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UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT APPLICATION OF MIDAMERICAN ENERGY HOLDINGS COMPANY AND PACIFICORP DBA UTAH POWER & LIGHT COMPANY FOR AN ORDER AUTHORIZING PROPOSED TRANSACTION	) CASE NO. PAC-E-05-08))) Direct Testimony of Judi A. Johansen)))

PACIFICORP

CASE NO. PAC-E-05-08

July 2005

Introduction

Q. Please state your name and business address.

A. My name is Judi Johansen, and my business address is 825 NE Multnomah St, Suite 2000, Portland, OR 97232.

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

A. I am employed by PacifiCorp as CEO and President. I also serve on the Board of Directors of Scottish Power plc ("ScottishPower").

Q. Please summarize your education and business experience.

A. I have a bachelor's degree in political science from Colorado State University and a law degree from Northwestern School of Law at Lewis & Clark College in Portland, Oregon. I have over 15 years experience at an executive level within the utility industry. Prior to joining PacifiCorp in December 2000, I was the administrator and chief executive officer for Bonneville Power Administration (BPA). Within BPA I served a number of different senior roles including vice president for generation supply with executive oversight of power supply, scheduling, trading, short-term sales and federal and non-federal projects. In addition to my roles at BPA, I have held the role of vice president of business development with Avista Energy, was a partner in the law firm Gordon, Thomas and Honeywell, and served as staff attorney for the Public Power Council, a trade association of Northwest consumer-owned electric utilities.

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

A. I will be the President of PacifiCorp.

Summary of Testimony

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

A. The purpose of my testimony is to provide a broad overview of PacifiCorp's business activities, to briefly discuss why ScottishPower is selling PacifiCorp to MidAmerican Energy Holdings Company ("MEHC") and to explain why PacifiCorp supports the proposed acquisition by MEHC as serving the public interest.

Overview

Q. Please describe the nature of PacifiCorp's business.

A. PacifiCorp is an integrated, investor-owned public utility providing electric service to customers in California, Idaho, Oregon, Utah, Washington and Wyoming. PacifiCorp is a wholly-owned subsidiary of ScottishPower which is headquartered in Glasgow, Scotland.

Q. Is ScottishPower selling PacifiCorp as a consequence of poor operational performance?

A. No. Since the completion of the merger in 1999, and sticking closely to a strategy of focusing on the core regulatory business, PacifiCorp has steadily improved its operational performance.

Q. Could you provide some examples of these operational improvements?

A. Yes. Since the merger we have made steady progress in a number of areas including customer service, the environment, safety, asset performance, and risk management.

Q. Please describe the customer service improvements.

A. With respect to customer service, one of the primary standards by which we judge call center performance is the service measure that deals with answering calls within a specified number of seconds. We have verified that our targeted performance of 80 percent of calls answered within 30 seconds remains at the highest end of service levels provided by other U.S. electric utilities.

Since the 1999 merger, our Customer Guarantee Program has been highly successful in backing our service to customers with a promise to pay. The guarantees highlight key areas of day-to-day performance such as restoration of power, new service connection, investigation of bill or meter problems, providing notice of planned interruptions and keeping appointments. During 2004/5, with approximately 3 million opportunities to serve customers annually under our guarantee program we succeeded 99.9 percent of the time in meeting our commitments.

Our commitment to service was also recognized recently when, for the second year in a row, we were awarded first place in a TQS survey of large electric customers.

Q. Please describe the Company's environmental record.

A. With regard to the environment, and with the support and guidance given to us by our Environmental Forum, we have:

- implemented environmental management systems at our owned plants;
- commenced an emissions abatement project at the Huntington #2 plant that, when fully operational in 2007, will reduce emissions of sulfur

dioxide by 95 percent, particulate emissions by 80 percent, and emissions of nitrogen oxide by 40 percent;

- signed up over 25,000 customers to purchase renewable power through our Blue Sky program;
- pioneered the use of a carbon adder in resource procurement;
- added wind capacity of 108 MW and over 70 MW of DSM; and
- developed avian protection measures to reduce bird mortality.

