Q. Please state your name, employer and business address.

A. My name is Thomas B. Specketer, MidAmerican Energy Company ("MEC"), 666 Grand Avenue, Suite 2900, Des Moines, Iowa 50309.

Q. What is your position in the company and your previous work experience?

A. I am currently vice president U.S. regulatory accounting and MEC controller. My primary duties include responsibility for all accounting, financial reporting, regulatory reporting, tax and budgeting activities for MEC, and regulatory accounting oversight for all domestic regulated entities in the MidAmerican Energy Holdings Company ("MEHC") group. I have been employed by MEC, or one of its predecessor companies, for over 25 years. During this time, I have held various staff and managerial positions within the accounting, tax and finance organizations.

Q. What is your educational background and your involvement in professional associations?

A. I received a Bachelor of Science degree in mathematics from Morningside College. In addition to formal education, I have also attended various educational, professional and electric industry related seminars during my career at MEC. I am a member of Edison Electric Institute's Chief Accounting Officers Committee and a past member of the Tax Executives Institute, Iowa Association of Tax Representatives and Institute of Management Accountants.

Q. Please describe the purpose of your testimony.

A. The chief purpose of my testimony is to provide an overview of the process by which shared services costs will be distributed to PacifiCorp and other MEHC subsidiaries after completion of the proposed transaction. Therefore, my testimony will address the creation of a shared services entity, allocation methodologies expected to be employed, the service contract that will govern the shared services to be rendered, and the expected costs to PacifiCorp of shared services under MEHC ownership, in contrast to those PacifiCorp experienced under Scottish Power plc ("ScottishPower") ownership. Additionally, I will address other accounting issues pertinent to this transaction that may be of interest to the Commission and sponsor some of the commitments in MEHC witness Gale's Exhibit UP&L__(BEG-1).

Accounting Changes

Q. Please discuss accounting changes brought about by this transaction.

A. PacifiCorp will operate very much as it does today. Upon the closing of the transaction, however, it is MEHC's intent to transition PacifiCorp to a calendar year-end in contrast to its present March 31 fiscal year-end. The change in year-end will assure greater consistency in information supplied to PacifiCorp's various regulatory bodies and investors, and assure that financial information provided to MEHC is on a basis consistent with other MEHC subsidiaries.

Shared Services

Q. What cost changes will occur as a result of this transaction?

A. As mentioned previously, PacifiCorp will operate very much as it does today and, accordingly, most costs incurred by PacifiCorp will not change as a result of this transaction. One exception is the cost of corporate shared services. With the change in ownership, PacifiCorp will no longer incur shared services costs from

ScottishPower, but will incur costs of a similar nature from certain subsidiaries of MEHC.

Q. Please describe how shared costs, common to multiple subsidiaries of MEHC, will be charged to PacifiCorp.

A. Common costs of MEHC will originate in two entities: a new shared services company ("ServCo") and MEC. MEC, a vertically integrated utility owned by MEHC, serves regulated and unregulated electric and gas customers primarily in Iowa, Illinois, South Dakota and Nebraska. MEC is described in more detail by MEHC witness Gale.

Q. Please describe the new shared services company.

A. ServCo will be created as a direct subsidiary of MEHC. ServCo will be staffed with approximately ten (10) senior executives of MEHC and provide strategic management, coordination and corporate governance services to all MEHC subsidiaries, including board of directors support, strategic planning, financial planning and analysis, insurance, environmental compliance, financial reporting, human resources, legal, accounting and other administrative services.

Q. Will any PacifiCorp employees be transferred to the ServCo?

A. No.

Q. Why is MEHC forming a ServCo?

A. MEHC is forming a ServCo to ensure that costs are captured and properly billed and/or allocated to all entities in the MEHC group that benefit from the services provided, including MEHC, PacifiCorp and MEC.

