Introduction

Q. Please state your name and business address.

A. My name is Patrick J. Goodman, 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"). I serve as senior vice president and chief financial officer of MEHC and as a director and officer of many MEHC subsidiaries.

Q. Please summarize your education and business experience.

A. After receiving a bachelors degree in accounting from the University of Nebraska at Omaha in 1989, I was employed as a senior audit associate at PriceWaterhouseCoopers, then known as Coopers & Lybrand, until 1993. I then joined National Indemnity Company and was employed there until 1995 as a financial manager. After that I joined MEHC, then known as CalEnergy Company Inc. ("CalEnergy"). At MEHC, I have served in various financial positions, including senior vice president and chief accounting officer, and assumed my present position in 1999. In addition, I am also a Certified Public Accountant.

Summary of Testimony

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

A. My testimony will accomplish the following things:

- discuss the Scottish Power plc ("ScottishPower") corporate structure and identify the ScottishPower subsidiaries that MEHC is proposing to acquire;

- discuss MEHC's corporate structure and PacifiCorp's place in that structure;
- discuss MEHC's capital structure;
- describe MEHC's financing for, and the mechanics of, the proposed transaction;
- describe the financial forecast for the acquisition;
- enumerate certain financial and structural commitments that MEHC is proposing as part of the acquisition approval process;
- describe the "ring-fencing" protections MEHC will employ; and
- describe the rights of MEHC's largest investor, Berkshire Hathaway Inc. ("Berkshire Hathaway") with regard to the proposed transaction.

ScottishPower Corporate Structure

Q. Please describe your understanding of the ScottishPower corporate structure prior to the proposed acquisition of PacifiCorp by MEHC.

A. The ScottishPower corporate structure prior to the proposed acquisition is shown on Exhibit UP&L__(PJG-1), which is adapted from a similar illustration contained in PacifiCorp's March 31, 2005, Form 10-K report. MEHC is purchasing the company identified as PacifiCorp from PacifiCorp Holdings, Inc. ("PHI"). PacifiCorp is a vertically integrated electric utility serving retail customers in the states of California, Idaho, Oregon, Utah, Washington and Wyoming. Subsidiaries of PacifiCorp that support its electric utility operations by providing coal mining facilities and services, environmental remediation, and management of deforestation carbon credits are also being purchased by MEHC. The remaining subsidiaries of PHI, including PPM Energy, Inc., will remain with ScottishPower.

MECH 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 Captial 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.

The first two items show no entry as they are intended to record the par value of these components. However, since they are both zero par value issuances, the entire contributed value of these components is recorded in the third item, additional paid-in capital. The fourth item represents the earnings of the corporation retained and reinvested into the business. The final item represents the gain and loss on a variety of other comprehensive income items that are further identified on the Consolidated Statements of Stockholders' Equity disclosure which is on page 61 of Exhibit UP&L__(PJG-3), MEHC's 2004 report on Form 10-K.

The long-term debt of MEHC contains items identified as:

- Parent company senior debt,
- Parent company subordinated debt,
- Subsidiary and project debt, and
- Preferred securities of subsidiaries.

The parent company senior and subordinated debt represent the long-term debt of MEHC. The parent company subordinated debt consists of amounts issued to Berkshire Hathaway, and other amounts issued to third parties. The item identified as "Subsidiary and project debt" represents the long-term, primarily non-recourse, debt of the various subsidiaries of MEHC after being consolidated with the parent's financial statements.

The "Preferred securities of subsidiaries," contained in MEHC's consolidated capitalization, represents preferred stock issued by MEHC's subsidiaries.

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 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; and
- expected earnings, debt issuances and debt retirements of PacifiCorp for the fiscal year ending March 31, 2006.
- 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 for 100% of PacifiCorp's common stock. The total estimated purchase price of the acquisition is as follows (in millions):

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 stockholders' 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.

Q. To what extent has MEHC employed long-term debt in its capital structure?

A. Table 1 indicates that, on a consolidated basis, MEHC's balance sheet reflects a capital structure that is composed of approximately 77.1 percent debt. While the proportion of debt may appear relatively high, it is important to note that much of the debt on the consolidated balance sheet is issued by creditworthy non-recourse subsidiaries.

Q. What are the credit ratings that are currently assigned to MEHC by the major credit rating agencies?

A. MEHC holds an investment grade credit rating from Standard & Poor's, Moody's Investors Service, and FitchRatings. In addition, MEHC's utility subsidiaries are all creditworthy entities. MEHC's largest investor, Berkshire Hathaway, has credit ratings from each of the rating agencies that are the highest, most secure credit ratings a corporation can receive.

