman's direct testimony shows
14 the entire $1.7 billion of additional MEHC funding for the purchase of PacifiCorp
15 common equity to be raised through "Long term senior unsecured debt of MEHC."

16 **Q. Does the proposed transaction retain the existing PacifiCorp debt within the**
17 **utility while adding substantial new indebtedness at the MEHC parent level?**
18 A. Yes. All of PacifiCorp's pre-acquisition stand-alone debt will remain. But
19 additionally, a significant portion of PacifiCorp's common stock purchase will be

1 financed with additional debt at the MEHC parent company level. Thus, after the
2 closing, MEHC's consolidated capital structure is envisioned to consist of the
3 approximate amounts shown on the table below:[2]

MEHC Post Closing Consolidated Capital Structure		
Capital	$ in millions	% of Total Capital
Total Long Term Debt	$16,057.1	70.6%
Preferred Securities of Subsidiaries	$183.1	0.80%
Shareholders' Equity	$6,513.4	28.6%
Total Capitalization	$22,753.6	100%

4 **Q. Considering the MEHC parent debt, how will PacifiCorp assets ultimately be**
5 **capitalized after the planned transaction?**
6 A. When one considers the MEHC parent company debt that is ultimately funding a
7 good portion of PacifiCorp's stand-alone common equity, PacifiCorp's utility assets
8 will ultimately be funded in the approximate following manner:

[2] From Table 1 included within the direct testimony of Patrick Goodman. However, it is noted that such balances and percentages do not include expected ScottishPower equity infusions net of PacifiCorp dividends expected to be paid to ScottishPower, nor do they reflect debt issuances and retirements by PacifiCorp and other MEHC holdings expected to occur between March 31, 2005 and March 31, 2006.

PacifiCorp Utility Asset Financing When Considering Additional Layer of MEHC Parent Company Debt		
Capital	$ in millions	% of Total Capital
Total Debt & Preferred Stock[3]	$5,810	68.92%
Actual Shareholders' Equity Underlying PacifiCorp's Original Cost Investment[4]	$2,620	31.08%
Total Capitalization	$8,430	100%

1 **Q. Does the price being paid by MEHC for all the common equity of PacifiCorp**
2 **represent a "premium" over PacifiCorp's "book" equity?**
3 A. Yes. According to the direct testimony of MEHC witness Patrick Goodman, the
4 anticipated purchase price of the common stock will exceed the book equity of
5 PacifiCorp by approximately $1.2 billion. Such nominal premium payment equates
6 to approximately a 30 percent premium over PacifiCorp's expected book equity at
7 the time of closing.[5]

8 **Q. Is it unusual for utilities to sell for prices above book value?**
9 A. No. In recent years is has not been unusual for reasonably healthy energy utilities to
10 sell at a premium – and sometimes a significant premium – above book value.
11 However, generally speaking, absent the achievement and retention by the

[3] From MEHC's response to Washington Public Counsel Data Request No. 37, MEHC estimates $4.5 million of PacifiCorp stand-alone debt and equity to be outstanding just prior to acquisition. Additionally, per P. Goodman, approximately 33% of PacifiCorp's acquisition will be funded with MEHC parent company debt. Multiplying the 33% of MEHC debt financing underlying the acquisition times PacifiCorp stand-alone equity of $3.9 billion results in an additional amount of debt underlying the utility equity in the amount of $1.310 billion – for a total debt financing of PacifiCorp book value assets of $5.810 billion ($4.5 billion stand alone debt/preferred stock plus $1.310 billion of MEHC parent company debt equals total debt underlying PacifiCorp assets of $5.810 billion).
[4] Total purchase price for PacifiCorp book equity is estimated to be $5.129 billion, per P. Goodman testimony. Premium being paid is approximately $1.2 billion per P. Goodman testimony. Thus, the estimated stand-alone PacifiCorp book equity prior to the transaction is estimated to be $3.929 billion. The calculated PacifiCorp book equity is, in turn, estimated to be funded 33% by MEHC debt and 67% by MEHC equity being infused by Berkshire Hathaway. Thus, PacifiCorp's book equity that is actually funded by MEHC "true" equity is approximately $2.6 billion (PacifiCorp's estimated book equity of $3.9 billion times MEHC's equity percentage underlying the purchase of 67% equals $2.6 billion).
[5] Per public rebuttal testimony filed by MEHC witness Brent Gale in California Public Utilities Commission Docket No. A-05-07-010.

1 purchasing entity of merger synergies or other savings not achievable by the utility
2 on a stand-alone basis, or other compelling strategic benefits, one would not expect a
3 purchaser to pay a large premium over the utility's book value.

4 **Q. Does regulation tend to limit the valuation of utility businesses to a price tied to**
5 **book value?**

6 A. Yes. As this Commission is well aware, regulated utility rates are generally based
7 upon *cost of service.* And since a utility's cost of service is generally determined to
8 include all reasonable and prudently incurred operating expenses plus a reasonable
9 return on the utility's *original* net depreciated investment, all other things held equal
10 and constant, the purchaser would be expected to only be willing to pay an amount
11 approximately equal to book value. Any payment above book value creates a risk to
12 the buyer that the premium amount being paid may be difficult or impossible to
13 recover.

