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April 5, 2006

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Rebuttal Testimony
Docket UE 170 (RECON)

Enclosed for filing is an original and six copies of PacifiCorp's Rebuttal Testimony on Reconsideration in the above-referenced matter. A copy of this filing was served on all parties to this proceeding as indicated on the attached certificate of service.

Very truly yours,

Katherine A. McDowell

KAM:knp
Enclosures
cc: Service List

Oregon
Washington
California
Utah
Idaho

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UE 170 on the following named person(s) on the date indicated below by email and first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

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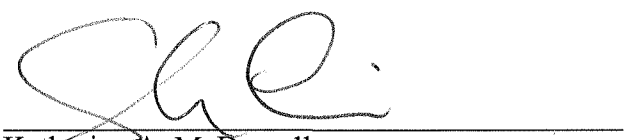
DATED: April 5, 2006



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Docket UE 170 (RECON)
PPL Exhibit 1703
Witness: Doug Larson

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Rebuttal Testimony of Doug Larson on Reconsideration

Policy

April 2006

1 **Q. Are you the same Doug Larson who provided direct reconsideration testimony**
2 **in this proceeding?**
3 A. Yes.
4 **Q. What are the purposes of your rebuttal reconsideration testimony?**
5 A. I respond to the responsive direct reconsideration testimony of Citizens' Utility Board
6 of Oregon ("CUB") witness Lowrey R. Brown and Industrial Customers of Northwest
7 Utilities ("ICNU") witness James T. Selecky. Specifically, I respond to Ms. Brown's
8 and Mr. Selecky's arguments regarding the scope of this reconsideration proceeding,
9 the Commission's consideration of the impacts of MidAmerican Energy Holdings
10 Company's ("MEHC") acquisition of PacifiCorp, the applicability of SB 408 or its
11 principles to the Rate Order, and the need for deferred accounting.
12 **Scope of Reconsideration**
13 **Q. Ms. Brown and Mr. Selecky claim that the Company's witnesses present**
14 **evidence that is beyond the scope of these proceedings. Please respond.**
15 A. CUB's and ICNU's attempt to narrow the scope of these reconsideration proceedings
16 is a repeat of their unsuccessful opposition to the commencement of these
17 proceedings. The Commission's reconsideration order made clear that it intended to
18 review the general validity of the SB 408 adjustment, the proper calculation of the
19 SB 408 adjustment and its legality under ORS 756.040. Since I filed my direct
20 reconsideration testimony, Administrative Law Judge Kathryn Logan further clarified
21 the issues within the scope of this proceeding as follows:
22 1. Was the Commission required to apply or prohibited from applying
23 SB 408 to this docket?
24 2. Assume that the Commission could apply SB 408 or "its principles" to this
25 docket. How should SB 408 or "its principles" be applied?

3. Did the $16.07 million tax adjustment result in rates violative of ORS 756.040?

4. What is the appropriate remedy if the Commission should determine to modify the revenue requirement from the original order?

The Company's witnesses on reconsideration testify to factual and policy matters that are directly relevant to all of these issues. The direct testimony of Mr. Martin and my rebuttal testimony explain why SB 408 is inapplicable to this case. Mr. Martin's and my direct and rebuttal testimony address how the Commission should apply SB 408, assuming it is applicable. This testimony necessarily includes new evidence on how the tax adjustment should properly be calculated and shows that the adjustment should be dramatically reduced or eliminated. The direct and rebuttal testimony of Mr. Williams addresses how the tax adjustment violates the "fair, just and reasonable" standard of ORS 756.040. Finally, my direct and rebuttal testimony address why deferred accounting is an appropriate and necessary remedy in this case.

MEHC's Ownership of PacifiCorp

Q. Both Ms. Brown and Mr. Selecky urge the Commission not to consider MEHC's acquisition of PacifiCorp or any other new evidence of PacifiCorp's tax expense in the test period. Please comment generally on these arguments.

A. Ms. Brown and Mr. Selecky present a number of procedural and technical arguments against consideration of the Company's new evidence on the proper application of SB 408 in this case. They argue that: (1) MEHC's acquisition of PacifiCorp is not a known and measurable change; (2) opening the record to consider MEHC ownership or any other new evidence of the test year tax expense would constitute single-issue ratemaking; (3) opening the record to consider this new evidence would discourage settlement; and, (4) PacifiCorp's new general rate case, Docket UE 179, is the

1 appropriate proceeding in which to address the Company's tax expense under MEHC
2 ownership.
3 Importantly, neither CUB nor ICNU contest the key substantive point, which
4 is that MEHC's purchase of PacifiCorp eliminates the factual record the Commission
5 relied upon in making the tax adjustment in this case. The adjustment is based upon
6 the impact of ScottishPower's ownership on PacifiCorp's tax expense in 2006; it is
7 now clear that for more than three-quarters of 2006, ScottishPower will have no
8 impact on PacifiCorp's tax expense. Additionally, while CUB and ICNU raise
9 procedural concerns about PacifiCorp's new evidence on the proper calculation of the
10 tax adjustment, neither has contested the accuracy of this evidence.
11 **Q. At this point, is it now beyond question that MEHC's acquisition of PacifiCorp**
12 **is a known and measurable change to the test period?**
13 A. Yes. MEHC closed the acquisition of PacifiCorp on March 21, 2006.
14 **Q. Please explain with specificity how the MEHC ownership change undermines the**
15 **Rate Order.**
16 A. First, the Rate Order disallows $16.07 million of the Company's tax expense (grossed
17 up to a $26 million revenue reduction) on the basis that SB 408 principles purportedly
18 require the Commission to allocate to PacifiCorp the tax effects of PHI's interest
19 payment, which the Rate Order refers to as a "constant." The MEHC ownership
20 change makes clear, however, that the PHI interest deduction is not a "constant"
21 which can be appropriately reflected in rates.
22 Second, the Rate Order based the tax adjustment on PacifiCorp's contribution
23 to the PHI group's gross profits. PacifiCorp's contribution to the PHI group's gross

1 profits in the test year will be significantly reduced, because, as of March 21, 2006,
2 PacifiCorp will no longer contribute <u>any</u> income to the PHI group.
3 Third, the Rate Order states that the $16.07 million disallowance was required
4 to achieve the twin goals of, one, aligning the estimated taxes included in
5 PacifiCorp's rates with the amount that PacifiCorp or its consolidated group will
6 eventually pay, and, two, reducing the amount that flows through the automatic
7 adjustment clause. The Commission cannot meet its stated goal of aligning taxes in
8 rates with taxes that PacifiCorp will eventually pay if it includes an adjustment to
9 PacifiCorp's tax expense that is now completely divorced from PacifiCorp's tax
10 reality. The PHI fact scenario is now history and, as described in more detail by
11 Mr. Martin, MEHC has not replicated it on a going-forward basis.
12 **Q. Please respond to the CUB and ICNU arguments about single-issue ratemaking**
13 **and partial settlements.**
14 A. Ms. Brown and Mr. Selecky urge the Commission not to reopen the record to
15 consider evidence relevant to the tax expense on the basis that doing so will constitute
16 single-issue ratemaking and discourage settlement. These arguments ignore the fact
17 that the Commission expressly defined the single-issue scope of this proceeding and
18 that SB 408, by definition, creates an exception to the general rule against single-
19 issue ratemaking for taxes. Taken on its face, Ms. Brown's and Mr. Selecky's
20 argument would make unworkable any effort to rehear or reconsider discrete issues or
21 to implement SB 408.
22 Ms. Brown's and Mr. Selecky's arguments about partial settlements are
23 equally unfounded. The parties in UE 170 did not reach settlement on the Company's

1 tax expense. Nor did they make settlement of any other item contingent on a
2 particular outcome with respect to the Company's tax expense. Instead, the parties
3 reached settlement on other items in the rate case with full knowledge that the
4 Commission might disallow all or none of the remaining expenses in the case and
5 with full knowledge of the parties' rights to appeal all or part of the Rate Order.

6 **Q. Is the Company's current rate case, UE 179, the exclusive venue for the**
7 **Commission's consideration of the impacts of MEHC ownership on PacifiCorp's**
8 **tax expense?**

9 A. No. MEHC's purchase of PacifiCorp is an early CY 2006 event and CY 2006 is the
10 test year in UE 170 (UE 179 has a CY 2007 test year). Additionally, it would be
11 patently unfair for the Commission to reopen the record in this case to apply SB 408
12 (which was enacted after the close of the record in the case), but then arbitrarily limit
13 the evidence on the application of SB 408 that it will hear in this proceeding, forcing
14 PacifiCorp to wait months to have this evidence considered by the Commission in
15 UE 179.

16 **Application of SB 408 to this Case**

17 **Q. Ms. Brown and Mr. Selecky argue that the "fair, just and reasonable" language**
18 **in SB 408 coupled with a general policy statement in the Act's preamble changed**
19 **the ratemaking standard in Oregon. Please respond.**

20 A. These arguments are contradicted by CUB's and ICNU's own statements to Oregon
21 legislators regarding SB 408. Exhibit PPL 1704 is a copy of a memorandum
22 provided by CUB and ICNU to Oregon legislators before the House floor debate on
23 SB 408. There, CUB and ICNU describe SB 408 as "moderate" legislation that will

not fundamentally change tax policy or ratemaking. As CUB and ICNU explain in Exhibit PPL 1704, SB 408 provides a simple mechanism to align taxes collected with taxes paid:

> "[T]he effect of the bill is very straightforward: utilities will have to report how much they collected in taxes and they will have to report how much they paid in taxes. If there's a difference between the two amounts of more than $100,000, there will have to be a true up. That's it. Nothing in utility ratemaking is changed." Exhibit PPL 1704 at 2 (emphasis added).

Q. Was the adjustment in the Rate Order "moderate"?

A. No. To the contrary, as the Commission acknowledges in the Rate Order, the adjustment was a fundamental change in the Commission's tax policy and ratemaking. Moreover, it reduced the allowed ROE of PacifiCorp to 8.4% which is significantly below U.S. utility peer company returns.

Q. Was the adjustment nevertheless consistent with the principles of SB 408?

A. Absolutely not. The Rate Order disregarded the clear mandates of SB 408 while, at the same time, inserting into SB 408 a mandate it does not contain—that is, a mandate to pass the assumed tax effects of a parent interest payment to ratepayers based on the utility's contribution to its consolidated group's gross profits. The Rate Order did not even consider—let alone true-up—historic amounts of taxes paid and taxes collected. Nor did it even attempt to discern the amount of taxes that would actually be paid by PacifiCorp or its consolidated group in the test year. Having failed to determine "taxes received by units of government" under SB 408, the Rate Order did not and could not adjust that figure to include settlement payments, deferred taxes, charitable contributions, and tax credits. The legislative history of SB 408 demonstrates that the Act requires these adjustments to the "taxes paid"

1 calculation to retain some of the tax incentive for utilities to be good corporate
2 citizens and to avoid the potentially massive rate increases that would result from a
3 violation of the normalization conditions of the Internal Revenue Code. (*In re*
4 *Adoption of Permanent Rules to Implement SB 408*, AR 499, Legislative History for
5 SB 408 (OPUC Oct. 7, 2005).)

