Introduction

Q. Please state your name and business address.

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

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

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

Q. Please summarize your education and business experience.

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

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

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

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

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

Summary of Testimony

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

A. The purpose of my testimony is as follows:

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

Q. Please summarize your testimony.

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

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

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

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

- **$78 million investment in a Path C transmission upgrade to increase the transfer capability between PacifiCorp's east and west control areas and increase wind energy deliverability;**
- **$196 million investment in a transmission line from Mona to Oquirrh to increase import capability into the Wasatch Front;**
- **$88 million investment in a transmission link between Walla Walla and Yakima or Vantage to enhance the ability to accept wind energy**;
- **$75 million investment in the Asset Risk Program;**
- **$69 million investment in local transmission risk projects across all states;**
- **at least a 10 basis point reduction for five years ($6.3 million) in the cost of PacifiCorp's issuances of long-term debt;**

- **at least a $30 million reduction (over five years) in corporate overhead costs;**
- **a utility own/operate option for consideration in renewable energy RFPs;**
- **affirmation of PacifiCorp's goal of 1400 MW of cost-effective renewable resources, including 100 MW of new wind energy within one year of the close of the transaction and up to 400 MW of new wind energy after the transmission line projects are completed;**
- **consideration of reduced-emissions coal technologies such as IGCC and super-critical;**
- **reduction in sulfur hexafluoride emissions;**
- **$812 million investment to implement an emissions reduction plan for existing coal-fueled generation which, when coupled with reduced-emissions coal technology for new coal-fueled generation, would be expected to reduce PacifiCorp's SO_2 emissions rate by more than 50%, to reduce the NO_x emissions rate by more than 40%, to reduce the mercury emissions rate by nearly 40% and to avoid an increase in the CO_2 emissions rate;**
- **$1 million shareholder-funded system-wide study designed to further DSM and energy efficiency programs where cost effective;**
- **uniform application of the commitments from the prior PacifiCorp transaction in all six states; and**

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

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

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

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

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

- Brent E. Gale, Senior Vice President of MEC, will provide evidence that the transaction is in the public interest and will sponsor commitments to ensure there will be no harm to that interest. He will also provide testimony regarding the similarities between PacifiCorp and MEC, and the experience of MEC as a regulated utility subsidiary of MEHC.

- Patrick J. Goodman, MEHC's Chief Financial Officer, will provide detail regarding MEHC's corporate structure, PacifiCorp's place within that structure, MEHC's capital structure, the financial and accounting aspects of the transaction, some of the financial and structural commitments being offered by MEHC and PacifiCorp, and the "ring-fencing" protections MEHC will employ. He also will provide information regarding MEHC's largest investor, Berkshire Hathaway Inc. ("Berkshire Hathaway").

- Thomas B. Specketer, MEC's Vice President of U.S. Regulatory Accounting and Controller, will testify about the formation of a service company to provide certain common services to PacifiCorp, MEC and other MEHC subsidiaries. Mr. Specketer will describe the service company, the procedures for sharing services between MEHC and its affiliates, the joint administrative services agreement applicable to MEHC and its affiliates, and the implications and benefits for PacifiCorp customers. He will also sponsor some of the regulatory oversight commitments being offered by MEHC and PacifiCorp.

- Jeffery J. Gust, MEC's Vice President of Energy Supply Management, will testify regarding the transmission path that is planned to connect PacifiCorp with MEC and the Joint Operating Agreement that will govern certain aspects of the use of that transmission path.

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

MEHC And Its Business Activities

Q. Please explain the business activities of MEHC.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Acquisition Of Pacificorp

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

A. On May 23, 2005, ScottishPower and PacifiCorp Holdings, Inc., its wholly owned subsidiary directly holding PacifiCorp's common stock, reached a definitive agreement with MEHC providing for the sale of all PacifiCorp common stock to MEHC for a value of approximately $9.4 billion. This amount is comprised of approximately $5.1 billion in cash plus approximately $4.3 billion in net debt and preferred stock, which will remain outstanding at PacifiCorp. The acquisition is subject to customary closing conditions, including approval of the transaction by the shareholders of ScottishPower and receipt of required state and federal regulatory approvals.

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

Upon completion of the transaction, PacifiCorp will be an indirect, wholly-owned subsidiary of MEHC as illustrated in the organizational chart provided with the testimony of MEHC witness Mr. Goodman, as Exhibit UP&L__2(PJG-2). Mr. Goodman will also provide testimony concerning the financial aspects of the acquisition. Once acquired by MEHC, I expect PacifiCorp to be operated much as it is today, and it will continue to be headquartered in Portland, Oregon.

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

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

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

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

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

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

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

Q. One of the financial commitments included in Mr. Gale's Exhibit UP&L__(BEG-1), and discussed in Mr. Goodman's testimony, involves a pledge not to seek recovery in retail rates of the premium paid by MEHC to acquire PacifiCorp, with one exception identified in their testimony. How do you expect to be compensated for the acquisition premium if it is not recovered in rates?

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

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

Benefits Of The Transaction

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

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

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

On behalf of MEHC and PacifiCorp, I am offering new commitments which will provide benefits to PacifiCorp customers, employees and communities. The commitments, which are included for convenience of future reference on Exhibit UP&L__(GEA-1), are as follows:

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

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

        - facilitates the acceptance of renewable resources, and
        - enhances further system optimization since it enables the further purchase or exchange of seasonal resources from parties capable of delivering to Mona.
    - **Walla Walla - Yakima or Mid-C (~$88 million) –** Establish a link between the "Walla Walla bubble" and the "Yakima bubble" and/or reinforce the link between the "Walla Walla bubble" and the Mid-Columbia (at Vantage). Either of these projects presents opportunities to enhance PacifiCorp's ability to accept the output from wind generators and balance the system cost effectively in a regional environment.