14 **Q. Does the MEHC application anticipate any synergies or other costs savings that**
15 **might be achieved and retained by MEHC that serve to justify a purchase price**
16 **above PacifiCorp's book equity value?**

17 A. Since the business operations of PacifiCorp will not be merged with the operations of
18 any other MEHC businesses, Applicants are claiming virtually no synergy savings to
19 result from the acquisition. In fact, to the contrary, except for a very modest
20 expectation of some savings from avoided ScottishPower parent company costs that
21 MEHC has already agreed to pass along to PacifiCorp ratepayers, MEHC's "due
22 diligence" study does not really address expected or predicted operational savings
23 stemming from its ownership of PacifiCorp. On this latter point, MEHC's

1 application stands in fairly stark contrast to previous merger/acquisition applications
2 that I have reviewed in the past that *always* claimed some form of expected *synergy*
3 *savings* and/or *best* or *better practices promise* that the then-current (*i.e.*, prior to
4 proposed utility merger/acquisition) ownership or management purportedly could not
5 or would not produce or provide under its current ownership arrangement. Frankly, I
6 have always viewed other utility applicants' claimed acquisition/merger savings with
7 a very skeptical eye as being significantly overstated, but would nonetheless
8 emphasize the complete void in the instant case of *any* promised operational
9 improvements, implied purchasing power savings stemming from economies of
10 scale, or savings attributable to anticipated new-found or soon-to-be-implemented
11 *best practices* of the acquiring owners and managers.

12 **Q. If MEHC is not asserting synergy savings that it desires to retain as justification**
13 **for the premium being paid above book value for PacifiCorp equity, what is**
14 **driving the purchase price of the PacifiCorp common equity above the book**
15 **value?**

16 A. The premium anticipated to be paid would appear to be justified by 1) attempted
17 retainage of interest cost savings being realized at the MEHC parent level that
18 MEHC does not intend to reflect in the development of PacifiCorp's retail rates,
19 and/or 2) planned but yet undisclosed relatively aggressive changes to existing
20 regulatory or statutory rate recovery plans.

1 **Q. Please explain how the premium payment might be justified, or recovered, as a**
2 **result of cost savings generated by retaining parent debt financial leverage**
3 **occurring at the MEHC level.**
4 A. As previously noted, MEHC anticipates financing approximately $1.7 billion (33%)
5 of the purchase price of PacifiCorp's book equity with long term debt instruments. If
6 this Commission regulates PacifiCorp's utility operations employing PacifiCorp's
7 stand-alone, relatively equity thick capital structure that does not reflect the
8 economic reality of an additional layer of lower cost and interest-deductible MEHC
9 parent company debt ultimately underlying PacifiCorp's assets, MEHC will achieve
10 a much higher equity return on the actual equity capital underlying PacifiCorp's
11 assets than what this Commission would have targeted for PacifiCorp's stand-alone
12 equity capitalization. Or in other words, MEHC would ultimately be able to earn a
13 much higher return on its *actual* equity investment in PacifiCorp's assets if it can
14 persuade the regulators to establish a common equity return on PacifiCorp's "stand-
15 alone" common book equity that is, in fact, financed to a significant extent by lower
16 cost, and interest-deductible debt financing at the MEHC parent company level. Not
17 only will the MEHC parent company debt likely have a considerably lower rate of
18 interest than the equity return being granted for PacifiCorp common equity, such
19 higher equity return would also have an attendant federal income tax lug that would
20 not be applicable to the tax-deductible MEHC parent company interest expense. By
21 substituting higher cost capital in the ratemaking formula than what truly exists in
22 reality at the MEHC parent company level, MEHC has the opportunity to recover all
23 or a portion of the premium that it is paying for the PacifiCorp common book equity.

1 **Q. Are you able to estimate what amount of equity return PacifiCorp will be able**
2 **to achieve on the *actual* equity investment in original cost utility investment?**
3 A. MEHC has not projected the interest rate it expects to pay on debt issued to third
4 parties that will underlie a portion of the purchase price it is paying for PacifiCorp's
5 book equity. Nonetheless, one can estimate the real return on MEHC's *true* or
6 *actual* equity investment in PacifiCorp's original cost investment by utilizing
7 realistic, if not conservative, estimates of interest rates on the MEHC debt to be
8 issued, as well as PacifiCorp's realized return on its stand-alone book equity.
9 Specifically, as shown on the table below, utilizing an assumed interest rate of 6.5%
10 for the MEHC parent company debt underlying the purchase of PacifiCorp's book
11 equity, and an assumed common equity return of 9.0% on PacifiCorp's stand-alone
12 book equity, one can calculate an expected equity return of 11.4% on the actual level
13 of MEHC equity underlying PacifiCorp's stand-alone equity balance.

Line	Description	($000's)
1	Description	($000's)
2-4	PacfiCorp's Estimated Stand-Alone Book Equity Immediately Preceding The Planned MEHC Acquisition (See Footnote 4 above)	$3,929,500
5	Assumed Return on PacifiCorp's Stand Alone Book Equity	9.0%
6	Return on PacifiCorp's Stand-Alone Book Equity	$353,655
7-8	Tax Multiplier to Consider Federal Corporate Income Tax Rate of 35% [1/(1-35%)]	1.53846
9-10	Total Equity Return Revenue Requirement (the Before tax Return on PacifiCorp's stand-alone Equity Investment)	$544,085
11-13	MEHC's Long Term Debt Underlying the Purchase of PacifiCorp's Book Equity (see Footnote 3 explanation for derivation)	1,309,808
14	Assumed Cost of MEHC Long Term Debt	6.5%
15-16	MEHC's Interest on Long Term Debt Underlying the Purchase of PacifiCorp's Book Equity	$85,138
17-20	PacifiCorp's Stand-Alone Total Equity Return Revenue Requirement less Interest Cost Associated With MEHC Debt Underlying PacifiCorp's Book Equity Investment	$458,947
21	Federal Income Tax Rate	35.0%
22-25	Federal Income Taxes Associated with MEHC Taxable Income After Deducting Interest on MEHC Debt Underlying PacifiCorp Equity Purchase	$160,631
26-31	After Tax MEHC Equity Return Return on MEHC Equity Underlying PacifiCorp's Stand-Alone Book Equity Assuming 9% Return On PacifiCorp's Stand-Alone Book Equity and 6.5% Interest Rate on MEHC Debt Underlying The Purchase	$298,316
32-33	MEHC Equity Underlying PacifiCorp's Stand Alone Book Equity	$2,619,692
34	Return on Actual Equity Supporting PacifiCorp Assets	11.4%