6 **Q. Could the Commission properly apply the principles of SB 408 in the Rate**
7 **Order before it determined the definition of terms such as "properly**
8 **attributed"?**

9 A. No. It was not possible for the Rate Order to legitimately premise the disallowance
10 on SB 408, as the basic building blocks of the Act were not defined before the parties
11 presented evidence in this case or the Commission issued the Rate Order. Indeed, the
12 meaning of the term "properly attributed" and the calculation of "taxes authorized to
13 be collected in rates" and "taxes paid" are the subject of an ongoing administrative
14 rulemaking proceeding, Docket AR 499. Participants in that proceeding are
15 discussing various proposals, which have yet to be presented to the Commission.
16 Without knowing how to determine the amount of taxes actually paid to the
17 government and properly attributed to the utility, it was simply not possible for the
18 Rate Order to premise the disallowance on the principles of SB 408. For example, at
19 a rulemaking workshop the utilities and intervenors agreed that, as a policy matter,
20 SB 408 adjustments should not be applied on a forecasted basis—which is precisely
21 what the Rate Order did in this case.

1 **Deferred Accounting**

2 **Q. Mr. Selecky argues that PacifiCorp has not provided factual support for its**
3 **deferred accounting request. Please respond.**

4 A. In its Order in UM 1147, the Commission recently decided to retain its discretion to
5 apply deferred accounting in a flexible, fact-specific manner. While the Commission
6 has not previously applied deferred accounting as a part of a remedy in a
7 reconsideration order, the Commission has never previously made a $26 million
8 revenue requirement adjustment based upon a law that was enacted after the record
9 was closed in a rate case. The unique circumstances of this case make it a good
10 candidate for a deferred accounting remedy, not the opposite as ICNU suggests.

11 **Q. Does this conclude your rebuttal reconsideration testimony?**

12 A. Yes, it does.

PPL/1704
Witness: Doug Larson

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

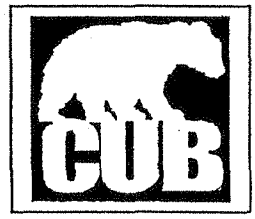
PACIFICORP

Exhibit Accompanying

Rebuttal Testimony on Reconsideration

April 2006

INDUSTRIAL
CUSTOMERS OF
NORTHWEST
UTILITIES



UTILITY CUSTOMERS ASK FOR FAIRNESS AND EQUITY: TAXES COLLECTED MUST ALIGN WITH TAXES PAID VOTE YES ON SB 408-C

Customers have crafted a bill that ensures that taxes collected through our rates are actually paid. However, there have been serious misrepresentations about SB 408-C. Yet the effect of the bill is very straightforward: utilities will have to report how much they collected in taxes and they will have to report how much they paid in taxes. If there's a difference between the two amounts of more than $100,000, there will have to be a true up. That's it. Nothing in utility ratemaking is changed. Nothing in tax policy is changed.

Let's look at the misrepresentations one by one.

The utilities say, "The bill is 'constitutionally unsound.' "
RESPONSE: SB 408-C does not violate either the state or the US Constitution.

The bill does not switch between methodologies. In fact, it picks a method and applies it consistently. Regulators have tremendous discretion in determining rates and how to calculate charges, including taxes, within those rates. All that is required is a rational explanation. "Taxes collected equals taxes paid" is a rational explanation. Is it a change from the current practice? Yes. But that's the point.

Neither would the bill result in confiscatory rates. This would mean that somehow the utility would be prevented from making its regulated rate of return. This is patently absurd. Having a utility report how much they collect in taxes, having them report how much they paid in taxes and making sure those two amounts are closely aligned does not result in confiscatory rates. It results in better accountability.

The utilities are fond of quoting *Hope Natural Gas v. Federal Power Commission*, saying that utility investors must have an opportunity to earn a fair and reasonable return on their investment. Customers have no quarrel with that premise. But making sure that taxes collected in rates are actually paid does not prevent that opportunity in any way. Investors should not be able to increase their profit margins by simply keeping taxes collected in rates.

The utilities say, "The bill undermines Oregon's renewable energy industry."
RESPONSE: Tax credits and tax incentives that exist today will exist after the bill's passage.

Again, the bill changes nothing in utility ratemaking or tax policy. If a utility wishes to avail themselves of tax credits and incentives, customers can support that. The bill discourages nothing. In fact, Section 3(f)(B) allows the amount of taxes paid to be "**(i)ncreased by the amount of tax savings realized as a result of tax credits associated with investment by the utility in the regulated operations of the utility, to the extent the expenditures giving rise to the tax credits and tax savings resulting from the tax credits have not been taken into account by the commission in the utility's last general ratemaking proceeding.**" This means that the utility can take into account any tax credits or incentives when reporting its taxes paid, as long as those credits were not already accounted for in a previous rate case.

-over-

The utilities say, "The bill discourages charitable contributions and economic development."
RESPONSE: Even the utilities admit utility charitable contributions are exempt from adjustment in SB 408-C. And they don't explain how their dire predictions will come to pass.

But the utilities keep bringing up contributions and business activities of affiliates. If a utilities is part of a larger corporate structure or has other subsidiaries, it can still file consolidated tax returns if that is the wish of the utility or its corporate parent. However, for taxes collected in rates, SB 408-C asks only that the utility report the amount it collected for taxes in its rates, based on activities "properly attributed to the utility," and how much was actually paid to governmental entities. If there is a difference – either up or down – then there needs to be a true up. There is nothing in the bill that prevents a utility's corporate parent from investing in job creation, business development or making charitable contributions. But ratepayers should no longer pay for those activities by allowing unpaid taxes to be a slush fund for either utility investors or a utility's corporate parent.

The utilities say, "The bill is an extreme reaction to the Enron bankruptcy."
RESPONSE: The bill is a moderate approach to addressing a serious ratepayer concern.

The bill could have attempted to have the utilities to repay the hundreds of millions of dollars in collected taxes that were never paid to government entities to customers. The bill could have fundamentally changed tax policy or ratemaking. The bill could have done many things that could be labeled extreme. But SB 408-C is very moderate in its approach and is not a reaction to the Enron bankruptcy, although customers do not want that situation to occur again. The Enron bankruptcy simply brought the problem to light. It is fundamentally unfair for utilities – any utility – to keep money that customers paid as part of their rates, understanding that money will be paid to government. Rather than undertake a radical approach to the problem, all customers want is to know how much is collected for taxes in rates, how much is actually paid and to make sure those numbers are closely aligned. And that's all SB 408-C does.

SB 408-C is fair.
SB 408-C is moderate.
SB 408-C is straightforward.
SB 408-C is what customers are requesting.

Please Vote Yes on SB 408-C.

For more information, please contact: *Mark Nelson, ICNU: 503-363-7084*
Jeff Bissonnette, CUB: 503-516-1636

Docket UE 170 (RECON)
PPL Exhibit 1304
Witness: Larry O. Martin

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Rebuttal Testimony of Larry O. Martin on Reconsideration

Tax

April 2006

1 **Q. Are you the same Larry Martin who previously filed reconsideration testimony**
2 **in this proceeding?**
3 A. Yes.
4 **Q. What are the purposes of your rebuttal reconsideration testimony?**
5 A. I respond to the direct reconsideration testimony of Citizens' Utility Board of Oregon
6 ("CUB") witness Lowrey R. Brown and Industrial Customers of Northwest Utilities
7 ("ICNU") witness James T. Selecky.
8 **Q. Both Ms. Brown and Mr. Selecky argue that the Commission should not**
9 **consider the new evidence presented in your reconsideration testimony because**
10 **this evidence became available after the record in this proceeding closed in**
11 **August 2005. Please respond.**
12 A. Contrary to the suggestions of CUB and ICNU, the Commission cannot fairly reopen
13 the record to apply SB 408—which was enacted after the close of the record in this
14 case—but then refuse to take new evidence on the correct calculation of a tax
15 adjustment under SB 408. In my direct testimony, I asserted that the Commission
16 applied SB 408 prematurely and incorrectly in this case. If the Commission agrees,
17 then the new evidence I have submitted is irrelevant. If the Commission decides to
18 apply SB 408 in this case notwithstanding PacifiCorp's arguments to the contrary, the
19 new evidence I have presented is essential to the correct calculation of the tax
20 adjustment.
21 **Q. Please briefly review the updates and corrections you have proposed to the tax**
22 **adjustment in the Rate Order.**

A. Before applying SB 408 in this case, the Commission must consider the following facts, all of which substantially reduce the tax adjustment in the Rate Order: (1) PacifiCorp will be part of the PacifiCorp Holdings, Inc. ("PHI") consolidated group only for the first quarter of calendar year 2006 (CY06), not the indefinite period expressly assumed in the Rate Order; (2) PacifiCorp contributed 50% of the PHI group's taxable income in FY05, significantly less than the 91.5% allocation relied upon in the Rate Order; (3) PacifiCorp's contribution to the PHI group's net taxable income and gross profits will be substantially less in CY06 than it was in FY05, further lowering the appropriate allocation percentage; (4) rather than $160 million assumed in the Rate Order, changes in the PHI loan terms reduced the amount of interest that PHI would have paid in 2006 to $136 million, or approximately $34 million per quarter; (5) ScottishPower will pay taxes to the government at a rate of 30% in CY06 on any PHI interest payments it receives, contrary to the assumption in the Rate Order that there are no such tax offsets; (6) PacifiCorp's FY05 "taxes paid," as defined by SB 408, included settlement payments (for years other than FY05) that totaled in excess of $70 million, deferred taxes related to PacifiCorp of $44 million, and charitable contributions of $435,000. The Commission must consider the impact of these offsets, which are specifically designated in SB 408, rather than selectively adjusting only for the impact of the parent interest deduction, an adjustment which has no express authorization in SB 408.

1 **MidAmerican Energy Holdings Company's Acquisition of PacifiCorp**

2 **Q. What is the significance of MEHC's acquisition of PacifiCorp on the calculation**
3 **of the tax adjustment in this case?**

4 A. It eliminates or substantially reduces the tax adjustment. MEHC acquired PacifiCorp
5 on March 21, 2006. Thus, PacifiCorp was a member of the PHI consolidated group
6 during only the first quarter of CY06. For the remaining three quarters of CY06 and
7 going forward, PacifiCorp will file taxes as a part of the Berkshire Hathaway
8 consolidated group.

9 **Q. Why does it matter that PacifiCorp will file as a part of Berkshire Hathaway's**
10 **consolidated group, and not the PHI consolidated group, for the remaining three**
11 **quarters of CY06?**

12 A. First, the tax adjustment in the Rate Order is expressly based upon the
13 ScottishPower/PHI/PacifiCorp corporate structure and tax filings. This structure and
14 the related tax filings ceased to exist before the end of the first quarter of 2006.

15 Second, because PacifiCorp was a member of the PHI group for only the first
16 quarter of CY06, PacifiCorp will contribute substantially less to the PHI group's net
17 taxable income, gross profits and assets in CY06 than it did in previous years.

