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June 30, 2005

ATTN: Document Control Desk
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555-0001

ATTN: Document Control Desk
Director, Spent Fuel Project Office
Office of the Nuclear Material Safety and Safeguards
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555-0001

Re: Application of PacifiCorp for Approval of Indirect Transfer of License; Trojan Nuclear Plant/ISFSI; Docket Nos. 72-17; NRC License No. SNM-2509

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended ("AEA"), Section 72.50 of the Nuclear Regulatory Commission's ("NRC" or "Commission") Rules, 10 C.F.R. § 72.50 (2005), and pursuant to the procedures described in 10 C.F.R. Part 2 (2005), PacifiCorp hereby seeks prior approval from the NRC for the indirect transfer of its License No. SNM-2509 regarding the Trojan Independent Spent Fuel Storage Installation ("Trojan ISFSI") which relates to the former Trojan Plant.[1]

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[1] The license for the Trojan Plant itself, NRC License No. NPF-1 was terminated by the Commission on May 23, 2005, subject to certain conditions, in that certain letter to Stephen M. Quennoz, "TERMINATION OF TROJAN NUCLEAR PLANT FACILITY OPERATING LICENSE NO. NPF-1," from Daniel M. Gillen, Decommissioning Directorate, United States Nuclear Regulatory Commission, dated May 23, 2005 (the "NPF-1 Termination Letter"). A copy of that letter is attached as Exhibit A to the Application. The NPF-1 Termination Letter was published in the Federal Register on May 31, 2005. 70 Fed. Reg. 30,974. The instant Application is for approval of an indirect transfer of the license for the Trojan ISFSI. Based upon the Termination Letter, it is clear that NRC License No. NPF- 1 no longer exists, and that therefore no approval to transfer that license is required. However, if for some reason any approval regarding expired NRC License NPF-1 is somehow required, PacifiCorp hereby also requests approval for an indirect transfer of NRC License No. NPF-1.

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PacifiCorp, which was a minority (2.5%) owner and non-operating licensee of the Trojan nuclear generating facility (the "Trojan Generating Plant") and is a minority (2.5%) owner and non-operating licensee of the Trojan ISFSI. The indirect transfer of License No. SNM-2509 will occur in connection with the sale (the "Transaction") of PacifiCorp Holdings, Inc., a wholly-owned indirect subsidiary of Scottish Power plc, to NWQ, LLC, a Delaware limited liability corporation and a wholly-owned subsidiary of MidAmerican Energy Holdings Company.

As discussed in greater detail in the Application, PacifiCorp will continue to be a 2.5% non-operating licensee of the Trojan ISFSI and as such PacifiCorp's license is not being transferred to another party. MidAmerican will acquire all of the issued and outstanding common stock of PacifiCorp. PacifiCorp will continue to exist and operate under its present name, will continue to hold the NRC license in the same name and will have the same license obligations regarding the Trojan ISFSI as it currently has as a non-operating licensee.

The proposed indirect license transfer will be consistent with the requirements set forth in the AEA, NRC regulations and the relevant NRC licenses and orders. It will not affect the public interest, national security or the public health and safety.

The date of completion of the proposed transfer will depend on the satisfaction of certain conditions precedent, including receipt of all required regulatory approvals from the NRC and other agencies.

Consistent with the terms of the Transaction, the parties anticipate closing on the transaction by the end of the first quarter of calendar year 2006. Accordingly, the parties request that the NRC complete its review pursuant to its streamlined schedule and procedures to permit the issuance of the necessary consent order as promptly as possible, and in any event before December 30, 2005.

For purposes of answering questions concerning the enclosed application, please contact Jeffery B. Erb, General Counsel, PacifiCorp, Suite 1900, 825 NE Multnomah, Portland, Oregon 97232. Service of any comments, hearing requests, intervention petitions or other filings should also be made to: Samuel Behrends IV, LeBoeuf, Lamb, Greene & MacRae, LLP, Suite 1200,

Washington, D.C., 20009 (sbehrend@llgm.com) and Robert Andersen, LeBoeuf, Lamb, Greene & MacRae, LLP, Suite 1200, Washington, D.C. 20009 (randersen@llgm.com).

Sincerely yours,

Robert M. Andersen

Robert M. Andersen

Enclosure: Application of PacifiCorp for Approval of Indirect Transfer of License

cc: E. William Brach, NRC, Director, Spent Fuel Project Office, NMSS
James R. Hall, NRC, Senior Project Manager, SFPO
Christopher Regan, NRC, Senior Project Manager, SFPO
Brooke Smith, Esq., NRC, Office of General Counsel
Thomas Fredrichs, NRC, DWMEP, NMSS

ORIGINAL

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

	)	
Trojan Unit	)	NRC License No. SNM-2509
Spent Fuel Storage	)	(Docket No. 72-17)
Installation	)	

Application of PacifiCorp for Transfer of License

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June 30, 2005

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

	)	
Trojan Unit	)	NRC License No. SNM-2509
Spent Fuel Storage	)	(Docket No. 72-17)
Installation	)	

Application of PacifiCorp for Approval of Indirect Transfer of License

I. INTRODUCTION.

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended ("AEA"), Section 72.50 of the Nuclear Regulatory Commission's ("NRC" or "Commission") Rules, 10 C.F.R. § 72.50 (2005), and pursuant to the procedures described in 10 C.F.R. Part 2 (2005), PacifiCorp, which was a minority (2.5%) owner and non-operating licensee of the Trojan nuclear generating facility (the "Trojan Generating Plant") and is a minority (2.5%) owner and non-operating licensee of the Independent Spent Fuel Storage Installation (the "Trojan ISFSI") associated therewith located in Rainier, Oregon, hereby seeks prior approval from the NRC for the indirect transfer of its License No. SNM-2509 regarding the Trojan ISFSI which relates to the former Trojan Plant.[1] The indirect transfer of License No. SNM-2509 will occur in