1 **Q. Are you also able to calculate the amount of federal income taxes that will be**
2 **collected if PacifiCorp's retail rates are developed considering PacifiCorp's**
3 **stand-alone capital structure that will never actually be paid to the federal**
4 **government?**

5 A. On a PacifiCorp system-wide basis, if retail rates are established utilizing
6 PacifiCorp's stand-alone capital structure, and assuming a 9.0% return on equity
7 with MEHC parent company underlying debt being issued at a rate of 6.5%, the
8 amount of *phantom* federal income taxes that would never be paid to the United
9 States government would be approximately $30 million, calculated as follows:

Line	Description	($000s)
10–13	Before Tax Return on PacifiCorp's Stand-Alone Equity (again assumes PacifiCorp will earn 9% on its Stand-Alone Book Equity – as calculated above)	$544,085
14	Federal Income Tax Rate	35%
15–16	Federal Income Tax Expense Collected within PacifiCorp's System-wide Utility Rates	$190,430
17–20	Estimated MEHC Federal Income Taxes After Considering Tax Deductibility of Interest on MEHC Debt Underlying PacifiCorp's Stand Alone Book Equity (calculated above)	$160,631
21–29	Phantom Federal Income Taxes Collected in PacifiCorp's Rates That Would be Developed Utilizing a Stand-Alone PacifiCorp Capital Structure that Would Never be Paid to the United States Government as a Result of PacifiCorp and MEHC Filing a Consolidated Federal Income Tax Return that Reflects a Deduction for MEHC Parent Company Debt Underlying the PacifiCorp Purchase	$29,798

1 **Q. Do you believe it is MEHC's expectation to retain the "spread" between the**
2 **equity return with attendant federal income tax consequences that it hopes to**
3 **charge retail ratepayers through employment of a PacifiCorp stand-alone**
4 **capital structure *and* its true or actual capital costs, which includes additional**
5 **debt leverage, at the MEHC parent company level?**

6 A. Yes. MEHC testimony and data request responses repeatedly emphasize that
7 MEHC/PacifiCorp will not seek recovery of the acquisition premium being paid *so*
8 *long as the regulatory body does not impute benefits from the acquisition beyond*
9 *those being committed to in the Joint Application.* And since MEHC/PacifiCorp
10 have never acquiesced that they would be willing to be regulated based upon the
11 MEHC double leveraged capital structure, it is a given that MEHC intends to retain
12 the "spread" discussed and calculated above.

13 **Q. Should this Commission allow recovery of the acquisition premium being paid**
14 **either directly – or indirectly through means of retaining double leveraged**
15 **capital structure savings – such as MEHC appears to be advocating?**

16 A. I would recommend that this Commission reject any direct *or indirect* attempts by
17 MEHC to recover the acquisition premium being paid. Or more specifically, I would
18 recommend that a condition for approval of the transaction be that
19 MEHC/PacifiCorp will never seek direct or indirect recovery of the acquisition
20 premium being paid. In many proposed acquisitions or mergers the joint applicants
21 often seek *indirect* recovery of an acquisition premium over book value being paid
22 through retention of all or a portion of claimed *synergy savings* that purportedly
23 could not be achieved under the status quo ownership arrangement. However, as

1 previously noted, MEHC is not predicting any significant cost savings attributable to
2 the acquisition. The only recovery of the premium being paid is apparently through
3 an attempted employment of a lower cost capital structure at the parent level that
4 MEHC does not desire to use for ratemaking purposes.
5
6 Achievement of lower costs through a lower cost/more-debt-leveraged capital
7 structure is not unique to MEHC ownership. Accordingly, if this Commission elects
8 to consider regulation of PacifiCorp utilizing the MEHC double leveraged capital
9 structure, with its lower costs for ratepayers, because such capital structure is
10 deemed reasonable and efficient, it should not, in turn, allow *direct* recovery of the
11 premium being paid — as MEHC appears to be posturing to propose. In short and in
12 sum on this point, a condition of the transaction should be that MEHC/PacifiCorp
13 will not seek direct or indirect recovery of the acquisition premium being paid.

14 **Q. In your earlier answer you alluded to the possibility that MEHC could attempt**
15 **to recover the acquisition premium it is paying for PacifiCorp common equity**
16 **through aggressive regulatory or statutory rate recovery plans. Does MEHC or**
17 **PacifiCorp have any planned changes for rate recovery and/or implementation**
18 **of new legislation that could facilitate greater than existing recovery of**
19 **PacifiCorp's cost of service?**
20 A. No such plans have been identified in testimony or discovery. That stated, this
21 Commission should be cognizant of the economic and political clout that an owner
22 of the size and diversity of Berkshire Hathaway can undoubtedly wield should it be
23 motivated to change things.

Further, I note that MEHC has enjoyed the implementation of *alternative regulatory plans* currently in place in its two primary retail jurisdictions of Iowa and Illinois. According to MEHC, a threshold return on equity must be exceeded before the mechanisms are triggered, and further, that there are no traditional authorized returns for the services subject to the alternative regulatory plans. These alternative regulatory plans have apparently worked very well for MidAmerican Energy Company as evidenced by the overall and common equity returns achieved in recent years shown below:[6]

Year	Overall Earned Return	Earned Return on Equity
2000	9.73%	11.59%
2001	9.32%	11.09%
2002	10.31%	12.99%
2003	10.47%	13.88%
2004	10.43%	13.93%

I would note and emphasize that the returns shown above are at the MidAmerican Energy Company subsidiary level. As noted previously, MEHC funds a portion of its equity investment in its subsidiary MidAmerican Energy Company with debt at the parent company level. Thus, MEHC's achieved return on equity at the parent level would be higher than the reported equity returns on the thicker stand-alone common equity levels reported above at the MidAmerican Energy Company subsidiary level.