18 Third, for the remaining three quarters of the test year and going forward,
19 PacifiCorp will be a part of a corporate structure that bears no resemblance to the
20 ScottishPower/PHI structure in attributes that were critical to the tax adjustment in
21 this case. PacifiCorp's new immediate parent, PPW Holdings LLC, has no debt.
22 PPW Holdings LLC was capitalized with $5.1 billion of equity issued to MEHC and
23 used the $5.1 billion equity contribution to purchase PacifiCorp. MEHC issued

1 $5.1 billion of equity to shareholders, $5.07 billion of which was issued to Berkshire
2 Hathaway and $35.5 million of which was issued to other shareholders. Berkshire
3 Hathaway provided all of its capital from its cash and cash equivalents.
4 In the future, PacifiCorp will file taxes as a member of the Berkshire
5 Hathaway consolidated group, a group which had net interest income, rather than net
6 interest deductions, on the date of acquisition. In the latest published audited
7 financial filing of Berkshire Hathaway, its 10K for the year ended December 31, 2005
8 shows cash and cash equivalents of approximately $45 billion and notes payable and
9 other borrowings are approximately $(14) billion. Interest, dividend and other
10 investment income is approximately $5 billion while interest expense is less than $1
11 billion. Thus, rather than having interest deductions, PacifiCorp's new consolidated
12 group has net interest income.
13 Fourth, the Berkshire Hathaway consolidated group is expected to pay far
14 more tax to units of government for CY06 and beyond than PacifiCorp will collect
15 through rates on a standalone basis. Thus, no adjustment to PacifiCorp's standalone
16 tax expense is needed to effectuate the Commission's stated goal of "do[ing] [its] best
17 to align the estimated taxes included in PacifiCorp's rates with the amount that
18 PacifiCorp (or its affiliated group) will eventually pay."
19 **Q. Do you agree with Mr. Selecky's suggestion that PacifiCorp can simply refuse to**
20 **remit its standalone tax payment to its parent?**
21 A. Absolutely not. The standalone tax expense is a cost of providing service, the
22 computation of which is governed by IRS and SEC rules and regulations. Moreover,
23 as part of the Berkshire Hathaway consolidated group, the entirety of PacifiCorp's

1 standalone tax liability will be paid to units of government. There is simply no
2 justification by which PacifiCorp could refuse to remit its standalone tax payment to
3 its parent.

4 **Contribution to the PHI Group's Net Taxable Income**

5 **Q. In response to your testimony that PacifiCorp contributed 50% of the PHI**
6 **group's net taxable income in FY05, Mr. Selecky alleges that the 50% net**
7 **taxable income figure is unsubstantiated. Please respond.**

8 A. The figure is derived from PHI's FY05 federal tax return, which was filed on
9 December 15, 2005. In response to OPUC Data Request 456, PacifiCorp provided a
10 redacted copy of the relevant portions of the PHI and Subsidiaries' FY05
11 consolidated federal tax return as well as a computation that shows that PacifiCorp's
12 taxable income was 50% of the taxable income of all PHI group profitable
13 companies. A copy of PacifiCorp's response to OPUC Data Request 456 is provided
14 as Confidential Exhibit PPL 1305.

15 **Q. Mr. Selecky also complains that the 50% figure is based on FY05 data, which is**
16 **not representative of CY06, the test year in this case. Do you agree?**

17 A. Yes. I agree that new evidence demonstrates a number of known and measurable
18 changes that require an update to the FY05 data. Those changes will result in
19 PacifiCorp contributing <u>less</u> to the PHI group's taxable income in CY06, not <u>more</u>.
20 PacifiCorp has submitted updates and corrections to its FY05 tax data in this
21 proceeding because the Commission's tax adjustment was based upon figures derived
22 from PHI's most recent tax returns.

1 **Q. Which factors in particular will cause PacifiCorp's contribution to the PHI**
2 **group's net taxable income to be less than 50% in CY06?**
3 A. As I described previously, PacifiCorp will only be a member of the PHI group for one
4 quarter of CY06. This change will greatly reduce PacifiCorp's contribution to the
5 PHI group's taxable income. Additionally, projected revenue increases for
6 nonregulated affiliates within the PHI consolidated group and expected corporate
7 restructuring will further reduce PacifiCorp's proportion of the PHI group's taxable
8 income.
9 **Q. Mr. Selecky argues that the Commission should base its disallowance of the tax**
10 **expense on PacifiCorp's contribution to the PHI group's assets. Do you agree?**
11 A. Absolutely not. As I stated in my sur-surrebuttal and direct reconsideration
12 testimony, the proper basis for allocating tax expenses is net taxable income, not
13 gross profits or assets. Neither gross profits nor assets are rationally related to
14 income taxes.
15 Mr. Selecky argues that assets are utilized in ratesetting to allocate interest
16 expenses among various rate classes and this same method should be used here to
17 allocate "this interest expense." Mr. Selecky's argument confuses the interest
18 expense, which the Rate Order does not purport to allocate to PacifiCorp, with the tax
19 benefit of the interest expense. The proper allocation factor for a tax expense or
20 benefit—in this case a tax deduction—is relative taxable income.

1 **Lower Interest Payments in CY06**

2 **Q. Mr. Selecky testifies that the evidence in this case shows that interest on the PHI**
3 **debt in CY06 should be assumed to be 6.75%, not 4.97688% as you stated in**
4 **your direct reconsideration testimony. Please respond.**

5 A. Mr. Selecky is ignoring the new evidence that I presented in my direct
6 reconsideration testimony. As I explained there, as of September 22, 2005, the PHI
7 debt structure was changed, resulting in decreased interest expense going forward.
8 Under the new structure, the current debt is $2.731 billion at 4.97688% interest.
9 PacifiCorp provided ICNU and CUB with documentary evidence of this change in
10 debt structure in response to ICNU Data Request 31.9 and CUB Data Request 4,
11 respectively. Copies of PacifiCorp's Supplemental Response to ICNU Data Request
12 31.9 and Revised Response to CUB Data Request 4 are provided as Confidential
13 Exhibit PPL 1306 and Exhibit PPL 1307, respectively. As explained therein, on
14 September 22, 2005, the loans to PacifiCorp UK Limited ("PUKL") were refinanced
15 with loans from Scottish Power Finance 2 Limited ("SPF2"). The PUKL notes had a
16 fixed interest rate of 6.75% and the SPF2 notes have a lower variable interest rate that
17 is fixed at 4.97688% for the first 90 days of CY06. This change in the facts
18 demonstrates the inherent weakness of the approach taken by ICNU and CUB in their
19 testimony.

20 **Q. Ms. Brown alleges that you made a "rounding error" in your direct**
21 **reconsideration testimony regarding the decrease in PHI's interest deduction in**
22 **the test year. Is that true?**

1 A. No. In my direct reconsideration testimony, I testified that a change in the PHI debt
2 structure, which occurred on September 22, 2005, will decrease PHI's interest
3 payments in the test year to $136 million, which is approximately $24 million less
4 than the amount assumed by the Commission in the calculation of the disallowance.
5 My estimate is accurate. As I explained in my direct reconsideration testimony, the
6 product of multiplying the debt, $2.731 billion, by the interest rate, 4.97688%, is
7 approximately $136 million.

8 In response to CUB Data Request 4, PacifiCorp initially disclosed to CUB the
9 amount of the expected interest payment at the end of the first quarter of CY06,
10 $34.735 million. Our response to CUB's data request correctly disclosed the
11 expected first quarter payment based upon a daily accrual rate using the standard 360-
12 day year times 92 days in the period. Our response noted that this figure was used to
13 estimate the future quarterly payments for the remainder of CY06. Upon completion
14 of the quarter, the first quarter payment was actually made based upon the 360-day
15 daily accrual rate using 4.97688% applied to the $2.731 billion for 91 days in the
16 period (the 91-day period started from the prior payment period so it included 2 days
17 of December 2005 and did not include interest for the last day of March).
18 PacifiCorp's initial response to CUB's data request showed that the identical
19 payments for the second, third and fourth quarters of CY06 were estimates. Exhibit
20 PPL 1307 is PacifiCorp's Revised Response to CUB Data Request 4. It shows an
21 update of the estimated quarterly payments, based on the actual number of days in
22 each period and the actual number of days in 2006. As shown there, the estimated

1 interest payment for 2006 is $135,918,593 million, which is consistent with my direct
2 reconsideration testimony.

3 **Q. What is the relevance to this proceeding of PHI's second through fourth quarter**
4 **CY06 interest payments?**

5 A. PHI's second through third quarter CY06 interest payments are not relevant to this
6 proceeding. As discussed above, as of March 21, 2006, PacifiCorp is no longer a
7 subsidiary of PHI. Therefore, absolutely no rationale exists for allocating a portion of
8 PHI's interest payments made after this date to PacifiCorp's customers (through a
9 disallowance of PacifiCorp's tax expense). The tax effects of these interest payments
10 will not decrease PacifiCorp's tax liability or PacifiCorp's consolidated group's
11 actual tax payments to government in CY06; nor will the tax effects of these
12 payments benefit PacifiCorp or PacifiCorp's customers or shareholders.

13 **Q. What would be the amount of the disallowance if the Commission were to base**
14 **its calculation on the first quarter payment only?**

15 A. The original adjustment made by the Commission, when calculated with an
16 appropriate allocation factor, using actual CY06 interest rates, offsets for tax liability
17 associated with the interest, and considering the first quarter interest payment only
18 would be approximately $.40 million on an Oregon-allocated basis, which is
19 approximately $.66 million on a grossed-up basis. These figures are derived as
20 follows: ((PHI interest deduction based on first quarter payment only * combined
21 U.S. effective tax rate) - (PHI interest deduction based on first quarter payment only *
22 UK tax rate)) * Percentage of PHI group taxable income from PacifiCorp * Oregon
23 allocation factor on an SNP basis * tax gross-up factor = adjustment to revenue

1 requirement. In numeric form, the calculation is as follows: (($34.357m * 37.95%) -

2 ($34.357m * 30%)) * 50.3095% * 28.8723% = .40m * 1.657 = $.66 million.

3 **Q. Does this conclude your rebuttal testimony on reconsideration?**

4 A. Yes, it does.

Docket UE 170 (RECON)
PPL/1305
Witness: Larry O. Martin

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Confidential Exhibit Subject to Protective Order

April 2006

Docket UE 170 (RECON)
PPL/1306
Witness: Larry O. Martin

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Confidential Exhibit Subject to Protective Order

April 2006

Docket UE 170 (RECON)
PPL/1307
Witness: Larry O. Martin

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying

Rebuttal Testimony on Reconsideration

April 2006

82
Portland, OR 97232

PACIFICORP
PACIFIC POWER UTAH POWER

April 5, 2006

Bob Jenks
Citizens' Utility Board
610 SW Broadway Suite 308
Portland, OR 97205

RE: OR Docket No. UE-170R
CUB Data Request 1-5

Please find enclosed PacifiCorp's 1st Revised Response to CUB Data Request Numbers 4.