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[1] The license for the Trojan Plant itself, NRC License No. NPF-1 was terminated by the Commission on May 23, 2005, subject to certain conditions, in that certain letter to Stephen M. Quennoz, "TERMINATION OF TROJAN NUCLEAR PLANT FACILITY OPERATING LICENSE NO. NPF-1," from Daniel M. Gillen, Decommissioning Directorate, United States Nuclear Regulatory Commission, dated May 23, 2005 (the "NPF-1 Termination Letter"). A copy of that letter is attached as Exhibit A. The NPF-1 Termination Letter was published in the Federal Register on May 31, 2005. 70 Fed. Reg. 30,974. The instant Application is for approval of an indirect transfer of the license for the Trojan ISFSI. Based upon the Termination Letter, it is clear that NRC License No. NPF- 1 no longer exists, and that therefore no approval to transfer that license is required. However, if for some reason any approval regarding expired NRC License NPF-1 is somehow required, PacifiCorp hereby also requests approval for an indirect transfer of NRC License No. NPF-1.

connection with the sale (the "Transaction") of PacifiCorp by PacifiCorp Holdings, Inc. ("PHI"), a wholly-owned indirect subsidiary of Scottish Power plc ("ScottishPower"), to NWQ, LLC, a Delaware limited liability corporation and a wholly-owned subsidiary of MidAmerican Energy Holdings Company (for purposes of this Application, NWQ, LLC and MidAmerican Energy Holdings Company are referred to herein as "MidAmerican").

Portland General Electric Company ("PGE") owns a 67.5% interest, and the Eugene Water & Electric Board owns a 30% interest, in the Trojan ISFSI, which are the same proportions as their ownership of the Trojan Plant. PacifiCorp, the sole applicant which seeks a license transfer here, owns a 2.5% interest in the Trojan ISFSI. PGE has always been the sole operator of both the Trojan Plant and the Trojan ISFSI.[2]

PacifiCorp will continue to be a 2.5% non-operating licensee of the Trojan ISFSI and as such PacifiCorp's license is not being transferred to another party. Instead, under the Transaction, MidAmerican will acquire all of the issued and outstanding common stock of PacifiCorp. PacifiCorp is an Oregon corporation that is currently an indirect, wholly-owned subsidiary of ScottishPower, a public limited company organized under the laws of Scotland. MidAmerican is an Iowa corporation with its principal executive offices located in Des Moines, Iowa.

Under the terms of the Transaction, all of the issued and outstanding common stock of PacifiCorp will be acquired by MidAmerican and PacifiCorp will become a wholly-owned, indirect subsidiary of MidAmerican. PacifiCorp would continue to exist and operate under its present name, would continue to hold the NRC license in the same name, and would have the

2 PGE was the holder of Facility Operating License No. NPF-1 issued by the NRC pursuant to 10 CFR Part 50 on November 21, 1975 for the operation of the Trojan Plant.

same license obligations regarding the Trojan ISFSI as it currently has, as a non-operating licensee. Further details of the Transaction are described elsewhere in this Application.

In sum, under the terms of the Transaction, MidAmerican will acquire control of PacifiCorp from ScottishPower. The Transaction is described in the Stock Purchase Agreement, dated as of May 23, 2005, by and among ScottishPower, PHI, and MidAmerican ("Stock Purchase Agreement"), a copy of which is attached hereto as Exhibit B. The Transaction has been structured so that all financial duties associated with PacifiCorp's estimated $5.6 million responsibility for the Trojan ISFSI will continue to remain with PacifiCorp, because PacifiCorp will continue to be a licensee. The Transaction also will not affect the public interest, national security, or the public health and safety. For those reasons, the Commission should approve the indirect license transfer without delay under procedures established to expedite approval of license transfers.

II. THE FACILITY AND THE LICENSE.

The Trojan Generating Plant was located in Columbia County, Oregon, on the west bank of the Columbia River. The Trojan Generating Plant, which included a 1,130 megawatt electric reactor, began commercial operation in 1976. The Trojan Generating Plant continued commercial operations until November 9, 1992. On January 27, 1993, PGE, the licensed operator, formally notified the NRC of the decision to permanently cease power operations at the Trojan Generating Plant. Fuel was transferred to the spent fuel pool and, on March 24, 1993, the NRC staff issued a Confirmatory Order regarding PGE's commitment not to place fuel back into the reactor building without written approval by the NRC. The Trojan Generating Plant reactor was thus permanently shut down. On May 5, 1993, the operating license (NPF-1) was amended to a possession-only license.

On January 26, 1995, PGE submitted to the Commission its Decommissioning Plan and a Supplement to the Environmental Report. In December 1995, the Commission Staff issued a positive Safety Evaluation Report ("SER") as to the Decommissioning Plan. On April 15, 1996, the NRC approved PGE's Decommissioning Plan, adopted the SER, and authorized decommissioning of the facility.[3] The authorized plans for decommissioning included the decontamination and dismantlement of contaminated structures, systems and components. The approved plan originally estimated dismantlement of the reactor and other radioactive components by 2001 and completion of the decommissioning of non-radioactive components by 2019.