[6] CUB Exhibit 113. MEHC response to Oregon Public Utility Commission Staff Data Request No. 2 issued in Oregon Public Utility Commission Docket UM 1209.

1 I would also point out that in response to Washington Public Counsel Data Request
2 No. 50, CUB Exhibit 203. MEHC stated the following regarding the alternative
3 ratemaking programs in place for its other retail jurisdictions:

> 4 MEHC's experience with the ratemaking principles mechanism has
> 5 been very positive and MEHC would encourage other state
> 6 jurisdictions to consider adoption of similar statutory provisions.
> 7 However, MEHC has no current plans to pursue this mechanism in
> 8 Washington.

9 The points to be gleaned from such disclosures and discussions are: 1) MEHC/MEC
10 have, for whatever reasons, been able to enjoy alternative regulatory plans that
11 achieved higher equity returns in recent years than this Commission has determined
12 to be reasonable for retail regulated utility operations; 2) it is therefore reasonable to
13 assume that Berkshire Hathaway/MEHC have expectations of earning higher equity
14 returns — both at the stand-alone PacifiCorp subsidiary level as well as at the more
15 debt leveraged MEHC parent company level – than this Commission has historically
16 deemed necessary to attract investment capital at reasonable rates; and 3) it is
17 therefore simply reasonable to be wary of MEHC's/PacifiCorp's plans — both at the
18 retail regulatory level as well as through potential advocacy of state legislation — to
19 implement steps that could lead to returns that are not warranted by this
20 Commission's historical standards. And again, on this latter point, this Commission
21 should be cognizant of the pressures that can be wielded by an owner of the size and
22 diversity of Berkshire Hathaway.

1 **Q. In an earlier answer you listed the various investments that MEHC and**
2 **ultimately Berkshire Hathaway are willing if not intending to make in the**
3 **PacifiCorp system. Do you view either MEHC's or Berkshire Hathaway's**
4 **willingness to invest in PacifiCorp a "benefit" of the transaction?**

5 A. No. As I believe I alluded to earlier, such "willingness" or "intent" to invest in
6 PacifiCorp's infrastructure should not be viewed as a "benefit" unique to
7 MEHC/Berkshire Hathaway ownership. Further, this Commission should be
8 cognizant of the potential "detriment" when a utility is overzealous with regard to its
9 investment strategy in utility assets.

10 **Q. Please explain your latter concern.**

11 A. Utility rates and service can be detrimentally impacted when investment in utility
12 assets are *under* as well as *over* or *prematurely* funded. For example, if utility
13 management imprudently constrains investment in utility assets it exposes ratepayers
14 to service deterioration, higher operating costs (through inefficient substitution of
15 higher operating costs in lieu of more efficient capital deployment) as well as higher
16 costs through "catch up" investments at a later date.

17

18 However, utility rates can also be detrimentally impacted when management
19 aggressively or prematurely invests in utility assets, thus driving up utility rates
20 unnecessarily. In the late 1980s and throughout most of the 1990s there was a glut of
21 electric utility generating capacity over much of the United States that in many
22 instances were causing electric utility rates to be higher than necessary inasmuch as
23 the cost of much of the "excess" generating capacity was, nonetheless, considered in

1 rate development. I understand that many would argue that such excess capacity
2 resulted because of changes in circumstance that were beyond the control of utility
3 management that occurred after decisions had been made and significant investment
4 in new generating facilities had already occurred. Regardless of whether the
5 premature investment was foreseeable or unforeseeable by utility management, the
6 outcome in many instances was the same – electric utility rates were established by
7 considering investment costs that were not necessary to be incurred to serve load
8 existing at that time or for many years thereafter.
9
10 A concern in the instant case is that MEHC appears to demonstrate not only a
11 *willingness* but also an *eagerness* to invest in PacifiCorp's infrastructure. This
12 Commission should not only welcome, but actually expect, prudent and timely
13 investment in PacifiCorp's infrastructure when such investment is required to meet
14 demands and when it is deployed at levels and intervals designed to lower
15 PacifiCorp's long term cost of service while providing safe and dependable utility
16 service. That said, given the Berkshire Hathaway stated goal of desiring to make
17 investments in utility assets, this Commission needs to be on guard of MEHC
18 management that may *prematurely* invest, *over* invest or
19 *imprudently/uneconomically* invest in PacifiCorp's infrastructure.
20
21 More specifically, I note that MEHC is predicting that it will invest more in
22 PacifiCorp's infrastructure than what PacifiCorp is currently including within its
23 long term business plan. In the absence of any evidence that PacifiCorp's current

1 investment forecast has been imprudently restrained, a detriment from the proposed
2 transaction exists in the form of MEHC over building or prematurely building
3 PacifiCorp's utility infrastructure.

4 **Q. Does that conclude your direct testimony?**

5 A. Yes, it does.

1 **STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your educational background.**

3 A. I graduated from the University of Missouri - Columbia, with a Bachelor of Science
4 Degree in Business Administration, with an Accounting Major, in 1975. I hold a
5 Certified Public Accountant Certificate in the State of Missouri. I am a member of
6 the American Institute of Certified Public Accountants and the Missouri Society of
7 Certified Public Accountants.

