Rocky Mountain Power
Exhibit UIEC-____ (JRM-3)
Docket June 2006
Witness: J. Robert Malko

PUBLIC UTILITIES
FORTNIGHTLY

The Ultimate CEOs


David L. Sokol, MidAmerican


Peter A. Darbee, PG&E Corp.


Jeff Sterba, PNM Resources


Peggy Fowler, PGE


J. Wayne Leonard, Entergy

David L. Sokol

CHAIRMAN AND CEO, MIDAMERICAN ENERGY HOLDINGS CO.

"Leadership is the recognition that we are fiduciaries of the customer's dollars and we have to be as efficient as we possibly can be because it is their money and not ours."

The Company

Revenue 2005: $7.1 billion
Net Income 2005: $563 million
Number of Employees: Approximately 11,400

The Executive

Age: 49
Education: Bachelor of Science degree in civil engineering from the University of Nebraska at Omaha, 1978; honorary doctorate degree from Bellevue University, Bellevue, Neb.
Earlier in Career: Regional office manager, Henningson, Durham and Richardson Inc.; assistant vice president, Citicorp; director, president and CEO, Ogden Projects Inc., Ogden Martin Systems, Inc. and Chairman and CEO of Ogden Environmental Services Inc.; director, president, and CEO, Kiewit Energy Co. He became CEO and chairman of the board at MidAmerican (formerly CalEnergy Company Inc.) in February 1991.
Board Memberships: Member of the Horatio Alger Association board of directors and executive committee; member of the National Collegiate Athletic Association Leadership Advisory board of directors; chairman of the Omaha Metropolitan Entertainment and Convention Authority; member of the board of governors, Knights of Ak-Sar-Ben; member of the Creighton University board of directors; member of the board of directors of the College World Series; USSTRATCOM Consultation Committee; board of – Mid-America Council, Boy Scouts of America.

Fortnightly: Is there an ideal utility structure that you favor, given that you are a company that has vertically integrated utilities, pipelines, and distribution companies all under one roof?

Sokol: We're just in the wires business in the UK, which is the regulated side of that business, and then we have vertically integrated assets here in 10 U.S. states, and we have pipelines as well. We are fine in any of those sectors; we prefer the regulated side of the business. We think most states in the United States will continue toward maintaining the vertically integrated model because of the ability to manage long-term cost to the consumer more predictably. But some areas are looking at various types of potential partial deregulation. To the extent those are structured properly and all parties understand the risks involved, I think those are areas we can participate in as well.

I think the right structure really has to do with the state and federal views in the various locations.

One cautionary note long term is that deregulation is fine to the extent it doesn't provide so much volatility that customers can't manage their energy requirements. So as you move higher up in the food chain, the larger customers have the financial and intellectual wherewithal to manage their energy products. As you move down the customer chain to the smaller customer—the midlevel and then the residential customers—I think the jury is still out at many locations [on] the potential benefits of a competitive fully deregulated marketplace.

[Do] those competitive benefits offset the vulnerability that those customers are placed in when you consider the volatility of fuel price spikes and things of that nature? I think that's an open question that state legislators or regulators have to fully get their arms around. Too early in the debate people looked at deregulation and said, "Gee, if we deregulate, everything will be more efficient and therefore costs will be lower." Well, that's not necessarily true in that when you go to a fully deregulated marketplace. If supply is inadequate to meet demand, prices spike very dramatically. There is a clear open question as to whether the average customer can manage that kind of vulnerability.

That model very much demonstrated its weakness in the California deregulatory efforts back in 2000 and 2001. But various states are questioning the advisability of putting all customers at risk for supply shortages. From our perspective, we think it's our job to look out for the customer and to make sure the customer has adequate access to appropriately priced energy products. We have to do that fully in cooperation with state and federal regulators and other constituents, but we can't just allow whatever structure to take place and not keep the customer informed of the potential benefits and risks of that structure. Lots of structures will evolve over time and can work. It's just important that all participants know what risks they are taking and what benefits they should receive in that equation.

Fortnightly: Why did you choose to acquire PacifiCorp? Why do you feel you could better run that utility than Scottish Power?