If you have any questions, please call Laura Beane at (503) 813-5542.

Sincerely,

Laura Beane, Manager
Regulation

Enclosures

cc: Katherine McDowell/Stoel Rives

UE-170-Recon/PacifiCorp
April 5, 2006
CUB Data Request 4 1st Revised

CUB Data Request 4

In regard to PPL/1303/Martin/5-6:

a. Please describe and document the change in the PHI debt structure that occurred on September 22, 2005.

b. For calendar year 2006, please provide a chart with each PHI debt payment (past or projected) in US dollars, the remaining debt (in US$) associated with that interest payment, the name of the party that issued the debt, and the corresponding interest rate. Please include a note with any exchange rates used.

1st Revised Response to CUB Data Request 4

b. A revised statement of PHI debt payments is provided as Attachment CUB 4.1 b Revised.

OREGON

2004 GENERAL RATE CASE

UE-170R

PACIFICORP

CUB DATA REQUEST

ATTACHMENT CUB 4 b REVISED

PacifiCorp / UE 170 R
Confidential Attachment CUB 4b -1 (Revised)

Chart of PacifiCorp Holdings, Inc. debt to Scottish Power Finance 2 Limited.

All Amounts in US dollars

Total Annual Interest Expense:

Total Debt	2,731,000,000
Annual Interest Rate	4.97688%
Annual Interest Expense	135,918,593

Payment Date	Payment Amount		Remaining Debt Associated w/ Payment	Interest Rate		Party Issuing Debt
3/31/2006	34,357,200	A	2,731,000,000	4.97688%		Scottish Power Finance 2 Limited
6/30/2006	33,853,798	B	2,731,000,000	4.97688%	B	Scottish Power Finance 2 Limited
9/302006	33,853,798	B	2,731,000,000	4.97688%	B	Scottish Power Finance 2 Limited
12/31/2006	33,853,797	B	2,731,000,000	4.97688%	B	Scottish Power Finance 2 Limited
Total 2006	135,918,593					

Note A: This is based upon a daily interest accrual with a 360 day year and 91 days in the quarter (12/30/05 through 3/30/06). PacifiCorp's original response assumed the payment would be made for 92 days (12/30/05 through 3/31/06).

Note B: These amounts are based on the interest rate for the 1st quarter of 2006. Future quarterly rates will actually be based upon LIBOR plus 45 basis points in effect at the beginning of each quarter. This will affect the payment amount. The amount shown in these quarters is the total annual interest expense, minus the first quarter payment, divided by three quarters.

Docket UE 170 (RECON)
PPL Exhibit 324
Witness: Bruce Williams

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Rebuttal Testimony of Bruce Williams on Reconsideration

April 2006

1 **Q. Are you the same Bruce Williams who previously filed direct testimony on**
2 **reconsideration in this proceeding?**
3 A. Yes.
4 **Q. What are the purposes of your rebuttal testimony?**
5 A. I will respond to various assertions and arguments made by Mr. James Selecky on
6 behalf of the Industrial Customers of Northwest Utilities ("ICNU") and Ms. Lowrey
7 Brown on behalf of the Citizens' Utility Board of Oregon ("CUB") related to the
8 effects of the income tax adjustment on the Company's return on equity and access to
9 the capital market on reasonable terms. These arguments are in response to my direct
10 testimony on reconsideration that the rates set under the Rate Order are not fair, just
11 and reasonable as required by ORS 756.040.
12 ICNU and CUB attempt to shift the focus away from what PacifiCorp has
13 earned or could actually earn under the Rate Order to the ROE authorized in the Rate
14 Order. Neither directly addresses or refutes the fact of PacifiCorp's chronic
15 underearning, the impact of significantly reducing the revenue requirement of an
16 underearning utility by imputing tax benefits that do not actually offset the utility's
17 tax expense, or the fact of the recent Fitch downgrade and other negative feedback
18 from credit rating agencies associated with the Rate Order.
19 **Q. Please summarize Mr. Selecky's arguments that you will address.**
20 A. Mr. Selecky argues that: (1) the tax adjustment does not preclude PacifiCorp from
21 earning its authorized return on equity of 10% (ICNU/212, Selecky/10-11); and (2) if
22 a 10% return on equity is assumed, credit metrics support the Company's current
23 credit rating (*id.* at 11-13).

1 **Q. Also please summarize Ms. Brown's arguments related to your direct testimony.**

2 A. Ms. Brown argues that: (1) the tax adjustment does not change the Company's return
3 on equity (CUB/500, Lowrey/7); (2) the Company's owner "has been receiving an
4 allowed rate of return plus additional tax payments" from customers (*id.*); (3) an 8.4%
5 return on equity is not confiscatory (*id.* at 7-8); and, (4) the tax adjustment is of "no
6 consequence" to the Company's access to the capital market at reasonable prices
7 (*id.* at 8).

8 **Q. Are the arguments that the Company will be able to earn a 10% return on**
9 **equity well founded given the tax adjustment?**

10 A. Not at all. Mr. Selecky begins his discussion on this issue not about the return that
11 the Company will actually have the potential to achieve in light of the tax adjustment,
12 but rather about the return on equity set by the Rate Order (10%). Of course, the
13 Company is not challenging the 10%, to which it stipulated. Therefore,
14 Mr. Selecky's assertions about the 10% return satisfying criteria reflective of the
15 *Hope/Bluefield* standards are misdirected.

16 Mr. Selecky next asserts that MidAmerican Energy Holdings Company
17 ("MEHC") continued its acquisition of PacifiCorp after the issuance of the Final
18 Order and that this is evidence that the Rate Order established fair and reasonable
19 rates. That argument ignores the existence of this proceeding. PacifiCorp and
20 MEHC do not share Mr. Selecky's apparent view that it is a forgone conclusion that
21 the tax adjustment adopted in the Rate Order will stand.

22 Finally, Mr. Selecky argues that it is not the Rate Order, but rather PHI's and
23 PacifiCorp's management, company structure, and payment of its stand-alone tax

1 expense that will cause PacifiCorp to earn below the 10% authorized return on equity.
2 However, Mr. Selecky does not identify any management practices or restructuring
3 that would allow PacifiCorp to earn 10%. Mr. Selecky's suggestion that PacifiCorp
4 could earn its authorized return by refusing to remit its stand-alone tax liability to its
5 parent fails to appreciate that this expense is a cost of providing service. Mr. Martin
6 responds to this suggestion further in his rebuttal testimony.
7 As I demonstrate in my direct testimony, the Company's projected ROE for
8 2006 will be 8.4%, based on the $16.07 million tax expense adjustment. This reduced
9 return (160 basis points below the authorized ROE) is the result of assuming that the
10 Company will not have its tax expense and instead that it will have the benefit of a
11 $16.07 million interest deduction. In fact, as Mr. Martin demonstrates, the Company
12 will have its tax expense and will not have the benefit of a $16.07 million reduction in
13 its tax expense.
14 **Q. How do you respond to Ms. Brown's views as to the adequacy of the Company's**
15 **return on equity as a result of the tax adjustment?**
16 A. Like Mr. Selecky, Ms. Brown also begins her discussion on equity returns by
17 confusing authorized return with actual return, asserting that the tax adjustment
18 "doesn't change the Company's return on equity" (CUB/500, Lowrey/7). As I have
19 shown, the adjustment is projected to reduce the Company's return to 8.4%. To
20 assert that the adjustment does not have an actual impact is simply ignoring reality.
21 Ms. Brown similarly ignores reality when she states, without citing any support, that
22 "PacifiCorp's owner has been receiving an allowed rate of return plus additional tax
23 payments from captive regulated utility customers." CUB/500, Brown/7. Ms. Brown

1 provides no evidence or quantification of these supposed "additional tax payments."
2 The reality is that PacifiCorp has not been earning its authorized return in Oregon.
3 Exhibit PPL 317 shows that PacifiCorp has chronically under earned over the past
4 several years—for example, for the year ending March 31, 2005, the unadjusted
5 Oregon ROE was 7.07% and the adjusted ROE was 6.895%.

6 Ms. Brown then points to a selective piece of Staff testimony in an attempt to
7 support the reasonableness of the 8.4% return on equity. Ms. Brown presents
8 discounted cash flow results as showing "the upper and lower ends of Cost of Equity
9 estimates that Staff believes could reasonably be adopted." (CUB/500, Brown/8,
10 quoting Staff/200, Morgan/5). Staff's discounted cash flow analysis does not provide
11 support for the view that 8.4% is not confiscatory. Staff did not recommend an ROE
12 of 8.4%; rather, Staff recommended an ROE of 9.5%. Indeed, an 8.4% return is over
13 100 basis points lower than the lowest ROE recommendation in the case (by
14 ICNU/CUB and Staff). It is well below the U.S. industry average earned return of
15 11.3% for the 12 months ending September 30, 2005. (PPL/317, Williams/3.)

16 Ms. Brown then erroneously relies on a Standard & Poor's ("S&P") article
17 that commented on the effect of the tax adjustment being "nominal from the
18 consolidated perspective." CUB/500, Brown/9 (emphasis added). The level of
19 PacifiCorp's Oregon revenues was but one piece of ScottishPower's consolidated
20 cash flows addressed in the S&P article. How S&P views the effect of the tax
21 adjustment from the consolidated perspective is not a rational basis for determining
22 whether the adjustment results in confiscatory rates for PacifiCorp.

1 Ms Brown also refers to S&P's rating of Northwest Natural Gas Company,
2 asserting that recent upgrades in its ratings suggest that S&P must not be very
3 concerned about SB 408's impact on PacifiCorp. (CUB/500, Brown/10).
4 Ms. Brown's assertion fails to recognize that S&P has indeed expressed concern
5 about the impact of SB 408 on PacifiCorp, and has expressly noted that PacifiCorp
6 and PGE appear to be the investor-owned utilities most vulnerable to actual income
7 tax-based adjustments under SB 408, to the exclusion of Northwest Natural Gas
8 Company and Avista. (PPL/322, Williams/2).
9 Also, not only does S&P continue to express concern regarding the effect of
10 SB 408 on PacifiCorp, but both Fitch and Moody's are likewise expressing concern,
11 as shown in recent rating actions. *See* Exhibit PPL 325, Standard & Poor's Credit
12 FAQ, Mid-American's Acquisition Of PacifiCorp—Implications For PacifiCorp's
13 Bondholders, March 21, 2006, at 4 (from bondholder perspective, one of the "difficult
14 regulatory environments" PacifiCorp faces is that created by SB 408); Exhibit
15 PPL 326, FitchRatings, PacifiCorp, March 7, 2006 at 1 (a Key Credit Concern is the
16 adverse tax ruling based on SB 408); Exhibit PPL 327, Moody's Investors Service,
17 Ratings Action: PacifiCorp, February 28, 2006 (regulatory and legislative issues in
18 Oregon which could impact future credit quality include the rehearing in this case and
19 the outcome of the permanent rulemaking implementing SB 408).
20 **Q. Do you find flaws in Mr. Selecky's Tables showing his analyses of PacifiCorp's**
21 **credit metrics?**
22 A. Yes. Mr. Selecky states he "updated" the credit metric calculations I presented in my
23 direct testimony. One "update," which he used for both Table 1 and Table 2, was to

1 use an ROE of 10%. As I discussed above, that ROE is erroneously assumed and
2 unattainable. The second erroneous "update," which he used for Table 2, was the
3 exclusion of off-balance sheet debt equivalents, based on his view that such exclusion
4 was proper. Regardless of Mr. Selecky's views on the issue, the fact is that S&P,
5 whose credit rating views actually affect the cost of, and access to, debt capital, does
6 include the off-balance sheet adjustments. *See* Exhibit PPL 325 at 2 ("These ratios
7 [adjusted FFO to interest coverage, adjusted FFO to total debt, and adjusted debt to
8 total capitalization] consider PacifiCorp's substantial purchased power obligations,
9 which contributes to off-balance sheet adjustments of $537 million for the purposes
10 of credit ratio calculations."). Accordingly, Mr. Selecky's "updates" to PacifiCorp's
11 credit metrics should be disregarded.

