management of deforestation carbon credits are also being purchased by MEHC. The remaining subsidiaries of PHI, including PPM Energy, Inc., will remain with ScottishPower.

MEHC Corporate Structure

Q. Please discuss MEHC's corporate structure and PacifiCorp's place in that structure.

A. Upon completion of the transaction, PacifiCorp will be an indirect wholly-owned subsidiary of MEHC as illustrated in the simplified MEHC organizational chart provided with my testimony as Exhibit UP&L__(PJG- 2). This structure will help facilitate the implementation of the "ring-fencing" concept that is addressed later in my testimony.

MEHC Capital Structure

Q. Please describe MEHC's capital structure.

A. Table 1 below illustrates the pre-transaction capitalizations of MEHC and PacifiCorp, followed by the pro forma, combined capitalization of MEHC after the proposed transaction occurs. At this point I would direct your attention to the MEHC capitalization prior to the acquisition. It can be seen that MEHC's stockholder's equity is composed of five items:

- zero coupon convertible preferred stock,
- common stock,
- additional paid-in capital,
- retained earnings, and
- accumulated other comprehensive loss, net.

Table 1
MidAmerican Energy Holdings Company
Unaudited Pro forma Consolidated Long-Term Capitalization
As of March 31, 2005
(In millions)

	MEHC		PacifiCorp	Pro Forma Adjustments		MEHC Pro Forma	
Long-term Debt:							
Parent company senior debt	$ 2,773.1	19.9%	$ -	$ 1,709.8	(1)	$ 4,482.9	19.7%
Parent company subordinated debt(2)	1,586.4	11.4%	-	-		1,586.4	7.0%
Subsidiary and project debt	6,358.8	45.8%	3,629.0	-		9,987.8	43.9%
Total long-term debt	10,718.3	77.1%	3,629.0	1,709.8		16,057.1	70.6%
Preferred securities of subsidiaries	89.3	0.6%	52.5	41.3	(3)	183.1	0.8%
Stockholders' equity:							
Zero coupon convertible preferred stock, no par value	-		-	-		-	
Preferred stock, $100 stated value	-		41.3	(41.3)	(3)	-	
Common stock, no par value	-		-	-		-	
Additional paid-in capital	1,950.7		2,894.1	(2,894.1)	(4)	5,370.4	
				3,419.7	(1)		
Retained earnings	1,309.3		446.4	(446.4)	(4)	1,309.3	
Accumulated other comprehensive loss, net	(166.3)		(4.7)	4.7	(4)	(166.3)	
Total stockholders' equity	3,093.7	22.3%	3,377.1	42.6		6,513.4	28.6%
Total long-term capitalization	$ 13,901.3	100.0%	$ 7,058.6	$ 1,793.7		$ 22,753.6	100.0%

For the purposes of the pro forma long-term capitalization table, it has been assumed that the acquisition was completed on March 31, 2005. Consequently, the total long-term capitalization of PacifiCorp does not reflect the following:

- the additional equity investment by ScottishPower in PacifiCorp of $500.0 million during the fiscal year ended March 31, 2006;
- expected dividends, totaling $214.8 million, to be paid to ScottishPower by PacifiCorp for the fiscal year ending March 31, 2006;
- expected earnings, debt issuances and debt retirements of PacifiCorp for the fiscal year ending March 31, 2006; and
- expected earnings, debt issuance and debt retirement of MEHC and its current subsidiaries for the period ending March 31, 2006.

Certain reclassifications have been made to PacifiCorp's historical presentation in order to conform to MEHC's historical presentation.

(1) Pursuant to terms of the Stock Purchase Agreement, MEHC will pay ScottishPower $5.1 billion in cash in exchange for100% of PacifiCorp's common stock. The total estimated purchase price of the acquisition is as follows (in millions):

Common stock or zero coupon convertible non-voting preferred stock of MEHC	$ 3,419.7
Long-term senior unsecured debt of MEHC	1,709.8
Total estimated purchase price	$ 5,129.5

(2) Parent company subordinated debt consists of the following at March 31, 2005:

Berkshire trust preferred securities	$ 1,289.2
Other trust preferred securities	297.2
Total parent company subordinated debt	$ 1,586.4

(3) Pursuant to the terms of the Stock Purchase Agreement, PacifiCorp's preferred stock which is classified in PacifiCorp's March 31, 2005 balance sheet as part of stockholder's equity will remain outstanding. For purposes of the pro forma capitalization table the preferred stock, totaling $41.3 million, was reclassified to preferred securities of subsidiaries.