The individual agency ratings are shown in the table, below, for Berkshire Hathaway and for MEHC and MEHC's regulated subsidiaries senior unsecured debt. After the announcement of this transaction, FitchRatings affirmed MEHC's senior unsecured debt at BBB, with a stable outlook. Standard & Poor's placed MEHC's corporate rating and senior unsecured debt rating of BBB- on CreditWatch-Positive, and Moody's Investors Service affirmed MEHC's senior unsecured debt rating of Baa3 while noting a positive rating outlook for MEHC.

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 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 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 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 at spread levels below their peers with similar ratings. Based on market data independently obtained from JP Morgan and ABN AMRO, the average interest rate savings on MidAmerican Energy Company's last ten year debt issuance was approximately 10 basis points. If this ten basis point difference is applied to the incremental long-term debt issuances contained in PacifiCorp's financial forecast, incremental interest costs might be as much as $26.7 million lower over the next ten years. Extending the same assumptions out twenty years implies possible savings totaling $71.1 million.

Market dynamics change every day based on a variety of factors, thus MEHC cannot guarantee that a 10 basis point savings on debt issuances of similar maturity will be achievable going forward indefinitely. However, MEHC is prepared to commit that over the next five years it will demonstrate that PacifiCorp can issue new long-term debt at a yield ten basis points below its similarly rated peers. If MEHC is unsuccessful in demonstrating that it has done so, MEHC will accept up to a ten basis point reduction to the yield it actually incurred on any incremental debt issuances for any PacifiCorp revenue requirement calculation effective for the five year period subsequent to the closing of the proposed acquisition. Based on PacifiCorp's financial forecast of future debt issuance, this represents a guaranteed total cost savings over the five year period of approximately $6.3 million.

Q. The Application in this proceeding notes that Standard & Poor's has placed PacifiCorp's credit rating on credit watch with negative implications, based upon Standard & Poor's view of PacifiCorp's weaker stand-alone metrics. Can you quantify the approximate impact upon PacifiCorp's incremental long-term financing costs if PacifiCorp were on a stand-alone basis and suffered a credit rating downgrade?

A. Under the assumption that PacifiCorp is a stand-alone company and it suffered a one notch credit downgrade by all three major credit rating agencies, the impact under current market conditions would be approximately 10 to 15 basis points. Over the next ten years, given PacifiCorp's financing plan and assuming market conditions stay the same, that would imply an increase in cost of approximately $26.7 million. In today's market, if only Standard and Poor's downgraded PacifiCorp (i.e., leaving the company "split rated") the impact of the downgrade would be approximately 5 basis points.

As I have previously mentioned, market dynamics are constantly changing and the spread over treasury securities of debt instruments of different credit qualities often widen and narrow as a result. Over the course of the past ten years for example, Credit Suisse First Boston indicates that the spread between the yield on BBB+ and A- public utility bonds has ranged from today's relatively tight spreads of 10 to 15 basis points to as much as 40 to 60 basis points. Thus the potential cost over the next ten years to PacifiCorp and its customers of a ratings downgrade could be multiples of the cost mentioned above.

Q. What is MEHC's current estimate of the excess of the purchase price over the book value of the PacifiCorp assets to be acquired and the liabilities to remain outstanding as of the expected closing date?

A. This figure will change as ScottishPower makes additional equity investments in PacifiCorp, as dividends are paid by PacifiCorp to ScottishPower, and as a result of any retained earnings by PacifiCorp between March 31, 2005 and the closing date of the proposed acquisition. As of the expected closing date (March 31, 2006), the excess of the purchase price over the book value of the assets to be acquired and the liabilities to remain outstanding at PacifiCorp is expected to be approximately $1.2 billion. MEHC witness Abel's testimony also addresses this premium.

Q. In and of itself, as a result of the closing of this transaction, will PacifiCorp's financial statements change?

A. No. PacifiCorp's U.S. financial statements, prepared using generally accepted accounting principles ("GAAP"), will not be impacted by the closing of this transaction. PacifiCorp will maintain its own accounting system, separate from MEHC's accounting system. The acquisition will be accounted for in accordance with GAAP. 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.

As indicated in the commitments sponsored by MEHC witness Gale in Exhibit UP&L__(BEG-1), 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) 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.