Radiological decommissioning of the Trojan Generating Plant site has now been completed. The recent Safety Evaluation Report, issued by the Commission Staff immediately prior to the termination of the license, concluded that "the licensee has remediated the remaining structures, systems and components consistent with Section 2.3 of the L[icense] T[ermination] P[lan]. Therefore, the staff concludes that the dismantlement and decontamination have been completed in accordance with the approved LTP."[4] As the Commission then stated in the NPF-1 Termination Letter, "dismantlement and decontamination activities were performed in accordance with the approved LTP," and "the facility and the site have met the criteria for decommissioning" established by the Commission's rules. Therefore, the Commission concluded, "License NPF-1 is terminated, effective May 23, 2005."[5]

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3 <u>Portland General Electric Company, Trojan Nuclear Plant; Order Approving the Decommissioning Plan and Authorizing Decommissioning of Facility</u>, 61 Fed. Reg. 17736 (April 22, 1996). On March 29, 1995, the Oregon Public Utilities Commission ("OPUC") also approved the Decommissioning Plan, in Order No. 95-322. (OPUC Docket No. 95-322).

4 "Safety Evaluation Report Related To The Termination Of Facility Operating License No. NPF-1," NRC Docket No. 50-244 (May 23, 2005).

5 NPF-1 Termination Letter, at 1.

In March 1999, the Commission issued a separate license (License No. SNM-2509) for the Trojan ISFSI. PacifiCorp is a minority, non-operating licensee as to the Trojan ISFSI, due to its ownership of 2.5% of that facility. In September 2003, the transfer of all spent nuclear fuel from the Trojan Generating Plant site to the Trojan ISFSI was completed. Thus, while the Trojan Generating Plant site is no longer governed by an existing license, the Trojan ISFSI license still exists, and approval of an indirect transfer of the Trojan ISFSI license is sought by this Application to the full extent required by law.

No physical changes to the Trojan ISFSI will occur as a result of the change in ownership of PacifiCorp and the indirect transfer of the license. Operation is governed by the Agreement for Construction Ownership and Operation of the Trojan Nuclear Plant, dated October 5, 1970 ("Ownership Agreement"). On the date of acquisition of PacifiCorp by ScottishPower in November, 1999, the Ownership Agreement was amended, not only to eliminate PacifiCorp's representation on the Engineering and Operating Committees, but also to eliminate any provision providing PacifiCorp with a right of access. Thus, PacifiCorp does not have any physical involvement with operation of the Trojan ISFSI, or even have a right of access to the Trojan Generating Plant site or the Trojan ISFSI through the Ownership Agreement. Thus the Transaction will not cause any changes to the actual operation or the management of the Trojan ISFSI. The Transaction will not change any of the terms or conditions approved for the Trojan ISFSI, either in the initial license or in the decommissioning plan. PacifiCorp will continue to be a licensee, and the license granted to PacifiCorp will not change hands.[6] PacifiCorp will retain all obligations associated with its non-operating 2.5% interest for purposes of fulfilling its obligations as to the Trojan ISFSI.

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6 Because PacifiCorp remains the licensee in its own name, PacifiCorp is not seeking any license amendment to reflect a change in the identity of a licensee.

III. EFFECT OF TRANSACTION ON PACIFICORP.

PacifiCorp is one of the largest investor-owned utilities in the western United States and is currently owned by ScottishPower, a public limited company organized under the laws of Scotland. MidAmerican, which is based in Des Moines, Iowa, is a global provider of energy services and has substantial experience as the owner of electric and gas utilities. MidAmerican is a privately held corporation whose shareholders are an investment group comprised of Berkshire Hathaway Inc., Walter Scott, Jr. (together with certain of Mr. Scott's family members and family trusts and corporations), David L. Sokol, and Gregory E. Abel.

The Transaction will create an energy holding company serving approximately 3 million electric and natural gas customers in 10 contiguous states and 6.6 million customers worldwide. Upon the closing of the Transaction, PacifiCorp will become a part of MidAmerican – a large, financially strong, U.S.-based corporation. As a result of the Transaction, MidAmerican will have approximately $10 billion in annual revenues internationally, of which $8.5 billion will be derived from operations in the United States. Following the acquisition, MidAmerican will own assets totaling more than $32 billion internationally, of which $25.3 billion will be located in the United States.

PacifiCorp will operate under its current name and will continue to be headquartered in Portland, Oregon. PacifiCorp will continue operating as Pacific Power & Light in Oregon, Wyoming, Washington and northern California, and as Utah Power and Light in Utah and Idaho.

The transfer will have no detrimental effect upon PacifiCorp's obligations regarding the Trojan Plant or the Trojan ISFSI. PacifiCorp will continue its own financing, will be part of MidAmerican with substantial financial strength, and will further benefit from MidAmerican's affiliation with Berkshire Hathaway Inc. PacifiCorp's ability to meet its obligations, which are

limited solely to those involving decommissioning and the Trojan ISFSI, will not be adversely affected by the Transaction.

Finally, the Transaction will not have any negative effect upon the recovery of PacifiCorp's relatively modest amount of remaining cost responsibility, approximately $5.6 million in nominal dollars. Under relevant orders issued by the state public utility commissions, funds for PacifiCorp's 2.5% share of decommissioning costs for the Trojan Plant are included in PacifiCorp's retail rates in each of the six states where it provides electric service. Thus, pursuant to such state regulatory orders, PacifiCorp has access to a broad base of retail rate payers to collect funds for its share of decommissioning costs. The Transaction will not materially affect the rates in effect for PacifiCorp in the states in which it operates.

For the reasons described herein, the Commission should approve this Application according to the streamlined schedule and procedures adopted in its rule regarding streamlined approval of license transfers for minority owners.[7] That rule was adopted to expedite approval of transfers which have "no direct or immediate impact on the requirements for day-to-day operations at a licensed facility."[8] The Transaction involves such a transfer. By publishing that rule, the Commission has recognized the need for "timely and effective resolution of requests for transfers". Because the parties intend to close the Transaction by the end of the first quarter of calendar year 2006, the NRC should approve the application without delay under those expedited procedures.