(4) Represents the pro forma adjustments to eliminate the historical stockholders' equity of PacifiCorp.

Table 2 Credit Ratings – July 2005			
	Standard & Poor's	Moody's Investor Service	FitchRatings
Berkshire Hathaway	AAA	Aaa	AAA
MidAmerican Energy Holdings Company	BBB-	Baa3	BBB
MidAmerican Energy Company	A-	A3	A-
Northern Natural Gas Company	A-	A3	A-
Kern River Gas Transmission Co.	A-	A3	A-
Northern Electric Distribution Ltd	BBB+	A3	A-
Yorkshire Electricity Distribution plc	BBB+	A3	A-

Financing and Mechanics of the Transaction

Q. Please describe the steps that will be taken to effectuate the transaction.

A. A limited liability company ("LLC"), PPW Holdings LLC, has been established as a direct subsidiary of MEHC. This LLC will receive, as an equity infusion, $5.1 billion raised by MEHC through the sale of either common stock or zero coupon convertible preferred stock to Berkshire Hathaway and the issuance of long-term senior notes, preferred stock, or other securities with equity characteristics to third parties. However, the LLC will have no debt of its own. The LLC will, as provided in the Stock Purchase Agreement, pay PHI $5.1 billion in cash, at closing, in exchange for 100 percent of the common stock of PacifiCorp. In addition, it is projected that approximately $4.3 billion in net debt and preferred stock of PacifiCorp will remain outstanding as obligations of PacifiCorp.

Prior to the expected closing date of March 31, 2006, ScottishPower has agreed to make $500 million in additional capital contributions to PacifiCorp, and PacifiCorp is expected to pay $214.8 million of dividends to ScottishPower. Provision for additional capital contributions have been made in the Stock Purchase Agreement if the acquisition has not closed by that date.

Q. Please describe how the acquisition of PacifiCorp by MEHC will be financed.

A. As described above, MEHC expects to fund the transaction with the proceeds from an investment by Berkshire Hathaway of approximately $3.4 billion in either common stock or zero coupon non-voting convertible preferred stock of MEHC and the issuance by MEHC to third parties of approximately $1.7 billion of long-term senior notes, preferred stock, or other securities with equity characteristics. However, the transaction is not conditioned on such financing and if funds were not available from third parties, Berkshire Hathaway is expected to provide any required funding. The pro forma capital structure of MEHC after the acquisition is shown in Table 1 above, assuming $1.7 billion of long-term debt is issued by MEHC. The pro forma schedule is unaffected if, ultimately, either common stock or zero coupon convertible preferred stock is issued. The timing and composition of these financings are flexible and subject to modification as market conditions change. It is not anticipated that there would be any restrictive covenants associated with the proposed financing different from those typical of an investment grade financing.

Q. Are you aware of any benefits to PacifiCorp due to MEHC's relationship with Berkshire Hathaway?

A. MEHC believes that PacifiCorp's cost of debt will benefit from the acquisition due to the association with MEHC's largest investor, Berkshire Hathaway. Historically, MEHC's utility subsidiaries have been able to issue long-term debt