In recognition of these achievements, we have recently won environmental awards for our pricing programs, public-private partnerships and environmental reports.

Q. Please describe the Company's record with respect to safety.

A. We have continued to improve our employee and public safety records. Underpinning this improvement has been the implementation of numerous new initiatives including wellness programs, ergonomics training and improved communications. Regarding public safety, the Associated Electric & Gas Insurance Services (AEGIS) recently honored PacifiCorp by publicly recognizing the company as a top tier performer.

Q. Please describe the Company's operational performance.

A. We have delivered our merger commitment of a 10 percent reduction in System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI), in some states a year early. This has been achieved through initiatives such as the centralization of our asset management function and the introduction of an asset risk and prioritization tool.

Although we have seen increased levels of forced outages as our plants continue to grow older, the overall equivalent availability performance of our generation fleet remains high when compared to the rest of the sector. In addition, our mining business continues to deliver some of the lowest cost coal in the U.S on a delivered basis.

Q. Please describe the Company's record with respect to risk management.

With respect to risk management, and as part of a ScottishPower group-wide program, we were one of the early adopters of a much stronger risk management program. We continue to invest in systems, in particular in our commercial and trading business, aimed at reducing our risk exposure within the commodity markets.

Q. Has PacifiCorp's financial performance played a major role in the decision taken by ScottishPower to sell it to MEHC?

A. Yes. While PacifiCorp's U.S. GAAP Earnings Before Interest and Tax (EBIT) has shown steady growth since 2000-2001, a major disappointment for ScottishPower and its shareholders has been the inability of PacifiCorp to earn its allowed return on equity. We believe this is due to a combination of two main issues:

- the negative impact of volatility in our fundamentals, primarily in the areas of load, hydro and thermal availability; and
- an inability to match the growing cost of our capital investment program with additional revenues generated through either general rate cases or contributions from load growth.

Q. Could you please explain the main investment requirements facing PacifiCorp going forward?

A. Like many U.S. utilities, in the years ahead, PacifiCorp will face cost pressures from the substantial new capital investment and forecast increases in operating costs. These pressures fall within the following general areas:

- addition of new generation and transmission to meet PacifiCorp's resource needs across both the East and West side of the network;
- replacement/maintenance of existing generation, transmission and distribution assets that are reaching points of maturity, or even the end of their operational lives;
- rising commodity costs (including oil, gas, coal and steel) caused by global shifts in supply and demand;
- replacement of low-cost, long-term wheeling and wholesale purchases/sales contracts;
- new environmental capital and operating costs linked to implementation of clean air, hydro re-licensing and potential CO_2 initiatives;
- rising pension and benefits costs; and
- attracting and retaining key skilled personnel combined with an aging workforce.

Q. Are these costs solely attributable to system load growth?

A. No. A significant proportion of these cost increases result either from structural shifts in the variable cost to serve, (e.g., rising commodity costs/expiration of wholesale contracts) or are increases in fixed costs due to both the need to meet our environmental obligations and a requirement to replace a significant proportion of our transmission and distribution assets that are reaching the end of their operational lives.

Q. What level of capital expenditure will be needed to fund these issues?

A. We believe that at least $1 billion of capital expenditure per annum will need to be invested in PacifiCorp going forward. When combined with the lag associated with recovering rising operating costs within rates, we anticipate a reduction in cash availability that will restrict our ability to provide dividend growth, and adequate shareholder returns, over the short to medium term.

Q. What average state price increases are implied by these cost increases?

A. We have already shared estimated cost projections with our states through our Multi State Process. While we cannot fully predict the exact impacts (these estimates are based on one forecast view of our future fundamental curves), we believe that PacifiCorp's rates, even taking into account revenue from load growth, will have to rise annually across all our jurisdictions by over 4 percent for the foreseeable future.