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7 Streamlined Hearing Process Final Rule for NRC Approval of License Transfers, 63 Fed. Reg. 66727 (December 3, 1998).

8 Id., at 66722.

IV. DESCRIPTION OF THE PARTIES AND THE TRANSACTION.

A. PacifiCorp.

Headquartered in Portland, Oregon, PacifiCorp is a diversified energy company with operations solely in the United States. PacifiCorp and its corporate predecessors have been providing energy services since 1910. PacifiCorp serves approximately 1.6 million retail customers in six western states: Oregon, Utah, Wyoming, Washington, Idaho and California. It has one of the most extensive transmission systems in the United States, and owns 8,426 megawatts of nameplate rated electric generation facilities. PacifiCorp operates under the business names of Pacific Power & Light in Oregon, Wyoming, Washington and northern California, and as Utah Power and Light in Utah and Idaho.

PacifiCorp's integrated system consists of whole or partial interests in approximately 51 hydroelectric generating plants, 16 thermal-electric plants, one wind plant and approximately 15,500 miles of transmission lines. The generation facilities are located in Oregon, Utah, Montana, Wyoming, Washington, Idaho, Arizona, Colorado, and California. PacifiCorp also owns or has interests in five coal mines located in Utah, Wyoming, Washington and Colorado. For the twelve months ended March 31, 2005, the consolidated revenues for PacifiCorp equaled approximately $3,048 million.

PacifiCorp Holdings, Inc., a Delaware corporation ("PHI"), owns all of the common stock of PacifiCorp. PHI is ultimately wholly-owned by ScottishPower through two intermediate companies. As a subsidiary of ScottishPower, which is a foreign registered public utility holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"), PacifiCorp is currently subject to regulation by the Securities and Exchange Commission ("SEC") under PUHCA. Further information concerning PacifiCorp and its affiliates is

contained in PacifiCorp's most recent Form 10-K filed with the SEC, attached as Exhibit C to this Application.

B. MidAmerican.

MidAmerican is an Iowa corporation with its principal place of business in Des Moines, Iowa. MidAmerican is an exempt public utility holding company under Section 3(a)(1) of PUHCA. MidAmerican is a privately owned global provider of energy services. MidAmerican is organized and managed on seven distinct platforms: MidAmerican Energy Company ("MidAmerican Energy"), Kern River Gas Transmission Company, Northern Natural Gas Company, CE Electric UK Funding, CalEnergy Generation – Foreign, CalEnergy Generation – Domestic, and HomeServices of America, Inc. MidAmerican's energy subsidiaries generate, transmit, store, distribute and supply energy. MidAmerican's electric and natural gas utility subsidiaries serve approximately 4.4 million electricity customers and approximately 680,000 natural gas customers. Its natural gas pipeline subsidiaries operate interstate natural gas transmission systems with approximately 18,300 miles of pipelines in operation and peak delivery capacity of 6.4 billion cubic feet of natural gas per day. MidAmerican has interests in 6,777 net owned megawatts of power generation facilities in operation and under construction, including 5,203 net owned megawatts in facilities that are part of the regulated return asset base of its electric utility business.

In March 2000 an investor group comprised of Berkshire Hathaway Inc., Walter Scott, Jr. (together with certain of Mr. Scott's family members and family trusts and corporations), David L. Sokol, and Gregory E. Abel acquired all of the outstanding common stock of MidAmerican.

One of MidAmerican's wholly owned subsidiaries is MidAmerican Energy. MidAmerican Energy is a public utility headquartered in Iowa. MidAmerican Energy is a combination gas and electric company and a public utility under the Federal Power Act. MidAmerican Energy is primarily engaged in the business of generating, transmitting, distributing, and selling electric energy, and distributing, selling, and transporting natural gas.

MidAmerican Energy is the holder, along with Exelon Generation Company, LLC (formerly Commonwealth Edison Company) ("EGC"), of Facility Operating License Nos. DPR—29 and DPR—30 for Quad Cities Nuclear Power Station, Units 1 and 2 ("Quad Cities"). MidAmerican Energy holds a 25% ownership interest in Quad Cities and EGC owns the remaining 75% share of Quad Cities and is the licensed operator.[9]

Exhibit D to this application is a copy of MidAmerican's most recent Form 10-K filed with the SEC. Exhibit E to this Application is a list of the current officers and directors of MidAmerican. Except for one individual identified on Exhibit E, all of the officers and directors of MidAmerican are American citizens.

C. The Transaction.

Pursuant to the Stock Purchase Agreement, MidAmerican will purchase from PHI all of the outstanding shares of PacifiCorp common stock for approximately $5.1 billion in cash, with approximately $4.3 billon in net debt and preferred stock which will remain outstanding at PacifiCorp. Consummation of the Transaction will occur only after all requisite regulatory approvals, including the approval sought herein, have been obtained. After consummation of the Transaction, PacifiCorp will continue to exist under its own name. PacifiCorp's corporate

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9 There will be no change in control, direct or indirect, over any licensee for Licenses DPR-29 and DPR-30 as a result of this Transaction.

headquarters will remain in Oregon. By virtue of the Transaction, PacifiCorp will become a wholly-owned indirect subsidiary of MidAmerican. A list of the current officers and directors of PacifiCorp and a list of the proposed directors of PacifiCorp after consummation of the Transaction is attached hereto as Exhibit F.