12 **Q. Does this conclude your reconsideration rebuttal testimony?**

13 A. Yes, it does.

Docket UE 170 (RECON)
PPL/325
Witness: Bruce Williams

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying

Rebuttal Testimony on Reconsideration

April 2006

STANDARD
&POOR'S

CREDIT FAQ

Mid-American's Acquisition Of PacifiCorp—Implications For PacifiCorp's Bondholders

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RatingsDirect Publication Date
March 21, 2006

MidAmerican Energy Holdings Co. (MEHC; A-/Stable/—) today closed its acquisition ofPacifiCorp. (A-/Stable/A-2). MEHC purchased all of PacifiCorp's outstanding shares for about $5.1 billion in cash from Scottish Power plc (A-/Stable/A-2), which was funded from an investment by its parent, Berkshire Hathaway Inc. (AAA/Stable/A-1+). Subsequent to the purchase, MEHC is expected to repurchase $1.7 billion of Berkshire Hathaway's common stock in MEHC. PacifiCorp's long-term debt and preferred stock, which stood at about $4.1 billion as of Dec. 31, 2005, remains outstanding.

On March 6, in anticipation of the transaction being completed, Standard & Poor's affirmed the 'A-' corporate credit rating (CCR) on PacifiCorp and removed its ratings from CreditWatch with negative implications. The outlook is stable. This article addresses in further detail the acquisition from the perspective of PacifiCorp's bondholders and discusses the expected ramifications of the sale on PacifiCorp's future credit quality.

Frequently Asked Questions

Q: *How has PacifiCorp's financial performance been in recent years?*

A: PacifiCorp's credit quality has benefited from the otherwise strong consolidated operations of Scottish Power, which purchased the utility in 1999 for $10.7 billion. On a standalone basis, financial performance has been weak but recovering. Scottish Power purchased PacifiCorp just prior to the western U.S. energy crisis, which, given the company's sizable short position as well as unplanned outages, resulted in deferred power costs of approximately $525 million, of which about $325 million was ultimately authorized for recovery in retail customer rates. Since then, the company has struggled to achieve cash flows commensurate with performance seen before the crisis. Funds from operations (FFO) has only stabilized in the last two fiscal years to levels on par with fiscal 2000, when FFO was

$728 million; for the 12 months ending Dec. 31, 2005, FFO improved to about $818 million. Earned return on equity (ROE), which has been around 7% in the past two years, has fallen chronically short of authorized levels, which range from 10%-10.5%, depending on the state. With respect to cash coverage metrics, PacifiCorp's 12 months ending Dec. 31 adjusted FFO to interest coverage was 3.5x, with adjusted FFO to total debt at 17.1%. Adjusted debt to total capitalization was 56%. These ratios consider PacifiCorp's substantial purchased power obligations, which contributes to off balance sheet adjustments of $537 million for the purposes of credit ratio calculations.

Multiple factors contributed to PacifiCorp's weakened financial performance over the last five years, and include the absence of fuel and purchase adjusters, except in Wyoming, where one was approved in February 2006; dry hydro conditions; increasing administrative and general costs, including escalating pension and health care costs; and regulatory lag in resolving sizable general rate cases. In addition, Scottish Power has projected that PacifiCorp requires $6.4 billion in capital expenditures over the next five years, which would have likely necessitated higher leverage at the parent to support the utility's infrastructure needs. These factors resulted in Scottish Power's decision in May 2005 to sell PacifiCorp.

Q: *Given these issues, why did MEHC buy PacifiCorp?*

A: Berkshire Hathawayhas sizable amounts of equity to invest, and has identified regulated utility assets as desirable because of the opportunity to deploy its capital in return for what the company expects will be reasonable and stable returns. PacifiCorp is also attractive because of its earnings upside if MEHC can improve actual ROEs to allowed levels.

The acquisition should fit well with MEHC's existing energy holdings, which are predominately in the regulated space and consist ofMidAmerican Energy Co. (MEC; A-/Stable/A-1), an IowA-based utility that serves 1.3 million electric and gas customers; CE Electric U.K. Funding Co. (BBB-/Stable/A-3), which serves 3.7 million electric customers (via the distribution companies of Yorkshire Electricity and Northern Electric); and two U.S. pipelines, Kern River Gas Transmission Co. (A-/WatchNeg/—)and Northern Natural Gas Co. (A/Stable/—) that are under the jurisdiction of the FERC. In 2005, these regulated entities contributed about 78% of MEHC's earnings (MEC was 26%, the U.K. operations were 25%, and the two pipelines accounted for 27%). MEHC's largest unregulated subsidiary is a real estate brokerage firm, HomeServices (not rated), which in 2005 provided about 13% of earnings. Through various subsidiaries, MEHC also owns additional independent power generation facilities, including hydroelectric and geothermal assets in the Philippines. Collectively, these unregulated energy companies contributed about 9% of 2005 earnings.

Despite the significant number of companies under MEHC, PacifiCorp is a sizable acquisition. The company operates under the legal names of Pacific Power and Utah Power, serving 1.6 million retail customers in six western U.S. states. Its total assets were $12.8 billion at year-end 2005, and at the 12 months ending Dec. 31, 2005, cash flow from operations was nearly $900 million. In comparison, MEHC's total asset value was $20.2 billion in 2005, and cash flow from operations was $1.3 billion.

Going forward, about 35% of MEHC's operating income is expected to come from PacifiCorp. PacifiCorp will push the proportion of MEHC's operating income earned from regulated businesses to about 91% by 2007. The acquisition also provides MEHC with substantial U.S. market and regulatory diversification. The majority of MEC's retail revenues are from customers in Iowa, but the utility also operates in portions of Illinois, South Dakota and Nebraska. PacifiCorp's territories include parts of Utah, Oregon, Wyoming, Washington, Idaho, and California. As shown in Table 1, while PacifiCorp's sales are concentrated in Utah and

Oregon, on a consolidated MEHC basis, the importance of each U.S. market is relatively well balanced, and thus lacks the regulatory and market concentration that most U.S. utilities are exposed to.

Table 1

MEHC U.S. Utility Market Concentration*

	% of 2005 Retail Revenues		
	MidAmerican Energy Co.	PacifiCorp Standalone	MEHC Consolidated
Iowa	83.91	0.00	42.56
Illinois	9.93	0.00	5.04
South Dakota	5.78	0.00	2.93
Nebraska	0.38	0.00	0.19
Utah	0.00	41.13	20.27
Oregon	0.00	28.71	14.15
Wyoming	0.00	13.42	6.62
Washington	0.00	8.56	4.22
Idaho	0.00	5.82	2.87
California	0.00	2.36	1.16
Total	100.00	100.00	100.00

*Excludes FERC-regulated assets owned by Kern River Gas and Northern Natural

Q: *Can MEHC improve PacifiCorp's performance?*

A: This is certainly management's intent. Ultimately, MEHC's success will be driven by whether it can achieve greater operational efficiencies and enhance PacifiCorp's existing regulatory relationships. These goals are not dissimilar from those of Scottish Power when it purchased PacifiCorp seven years ago. However, Scottish Power's acquisition of PacifiCorp proved untimely and largely beyond its control—the unexpected events of the western U.S. power crisis resulted in the need to immediately appeal to state regulatory commissions for rate relief. Yet PacifiCorp, as with many U.S. utilities, expected the deregulation of generation would inevitably minimize the role of regulation and had not been before its regulatory bodies in some time. In addition, Scottish Power, while achieving some significant regulatory milestones, perhaps underestimated the complexities of managing six separate regulatory environments from its Glasgow, Scotland headquarters.

MEHC has a reputation as a competent operator of utility assets, and it has improved the financial performance of regulated businesses that it has acquired, most notably, MEC, which it purchased in 1999, and Northern Natural Gas, which it purchased from Dynegy in 2002, shortly after Dynegy had purchased it from Enron. In both of these businesses, MEHC cut costs, improved operations, built customer relationships and has had constructive regulatory relationships. In Northern Natural's case, it recently entered long-term extensions with two major customers, and MEC has consistently performed well in J.D. Power & Associates customer satisfaction studies. Standard & Poor's also views MEC's regulatory compact as supportive of credit quality. MEC has agreed not to request a general increase in rates before 2012 unless its Iowa jurisdictional electric ROE falls below 10%. The Iowa Office of the Consumer Advocate has agreed not to request or support any rate decreases before Jan. 1, 2012. In addition, earnings exceeding an ROE of 11.75% for 2006 through 2011 will be shared with customers. It remains to be seen whether and to what extent MEHC can replicate this with PacifiCorp, but the speed with which MEHC was able to receive regulatory approval suggests that stakeholders and regulators are supportive of the ownership change. This support may stem from the fact that Berkshire

Hathaway has a reputation for holding on to its investments, and the potential for management stability within the company likely provides a degree of comfort to regulators and customers.

Q: *Are these competencies why Standard & Poor's affirmed PacifiCorp's CCR at the 'A-' level?*

A: Standard & Poor's does view MEHC ownership as having a potentially stabilizing effect on PacifiCorp's financial performance. However, the affirmation of PacifiCorp's 'A-' CCR was principally based on the benefits PacifiCorp is afforded from the consolidated credit strength of MEHC, whose CCR was raised three notches to 'A-' on March 6 (see "Research Update: MidAmerican Upgraded To 'A-', PacifiCorp Ratings Affirmed; All Ratings Off Watch," RatingsDirect, March 6, 2005).

Q: *What is the implication of PacifiCorp's "ring-fencing" for its credit rating?*

A: As a condition of approving the sale, the Oregon Public Utilities Commission (OPUC) required PacifiCorp to be ring-fenced from MEHC. As part of this, MEHC has committed to refrain from dividending cash flows from the utility to MEHC unless it maintains a common equity ratio of 48.25% through 2008, decreasing annually to 44% by 2012.