Sokol: Scottish Power bought [PacifiCorp] about six or seven years ago when it looked like the western United States was going to completely deregulate. That was something Scottish Power was comfortable with, given the UK model. Almost immediately after they closed on their acquisition of PacifiCorp, the California energy crisis occurred, they had some other unfortunate operational problems, and they ended up losing a fair bit of money because of the short position that occurred in the West [as a result] of the California energy crisis. So they kind of got off to a bad start.

From that point forward, when deregulation didn't occur, it became relatively clear they would ultimately exit the U.S. business. From our standpoint, the assets make good sense for us. We're very comfortable in the U.S. marketplace. We intend to own these assets and be the last owner of them. Therefore, we can plan on the kind of capital expenditure, transmission expenditure, generation issues and development that PacifiCorp needs over the next 20 to 30 years. And we're quite comfortable putting that capital to work and improving upon their generation fleet and their transmission infrastructure in between those six states. It fits very nicely into our model of owning high-quality regulated assets in various jurisdictions and then operating them with the greatest efficiency.

We were a logical buyer for Scottish Power. They needed to know they were going to sell to a buyer who was committed to closing the transaction and had the skill and knowledge base to get the approvals in a reasonable time frame, and who could live with PUHCA had it not been removed. Because as of this time last year, there certainly was no certainty that PUHCA would be repealed.

On the other side, we're very pleased to have closed on the assets and look forward to running them. They have a good heritage in many parts of their businesses in terms of safety and customer satisfaction, and we look forward to building on those.

Fortnightly: Why do you think you were so effective with regulators in closing the deal with PacifiCorp?

Sokol: I think one real benefit we have [is that] we're blessed as a company to be 85 percent owned by Berkshire Hathaway. Berkshire [is rated] AAA, and Warren Buffett's stated view [is] they never sell assets. The regulators recognize energy prices and the quality of energy service are absolutely essential services to their customers and to their state's economic development. These aren't assets that should be highly levered or flipped through hedge funds and things of that nature.

This is just not a business prone to fast money. I think regulators recognize Berkshire's reputation for integrity and long-term ownership is very comforting to regulators that don't want to have to worry about companies getting into financial trouble or needing to sell their assets, or things of that nature.

Fortnightly: You've managed investor-owned public companies and you currently manage a privately held utility. What are the advantages and disadvantages of being private?

Sokol: Private is much better for this industry for two reasons. Number one, this is a long-term industry. You constantly have to be looking 10 to 20 years down the road, at the least, because every investment we make, whether it's a transmission system or power plant, these assets have useful lives of a minimum of 20 years and many cases 50 years. And they are very capital intensive. So, we always have to be looking down the line a long ways where the public markets don't reward that much.

That was probably my biggest frustration of running an energy company in the public markets. Few people have the opportunity, if you will, to have a Berkshire Hathaway ownership, where capital availability is not an issue. So, the public markets for many utilities do provide access to capital, but

MidAmerican Energy Holdings Co.

Measure	Year-End 2004	Year-End 2005	% Change
Total Revenue	$6,553,388,000	$7,115,539,000	8.6%
Net Income	$170,206,000	$562,654,000	230.6%
Dividends Per Share	NA	NA	NM
Total Assets	$19,903,562,000	$20,192,960,000	1.5%
Long-Term Debt	$10,662,690,000	$3,307,000,000	-69.0%
Shareholder Equity	$2,971,159,000	$3,385,251,000	13.9%
Operating Cash Flow	$1,424,648,000	$1,310,806,000	-8.0%
Capital Expenditures	$1,179,390,000	$1,196,237,000	1.4%
Free Cash Flow	$245,258,000	$114,569,000	-53.3%
Common Stock Repurchased	$20,000,000	$0	-100.0%
Common Stock Issued	$0	$0	NM
Long-Term Debt Issued	$625,116,000	$1,050,578,000	68.1%
Long-Term Debt Retired	$468,417,000	$1,323,977,000	182.6%
Common Dividend Payments	$0	$0	NM
Non-Regulated Revenues	$3,851,688,000	$3,950,000,000	2.6%
Non-Regulated Assets	$12,628,563,000	$12,188,000,000	-3.5%
Non-Regulated Capital Exp.	$545,583,000	$496,000,000	-9.1%
ROE	5.7%	16.6%	190.1%
ROA	0.9%	2.8%	225.8%
Diluted Shares Outstanding*	9,081,087	50,544,482	456.6%
EPS	$18.74	$11.13	-40.6%
P/E Ratio	NA	NA	NA
Return on Revenue	2.6%	7.9%	204.5%
Book Value Per Share	$17.93	$32.89	83.5%
LT Debt to Equity	3.6	1.0	-72.8%
Market Capitalization	NA	NA	NA
Dividend Payout Ratio	0.0%	0.0%	NM
Number of Employees	11,540	11,400	-1.2%
Total Electric Customers	700,000	706,000	0.9%
Total Gas Customers	680,000	688,000	1.2%
Installed Generating Capacity mW's	5,203	5,166	-0.7%