The Transaction has been approved by the Boards of Directors of ScottishPower and MidAmerican, but remains subject to the approval of shareholders of ScottishPower. Copies of the resolutions approving the Transaction are set forth in Exhibit G. In addition, the Transaction must be approved by the SEC, the Federal Energy Regulatory Commission ("FERC"), the California Public Utilities Commission ("California PUC") (unless exempted from approval requirements by the California PUC), the Oregon Public Utility Commission, the Utah Public Service Commission, the Idaho Public Utilities Commission, the Wyoming Public Service Commission and the Washington Utilities and Transportation Commission. In addition, filings and notifications must be made with the Federal Communications Commission and under the Hart-Scott-Rodino Act. All required approvals are targeted to be obtained by the end of the first quarter of 2006.

V. THE TRANSACTION MEETS ALL OF THE REQUIREMENTS GOVERNING LICENSE TRANSFERS.

The Transaction does not involve an actual transfer of a license, but merely a change in control of the ownership of the common stock of a small minority licensee. While the Commission has deemed such acquisitions to constitute a license transfer, it also has recognized that such transactions do not involve many of the issues associated with an actual transfer to a new licensee. As the Commission held in its Streamlined Process Final Rule, specifically referring to transfers of an interest held by a minority, non-operating owner:

> Although other requirements of the Commission's licensing provisions may also be addressed to the extent relevant to the particular transfer action, typical NRC staff review of such applications consists largely of assuring that the ultimately licensed entity has the capability to meet financial qualification and decommissioning funding aspects of NRC regulations. These financial capabilities are important over the long term, but have no direct or immediate impact on the requirements for day-to-day operations at a licensed facility.

Streamlined Process Final Rule, *supra,* at 66722.

As described herein, the licensed entity will remain fully capable of meeting its license obligations, and the Transaction will not detract from that capability. In addition, the Transaction meets all other requirements associated with license transfers.

The Transaction will not affect decommissioning of the Trojan Site or operation of the Trojan ISFSI and thus will not affect the public health or safety, national security or the human environment.

1. The Transaction Will Have No Effect on Performance of Decommissioning Operations or On Operation of the Trojan ISFSI.

The Transaction involves no change to the technical personnel of PGE responsible for decommissioning the Trojan Generating Plant or operating the Trojan ISFSI. Therefore, the technical qualifications of PGE to carry out its responsibilities will remain unchanged and will not be affected by the Transaction.

PacifiCorp owns a 2.5% interest in the Trojan Generating Plant and the Trojan ISFSI. PacifiCorp has not, and does not, conduct or perform any activity at the Trojan Generating Plant or the Trojan ISFSI, nor does it have authority to make decisions on behalf of those who do. The Decommissioning Plan approved by the Commission provides that PGE has sole operational responsibility for the decommissioning of the Trojan Generating Plant and for operation of the Trojan ISFSI in accordance with good utility practice.

Following the Transaction, PacifiCorp will remain a co-licensee and will remain obligated to perform all of its obligations under its Trojan ISFSI license. Those obligations consist solely of economic contributions. Given that PacifiCorp has no direct involvement with the Trojan Generating Plant site or the Trojan ISFSI, the Transaction will not adversely affect operations at either site.

2. The Transaction Will Have No Adverse Effect Upon PacifiCorp's Ability to Meet Its Financial Obligations Under the License.

PacifiCorp's obligation regarding the Trojan ISFSI is to provide funding. The Decommissioning Plan filed by PGE and approved by the Commission, as well as the Safety Evaluation Report referred to *supra* regarding that Plan, also describes the funds for decommissioning the Trojan Plant site, and the funds for continued operation of and eventual decommissioning of the Trojan ISFSI. Now that radiological decommissioning of the Trojan Generating Plant site has been completed, the remaining cost to PacifiCorp of operating and decommissioning the Trojan ISFSI, plant structure dismantlement, and site restoration is currently estimated to be $5.6 million (PacifiCorp's share in nominal dollars).

PacifiCorp clearly has sufficient funds and access to sources of revenue, to meet that financial obligation. As described in the Decommissioning Plan approved by the NRC, PacifiCorp separately collects funds for the decommissioning of the Trojan Plant. These funds are collected through rates and deposited in external trust funds in accordance with the 10 C.F.R § 50.75 (e) (1998). The trust fund contributions ensure that PacifiCorp's 2.5% portion of decommissioning activity expenditures are fully funded and that the bridging of funds would not be necessary. PacifiCorp's portion of the fund regarding the Trojan ISFSI is funded fully commensurate with the schedule included in the Decommissioning Plan. The Transaction will not dilute or affect the amount provided for in those funds.

PacifiCorp is, and will continue to be, an "electric utility," as defined in 10 C.F.R. § 50.2 (2005). Commission Rule 50.33(f) exempts an "electric utility" from the need to post additional financial security for decommissioning responsibilities. On March 31, 2005, PGE submitted information required to confirm that it was exempt from the requirement to hold a Part 50 License in order to operate an ISFSI and provided documents to show that both PGE and PacifiCorp had sufficient mechanisms to provide funding for the Trojan ISFSI. On April 25, 2005, the Commission granted that exemption both to PGE and to PacifiCorp, with specific reference to the obligation to fund the Trojan ISFSI.[10] The ISFSI Funding Letter states that, as to PGE, "funding for the Trojan Independent Spent Fuel Storage Installation was approved for recovery in rates by a competent ratemaking authority." Id. As to PacifiCorp, PGE submitted information "to demonstrate that co-licensee PacifiCorp also has authorization to collect its share of decommissioning funds from the rate base, and that the authorizations for both licensees remain in force."Id. On that basis, the Commission concluded that "the exemption applies to co-licensee PacifiCorp." Id. Thus, as the Commission has recently held, PacifiCorp is exempt from any requirement to hold a Part 50 license for the Trojan ISFSI or to provide further financial assurances regarding the Trojan ISFSI. There have been no material changes subsequent to April 25, 2005, that would in any way impact the exemptions granted, or affect any of the facts or conditions the Commission relied upon in issuing its Order.