However, as noted by MEHC witness Thomas Specketer, upon the closing of the transaction, it is MEHC intent to transition PacifiCorp's financial reporting to a calendar year-end in contrast to its present March 31 fiscal year-end.

Q. **Will the proposed transaction have any impact on the availability of PacifiCorp's books and records?**

A. No. All PacifiCorp financial books and records will continue to be kept in Portland, Oregon, and will continue to be available to the Commission upon request during normal business hours at PacifiCorp's offices in Portland, Oregon, Salt Lake City, Utah, and elsewhere in accordance with current practice.

As indicated by the commitments in MEHC witness Gale's Exhibit UP&L __(BEG-1), MEHC and PacifiCorp will also provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between PacifiCorp and its affiliated interests.

Financial Forecast for the Acquisition

Q. Describe the financial forecast used for the purposes of reviewing the proposed acquisition.

A. In completing its due diligence review of the proposed acquisition, MEHC relied on a financial forecast provided by ScottishPower. MEHC satisfied itself that the plan provided by ScottishPower was reasonable and did not revise that plan.

Q. Describe the magnitude of the proposed capital expenditure program that has been forecasted for PacifiCorp.

A. PacifiCorp is projecting at least $1 billion per year in capital expenditures over the next five years for generation, transmission and distribution projects.

Commitments Concerning the Acquisition Approval Process

Q. Please describe the financial and structural commitments that MEHC is prepared to undertake as part of the acquisition approval process.

A. MEHC witness Gale's Exhibit UP&L__(BEG-1) enumerates many of the commitments that MEHC is prepared to undertake as part of the acquisition approval process. MEHC witness Abel discusses additional new commitments designed to provide benefits to retail customers of PacifiCorp. I will sponsor the commitments contained in Table 3, below.

Table 3 **Commitments that MEHC is Prepared to Undertake as Part of the Acquisition Approval Process**		
	Regulatory Oversight	
A	Accounting Systems	PacifiCorp will maintain its own accounting system, separate from MEHC's accounting system. All PacifiCorp financial books and records will be kept in Portland, Oregon, and will continue to be available to the Commission, upon request, at PacifiCorp's offices in Portland, Oregon, Salt Lake City, Utah, and elsewhere in accordance with current practice.
B	Affiliate Transactions	MEHC and PacifiCorp will provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between PacifiCorp and its affiliated interests.
I	Non Jurisdictional Affiliates	Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of MEHC and PacifiCorp following approval of the transaction, will be held in a separate company(ies) other than PacifiCorp, the entity for utility operations. Ring-fencing provisions (i.e., measures providing for separate financial and accounting treatment) will be provided for each of these diversified activities, including but not limited to provisions protecting the regulated utility from the liabilities or financial distress of MEHC. This condition will not prohibit the holding of diversified businesses.
	Financial Integrity	
A	Separate Credit Ratings	PacifiCorp will maintain separate debt and, if outstanding, preferred stock ratings. PacifiCorp will maintain its own corporate credit rating, as well as ratings for each long-term debt and preferred stock (if any) issuance.
B	Costs of the Transaction	MEHC and PacifiCorp will exclude all costs of the transaction from PacifiCorp's utility accounts. Within 90 days following completion of the transaction, MEHC will provide a preliminary accounting of these costs. Further, MEHC will provide the Commission with a final accounting of these costs within 30 days of

		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), 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 PacifCorp from assuming any obligation or liability on behalf of

		a subsidiary of PacifiCorp. MEHC will not pledge any of the assets of the regulated business of PacifiCorp as backing for any securities which MEHC or its affiliates (but excluding PacifiCorp and its subsidiaries) may issue.
	Additional Net Benefit	
1	Reduced Cost of Debt	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 (10) 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.

Ring-Fencing

Q. Please describe the "ring-fencing" protections MEHC will employ to isolate PacifiCorp from MEHC and MEHC's other subsidiaries.

A. MEHC will utilize the LLC, identified earlier in my testimony as PPW Holdings LLC. Among the LLC's obligations and limitations are the following. The LLC will:

- have a single purpose, that being to own the common equity of PacifiCorp;
- have an independent director from whom assent is required to place the LLC or PacifiCorp into bankruptcy;
- require PacifiCorp to maintain separate books, financial records and employees, and will prohibit the commingling of assets;
- have a non-recourse structure which precludes liabilities of MEHC, or its

subsidiaries, from being assessed against the LLC or PacifiCorp;

- prohibit the LLC's or PacifiCorp's credit from being made available to satisfy obligations of, or to be pledged for the benefit of, any other company;
- prohibit the LLC or PacifiCorp from acquiring the obligations or securities of MEHC or any of its other affiliates except, of course, that PacifiCorp may purchase its own obligations; and
- require the consent of the independent director, and rating agency confirmation, that there will be no credit downgrade for any amendment to the above mentioned protections.