8 **Q. Please summarize your professional experience.**

9 A. Subsequent to graduation from the University of Missouri, I accepted a position as
10 auditor for the Missouri Public Service Commission. In 1978, I was promoted to
11 Accounting Manager of the Kansas City Office of the Commission Staff. In that
12 position, I was responsible for all utility audits performed in the western third of the
13 State of Missouri. During my service with the Missouri Public Service Commission,
14 I was involved in the audits of numerous electric, gas, water and sewer utility
15 companies. Additionally, I was involved in numerous fuel adjustment clause audits,
16 and played an active part in the formulation and implementation of accounting staff
17 policies with regard to rate case audits and accounting issue presentations in
18 Missouri. In 1979, I left the Missouri Public Service Commission to start my own
19 consulting business. From 1979 through 1985 I practiced as an independent
20 regulatory utility consultant. In 1985, Dittmer, Brosch and Associates was
21 organized. Dittmer, Brosch and Associates, Inc. changed its name to Utilitech, Inc in
22 1992.

1 My professional experience since leaving the Missouri Public Service Commission
2 has consisted primarily of issues associated with utility rate, contract and acquisition
3 matters. For the past twenty-five years, I have appeared on behalf of clients in utility
4 rate proceedings before various federal and state regulatory agencies. In
5 representing those clients, I performed revenue requirement studies for electric, gas,
6 water and sewer utilities and testified as an expert witness on a variety of rate
7 matters. As a consultant, I have filed testimony on behalf of industrial consumers,
8 consumer groups, the Citizens' Utility Board of Oregon, the Missouri Office of the
9 Public Counsel, the Missouri Public Service Commission Staff, the Indiana Utility
10 Consumer Counselor, the Mississippi Public Service Commission Staff, the Arizona
11 Corporation Commission Staff, the Arizona Residential Utility Consumer Office, the
12 Nevada Office of the Consumer Advocate, the Washington Attorney General's
13 Office, the Hawaii Consumer Advocate's Staff, the Oklahoma Attorney General's
14 Office, the West Virginia Public Service Commission Consumer Advocate's Staff,
15 municipalities and the Federal government before regulatory agencies in the states
16 of Arizona, Alaska, Maine, Michigan, Missouri, Oklahoma, Ohio, Oregon, Florida,
17 Colorado, Hawaii, Iowa, Kansas, Mississippi, New Mexico, Nevada, New York,
18 West Virginia, Washington and Indiana, as well as the Federal Energy Regulatory
19 Commission.

UE-051090/PacifiCorp
September 6, 2005
PC Data Request 17 PPW

PC Data Request 17 PPW

The joint application indicates that MEHC is committing to cap ServCo costs charged to PacifiCorp to $9 million per annum for a five year period, and that PacifiCorp is projected to incur comparable costs from ScottishPower in FY 2006 in the approximate amount of $15 million. Please provide the following regarding such ServCo costs:

a. Provide actual ScottishPower Servco costs directly assigned to PacifiCorp for the most recent two fiscal years available broken down by ServCo Department or Responsibility Center providing such directly-assigned services.
b. Provide actual ScottishPower ServCo costs allocated to PacifiCorp for the most recent two fiscal years available broken down by ServCo Department or Responsibility Center providing such allocated services.
c. Are there any services currently being provided by Scottish Power ServCo that are not expected to be carried out by MEHC ServCo? If yes,
    i. Please describe each service
    ii. Provide the costs allocated/directly assigned to PacifiCorp for each service for each of the two most recent fiscal years available
    iii. Explain how such services will now be undertaken by PacifiCorp (i.e., using outside expertise or adding internal employees to undertake)
    iv. Provide the annual incremental costs expected to be incurred by PacifiCorp in efforts to replace each service now being provided by ScottishPower ServCo that will be eliminated if the MEHC acquisition occurs.

PPW's Response to PC Data Request 17

Clarification: Please note that there is no ScottishPower ServCo.

a. There are no group costs directly assigned to PacifiCorp by ScottishPower.

b. Please see Attachment PC 17 b on the enclosed CD. Note that the group charge only existed for FY05, so two fiscal years of data are not available.

Regarding part c, please see MEHC's response to this request.