*All shares held by private investors

Source: The C Three Group Energy Utility Index ©2005 from my perspective this is 10 times better than being public. The other thing is it allows us to not be driven by short-term thinking in a broad array of arenas and to really sit down with customers, regulators, and political bodies, and find the answers that work the best for those customers, that community, or that state. It might not necessarily have the best short-term pre-tax impact on something. But on an economic basis, it's better for everyone that we go in a certain direction and being private gives you flexibility to craft the best solution for your jurisdiction or your customers and not have to worry about the public market saying, "Oh well, gee, that's really going to benefit you in three years. That's not soon enough and therefore, we are going to punish you." I think being private is enormously positive.

Fortnightly: Berkshire Hathaway is famous in having the lowest cost of capital in the world when making acquisitions, as the capital is derived from the insurance sector. What is your view of the use of leverage by private-equity firms to take utilities private?

Sokol: I think there are two problems with private equity in the utility space or the regulated utility industry. Excess leverage is negative, and the fact equity funds typically want to cash out of their investments in three years, or no more than five years, is a problem. These are essential assets in the community and [represent] economic growth customers rely on. If they get over-levered and there is a recession or a problem, who ultimately bears that pain? It's going to be the customers.

Regulators and customers like to know who is going to own these assets. Are they going to be consistently managed in a way that is protective of their interests, or are they going to change hands constantly and use the next financial gimmick to try to benefit a shareholder, but perhaps put the customer or the regulator at risk?

This is an essential industry [where] the lights have to come on and the price has to be reasonable. I'm not sure the essential nature of this business really is a good place for private equity capital, and particularly not leverage. For other equity holders that have a long-term view of buying and holding assets for 20 years, there is nothing wrong with that. I would still say excessive leverage is a bad thing. But equity capital that wants to come into this industry and stay for the long haul is certainly a welcome feature. But unfortunately, for most of the hedge funds, their horizon is three to five years. That is probably not an appropriate owner for these kinds of assets.

Fortnightly: How do you define leadership?

Sokol: There are two types of leadership. One is just internal to an organization: How do you accomplish things? The other is industry leadership.

I'll give you a little bit of each. As an industry, our first responsibility is to protect the customer. Again, if you look at the revenues that come into our business, we keep a very small slice of it for ourselves. The rest of it, we're spending the customer's money. We have an obligation to constantly find ways to meet all of our regulatory requirements, whether it's through a business perspective or environmental perspective, but to do so at a cost that is most beneficial to the customer's dollar. We also have to drive the industry to have long-term planning, to really look long-term constantly and think about those issues out there, because developments in our industry are difficult to create if you don't have a vision and people aren't moving in that direction.

[Also] as an industry we have to provide a sense of urgency. Even though these changes may take 10 to 20 years to get there, we can't drag our feet because it takes our industry a long time to catch up with those changes.

Unfortunately, our industry has not had a lot of industry-wide leadership. Internally, we think leadership as we run our business is really the old blocking and tackling. Plan your business. Execute against the plan and measure it, and make corrections as necessary. Create a sense of urgency amongst your people that solve problems today. I think the other piece of our internal leadership is the recognition that we are fiduciaries of the customer's dollars and we have to be as efficient as we possibly can be because it is their money and not ours. We have an obligation to oversee it that way. That's the only way you can be truly effective in this business.

Fortnightly: Given the legislative focus on infrastructure development, will the Federal Energy Regulatory Commission's initial decision of 9.34 percent return on equity for the Kern River pipeline hinder such efforts?

Sokol: A couple of important points: The 9.34 percent that is recommended in the interim decision by the administrative law judge (ALJ) Charlotte J. Hardnett is certainly unacceptable. It is an interim decision and obviously is non-binding, so the commission will ultimately have to deal with this.