Q. Please describe the services that will be provided by MEC.

A. MEC employees will coordinate certain administrative services on behalf of MEHC, including budgeting and forecasting, human resources, and tax compliance. Amounts to be charged to PacifiCorp from MEC are not expected to exceed $4.0 million per year.

Q. Will any other incidental services between MEC and PacifiCorp be provided?

A. For operational reasons, such as a storm restoration, it may be necessary and beneficial to send crews of one utility to the other's service territory to assist in restoration efforts. In addition, other operational expertise may be requested from time to time to take advantage of specific expertise that exists at each of the utilities. Services such as these would also be provided at cost.

Q. How will costs from these two sources (ServCo and MEC) flow to PacifiCorp?

A. Cost assignments to PacifiCorp will be based on generally accepted cost assignment practices. As described in more detail below, direct costs for the ServCo and MEC services will be billed to the entity benefiting from the service provided. All other costs related to the services provided, including indirect costs, will be fully allocated to MEHC and all benefiting subsidiaries.

Q. Could you give an example of what you mean by direct and indirect costs?

A. Direct costs arise from services that are specifically attributable to a single entity. For example, if I'm researching an accounting issue for an affiliate, I would directly bill that entity for the time spent researching the issue. However, the cost of the reference material purchased to research accounting issues would benefit more than one entity, so the cost of the reference material would be an indirect cost and allocated to all entities that benefit from the materials.

Q. Please describe the service agreement that will govern the shared services to be provided.

A. The services will be governed by the existing Intercompany Administrative Services Agreement ("IASA") that has been executed by MEHC and its subsidiaries. The IASA is used to govern the provision of certain administrative services between MEHC and affiliates. The existing IASA is attached as Exhibit UP&L__(TBS-1). This agreement outlines the terms and conditions of the shared services arrangement between MEHC and its subsidiaries, which will eventually include the ServCo and PacifiCorp.

Q. Please describe the system of accounts that will be used to capture and bill shared costs.

A. Costs and billings at ServCo will be accounted for using a system of accounts prescribed by the U.S. Securities and Exchange Commission ("SEC") in 17 CFR Ch. II. This system of accounts is aligned with the Federal Energy Regulatory Commission's ("FERC") uniform system of accounts. As a regulated public utility, MEC is required to use and account for costs using the FERC uniform system of accounts. Therefore, the system of accounts used to capture and bill shared costs by both the ServCo and MEC will be very similar. Such accounts will have an additional three-digit "sub-account" field to provide more descriptive detail of the type of cost activity involved. Also, a responsibility center field in the code block will establish budgetary control of amounts charged and will be descriptive of the department originally incurring the charges. Other segments of the code block to be used will capture cost elements (descriptive of the nature of costs, e.g., labor, payables, etc.) and project numbers. The code block used will accommodate a high degree of flexibility and capability in tracking and reporting costs.

Q. How will MEC segregate shared costs from costs it incurs on its own behalf or directly on behalf of other MEHC subsidiaries?

A. A separate "business unit" will be established within MEC's accounting system which will be structured to capture the costs of functions providing shared services. Expenses originating in this "business unit" will allocate to all benefiting MEHC entities, instead of merely to MEC operations, to the extent that costs are not directly billed to MEC or to other MEHC subsidiaries. MEC has employed this kind of accounting system in order to allocate costs for state jurisdictional reporting purposes, and this methodology has been utilized in Iowa, Illinois, and South Dakota for a number of years as the basis for rate filings. The allocation process utilizes well-established controls, and an audit trail is maintained such that all costs subject to allocation can be specifically identified back to their origin.

Q. On what basis will shared services be charged?

A. Shared services, whether directly billed or allocated, will be charged at fully loaded actual cost. This means that only the actual cost of providing the service, with no markup for profit, will be charged. Labor, for example, will include such items as loadings for benefits, paid absences and payroll taxes attributable to such labor for actual time spent providing the service. Non-labor costs will be directly billed or allocated at actual amounts incurred by ServCo and MEC.