The structural insulation or "ring-fencing" of an operating company is typically done to protect the credit quality of the operating company from a weaker holding company. When an entity is ring-fenced, Standard & Poor's may rate the operating company up to three notches above the CCR of the parent if its standalone credit metrics warrant the elevation. MEHC has ring fenced MEC, Kern River, Northern Natural, and CE Electric U.K.; some of these companies have historically been rated higher than MEHC.

In PacifiCorp's case, MEHC has set up a special purpose entity, PPW Holdings, LLC that will directly own PacifiCorp. The intent of this structure is to ensure that PacifiCorp is bankruptcy remote from MEHC. Because PacifiCorp's stand-alone credit quality does not warrant a rating above MEHC's, PacifiCorp's rating reflects MEHC's consolidated CCR, as is appropriate under the consolidated rating methodology. If the utility's financial performance improves significantly, it could potentially support a ratings improvement, due to the ring fencing. In addition, it will be somewhat protected from credit deterioration below its own stand-alone credit quality should MEHC's credit quality on a consolidated basis fall to a level below that of PacifiCorp's. In this manner, PacifiCorp's bondholders are somewhat protected from a deterioration due to the failure of another business venture.

Q: *What are some of the challenges the new owners of PacifiCorp will face?*

A: Improvement in PacifiCorp's financial performance and business risk is expected to be incremental. From a bondholder perspective, PacifiCorp faces sometimes-difficult regulatory environments in each of the states it serves. For example, in Oregon, PacifiCorp's second most important market, the senate overwhelmingly passed legislation last year, Senate Bill (SB) 408, which requires that utilities refund to their customers income taxes collected in retail rates that are not paid by the parent. SB 408 could provide a permanent clawback mechanism to reduce rate requests, as the OPUC did in September 2005 when it cut PacifiCorp's negotiated settlement by $26 million. (The case is being reheard, and final rules are not expected until this summer.) Utah is considering similar legislation.

As shown in Table 2, since 2002, PacifiCorp has initiated nearly annual rate cases in all states. The company nearly always reaches settlements, which have historically awarded it 25% to 50% less than filed requests. Regulatory support will continue to be tested, especially in the next few years. In February and March 2006, the company filed large requests in its two most important markets, Oregon and Utah. In Oregon, the utility has

asked for $112 million, a 13.2% increase in retail rates, based on test year ending Dec. 2007. In Utah, PacifiCorp filed for a $197 million increase, or about 17%, based on a test year ending Sept. 30, 2007. The Utah rate case comes on the heels of a 4.4% increase approved a year ago. While Utah has been more supportive of PacifiCorp in past cases, most of the utility's growth is in this region, implying the importance of this case. While both rate requests are sizable, on the other hand, PacifiCorp's retail rates are very competitive, suggesting some room for compromise.

Table 2

PacifiCorp Rate Cases By State

	Utah	Oregon	Wyoming	Washington	Idaho	California
2006						
Date	3/8/2006	Filed 2/23/2006	2/23/06 (oral ruling)	Filed 5/2005	To be determined (TBD)	Filed 11/20/2005
% rate inc.	17.00	13.2 request	6.90	14.9 request	TBD	15.6 request
$ increase	$197 mil. request	$112 mil. request	$25 mil./$40.2 mil.***	$32.6 mil. request	TBD	$11.0 mil. request
Auth ROE (%)	11.4 request	11.5 request	Not specified	11.125 request	TBD	11.8 request
2005						
Date	3/1/2005	10/4/2005	9/15/2004	N/A	8/9/2005	N/A
% rate inc.	4.40	3.20	2.68	N/A	4.80	N/A
$ increase	$51 mil./$96 mil.¶¶	$25.9 mil./$52.5 mil.*	$9.3 mil.	N/A	$5.8 mil./$15.1 mil.	N/A
Auth ROE (%)	10.5	10.00	Not specified	N/A	Not specified	N/A
2004						
Date	4/1/2004	N/A	3/18/2004	11/2/2004	N/A	N/A
% rate inc.	6.90	N/A	7.19	7.50	N/A	N/A
$ increase	$65 mil./$125 mil.	N/A	$22.9 mil./$34.4 mil.§§	$15 mil./$25.7 mil.	N/A	N/A
Auth ROE (%)	10.70	N/A	10.75	Not specified	N/A	N/A
2003						
Date	N/A	9/19/2003	4/1/2003	N/A	N/A	11/1/03
% rate inc.	N/A	Base 1.1; net 0.8	2.79	N/A	N/A	13.60
$ increase	N/A	$8.5 mil./$18 mil.¶	$8.7 mil./$20 mil.¶¶¶	N/A	N/A	$7.6 mil.
Auth ROE (%)	N/A	10.50	10.75	N/A	N/A	Not specified
2002—None						
2001						
Date	11/2/2001 & 2/9/2001	10/19/2001	10/4/2001	N/A	N/A	N/A
% rate inc.	5.1 perm., 9 temp	Base 8.60; net .60	3.40	N/A	N/A	N/A
$ increase	$40.2 mil.& $70 mil./$142 mil.	$64.4 mil./$103 mil.§	$8.9 mil.	N/A	N/A	N/A

Table 2

PacifiCorp Rate Cases By State (cont.'d)

	Utah	Oregon	Wyoming	Washington	Idaho	California
Auth ROE (%)	11.00	10.75	Not specified	N/A	N/A	N/A
2000						
Date	5/25/2000	10/5/2000	6/21/2000	8/16/2000	N/A	N/A
% rate inc.	2.5	1.8	4.9	7 (over 2001-03)	N/A	N/A
$ increase	$17 mil.	$13.6 mil./$21.7 mil.**	$10.6 mil./$40.6 mil.	$13.1 mil./$25.8 mil.	N/A	N/A
Auth ROE		10.75	11.25	Not specified	N/A	N/A
5-Year % inc.	18.8	6.4	20.7	14.5	4.8	13.6

*PacifiCorp reached settlment for $52.5 mil., but amount awarded reduced by about $26 mil. under application of SB408. PacifiCorp is appealing this reduction. ROE reduced to 10% from 10.5%, set in 2003. ¶Majority of reduction related to net power costs and return on equity. §PacifiCorp sought 11.75% ROE, awarded a 10.75% ROE. Of $39 mil. disallowed, $20 mil. related operating costs ($7 mil. pension) and $19 mil. re: rates of return. **Original request for $62 mil. but lowered to $21.7 mil., difference between $21.7 mil. request and $13.6 mil. received reflects agreement to exclude $8.1 mil. in power cost charges. ¶¶Of the $45 mil. difference, between request and actual award, $20 mil. associated with rate of return issues. §§Of the $11.5 mil. difference, about $5 mil. due to rate of return, the other pension, payroll and misc. ***Of the $16 mil. difference, all attributable to PacifiCorp's agreement to not seek this amount in net power increase but instead to have an adjuster. ¶¶¶Does not address $91 mil. in deferred power costs later rejected. $11 mil. difference mostly disallowed power contracts.

About 70% of PacifiCorp's energy requirements come from owned coal, 21% from purchases, 5% from hydro, and 4% from natural gas. As a result, another important issue for PacifiCorp is whether it will be permitted to establish fuel and purchased power adjusters. Wyoming, which disallowed $91 million of PacifiCorp's deferred power costs incurred during the energy crisis, was paradoxically the first state to approve an adjuster. Adjuster requests are pending in nearly all other states, and for Utah and Oregon will likely be considered as part of the general rate cases filed. However, the prospects for adoption in these states are uncertain.

One certain challenge to MEHC will be whether it will be able to achieve the benefits of its diversified portfolio in the face of the inevitable logistical and coordination challenges presented by managing 10 separate regulatory commissions (11, if MEHC's FERC-regulated pipelines are considered). In addition, the financial challenges at PacifiCorp are greater than MEHC faced with MEC, which was only slightly under-earning at the time MEHC acquired it. In contrast, PacifiCorp's under-earning is almost structural in character.

While these challenges are significant, at the same time Scottish Power has made progress in achieving a number of regulatory goals that should significantly benefit MEHC. These accomplishments include: Current retail rates, while still lagging, are nearer to actual costs, due largely to PacifiCorp's relentless filing and settlement of cases in recent years; the adoption of forward test years in four states (Oregon, Utah, Wyoming and California) should avoid the potential for future rates to be based on a stale test year; the company's anticipated rulings for fuel and purchased power adjusters in five jurisdictions may provide significant protection from volatile commodity costs; the conclusion of a multi-state agreement for the allocation of costs in four states (pending in Washington and California) should avoid interstate battles over the proper attribution of costs to each service area; and, lastly, the passage of recent legislation in Utah that pre-approves power plants or purchases greater than 100 MW provides protection from future regulatory disallowances, which is critical because much of PacifiCorp's growth is occurring in this state.

Q: *What steps does Standard & Poor's expect MEHC to take to maintain PacifiCorp's credit quality?*

A: Standard & Poor's expects that MEHC will deleverage PacifiCorp through the reinvestment of cash flow into its extensive capital expenditure program. MEHC has represented that it views a properly capitalized utility as having roughly a 50-50 equity-to-debt structure, and it has achieved this at MEC. The dividend restrictions in place as a part of regulatory approval should also provide incentives to deleverage PacifiCorp.

PacifiCorp's rating could fall to a level commensurate with its standalone credit quality if MEHC's rating is lowered. This could result from MEHC's financial performance being weaker than forecast, or if Standard & Poor's view of parent support from Berkshire Hathaway changes. MEHC's rating has limited upside, as improving financial metrics and a successful integration of PacifiCorp have been assumed.

Importantly, Berkshire Hathaway has indicated that it may purchase other utilities. MEHC's consolidated business risk profile score reflects Standard & Poor's expectation that MEHC's future acquisitions will be in the regulated utility segment and not in unregulated or commodity-exposed businesses. If acquisitions were to result in a change in consolidated credit quality, this could affect PacifiCorp's rating.

PacifiCorp Service Area

Source: PacifiCorp.

Docket UE 170 (RECON)
PPL/326
Witness: Bruce Williams

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying

Rebuttal Testimony on Reconsideration

April 2006

FitchRatings
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Corporate Finance

Global Power/U.S. and Canada
Credit Analysis

PacifiCorp

Subsidiary of Scottish Power plc

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
IDR	BBB	NR	1/31/06
Sr Sec.	A–	A	1/31/06
Sr. Unsec.	BBB+	A–	1/31/06
Preferred Stock	BBB	BBB+	1/31/06

NR – Not rated. IDR – Issuer default rating.

Rating Watch.....None
Rating Outlook.....Stable

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Profile

PPW, an operating utility subsidiary of its indirect parent SP, provides integrated electric service to 1.6 million retail customers in parts of six western states: Utah, Oregon, Wyoming, Washington, Idaho and California.

Related Research

Credit Update: April 14, 2005.
Credit Analysis: Oct. 18, 2004.

Key Credit Strengths

- Solid operating cash flow and financial position.
- Improved regulatory environment.
- Relatively low cost energy resource base.

Key Credit Concerns

- Ongoing negative free cash flow due to high capital expenditure requirements.
- Growing reliance on natural gas-fired generation.
- Adverse Oregon tax ruling in GRC may signal deterioration in the state's regulatory climate.