But you have to know the history of Kern River. We bought Kern River [from the Williams Cos.] during the financial meltdown of the industry in March 2002. And one of the critical issues for Kern River was the customers on that pipeline. Both the shippers from the Rocky Mountains and the purchasers of the gas in Utah, Nevada, and California desperately wanted the expansion to go forward. Williams at the time was incapable financially of putting it forward, but it was ready to go in to construction. It was a $1.2 billion project. We agreed to go forward and fund it as soon as we acquired [the pipeline from] Williams.

As part of all of that we had an agreement for a 13.25 percent return on equity. Also, I would point out that the pipeline [expansion] came online early, and actually lowered the basis differential by $1 between California and the Rocky Mountains. So, it was hugely beneficial to the customers—both the shippers and the ultimate users of the gas. It's that kind of infrastructure that needs to be built, not only in natural gas but also in electricity. One can only look at the administrative law judge's ruling as a bait-and-switch.

Fortnightly: How is it that your return on equity changed from the earlier agreement?

Sokol: We don't believe that will be allowed to stand. We think it is absolutely an inaccurate ruling. She also took away the tax provisions, which is absolutely inconsistent with FERC policy. But if you do those two things, and if that is going to be FERC policy going forward, we certainly don't have any interest in investing in pipelines, or in any other FERC-regulated asset because those rates of return do not allow for a fair return to the investor.

Fortnightly: A recent large debt issuance by MidAmerican Energy Holdings Co. had many speculating that it was for more mergers and acquisitions. What type of companies are you looking at?

Sokol: We have grown the business in two ways over the last 15 years. One is internal development of opportunities, whether it's expansion of pipelines or power plants or distribution systems, and the second method has been acquisition. So, we would continue to be interested in acquisitions of regulated assets to the extent there is a fair price for a good set of assets and we can maintain our risk diversification profile that we have been working toward over the last 10 years.

Fortnightly: There have been various debates recently on the likelihood of so-called "synergies" being achieved from long-distance or noncontiguous mergers as opposed to contiguous mergers. Do you have a view on whether noncontiguous mergers can really achieve economies of scale or synergy? Is contiguous better?

Sokol: I think typically the word "synergy" is overused. We have two jurisdictions that operate next to each other in the United Kingdom. Certain benefits come with the ability to dispatch across those lines since you own two of those utilities versus just one. There are ways to more effectively use crews and vehicles and things of that nature. But realistically those are relatively minor. There is really no reason we can't achieve that today with our neighboring utilities where we operate anyway, as long as we are willing to share the savings between each other. Ultimately, when you are running a utility—whether it is a vertically integrated or partially regulated—it comes down to working every day to manage your cost structure so that you have the lowest [possible] overall cost for delivered kilowatts of power. Our model of ownership is owning regulated assets in various locations around the United States or around the world and just operating them to the greatest efficiency so we can provide the lowest cost, sustainable energy rate to the customer.

I don't think there is a substantial benefit [to combining] neighboring utilities [compared to] ones that are separate. It really comes down to [whether] the operations are as efficient as they can be in dealing with the requirements and the demands of their state and their customers. You need to keep in mind that in this business all states don't view the requirements the same. Some states are prepared to pay a higher price for different fuel types and transmission capabilities. Some states have decided they would prefer their utilities always have a surplus of power available. Some states are more comfortable with their utilities having a short position on power and filling it in the spot market. So, the fact you might have two different utilities neighboring, if the preponderance of their customers are in different states they still have to be run to the constituents [they serve].

Fortnightly: Do you think your organization would be more efficient with a regional transmission organization (RTO) structure overlaid over your market or utility operations?

Sokol: I think an RTO or independent system operator (ISO) that makes sure the transmission is operated efficiently, and is open access and not inappropriately being manipulated by parties, is certainly fine. It is only rational that if you have an RTO that oversees transmission over multiple utilities, the net cost shouldn't be higher. It should not cost more for an ISO to come in and be dealing with a much larger footprint—and therefore an efficient footprint—than what it cost the individual utilities to do the work themselves. Frankly, some of the ISOs and RTOs have had a cost structure that is clearly not in the best interest of customers. And I think that is a focus FERC does have to pay attention to, and is. But assuming the RTO is in fact efficient and not building a new set of overhead and infrastructures that aren't sustainable—because ultimately the customers pay all those costs—I think their function is certainly one that can be valuable and useful. ■