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

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

- **<u>Reduced Cost of Debt:</u>** MEHC believes that PacifiCorp's incremental cost of long-term debt will be reduced as a result of the proposed transaction, due to the association with Berkshire Hathaway. Historically, MEHC's utility subsidiaries have been able to issue long-term debt at levels below their peers with similar credit ratings. MEHC commits that over the next five years it will demonstrate that PacifiCorp's incremental long-term debt issuances will be at a yield ten basis points below its similarly rated peers. If it is unsuccessful in demonstrating that PacifiCorp has done so, PacifiCorp will accept up to a ten (10) basis point reduction to the yield it actually incurred on any incremental long-term debt issuances for any revenue requirement calculation effective for the five-year period subsequent to the approval of the proposed acquisition. It is projected that this benefit will yield a value roughly equal to $6.3 million over the post-acquisition five-year period. MEHC witness Goodman will testify regarding this benefit in greater detail.

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

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

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

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

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

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

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

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

- **Energy Efficiency and DSM Management:** MEHC and PacifiCorp commit to conducting a company-defined third-party market potential study of additional DSM and energy efficiency opportunities within PacifiCorp's service areas. The objective of the study will be to identify opportunities not yet identified by the company and, if and where possible, to recommend programs or actions to pursue those opportunities found to be cost-effective. The study will focus on opportunities for deliverable

DSM and energy efficiency resources rather than technical potentials that may not be attainable through DSM and energy efficiency efforts. The findings of the study will be reported back to DSM advisory groups, commission staffs, and other interested stakeholders and will be used by the Company in helping to direct ongoing DSM and energy efficiency efforts. The study will be completed within one year after the closing on the transaction, and MEHC shareholders will absorb the first $1 million of the costs of the study.

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

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

- **Customer Service Standards:** MEHC and PacifiCorp commit to extend, through 2011, the commitment in Exhibit UP&L__(BEG-1) regarding customer service guarantees and performance standards as established in each jurisdiction, a two-year extension.

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

- **Corporate Presence:** MEHC understands that having adequate staffing and representation in each state is not optional. We understand its importance to customers, to regulators and to states. MEHC and PacifiCorp commit to maintaining adequate staffing and presence in each state, consistent with the provision of reliable service and cost-effective operations. In recognition of growth in Utah, my Exhibit UP&L__(GEA-1) contains some supplemental commitments for that state.

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

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

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

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

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

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

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

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

A. In 2013, when all projects are installed, it is estimated that emissions of SO_2 and NO_x will be reduced on an annual basis by approximately 57,000 tons and 40,000 tons, respectively, as compared to projected (2005) levels. In addition, it is estimated that mercury emissions will be reduced by over 450 pounds annually.

Q. What specific projects comprise this commitment?

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

Pollution Control Equipment Commitment and Targeted In Service Dates

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

(1) U = Upgrade, NI = New Installation

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

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

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

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

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

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

A. Yes. Benefits also result from making the commitments contained in Exhibit UP&L__(BEG-1) uniform across all states. With the exception of a few state-specific commitments noted in that exhibit, the commitments will be applied in all six states. This will enable regulators to have a consistent and readily identifiable set of commitments and simplify administration for PacifiCorp. Because the previous commitments were not uniform across the states, uniform application of the commitments will mean that every state will be receiving some additional commitments that were not previously applicable to it.

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

Pacificorp Operations Post-Trasaction

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

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

Q. Will PacifiCorp have its own debt?

A. Yes.

Q. Will PacifiCorp have its own individual business plan?

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

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

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

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

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

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

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

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

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

A. No.

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

A. No. We will honor existing labor contracts.

Assisting Pacificorp To Achieve Its Business Plan

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

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

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

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

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

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

Q. Can you provide another example?

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

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

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

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

Conclusion

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

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

In the testimony of MEHC's witnesses, we have offered more than 60 commitments to the customers and states served by PacifiCorp. Included in these commitments are reductions in PacifiCorp's costs totaling more than $36 million over five years and more than $75 million over a longer period. MEHC shareholders will also absorb $1 million of costs of a system-wide DSM study. In addition to these readily quantifiable benefits, MEHC is committing to $1.3 billion of infrastructure investment in PacifiCorp's system.

MEHC looks forward to being able to invest in the future of PacifiCorp, focusing upon our identified objectives of customer satisfaction, reliable service, employee safety, environmental stewardship and regulatory/legislative credibility. MEHC has demonstrated in its application and its testimony that it is committed to extending customer service standards and performance guarantees, investing to improve transmission and distribution reliability and import capability, investing to enhance wind power development, investing to reduce emissions from coal plants, and furthering DSM. We will continue our emphasis on employee safety. We will do all this while maintaining our focus upon exceeding customer expectations. Lastly, but perhaps most importantly, we believe that regulators and legislators in the states MEHC currently is privileged to serve will agree that perhaps MEHC's most valuable asset is the integrity it has in its relationships with all of its stakeholders.

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

Q. Does this conclude your testimony?

A. Yes, it does.