Responder: Judi A. Johansen
Witness: Judi A. Johansen

Attachment PC 17 b

Common Corporate Costs for 04/05

Hyp	04/05 Forecast Costs by Department	Costs £	Ref	Basis	PPW £	PPM £	UKD £	UKW £	SP PLC £	TOTAL £
7012.TOT	CEO non remuneration (formerly all Exec Directo	422,836	A	4 factor	175,054	13,108	116,703	87,950	30,021	422,836
77053.TOT	CEO remuneration (formerly 7012)	1,728,734	A	4 factor	715,696	53,591	477,131	359,577	122,740	1,728,734
7048.TOT	Group Security	482,476	A	4 factor	199,745	14,957	133,163	100,355	34,256	482,476
					-	-	-	-	-	-
77052.TOT	Co Secretary (formerly 7048)	546,976	A	4 factor	226,448	16,956	150,965	113,771	38,835	546,976
7013.TOT	Corporate Secretarial	4,250,542	A	4 factor	1,759,724	131,767	1,173,150	884,113	301,788	4,250,542
77009.TOT	Director of Group Strategy (formerly 7012)	1,030,516	A	4 factor	426,634	31,946	284,422	214,347	73,167	1,030,516
7015.TOT	Strategic Planning Dept	680,180	A	4 factor	281,595	21,086	187,730	141,477	48,293	680,180
7008.TOT	Environment	472,786	A	4 factor	195,733	14,656	130,489	98,339	33,568	472,786
77441.TOT	Finance Director (formerly 7012)	1,062,528	A	4 factor	439,887	32,938	293,258	221,006	75,439	1,062,528
TOTGPFIN	Group Finance (formerly 7436 + 7435)	2,253,301	A	4 factor	932,867	69,852	621,911	468,687	159,984	2,253,301
7437.TOT	Insurance Dept	185,811	A	4 factor	76,926	5,760	51,284	38,649	13,193	185,811
7019.TOT	London Office (Group site)	388,738	A	4 factor	160,938	12,051	107,292	80,858	27,600	388,738
7534.TOT	Finance Projects for Group	901,724	A	4 factor	373,314	27,953	248,876	187,559	64,022	901,724
77538.TOT	Strategy Projects for Group (trf to below the line)									
7220.TOT	HR Management Development	1,154,178	B	SMG	594,690	45,608	328,833	146,472	38,575	1,154,178
7240.TOT	HR Compensation & Planning	650,331	B	SMG	335,083	25,698	185,283	82,531	21,735	650,331
7018.TOT	Atlantic Quay	2,468,111	C	AQFTE's	680,432	49,486	937,140	683,524	117,529	2,468,111
7049.TOT	Avondale	195,199	C	AVFTE's	27,769	2,178	107,809	52,815	4,628	195,199
7024.TOT	ITBS - Corporate IT support costs	1,708,453	D	Tot FTE's	363,117	27,065	788,257	467,992	62,023	1,708,453
7499.ADJ	Corporate SMG bonus uplift	845,267	D	Tot FTE's	179,654	13,390	389,994	231,542	30,686	845,267
	Heather Self (Group Tax Manager)	272,000	E	4 factor	112,608	8,432	75,072	56,576	19,312	272,000
	One Magazine cost	100,000	E	E'ees	44,340	1,165	31,241	23,255	-	100,000
	Dominic Fry, Director Corp Comms	457,417	E	4 factor	189,371	14,180	126,247	95,143	32,477	457,417
	J Stanley, Director Legal	515,269	E	4 factor	213,321	15,973	142,214	107,176	36,584	515,269
	Rounding				(6,339)					
	Corporate Cost for recharge/Account 930	**22,773,373**			**8,698,605**	**649,797**	**7,088,462**	**4,943,714**	**1,386,457**	**22,773,373**
7491.TOT	LTIP amortisation	4,098,979		LTIP	1,490,014	-	1,161,656	685,567	761,742	4,098,979
7012.TOT	Exec Directors: CEO consultancy costs	550,000		4 factor	227,700	17,050	151,800	114,400	39,050	550,000
77538.TOT	Strategy Projects	1,000,000		4 factor	414,000	31,000	276,000	208,000	71,000	1,000,000
77540.TOT	GERIS /IAS 39 systems support costs	70,000		Risk	36,591	2,740	24,394	-	6,275	70,000
	Account 426.5	**5,718,979**			**2,168,305**	**50,790**	**1,613,850**	**1,007,967**	**878,067**	**5,718,979**
	Total recharge	**28,492,352**			**10,866,910**	**700,586**	**8,702,312**	**5,951,681**	**2,264,524**	**28,492,352**

£8,698,605 @ $1.8 = $15,657,489

£10,866,976 @ $1.8 = $19,560,556

	PPW	PPM	UKD	UKW	SP PLC	TOTAL
4 factor	41.4%	3.1%	27.6%	20.8%	7.1%	100.0%
SMG						
SMG members	117	9	63	25	6	220
SMG Corp*	15	1	10	7	3	36
Total	132	10	73	32	9	256
%	51.5%	4.0%	28.5%	12.7%	3.3%	
Circulation						
E'ees	6130	161	4319	3215		13825
%	44.3%	1.2%	31.2%	23.3%		
LTIP						
members**	15.6	0.0	12.2	7.2	8.0	43.0
%	36.4%	0.0%	28.3%	16.7%	18.6%	
AQ FTE's***	22.0	1.6	30.3	22.1	3.8	79.8
Avondale FTE's***	10.2	0.8	39.6	19.4	1.7	71.7
Total (used for ITBS)	32.2	2.4	69.9	41.5	5.5	151.5
% AQ	27.6%	2.0%	38.0%	27.7%	4.8%	
% Avondale	14.2%	1.1%	55.2%	27.1%	2.4%	
% Total (ITBS)	21.3%	1.6%	46.1%	27.4%	3.6%	

Notes:
* - Corporate SMG allocated across divisions using 4 factor formula
** LTIP members is average of the 3 live schemes membership
*** FTE's for departments forming part of Corporate recharge are "4 factor'd" to produce this statistic

Risk Systems	PPW	PPM	UKD	UKW	SP PLC	TOTAL
4 factor excl UKW	52.3%	3.9%	34.8%		9.0%	100.0%

UK Wires do not use Risk systems hence excluded from the charge

UE-051090/PacifiCorp
September 9, 2005
PC Data Request 50

PC Data Request 50

[Ref.: Gale Testimony, p. 23, ll. 15-17] Please explain what "rate-making principles orders" are. Does MEHC expect to be able to facilitate such orders in Washington?

MEHC's Response to PC Data Request 50

Ratemaking principles orders are issued by the Iowa Utilities Board in contested case proceedings authorized by Iowa Code section 476.53. Please refer to MEHC's Electronic Document Room at 3.03.05 for a copy of that provision of Iowa law. These proceedings reduce regulatory uncertainty by litigating the ratemaking treatment of a proposed investment in a generation facility before it is constructed. Examples of ratemaking principles orders may be found in MEHC's Electronic Document Room at 3.01.07 (Greater Des Moines Energy Center); 3.01.08 (Council Bluffs Energy Center, Unit No. 4; and 3.01.09 (Wind Power Project).

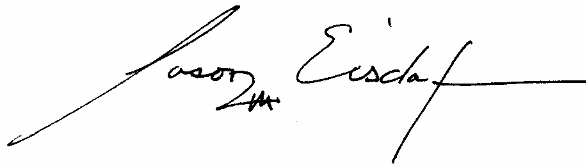
MEHC's experience with the ratemaking principles mechanism has been very positive and MEHC would encourage other state jurisdictions to consider adoption of similar statutory provisions. However, MEHC has no current plans to pursue this mechanism in Washington.