The Transaction will not change PacifiCorp's eligibility for exemption from providing further financial assurances. After consummation of the Transaction, PacifiCorp will continue to generate, transmit and distribute electricity from other facilities and recover its costs through

[10] "DECOMMISSIONING FUNDING INFORMATION AS REQUIRED BY NUCLEAR REGULATORY COMMISSION LETTER APPROVING PARTIAL EXEMPTION," Letter To Stephen M. Quennoz from Robert J. Lewis, Chief, Licensing Section, Spent Fuel Project Office, United States Nuclear Regulatory Commission, April 25, 2005 (the "ISFSI Funding Letter.") A copy of that letter is attached as Exhibit H.

rates authorized by the public utility commissions of the six states in which it operates. Moreover, the Transaction will not dilute the financial resources of PacifiCorp. Neither PacifiCorp's interest in the Trojan Generating Plant site or the Trojan ISFSI, nor any other PacifiCorp asset, will be pledged as security or otherwise encumbered as a result of the Transaction. Accordingly, PacifiCorp's financial qualifications are presumed by 10 C.F.R. § 50.33(f) (2005), and no specific demonstration of further financial qualifications is required.

3. The Transaction Will Have No Adverse Effect on Competition.

The AEA provides for an antitrust review only in connection with a construction permit application and, where there have been "significant changes" from the time of the construction permit, in connection with the initial operating license. Here, the Commission's approval of the subject application does not involve the issuance of a construction permit or license. In fact, it does not involve a generating facility at all. Part 72 of the Commission's regulations does not contain a requirement to perform an antitrust review. Thus, there is no basis presented for the NRC to conduct an antitrust review of this transfer of control.[11] Accordingly, no antitrust review is required with respect to the Transaction, not even the making of a no "significant changes" determination.[12]

Moreover, antitrust considerations will be taken into account through other agencies' review of the Transaction. As noted above, the Transaction requires HSR review by the

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11 Under Section 105(c) of the AEA, the NRC does not have antitrust review authority after an operating license has been issued unless there has been a significant change in the licensee's activities. As the NRC does not construe transfers of control, as distinguished from direct license transfers, as triggering antitrust reviews under Section 105(c)(2), no antitrust review is required. See NRC NUREG-1574.

12 See Safety Evaluation by the Office of Nuclear Reactor Regulation Related to the Indirect Transfers of Control of License Nos. DPR-66 and NPF-73 for Beaver Valley Power Station, Unit Nos. 1 and 2, Docket Nos. 50-334 and 50-412 at page 3 (June 19, 1997) ("Although FirstEnergy may become the holding company of the licensees for the Beaver Valley facilities, i.e., may indirectly acquire control of the licensees, it will not be performing activities for which a license is needed. Since approval of the instant application would not involve the issuance of a license, the procedures under Section 105(c) do not apply, including the making of any 'significant changes' determination.").

Department of Justice. The Transaction also must be approved by the FERC and will be the subject of proceedings before various state public utility commissions. As such, other agencies will be analyzing the effects of the Transaction on competition. Thus, there is no practical or policy reason for the NRC to perform such a review. Since neither law nor policy contemplates a review by this Commission of the competitive effect of the Transaction, such a review is not required.

4. The Identity, Business Address, and Relevant Personnel of the Licensee and of the Facility Will Not Be Affected by the Transaction.

As noted above, PacifiCorp will retain its present headquarters. The headquarters addresses of PacifiCorp and of MidAmerican are listed below:

PacifiCorp 825 NE Multnomah, Suite 2000 Portland, Oregon 97232-4116	MidAmerican Energy Holdings Company 666 Grand Avenue Des Moines, Iowa 50303-0657

5. Lack of Restricted Data.

This Application does not contain any Restricted Data or other classified defense information. Any access to Restricted Data at the site will continue to be limited, pursuant to 10 C.F.R. § 50.37, in the same manner as at present.

6. Lack of Environmental Impact.

The Transaction does not involve any change to the Trojan ISFSI operations or equipment, or to the site of either the Trojan ISFSI or the former Trojan Plant and does not change any environmental impact previously evaluated for the Trojan Plant or the Trojan ISFSI. Accordingly, this Application involves no significant environmental impact.

7. Offsite Radiological Emergency Response Planning.

The Transaction will have no effect on existing, approved arrangements for offsite radiological emergency preparedness for the Trojan Plant or the Trojan ISFSI.

8. Construction/Completion Dates.

As the Trojan Generating Plant now is shut down permanently and the operating license for the site has been terminated, there are no proposals for any licensed construction at the Trojan Plant.

9. Regulatory Agencies.

PacifiCorp is subject to the regulatory jurisdiction of the following state commissions:

Wyoming Public Service Commission
The Hansen Building
2515 Warren Avenue
Suite 300
Cheyenne, Wyoming 82002

Washington Utilities and
Transportation Commission
Chandler Plaza Building
1300 South Evergreen Park Drive, SW
Olympia, WA 98504-7250

Utah Public Service Commission
Heber M. Wells Office Building
160 East 300 South
Post Office Box 45585
Salt Lake City, Utah 84111

Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83702

California Public Utilities Commission
California State Building
505 Van Ness Avenue
San Francisco, California 94102

Oregon Public Utility Commission
550 Capitol Street Northeast
Salem, Oregon 97310

The following trade and news publications circulate in the area in which the Trojan Plant is located: Clatskanie Chief, St. Helens Chronicle, South County Spotlight, Columbia County Review and the Longview Daily News.