Q. How will this additional revenue requirement be recovered?

A. Irrespective of this transaction, PacifiCorp will need to evaluate all options on how to improve our overall earned regulated returns. General rate cases remain our current mechanism for recovering prudently incurred costs from customers. However, we continue to examine other recovery mechanisms successfully deployed by other companies and their commissions, such as Power Cost Adjustment Mechanisms (PCAMs) and approaches using Alternative Forms of

Regulation (AFOR). Going forward, our intent will be to continue to work with our key stakeholders to establish appropriate mechanisms that fairly balance risk between customers and PacifiCorp while helping to provide rate certainty and allowing us to fund our ongoing performance improvements.

Q. How might these investment issues financially impact PacifiCorp under its current ownership?

A. ScottishPower equity is predominately held by UK shareholders who value the company on the basis of future dividend growth and a predictable, steady growth in earnings. Although ScottishPower has the capacity to fund PacifiCorp's investment requirement going forward, having a predominately U.K. shareholder base raises two significant challenges for ScottishPower:

- PacifiCorp's investment program will continue to be a significant cash draw on ScottishPower, reducing its ability to fund other, higher return business opportunities and grow future dividends to shareholders; and
- U.K. investors, and its principal financial analysts, having experienced the consequences of the power crisis and the recent revisions to PacifiCorp's earnings outlook, perceive a high level of risk with PacifiCorp.

Q. Why is ScottishPower selling PacifiCorp to MEHC?

A. In November 2004, the ScottishPower Board of Directors commenced a strategic review of PacifiCorp as a result of its performance and the significant investment it required in the immediate future. The review concluded that the scale and timing of the capital investment required in PacifiCorp and the likely profile of returns from that investment meant that shareholders' best interests were served by the sale of PacifiCorp to MEHC on the terms and conditions contained in the sales purchase agreement.

Q. What strategic advantage would MEHC offer PacifiCorp and its customers?

A. For specifics on the net customer benefits that will result from the transaction, please refer to MEHC witness Abel's testimony. In general terms, however, I believe MEHC provides advantages that include:

- access to significant amounts of new capital that will be required to fund a sustained investment cycle;
- an ability to take a longer term view of the required risk adjusted return than a typical electric utility equity investor; and
- access to, while subject to market conditions, attractively priced debt resulting from MEHC's relationship with Berkshire Hathaway.

Q. Why is the proposed transaction in the public interest?

A. There are five key factors that I believe ensure that this transaction serves the public interest:

- ScottishPower has announced its intention to sell PacifiCorp. In contrast, MEHC has communicated a business strategy of owning utility businesses for the long term. MEHC already owns a vertically integrated U.S. utility and will support PacifiCorp's investment needs thereby allowing it to continue its focus on customer service, safety and operational excellence;
- MEHC's willingness to invest, coupled with a solid track record in utility operations, will help PacifiCorp maintain its relative low-cost competitive position for customers in the face of its significant future investment needs;

- MEHC and PacifiCorp have very similar operating philosophies and characteristics, which facilitates a smooth transition and long-term success within the MEHC portfolio;
- MEHC fully supports PacifiCorp's strategy of maintaining a local presence and the development of its business consistent with current policy and practices; and
- MEHC intends to retain PacifiCorp's current management team. This team, when combined with capabilities of MEHC, will be able to continue its track record of operational improvements.

Q. **How have you reached these conclusions?**

A. My conclusions are based upon MEHC's track record of proven success and the values it has in common with PacifiCorp. MEHC has made considerable investments at a reasonable cost to maintain and enhance the energy infrastructure in the United States. Those investments recognize the importance of diverse sources of electricity including significant renewable resources and expenditures for energy efficiency. We both value the importance of customer service as evidenced by strong customer satisfaction results. We care deeply about the safety of our employees through the ongoing safety training that is part of our culture. We appreciate the responsibilities of regulators, and strive to keep them informed. We both recognize the importance of respecting the environment in our decision making process. Accordingly, I believe this transaction presents a unique opportunity for PacifiCorp and is in the best interest of PacifiCorp's customers and key stakeholders.

Q. Does this conclude your direct testimony?

A. Yes.