Responder: Brent E. Gale
Witness: Brent E. Gale

CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of November, 2005, I served a non-confidential version of the foregoing Testimony of the Citizens' Utility Board of Oregon in docket UM 1209 upon each party listed below, by email, and a confidential version to the appropriate parties as identified on the service list via U.S. mail, postage prepaid, and upon the Commission by emailing a non-confidential version and by sending 6 confidential copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,



____
Jason Eisdorfer #92292
Attorney for Citizens' Utility Board of Oregon

NW ENERGY COALITION 219 FIRST ST STE 100 SEATTLE WA 98104 steve@nwenergy.org	RATES & REGULATORY AFFAIRS PORTLAND GENERAL ELECTRIC 121 SW SALMON STREET, 1WTC0702 PORTLAND OR 97204 pge.opuc.filings@pgn.com
UTILITY WORKERS UNION OF AMERICA PO BOX 37 SAN CLEMENTE CA 92674-0037 uwua@redhabanero.com	JIM ABRAHAMSON **-- CONFIDENTIAL** COMMUNITY ACTION DIRECTORS OF OREGON P.O. BOX 7964 SALEM OR 97303-0208 jim@cado-oregon.org
DOUGLAS L ANDERSON MIDAMERICAN ENERGY HOLDINGS CO 302 S 36 ST STE 400 OMAHA NE 68131 danderson@midamerican.com	SUSAN ANDERSON CITY OF PORTLAND OFFICE OF SUSTAINABLE 721 NW 9TH AVE -- SUITE 350 PORTLAND OR 97209-3447 susananderson@ci.portland.or.us
ADAM S ARMS **-- CONFIDENTIAL** MCKANNA BISHOP JOFFE & SULLIVAN LLP 1635 NW JOHNSON ST PORTLAND OR 97209 aarms@mbjlaw.com	EDWARD BARTELL KLAMATH OFF-PROJECT WATER USERS INC 30474 SPRAGUE RIVER ROAD SPRAGUE RIVER OR 97639
CURTIS G BERKEY ALEXANDER, BERKEY, WILLIAMS & WEATHERS, LLP 2000 CENTER STREET, SUITE 308 BERKELEY CA 94704 cberkey@abwwlaw.com	CHARLTON H BONHAM TROUT UNLIMITED 828 SAN PABLO AVE SUITE 208 ALBANY CA 94706 cbonham@tu.org

MAGGIE BRILZ IDAHO POWER COMPANY PO BOX 70 BOISE ID 83707-0070 mbrilz@idahopower.com	D KEVIN CARLSON **-- CONFIDENTIAL** DEPT OF JUSTICE - GENERAL COUNSEL DIVISION 1162 COURT ST NE SALEM OR 97301-4096 d.carlson@doj.state.or.us
JOANNE M BUTLER IDAHO POWER COMPANY PO BOX 70 BOISE ID 83707-0070 jbutler@idahopower.com	RALPH CAVANAGH **-- CONFIDENTIAL** NATURAL RESOURCES DEFENSE COUNCIL 111 SUTTER ST FL 20 SAN FRANCISCO CA 94104 rcavanagh@nrdc.org
PHIL CARVER **-- CONFIDENTIAL** OREGON DEPARTMENT OF ENERGY 625 MARION ST NE STE 1 SALEM OR 97301-3742 philip.h.carver@state.or.us	JOHN CORBETT YUROK TRIBE PO BOX 1027 KLAMATH CA 95548 jcorbett@yuroktribe.nsn.us
BRYAN CONWAY PO BOX 2148 SALEM OR 97309-2148 bryan.conway@state.or.us	CHRIS CREAN **-- CONFIDENTIAL** MULTNOMAH COUNTY 501 SE HAWTHORNE, SUITE 500 PORTLAND OR 97214 christopher.d.crean@co.multnomah.or.us
JOAN COTE **-- CONFIDENTIAL** OREGON ENERGY COORDINATORS ASSOCIATION 2585 STATE ST NE SALEM OR 97301 cotej@mwvcaa.org	MICHAEL EARLY INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES 333 SW TAYLOR STE 400 PORTLAND OR 97204 mearly@icnu.org
MELINDA J DAVISON **-- CONFIDENTIAL** DAVISON VAN CLEVE PC 333 SW TAYLOR, STE. 400 PORTLAND OR 97204 mail@dvclaw.com	ANN L FISHER AF LEGAL & CONSULTING SERVICES 2005 SW 71ST AVE PORTLAND OR 97225-3705 energlaw@aol.com
ANDREA FOGUE LEAGUE OF OREGON CITIES PO BOX 928 1201 COURT ST NE STE 200 SALEM OR 97308 afogue@orcities.org	JOHN R GALE IDAHO POWER COMPANY PO BOX 70 BOISE ID 83707-0070 rgale@idahopower.com
BERNARDO R GARCIA UTILITY WORKERS UNION OF AMERICA 215 AVENDIA DEL MAR, SUITE M SAN CLEMENTE CA 92672 uwua@redhabanero.com	ANN ENGLISH GRAVATT **-- CONFIDENTIAL** RENEWABLE NORTHWEST PROJECT 917 SW OAK - STE 303 PORTLAND OR 97205 ann@rnp.org
DAVID E HAMILTON NORRIS & STEVENS 621 SW MORRISON ST STE 800 PORTLAND OR 97205-3825 davidh@norrstev.com	NANCY HARPER IBEW, LOCAL 125 17200 NE SACRAMENTO GRESHAM OR 97230 nancy@ibew125.com