This structure, colloquially referred to as "ring-fencing," is recognized by the major rating agencies as an effective means to separate the credit quality of a parent from a subsidiary.

PacifiCorp, as a subsidiary of PPW Holdings LLC, will retain its own capital structure, its own credit rating, and through the ring-fencing structure, will be effectively isolated from any credit issues that might arise at MEHC or any of its other subsidiaries.

Description of the Rights of Berkshire Hathaway

Q. Please describe the rights Berkshire Hathaway currently has as a result of its ownership of $1.63 billion of zero coupon convertible preferred stock of MEHC.

A. Berkshire Hathaway's rights as a holder of MEHC zero coupon convertible preferred stock can be summarized as follows. The securities:

- are not mandatorily redeemable by MEHC or at the option of Berkshire Hathaway;
- participate in dividends and other distributions to common shareholders as if they were common shares but otherwise possess no dividend rights;
- have no voting rights;
- are convertible into common shares on a 1 for 1 basis, as adjusted for splits, combinations, reclassifications and other capital changes by MEHC;
- upon liquidation, would have a prior right to available proceeds up to $1 per share, after which the common stock would have a right to available proceeds up to $1 per share (subject to certain adjustments), after which the preferred stock and common stock would share ratably in any remaining proceeds; and
- the dividend and distribution arrangements previously described cannot be modified without the positive consent of Berkshire Hathaway.

Berkshire Hathaway currently holds 9.9 percent of the common shares of MEHC and 41,263,395 shares of MEHC's zero coupon convertible preferred stock. While the convertible preferred stock does not vote with the common stock in the election of directors, the convertible preferred stock gives Berkshire Hathaway the right to elect 20 percent of MEHC's Board of Directors (currently two of the ten members of the MEHC Board of Directors). Additionally, the prior approval of Berkshire Hathaway, as the holder of convertible preferred stock, is required for MEHC to undertake certain fundamental transactions (e.g., the PacifiCorp acquisition). The prior approval of Berkshire Hathaway is not required for transactions undertaken directly by MEHC subsidiaries.

Q. You stated that the zero coupon convertible preferred stock would participate in dividends or other distributions to the same extent as the common shareholders. What has been MEHC's dividend history?

A. Since the issuance of the zero coupon convertible preferred stock in March 2000, MEHC has not declared or paid a dividend to its common shareholders or to Berkshire Hathaway. Instead, earnings have been retained at the operating company level to maintain or improve credit quality and support the capital investment programs of MEHC's regulated subsidiaries.

For instance, MidAmerican Energy Company, when purchased by MEHC, in March 1999, had an equity-to-total-capital ratio of approximately 48 percent as of December 31, 1998. As of December 31, 2004, that ratio is approximately 53 percent, despite extensive capital expenditure programs undertaken by MidAmerican Energy Company.

Q. Please describe the conversion mechanism of the zero coupon convertible preferred stock of MEHC?

A. The zero coupon convertible preferred stock of MEHC is convertible into MEHC common shares at the option of Berkshire Hathaway if either of two events occurs. First, if the conversion would not cause Berkshire Hathaway (or any affiliate of Berkshire Hathaway) to become regulated as a registered holding company or as a subsidiary of a registered holding company under the Public Utility Holding Company Act of 1935 and any successor legislation ("PUHCA"). Second, in the event of MEHC's involuntary or voluntary liquidation, dissolution, 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 zero coupon convertible preferred stock 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. If PUHCA is repealed, MEHC anticipates Berkshire Hathaway will exercise its conversion rights. This would create a technical change in control of MEHC. Pursuant to the commitments in MEHC witness Gale's Exhibit UP&L__(BEG-1), MEHC and PacifiCorp would provide the Commission notice of this change and would seek approvals where required.

Q. Will Berkshire Hathaway have any involvement in the day to day operations of PacifiCorp?

A. No, it will not. The rights that Berkshire Hathaway has as a holder of the zero coupon convertible preferred stock, including the fundamental transactions I discussed previously, are not considered to be day to day operations.

Conclusion

Q. Does this conclude your direct testimony?

A. Yes, it does.