Q. Will this result in any cross-subsidization between MEHC entities?

A. No. To the contrary, billing at cost will eliminate any potential cross-subsidization between entities and ensure that only actual costs are reflected in rates charged to both MEC customers and PacifiCorp customers.

Q. Will ServCo own assets used for shared services?

A. Yes, it will own assets used for providing shared services, but will not own operating assets or investments in operating entities. Assets used for shared services will be charged, based on utilization, at a fixed amount that recovers amounts for depreciation, property taxes and cost of capital associated with the asset.

Q. Will ServCo be a for-profit entity?

A. No, ServCo will have neither profit nor losses. All costs incurred by ServCo, net of any income earned, will be directly charged when the benefiting organization can be specifically identified, and any residual indirect amounts will be allocated each month to MEHC and all benefiting subsidiaries. Shared services costs incurred by MEC on behalf of MEHC subsidiaries will also be fully allocated, to the extent not directly charged.

Q. Will any costs, other than the shared costs mentioned above, be charged to PacifiCorp from any other affiliates of MEHC?

A. It is not expected that any significant administrative costs will originate from any

MEHC affiliate other than the two entities discussed above. However, when specific expertise is needed or available from other MEHC business platforms, the IASA provides the flexibility for any member of the MEHC group to request services at cost from other entities in the group. Services of this nature are situation-specific and not expected to be recurring.

In addition, normal course of business transactions negotiated at arms-length or subject to tariff provisions, such as the existing contracts between PacifiCorp and MEHC subsidiaries to purchase gas transportation service from Kern River Gas Transmission Company and steam from Intermountain Geothermal Company for PacifiCorp's Blundell plant, may be initiated by PacifiCorp. These services would continue to be subject to the applicable state or federal regulatory approvals, including existing tariffs.

Q. How will ServCo be capitalized?

A. The exact form of capitalization of ServCo has yet to be determined. However, the cost of all capital will be fully allocated out of ServCo to the extent that it is not charged directly through billings for the use of ServCo assets.

Q. What allocation methodology will be used to allocate ServCo and MEC shared costs not directly billed to MEHC entities?

A. Indirect costs of ServCo and MEC, allocable to MEHC and all subsidiaries, will be allocated using a two-factor formula comprised of assets and payroll, each equally weighted. Within thirty (30) days of receiving all necessary state and federal regulatory approvals of the proposed transaction, a final cost allocation methodology will be submitted to the Commissions. On an ongoing basis, the

Commission will be notified of anticipated or mandated changes to this cost allocation methodology. Of course, as specified in commitment 7(f) in Table 1 later in my testimony, the Commission will determine the appropriate corporate cost allocation for establishing rates.

Q. Why is the two-factor formula appropriate?

A. This allocation methodology is based on the formula presently approved for use by MEC and MEHC to allocate indirect common corporate costs. Further, it is consistent with the IASA that will govern these services, and it has been utilized by MEC for a number of years as the basis for rate filings in each of the states it operates. These regulators have recognized that a single allocation factor to allocate common corporate costs is not reasonable.

Q. How does the two-factor formula compare to the three-factor formula used by PacifiCorp?

A. The factors produce similar results. Estimated costs allocated to PacifiCorp using the two-factor formula are not expected to be materially different than costs allocated using the three-factor formula.

Q. Will PacifiCorp's inter-jurisdictional cost allocation methodology change as a result of the MEHC purchase transaction?

A. No. The methodology described above will only be used to allocate shared services costs from ServCo and MEC. PacifiCorp's current methods for assigning costs jurisdictionally will not change as a result of the transaction.

Q. What is the expected impact on PacifiCorp costs of the shared services charges from ServCo and MEC?

A. Shared services charges to PacifiCorp are expected to decrease from historical amounts billed to PacifiCorp from ScottishPower. Exhibit UP&L__(TBS-2) presents an analysis of historical shared services costs from ScottishPower and expected shared services costs upon MEHC's acquisition of PacifiCorp. Net cross-charges to be paid by PacifiCorp to ScottishPower for the fiscal year ending March 31, 2006, are projected to be $15.0 million. MEHC estimates that its shared costs to PacifiCorp would have totaled $9.6 million for the same period. MEHC is making a commitment that such costs will not exceed $9 million per year for five (5) years following the close of this transaction.