■ Rating Rationale

PacifiCorp's (PPW) ratings were reduced by Fitch on Jan. 31, 2006. The lower ratings and Stable Rating Outlook better reflect the company's operating cash flow and debt leverage measures, large capital spending program and business risk profile. The ratings and stable outlook consider PPW's projected above-industry-average service territory growth, primarily in its Eastern service territory; significant planned investment in new plant and infrastructure to meet its load requirements, estimated to approximate $1 billion annually over the next five years; and growing exposure to natural gas-fired generating capacity. The ratings and stable outlook assume reasonable regulatory outcomes in pending and future rate proceedings, while noting the adverse September 2005 final order issued in PPW's Oregon general rate case (GRC) and pending rehearing. Fitch also assumes the completion of the planned $285 million equity infusion, net of dividends, from PPW's direct parent, PacifiCorp Holdings, Inc. (PHI), during fiscal 2006 of which a net amount of about $215 million has already been made.

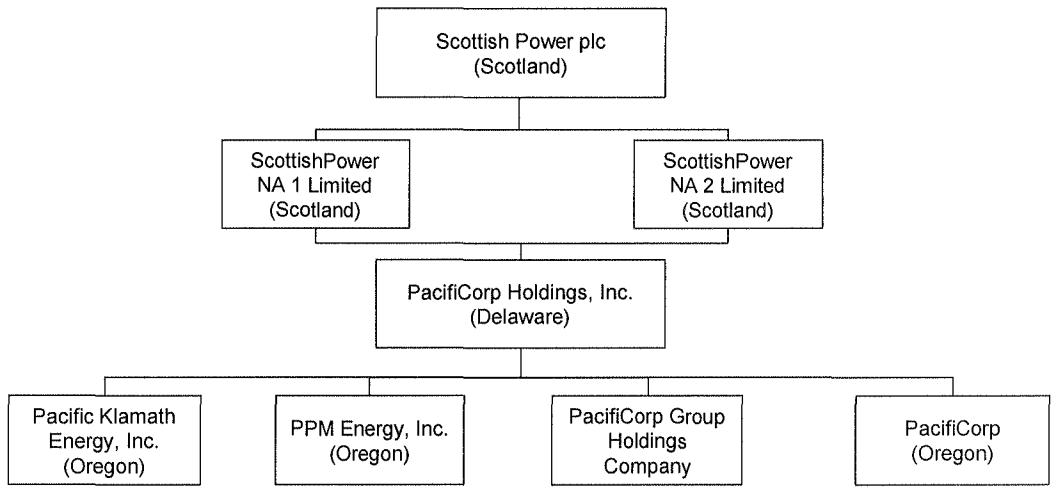
PPW is a direct subsidiary of PHI, which is a wholly owned subsidiary of Scottish Power plc (SP, senior unsecured debt rated 'BBB+'). SP intends to divest PPW and has entered into an agreement to sell the utility to MidAmerican Energy Holdings (MEHC; rated 'BBB'). The agreed-upon transaction, announced May 2005, has received regulatory approvals in all six states in PPW's service territory and appears to be on track to close by the end of March 2006. Fitch views the change in ownership as a stabilizing credit factor for PPW.

The primary credit concern is potential unsupportive regulatory actions, especially in light of the company's large construction budget and low earned returns. In addition, the utility's growing reliance on gas-fired generation and exposure to high commodity costs in the event of a prolonged, unscheduled base-load plant outage during a period of high demand is a source of concern for PPW fixed-income investors.

■ Recent Developments

With the recent issuance of a written order by Wyoming regulators approving the proposed acquisition of PPW by MEHC, all state regulators in PPW's six-state service territory have approved the transaction. Following negotiation of terms under the most favored state provision of the proposed acquisition, Fitch expects the merger to close by the end of March 2006.

Scottish Power PCL — PacifiCorp Holdings Inc. Corporate Organization
(Jurisdiction of Organization)



Source: Company reports.

In a negative development, the Oregon Public Utilities Commission (OPUC) issued a final order incorporating the effects of Senate Bill (S.B.) 408 and reducing the authorized revenue increase to approximately $26 million from the $52 million stipulated in settlement agreements reached with intervener groups in its GRC. The OPUC has agreed to rehear the application of S.B. 408 in the GRC and a decision in the proceeding is expected around mid-2006.

■ Liquidity and Debt Structure

At Dec. 31 2005, PPW had $164 million of cash on its balance sheet and no borrowings under the utility's recently renegotiated $800 million committed revolving credit facility. The new credit facility extended the maturity date to August 2010 from May 2007, while increasing the maximum debt-to-total capital covenant to 65% from 60%. Notes payable and commercial paper (CP) issued were $215 million and current maturities $315 million. At Dec. 31, 2005, total PPW debt was approximately $4.3 billion and PPW's debt-to-capitalization ratio was 53.1%.

■ Growth and Capital Expenditures

PPW's retail sales growth is expected to approximate 2.2%–3.5% annually over the coming five years. PPW's eastern region (composed of Utah, Wyoming and Idaho) is expected to grow at a faster rate, driven by continued economic expansion in the Wasatch Front region of Utah and oil and gas expansion in Wyoming, while growth in the company's western region (composed of Oregon, Washington and California) is expected to be more sluggish. PacifiCorp plans to invest approximately $1 billion annually in utility plant during fiscal 2006–2010, representing more than 34% of gross utility plant, which approximated $14.8 billion at the end of PPW's fiscal third quarter (i.e., December 2005).

The financial impact of PacifiCorp's large capital investment program will depend on its ability to avoid cost overruns and fully recover its investment through increased base rates and customer growth. The anticipated capital infusion of slightly less than $300 million net of dividends (of approximately $200 million) in fiscal 2006 from PHI and reasonable prospective rate treatment should support the company's credit metrics, which are in line for the current rating category. Conversely, negative regulatory decisions would likely result in continued under-earnings and bring pressure to bear on the company's credit metrics. Fitch expects PPW to remain active on the regulatory front, as it has been in recent years, to recover its considerable planned investment in new utility plant in its six-state service territory. PPW recently filed a GRC in Oregon requesting a $112 million (13%) rate increase based on an 11.5% authorized return on equity and is expected to file a GRC in the near future in Utah.

Summary of Pending PPW Rate Proceedings
($ Mil.)

Filing Date	Jurisdiction	Amount Requested	Requsted Increase %	Requested ROE (%)	Expected Date Of Final Order	Comment
Feb. 2006	Oregon	112	13.2	11.50	4Q06	PPW requested a December 2006 implementation date.
Nov. 2005	California	11	15.6	11.80	Dec. 2006	PPW requested a Jan. 1, 2007, implementation date.
May 2005	Washington	33	14.9	11.13	Apr. 2006	New rates expected to be effective in April 2006.

ROE – Return on equity. PCAM – Power cost adjustment mechanism. Note: PPW has filed to implement PCAMs in California, Utah, Washington and Oregon. Sources: Fitch Ratings, Regulatory Research Associates and company reports.

Fitch believes the completion of the proposed acquisition of PPW by MEHC would be a constructive credit development, as the prospective acquirer is expected to allow PPW to retain its earnings to support capital expenditures in the foreseeable future. All else equal, Fitch believes greater retention of earnings and cash at PPW would reduce the need to access external sources of capital to fund its capital program, ultimately resulting in credit metrics more supportive of the current rating category.

■ Power Procurement Issues

PacifiCorp has long operated with a net-short generation position, relying on short- and long-term wholesale power purchases to close the gap between its in-house capacity and peak retail load. PPW's 2005 reserve margin was a negative 16%, based on its instantaneous retail peak demand of 9,527 megawatts and its in-house net-generating capacity of 7,981 megawatts. In 2005, PPW relied on short- and long-term purchase power arrangements to meet approximately 21% of its energy requirements.

Growing Exposure to Natural Gas

While a large majority of the utility's generating capacity mix is coal-fired, incremental load growth, in the near-to-intermediate term, is expected to be met primarily by natural gas fueled and, to a lesser degree, renewable resources. In the longer term, construction of a coal-fired plant in concert with other regional generating companies is possible. PPW is fully hedged through the end of 2007, including supply for its planned combined cycle generating capacity; however, it remains vulnerable to unplanned generation plant outages of significant duration during periods of high power prices. PPW has filed requests with regulators in Oregon, Utah, California and Washington, and recently received approval from Wyoming regulators, to implement fuel and purchase power cost adjustment mechanisms designed to reduce commodity cost risk.

Currant Creek and Lake Side Update

The construction and commercial operation of the 525-megawatt Currant Creek and 534-megawatt Lake Side combined cycle natural gas-fired power projects are scheduled for the summer 2005–2007 period. Currant Creek achieved simple cycle operation in summer 2005 and is expected to enter combined cycle operation by summer 2006. The Lake Side combined cycle unit is expected to begin commercial operation by summer 2007. Total capital expenditures to construct the Currant Creek and Lake Side generating facilities are estimated to approximate $700 million.

■ Regulatory Developments

Oregon

In September 2005, the OPUC issued a final order in PPW's GRC authorizing a $25.9 million revenue increase based on a 10% authorized return on equity (ROE). The utility filed the rate case in November 2004 requesting a $102 million (12.5%) increase in revenue based on an 11.1% requested ROE.

S.B. 408 Impact on Oregon GRC

PPW entered into GRC settlement agreements with interveners in 2005 supporting an approximately $52 million revenue increase. However, the OPUC included in its final order a $26.6 million revenue requirement reduction based on the provisions of S.B. 408, which was enacted in Oregon in early September 2005. S.B. 408 requires the OPUC to adjust rates to reflect taxes actually paid to a government agency. The legislation requires that actual taxes paid be compared to amounts reflected in rates. If taxes collected by a utility are greater than amounts actually paid by its corporate parent, due to tax reductions from non-jurisdictional affiliates, the amount collected above the amount paid to a government entity would be refunded to rate payers.

On Oct. 28, 2005, PPW filed a petition with the OPUC requesting rehearing of the revenue reduction associated with implementation of S.B. 408 in its September 2005 GRC order, which was granted by the commission in December 2005. The rehearing will consider if the revenue reduction resulting from

Summary of Major Rate General Rate Case Orders Since January 2004
($ Mil.)

Jurisdiction	Amount Approved	Increase (%)	Auth. ROE	Effective Date
Wyoming	25	6.9	N.A.	March/July 2006
Oregon*	26	3.2	10.00	Oct. 2005
Idaho	6	4.8	N.A.	Sep. 2005
Utah	51	4.4	10.50	Mar. 2005
Washington	15	7.5	N.A.	Nov. 2004
Utah	65	7.0	10.70	Apr. 2004
Wyoming	23	7.2	10.75	Mar. 2004

*Reconsideration in process. ROE – Return on equity. N.A. – Not applicable. Auth. – Authorized. Sources: Fitch Ratings, Regulatory Research Associates and company reports.

application of S.B. 408 violates Oregon's constitution. The OPUC will also review whether the recent legislation should be applied to the rate case and, if so, how it should be implemented. In its filing, PPW asserts that even if the statute is applicable, the revenue reduction should be lowered to slightly less than $3 million to correct a calculation error in the OPUC's final order. Hearings in the proceeding are expected to begin in mid-to-late April 2006 and a final order is expected in June 2006.