VI. CONCLUSION.

The Transaction will have no effect whatsoever on the operation of the Trojan ISFSI, the only remaining facility as to which PacifiCorp holds a license from this Commission. The licensee (as a non-operating, minority owner) will continue to be PacifiCorp, which remains qualified to be a licensee.

The Transaction will have no adverse effect on PacifiCorp's financial stability or upon its ability to meet its license obligations. The Transaction will not result in PacifiCorp being "owned, controlled, or dominated" by a foreign interest.[13] For the reasons described herein, the Applicants respectfully request that the Commission approve the Application for Transfer of License as promptly as possible and in any event before December 30, 2005.

Respectfully submitted,

Robert M. Andersen /for

Sam Behrends IV
Robert M. Andersen
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
1875 Connecticut Avenue, NW, Suite 1200
Washington, DC 20009
(202) 986-8000

Douglas L. Anderson
Jon A. Andreasen
MidAmerican Energy Holdings Company
666 Grand Avenue
Des Moines, Iowa 50303

Attorneys for MidAmerican Energy Holdings

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[13] At present, ScottishPower, a foreign entity, ultimately owns all of PacifiCorp. After the transfer, MidAmerican will own PacifiCorp. The only foreign shareholder of MidAmerican is Mr. Gregory E. Abel, a Canadian citizen. Mr. Abel owns less than one percent (1%) of MidAmerican. Assuming the transaction closes, Mr. Abel's percentage ownership will remain at less than one percent (1%). Mr. Abel holds options to acquire additional shares of MidAmerican common stock and on a fully diluted basis (assuming exercise of those options and conversion of Berkshire Hathaway's convertible preferred stock), Mr. Abel would own approximately 1.4% of MidAmerican.

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Steven M. Kramer
Carla J. Urquhart
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, NY 10005
(212) 530-5000

Attorneys for PacifiCorp Holdings, Inc.

Jeffery B. Erb
PacifiCorp
Suite 1900
825 NE Multnomah
Portland, Oregon 92732

Attorney for PacifiCorp

June 30, 2005

EXHIBIT LIST

A. License Termination Letter re NRC License No. NPF-1 (May 23, 2005).

B. Stock Purchase Agreement between Scottish Power plc, PacifiCorp Holdings, Inc., and MidAmerican Energy Holdings Company, dated as of May 23, 2005.

C. PacifiCorp Annual Report on Form 10-K for the Fiscal Year ended March 31, 2005, filed May 27, 2005.

D. MidAmerican Form 10-K filed March 1, 2005.

E. List of Officers and Directors of MidAmerican.

F. (i) List of Current Officers and Directors of PacifiCorp.
(ii) Description of Proposed Directors of PacifiCorp following the Transaction.

G. Directors' Resolutions Approving the Transaction.

H. The ISFSI Funding Letter issued April 25, 2005.

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

Trojan Unit	)	**NRC License No. SNM-2509**
Spent Fuel Storage	)	**(Docket No. 72-17)**
Installation	)	

AFFIDAVIT

I, JUDITH A. JOHANSEN, being duly sworn, state that I am PRESIDENT + CEO of PacifiCorp; that I am authorized on the part of said company to sign and file with the Nuclear Regulatory Commission the documents attached hereto; and that all such documents are true and correct to the best of my knowledge, information and belief.

Judith A. Johansen

STATE OF OREGON)
) ss:
COUNTY OF Multnomah

Subscribed and sworn to before me, a Notary Public in and for the State above named, this 29th day of June, 2005.

Gloria G. Quirk
Notary Public

My Commission Expires:

7/29/2006

OFFICIAL SEAL
GLORIA G. QUIRK
NOTARY PUBLIC-OREGON
COMMISSION NO. 358863
MY COMMISSION EXPIRES JULY 29, 2006

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

	)	
Trojan Unit	)	**NRC License No. SNM-2509**
Spent Fuel Storage	)	**(Docket No. 72-17)**
Installation	)	

AFFIDAVIT

I, Douglas L. Anderson, being duly sworn, state that I am Senior Vice President and General Counsel of MidAmerican Energy Holdings Company; that I am authorized on the part of said company to sign and file with the Nuclear Regulatory Commission the documents attached hereto; and that all such documents are true and correct to the best of my knowledge, information and belief.

STATE OF Nebraska)
) ss:
COUNTY OF Douglas)

Subscribed and sworn to before me, a Notary Public in and for the State above named, this 28 day of June, 2005.

Notary Public

My Commission Expires:
April 21, 2009

GENERAL NOTARY - State of Nebraska
MITCHELL L. PIRNIE
My Comm. Exp. April 21, 2009

EXHIBIT A

License Termination Letter
re NRC License No. NPF-1
(May 23, 2005)

May 23, 2005

Mr. Stephen M. Quennoz, Vice President
Power Supply/Generation
Portland General Electric Company
Trojan Nuclear Plant
71760 Columbia River Highway
Rainier, Oregon 97048

SUBJECT: TERMINATION OF TROJAN NUCLEAR PLANT FACILITY OPERATING LICENSE NO. NPF-1

Dear Mr. Quennoz:

On December 20, 2004, Portland General Electric Company (PGE) submitted an application for termination of the Trojan Nuclear Plant (TNP) Facility Operating (Possession Only) License No. NPF-1. The application states that PGE has completed remaining radiological decommissioning and final status surveys (FSSs) of the TNP facility and site in accordance with the NRC-approved license termination plan (LTP), and the FSSs demonstrate that the facility and site meet the criteria for decommissioning and release of the site for unrestricted use that are stipulated in 10 CFR Part 20, Subpart E.