Q. Will PacifiCorp continue to provide services to its direct subsidiaries?

A. Yes, such services will continue under existing service agreements.

Q. Please summarize this portion of your testimony regarding the shared services acquisition commitments that MEHC is undertaking in connection with the proposed transaction.

A. Shared services costs will be direct billed or allocated to PacifiCorp, MEHC and other subsidiaries, primarily from ServCo or MEC. To the extent costs are not directly billed and need to be allocated, a two-factor allocator consisting of assets and labor, each equally weighted, will be used to allocate the costs to each entity benefiting from the type of cost incurred. The IASA will govern the shared services to be provided by the ServCo or MEC. MEHC is making a commitment that shared services costs from ServCo and MEC will not exceed $9 million per year for five (5) years following the close of the transaction.

Commitments

Q. Are you providing support for some of the commitments in MEHC witness Gale's Exhibit UP&L__(BEG-1)?

A. Yes. I am sponsoring the following financial and structural commitments that MEHC is undertaking with respect to the proposed transaction.

Table 1
Financial and Structural Commitments that MEHC is Undertaking in Connection with the Proposed Transaction

	Regulatory Oversight	
D	**Accounting Records**	The Commission or its agents may audit the accounting records of MEHC and its subsidiaries that are the bases for charges to PacifiCorp, to determine the reasonableness of allocation factors used by MEHC to assign costs to PacifiCorp and amounts subject to allocation or direct charges. MEHC agrees to cooperate fully with such Commission audits.
E	**Affiliate Transactions**	MEHC and PacifiCorp will comply with all existing Commission statutes and regulations regarding affiliated interest transactions, including timely filing of applications and reports.
F	**Affiliate Transactions**	PacifiCorp will file on an annual basis an affiliated interest report including an organization chart, narrative description of each affiliate, revenue for each affiliate and transactions with each affiliate.
G	**Cross-subsidization**	PacifiCorp and MEHC will not cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and shall comply with the Commission's then-existing practice with respect to such

		matters.
H	**Affiliate Transactions**	PacifiCorp and MEHC will not assert in any future Commission proceeding that the provisions of the Public Utility Holding Company Act of 1935 or the related <u>Ohio Power v FERC</u> case preempt the Commission's jurisdiction over affiliated interest transactions and will explicitly waive any such defense in those proceedings. In the event that PUHCA is repealed or modified, PacifiCorp and MEHC agree not to seek any preemption under any subsequent modification or repeal of PUHCA.
I	**Cost Allocations**	Within 30 days of receiving all necessary state and federal regulatory approvals of the final corporate and affiliate cost allocation methodology, a written document setting forth the final corporate and affiliate cost methodology will be submitted to the Commission. On an on-going basis, the Commission will also be notified of anticipated or mandated changes to the corporate and affiliate cost allocation methodologies.
J	**Cost Allocations**	Any proposed cost allocation methodology`` for the allocation of corporate and affiliate investments, expenses, and overheads required by law or rule to be submitted to the Commission for approval, will comply with the following principles: (a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by MEHC or any of its affiliates, MEHC must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its regulated operations, is not

		duplicative of services already being performed within PacifiCorp, and is reasonable and prudent. (b) Cost allocations to PacifiCorp and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to specific subsidiaries whenever possible and shared or indirect costs will be allocated based upon the primary cost-driving factors. (c) MEHC will have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp. (d) An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates. (e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the MEHC group.

		(f) Any corporate cost allocation methodology used for rate setting, and subsequent changes thereto, will be submitted to the Commission for approval if required by law or rule.

Q. Does this conclude your testimony?

A. Yes it does.