		the accounting close.
C	Premium Paid	The premium paid by MEHC for PacifiCorp will be recorded in the accounts of the acquisition company and not in the utility accounts of PacifiCorp. MEHC and PacifiCorp will not propose to recover the acquisition premium in PacifiCorp's regulated retail rates; provided, however, that if the Commission in a rate order issued subsequent to the closing of the transaction reduces PacifiCorp's retail revenue requirement through the imputation of benefits (other than those benefits committed to in this transaction) accruing from the acquisition company (PPW Holdings LLC), Berkshire Hathaway or MEHC, MEHC and PacifiCorp will have the right to propose upon rehearing and in subsequent cases a symmetrical adjustment to recognize the acquisition premium in retail revenue requirement.
D	Rating Agency Presentations	MEHC and PacifiCorp will provide the Commission with unrestricted access to all written information provided to credit rating agencies that pertains to PacifiCorp.
E	Minimum Common Equity Ratio	PacifiCorp will not make any distribution to PPW Holdings LLC or MEHC that will reduce PacifiCorp's common equity capital below 40 percent of its total capital without Commission approval. PacifiCorp's total capital is defined as common equity, preferred equity and long-term debt. Long-term debt is defined as debt with a term of one year or more. The Commission and PacifiCorp may reexamine this minimum common equity percentage as financial conditions or accounting standards change, and may request that it be adjusted.
F	Capital Requirements to Meet Obligation to Serve	The capital requirements of PacifiCorp, as determined to be necessary to meet its obligation to serve the public, will be given a high priority by the Board of Directors of MEHC and PacifiCorp.
G	Assuming Liabilities/Pledging Assets	PacifiCorp will not, without the approval of the Commission, assume any obligation or liability as guarantor, endorser, surety or otherwise for MEHC or its affiliates, provided that this condition will not prevent PacifiCorp from assuming any obligation or liability on behalf of

recapitalization, winding-up or termination or a merger, consolidation or sale of all or substantially all of MEHC's assets.

Q. Please describe the rights Berkshire Hathaway will have upon conversion of the zero coupon convertible preferred stock of MEHC.

A. Upon conversion Berkshire Hathaway would have the rights of a common stockholder and the ability to elect nine of the ten members of MEHC's board of directors. The additional $3.4 billion of common shares associated with the PacifiCorp transaction (or zero coupon convertible preferred stock, if issued and then converted) will increase Berkshire Hathaway's proportion of ownership but would otherwise not affect any of the rights Berkshire Hathaway had without the additional investment.

Q. Why have you provided this information regarding Berkshire Hathaway's conversion rights?

A. On or shortly after the effective date of repeal of PUHCA, Berkshire Hathaway will exercise its conversion rights. This will create a technical change in control of MEHC. Although the conversion will occur prior to the close of this transaction, MEHC and PacifiCorp wish to provide the Commission with this notice of the conversion which is associated with the repeal of PUHCA.

Q. What regulatory approvals are required to allow Berkshire Hathaway to convert its convertible preferred stock investment in MEHC to common equity?

A. Approvals are required from FERC, the Nuclear Regulatory Commission, the Iowa Utilities Board and the Illinois Commerce Commission. A filing will also be required with the U.S. Department of Justice/Federal Trade Commission pursuant to the Hart-Scott-Rodino Act. As of the date of this testimony, all filings had been made except the Hart-Scott-Rodino. All required approvals are expected before year-end 2005.

Q. Will Berkshire Hathaway have any involvement in the day to day operations of PacifiCorp, either before or after the conversion?

A. No, it will not. Prior to the conversion, Mr. Scott and associated family interests had the right to elect a majority of the members of the MEHC Board of Directors, and Berkshire Hathaway had the right to elect 20% of the Board. Neither Mr. Scott nor Berkshire Hathaway had any influence or involvement in the day-to-day operations of the business units of MEHC. That is not expected to change when Berkshire Hathaway is able to elect a majority of the Board.

Q. After the conversion, will MEHC (or PacifiCorp if this proposed transaction is approved) be required to borrow funds from Berkshire Hathaway?

A. Neither MEHC nor PacifiCorp is or will be required to borrow from Berkshire Hathaway. However, MEHC may choose to request debt or equity funds from Berkshire Hathaway, for example, if it pursues additional acquisitions.

As a general rule, subsidiaries of MEHC (including PacifiCorp if this proposed transaction is approved) are expected to operate autonomously from MEHC and Berkshire Hathaway. This includes arranging their own financing and being responsible for maintaining and/or improving their credit standing.

Conclusion

Q. Does this conclude your direct testimony?

A. Yes, it does.