Utah

PPW's last GRC, approved February 2005, authorized a $51 million revenue increase effective March 2005. Separately, the Utah Committee for Consumer Services (UCCS), a state consumer advocate group, filed a request with the public service commission to return at least $50 million of taxes collected from Utah rate payers that were allegedly improperly retained by PHI. PacifiCorp disagrees with and intends to oppose the claims made by the UCCS. A procedural schedule to hear the matter has not been established.

Washington

PPW supports a general rate increase of $32.6 million in its Washington filing or a 15% rate hike. The filing also requests implementation of a power cost adjustment mechanism (PCAM). A final order is expected by April 2006.

California

In November 2005, PPW filed a GRC with the California Public Utilities Commission (CPUC) requesting an $11 million rate hike or approximately a 16% increase, including a request to implement a PCAM. A final order is expected in December 2006.

Outlook Rationale

The Stable Rating Outlook assumes balanced regulatory outcomes in response to pending and prospective rate filings. The recent Oregon commission ruling in PPW's GRC is a significant source of concern, in Fitch's view. Fitch views the proposed sale of PPW to MEHC as a potentially stabilizing credit factor.

What Could Lead to Positive Rating Action?

- Greater than anticipated relative debt reduction.
- Constructive prospective regulatory outcomes.

What Could Lead to Negative Rating Action?

- Adverse regulatory developments, especially in light of the company's large cap-ex program.
- A major, extended generating plant outage.
- Failure to complete the proposed sale of PPW to MEHC.

Other Jurisdictions

In addition to the $51 million Utah rate increase granted by the Utah Public Service Commission (PSC) and the $26 million revenue hike granted by the OPUC in 2005, regulators in Idaho approved a settlement agreement authorizing a $5.8 million or a 4.8% base rate increase effective June 2005. In Wyoming, PPW was recently granted a $25 million rate increase by regulators, $15 million of which is to be effective March 1, 2006, and the remaining $10 million July 1, 2006. Importantly, the Wyoming PSC also approved implementation of a PCAM. PPW has requested PCAMs in California, Washington and Oregon and filed with Utah regulators to implement a PCAM following the conclusion of its anticipated 2006 Utah GRC.

■ Proposed Acquisition

The proposed sale of PPW by SP to MEHC appears to be on track to close near the end of the first quarter of 2006. The $9.4 billion transaction includes the assumption of $4.3 billion of net debt and preferred stock and was announced May 24, 2005. The prospective acquisition has received clearance under the Hart-Scott-Rodino Act and the approval of the Federal Energy Regulatory Commission and the

Nuclear Regulatory Commission. All necessary state approvals have been obtained and the agreed acquisition appears on track to close by the end of March 2006.

Fitch views the ownership change as a stabilizing factor for PPW's credit profile. Conversely, an unexpected failure to complete the pending transaction would result in significant uncertainty as to the future ownership of PPW, which in Fitch's view would be a negative credit development.

■ Hydro Conditions

PPW's hydroelectric generation was 84% of normal for the nine months ended Dec. 31, 2005, compared to a 30-year average; nonetheless, output rose 9% in 2005 as hydro conditions improved compared to the nine months ended Dec. 31, 2004. While we are only about halfway through the key snowpack season in the Pacific Northwest, it appears water flows may return to normal levels, driven by significant snow accumulation and above-average recent precipitation trends, especially in January 2006, following several years of drought conditions.

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Corporate Finance

Financial Summary — PacifiCorp

($ Mil.)

	LTM Ended 12/31/05	LTM Ended 12/31/04	3/31/05	3/31/04	3/31/03
Fundamental Ratios (x)					
FFO/Interest Expense	3.4	4.3	4.1	4.3	3.8
CFO/Interest Expense	4.2	3.6	3.7	4.2	3.5
Debt/FFO	6.2	4.7	5.3	4.6	5.2
Operating EBIT/Interest Expense	2.5	2.1	2.5	2.4	1.8
Operating EBITDA/Interest Expense	4.0	3.7	4.1	4.1	3.4
Debt/Operating EBITDA	3.7	4.1	4.0	3.8	4.2
Common Dividend Payout (%)	69.1	80.2	77.4	65.6	0.0
Internal Cash/Capital Expenditures (%)	69.8	72.0	60.6	96.6	122.6
Capital Expenditures/Depreciation (%)	230.6	170.4	194.9	161.0	126.6
Profitability					
Revenues	3,290	3,202	3,049	3,195	3,082
Net Revenues	2,234	2,056	2,101	2,038	1,902
Operating and Maintenance Expense	964	950	913	896	885
Operating EBITDA	1,173	1,026	1,093	1,047	923
Depreciation and Amortization Expense	446	437	437	429	434
Operating EBIT	728	589	656	618	489
Interest Expense	291	275	267	257	270
Net Income for Common	299	228	250	245	133
Oper. Maint. Exp. % of Net Revenues	43.2	46.2	43.5	44.0	46.5
Operating EBIT % of Net Revenues	32.6	28.6	31.2	30.3	25.7
Cash Flow					
Cash Flow from Operations	926	724	711	832	682
Change in Working Capital	230	(174)	(129)	(25)	(74)
Funds from Operations	697	898	840	857	755
Dividends	(209)	(187)	(195)	(165)	(7)
Capital Expenditures	(1028)	(746)	(852)	(690)	(550)
Free Cash Flow	(311)	(209)	(336)	(24)	124
Net Other Investment Cash Flow	32	(1395)	5	(1394)	25
Net Change in Debt	49	170	479	303	(297)
Net Change in Equity	368	(8)	(8)	(360)	143
Capital Structure					
Short-Term Debt	529	481	742	369	162
Long-Term Debt	3,771	3,762	3,678	3,577	3,759
Total Debt	4,300	4,243	4,420	3,945	3,921
Preferred and Minority Equity	41	41	41	41	108
Common Equity	3,764	3,297	3,336	3,279	3,195
Total Capital	8,105	7,582	7,797	7,265	7,224
Total Debt/Total Capital (%)	53.1	56.0	56.7	54.3	54.3
Preferred and Minority Eq./Total Capital (%)	0.5	0.5	0.5	0.6	1.5
Common Equity/Total Capital (%)	46.4	43.5	42.8	45.1	44.2

Note: Numbers may not add due to rounding. Numbers are adjusted for interest and principal payments on transition property securitization certificates. Long term debt includes trust preferred securities.LTM – Latest 12 months. Operating EBIT – Operating income plus total reported state and federal income tax expense. Operating EBITDA – Operating income plus total reported state and federal income tax expense plus depreciation and amortization expense. FFO – Funds from operations. CFO – Cash flow from operations. O&M – Operations and maintenance. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, Va.

Docket UE 170 (RECON)
PPL/327
Witness: Bruce Williams

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying

Rebuttal Testimony on Reconsideration

April 2006

Moody's Investors Service

Global Credit Research
Rating Action
28 FEB 2006

Rating Action: PacifiCorp

MOODY'S AFFIRMS THE RATINGS OF PACIFICORP (Baa1 SR. UNSECURED); REVISES RATING OUTLOOK TO STABLE FROM DEVELOPING

Approximately $4.5 Billion of Debt Securities Affected

New York, February 28, 2006 -- Moody's Investors Service affirmed the debt ratings of PacifiCorp (Baa1 senior unsecured debt) and changed the rating outlook to stable from developing. The action follows regulatory approvals in all of the six states needed to allow MidAmerican Energy Holdings Company's (MEHC) acquisition of PacifiCorp from Scottish Power plc for $9.4 billion.

The rating affirmation reflects expected credit metrics that are consistent with a Baa1 rating for a vertically integrated utility with PacifiCorp's risk profile under Moody's industry rating methodology and in comparison to similar companies. Key financial metrics include the ratio of adjusted funds from operations (FFO) to total adjusted debt that has averaged about 19% for the past three years, and the ratio of FFO to interest expense that has averaged about 4.0x during the same period. The rating affirmation incorporates the belief that MEHC will manage PacifiCorp's business, including its future capital structure, in a way that is supportive to credit quality, including the contribution of ongoing equity to support the utility's capital expenditure program. The rating action also recognizes that the acquisition will eliminate an overhang of uncertainty that resulted from Scottish Power's clear intention to divest PacifiCorp. The rating and outlook consider MEHC's longer-term investment horizon, and recognize its experience in operating several regulated utility systems in different geographic regions.

PacifiCorp's ratings consider legal and regulatory factors that are expected to significantly insulate the credit quality of PacifiCorp from the credit quality of MEHC as its new parent. In this regard, key provisions include the appointment of an independent director, the regulatory requirement to maintain a minimum common equity level that ranges between 44.0% and 48.25% to allow distributions, and a prohibition on the payment of dividends if PacifiCorp's senior unsecured debt ratings fall below investment grade.

The rating affirmation incorporates the expectation that PacifiCorp will continue to receive reasonable regulatory treatment throughout its six-state jurisdiction for the recovery of supply and delivery-related capital investment and operating costs. PacifiCorp's relatively stable financial performance has been aided by generally supportive regulatory decisions for capital investment and for recovery of power procurement costs. However, PacifiCorp has numerous remaining regulatory challenges in several of its key jurisdictions, the outcome of which could impact future credit quality at the utility. Of particular near-term importance is the outcome of several outstanding regulatory and legislative issues in Oregon. Operating revenues from Oregon jurisdictional customers represent about 30% of PacifiCorp's operating revenues. These issues include the rehearing of PacifiCorp's September 2005 Oregon general rate case (GRC), which substantially reduced the recommended rate increase by incorporating terms of the recently enacted tax-related legislation (Senate Bill 408) into the decision, the outcome of permanent rulemaking concerning the implementation of Senate Bill 408, and a final decision of the company's recently filed GRC.

The rating outlook is stable, reflecting an expectation of fairly supportive regulatory decisions and conservative financing of PacifiCorp's fairly large capital investment program. While the size of the company's capital expenditures limits the prospects for a rating upgrade in the near-term, the rating could be upgraded if reasonable regulatory support and a conservatively financed capital expenditure program results in a sustained improvement in credit metrics. This would include achieving ratios of FFO to total adjusted debt in excess of 20% and FFO to adjusted interest expense in excess of 4.0x, on a sustainable basis. The rating could be downgraded if reasonable regulatory support does not continue, or in the unlikely event that the acquisition by MEHC is not consummated and there is substantial uncertainty about the future ownership of PacifiCorp for a substantial period of time.

Ratings affirmed include:

Senior secured debt; A3,

Issuer Rating and senior unsecured debt; Baa1,

Preferred stock; Baa3, and

Short term rating for commercial paper; Prime-2.

Headquartered in Portland, Oregon, PacifiCorp is vertically integrated utility with operations in Oregon, Utah, Washington, Idaho, Wyoming, and California. PacifiCorp is currently an indirect wholly-owned subsidiary of Scottish Power plc.

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