BRIAN JOHNSON **-- CONFIDENTIAL** TROUT UNLIMITED 825 SAN PABLO AVE SUITE 208 ALBANY CA 94706 bjohnson@tu.org	JASON W JONES **-- CONFIDENTIAL** DEPARTMENT OF JUSTICE REGULATED UTILITY & BUSINESS SECTION 1162 COURT ST NE SALEM OR 97301-4096 jason.w.jones@state.or.us
ANDREA L KELLY PACIFICORP 825 NE MULTNOMAH ST STE 800 PORTLAND OR 97232 andrea.kelly@pacificorp.com	BARTON L KLINE **-- CONFIDENTIAL** IDAHO POWER COMPANY PO BOX 70 BOISE ID 83707-0070 bkline@idahopower.com
KAITLIN LOVELL **-- CONFIDENTIAL** TROUT UNLIMITED 213 SW ASH ST, SUITE 205 PORTLAND OR 97204 klovell@tu.org	KATHERINE A MCDOWELL STOEL RIVES LLP 900 SW FIFTH AVE STE 1600 PORTLAND OR 97204-1268 kamcdowell@stoel.com
DANIEL W MEEK DANIEL W MEEK ATTORNEY AT LAW 10949 SW 4TH AVE PORTLAND OR 97219 dan@meek.net	WILLIAM MILLER **-- CONFIDENTIAL** IBEW, LOCAL 125 17200 NE SACRAMENTO GRESHAM OR 97230 bill@ibew125.com
MARK C MOENCH MIDAMERICAN ENERGY HOLDINGS COMPANY 201 SOUTH MAIN ST, STE 2300 SALT LAKE CITY UT 84111 mcmoench@midamerican.com	CHRISTY MONSON LEAGUE OF OREGON CITIES 1201 COURT ST. NE STE. 200 SALEM OR 97301 cmonson@orcities.org
BARBARA LEE NORMAN KARUK TRIBE OF CALIFORNIA PO BOX 657 YREKA OR 96097 bnorman@karuk.us	MICHAEL W ORCUTT HOOPA VALLEY TRIBE FISHERIES DEPT PO BOX 417 HOOPA CA 95546 director@pcweb.net
MATTHEW W PERKINS **-- CONFIDENTIAL** DAVISON VAN CLEVE PC 333 SW TAYLOR, STE 400 PORTLAND OR 97204 mwp@dvclaw.com	JANET L PREWITT **-- CONFIDENTIAL** DEPARTMENT OF JUSTICE 1162 COURT ST NE SALEM OR 97301-4096 janet.prewitt@doj.state.or.us
LISA F RACKNER **-- CONFIDENTIAL** ATER WYNNE LLP 222 SW COLUMBIA ST STE 1800 PORTLAND OR 97201-6618 lfr@aterwynne.com	PETER J RICHARDSON RICHARDSON & O'LEARY PO BOX 7218 BOISE ID 83707 peter@richardsonandoleary.com
STEVE ROTHERT **-- CONFIDENTIAL** AMERICAN RIVERS 409 SPRING ST, SUITE D NEVADA CITY CA 95959 srothert@americanrivers.org	GREGORY W SAID IDAHO POWER COMPANY PO BOX 70 BOISE ID 83707 gsaid@idahopower.com

THOMAS P SCHLOSSER **-- CONFIDENTIAL** MORISSET, SCHLOSSER, JOZWIAK & MCGAW 801 SECOND AVE, SUITE 1115 SEATTLE WA 98104-1509 t.schlosser@msaj.com	ROB ROY SMITH **-- CONFIDENTIAL** MORISSET, SCHLOSSER, JOZWIAK & MCGAW 1115 NORTON BUILDING 801 SECOND AVENUE SEATTLE WA 98104-1509 r.smith@msaj.com
THANE SOMERVILLE **-- CONFIDENTIAL** MORISSET, SCHLOSSER, JOZWAIK & MCGAW 801 SECOND AVE, SUITE 1115 SEATTLE WA 98104-1509 t.somerville@msaj.com	GLEN H SPAIN **-- CONFIDENTIAL** PACIFIC COAST FEDERATION OF FISHERMEN'S ASSOC PO BOX 11170 EUGENE OR 97440-3370 fish1ifr@aol.com
JOHN W STEPHENS **-- CONFIDENTIAL** ESLER STEPHENS & BUCKLEY 888 SW FIFTH AVE STE 700 PORTLAND OR 97204-2021 stephens@eslerstephens.com	MARK THOMPSON PUBLIC POWER COUNCIL 1500 NE IRVING STREET, SUITE 200 PORTLAND OR 97232 mthompson@ppcpdx.org
DOUGLAS C TINGEY PORTLAND GENERAL ELECTRIC 121 SW SALMON 1WTC13 PORTLAND OR 97204 doug.tingey@pgn.com	SANDI R TRIPP KARUK TRIBE DEPT. OF NATURAL RESOURCES PO BOX 1016 HAPPY CAMP CA 95546 stripp@karuk.us
SARAH WALLACE **-- CONFIDENTIAL** ATER WYNNE LLP 222 SW COLUMBIA STE 1800 PORTLAND OR 97201-6618 sek@aterwynne.com	BENJAMIN WALTERS **-- CONFIDENTIAL** CITY OF PORTAND - OFFICE OF CITY ATTORNEY 1221 SW 4TH AVE - RM 430 PORTLAND OR 97204 bwalters@ci.portland.or.us
MICHAEL T WEIRICH **-- CONFIDENTIAL** DEPARTMENT OF JUSTICE REGULATED UTILITY & BUSINESS SECTION 1162 COURT ST NE SALEM OR 97301-4096 michael.weirich@state.or.us	STEVEN WEISS NORTHWEST ENERGY COALITION 4422 OREGON TRAIL CT NE SALEM OR 97305 weiss.steve@comcast.net
LINDA K WILLIAMS KAFOURY & MCDOUGAL 10266 SW LANCASTER RD PORTLAND OR 97219-6305 linda@lindawilliams.net	PAUL WOODIN WESTERN WIND POWER 282 LARGENT LN GOLDENDALE WA 98620-3519 pwoodin@gorge.net