The U.S. Nuclear Regulatory Commission (NRC) staff has completed the review of the FSS Reports (FSSRs) and concludes in accordance with 10 CFR 50.82 that: (I) Dismantlement and decontamination activities were performed in accordance with the approved LTP, and (ii) The FSSRs and associated documentation, including an assessment of dose contributions associated with parts released for use before approval of the LTP, demonstrate that the facility and site have met the criteria for decommissioning in 10 CFR Part 20, subpart E. Therefore, License NPF-1 is terminated, effective May 23, 2005.

Under the 10 CFR Part 50 license, PGE maintains a quality assurance (QA) program that was previously approved by the NRC as satisfying the requirements of 10 CFR Part 50, Appendix B. Pursuant to 10 CFR 71.101(f) and 10 CFR 72.140(d), PGE applies this program to satisfy the QA requirements of 10 CFR Part 71, Subpart H, and 10 CFR Part 72, Subpart G. PGE letter VPN-001-2005, dated January 21, 2005, states that, upon receipt of NRC approval of PGE-8010, "Trojan Nuclear Quality Assurance Program," proposed Revision 28, and concurrent with Trojan Nuclear Plant license termination, PGE will issue the approved PGE-8010, Revision 28, to satisfy the quality assurance requirements of 10 CFR Part 71, Subpart H, and 10 CFR Part 72, Subpart G. The NRC has reviewed PGE-8010, proposed Revision 28, and issued Quality Assurance Program Approval for Radioactive Material Packages No. 0327, Revision No. 15, to be effective on the date of the 10 CFR Part 50 license termination. This approval will satisfy the requirements of 10 CFR 71.17(b) and 71.101©) for a QA program approved by the NRC. In accordance with the provisions of 10 CFR 72.140(d), this previously approved QA program will be accepted as satisfying the requirements of 10 CFR 72.140 (b), except that the licensee shall

also meet the recordkeeping requirements of 10 CFR 72.174. PGE-8010 describes how the recordkeeping requirements of 10 CFR 72.174 will be met. Therefore, upon issuance of PGE-8010, PGE will satisfy the QA requirements of 10 CFR Part 71, Subpart H, and 10 CFR Part 72, Subpart G.

As a condition of the termination of License NPF-1, PGE is required to maintain $100 million in nuclear liability insurance coverage, as described in Indemnity Agreement No. B-78, "until all the radioactive material has been removed from the location and transportation of the radioactive material from the location has ended as defined in subparagraph 5(b), Article I, or until the Commission authorizes the termination or modification of such financial protection." Termination of the TNP 10 CFR Part 50 license has no impact on the terms of the indemnity agreement. Further, it should be noted that the site location described in Item 4 of the attachment to the indemnity agreement means the "original" 10 CFR Part 50 license site boundaries. PGE shall incorporate its commitment to maintain $100 million in nuclear liability insurance coverage into the TNP ISFSI Safety Analysis Report to ensure that the liability insurance coverage level shall not be reduced below the minimum $100 million amount without prior NRC approval.

The staff's review of the FSSRs is documented in the enclosed Safety Evaluation Report. Enclosure 2 is the Notice of Termination which is being sent to the Federal Register for publication.

In accordance with 10 CFR 2.390 of the NRC's "Rules of General Applicability," a copy of this letter will be available electronically in the NRC Public Document Room or from the Publically Available Records (PARS) component of the NRC's document system (ADAMS). ADAMS is accessible from the NRC Web site at http://www.nrc.gov/reading-rm/adams.html.

If you have any questions please contact John Buckley at (301) 415-6607.

Sincerely,

/RA/

Daniel M. Gillen, Deputy Director
Decommissioning Directorate
Division of Waste Management
and Environmental Protection
Office of Nuclear Material Safety
and Safeguards

Enclosures: 1. Safety Evaluation Report
2. Federal Register Notice

Docket No.: 50-344
License No.: NFP-1

cc: Trojan distribution list

also meet the recordkeeping requirements of 10 CFR 72.174. PGE-8010 describes how the recordkeeping requirements of 10 CFR 72.174 will be met. Therefore, upon issuance of PGE-8010, PGE will satisfy the QA requirements of 10 CFR Part 71, Subpart H, and 10 CFR Part 72, Subpart G.

Although the NRC is terminating License NPF-1, PGE is required to maintain $100 million in nuclear liability insurance coverage, as described in Indemnity Agreement No. B-78, "until all the radioactive material has been removed from the location and transportation of the radioactive material from the location has ended as defined in subparagraph 5(b), Article I, or until the Commission authorizes the termination or modification of such financial protection." Termination of the TNP 10 CFR Part 50 license has no impact on the terms of the indemnity agreement. Further, it should be noted that the site location described in Item 4 of the attachment to the indemnity agreement means the "original" 10 CFR Part 50 license site boundaries. PGE shall incorporate its commitment to maintain $100 million in nuclear liability insurance coverage into the TNP ISFSI Safety Analysis Report to ensure that the liability insurance coverage level shall not be reduced below the minimum $100 million amount without prior NRC approval.

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Sincerely,

/RA/

Daniel M. Gillen, Deputy Director
Decommissioning Directorate
Division of Waste Management
and Environmental Protection
Office of Nuclear Material Safety
and Safeguards

Enclosures: 1. Safety Evaluation Report
2. Federal Register Notice

Docket No.: 50-344
License No.: NFP-1

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NAME	JBuckley*	BWatson*	TMixon*	CRegan*	CCraig*	DGillen
DATE	3/7/05	3/7/05	3/7/05	3/15/05	3/10/05	5/23/05

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SAFETY EVALUATION REPORT RELATED TO THE TERMINATION OF FACILITY OPERATING LICENSE NO. NPF-1
PORTLAND GENERAL ELECTRIC COMPANY
TROJAN NUCLEAR PLANT
DOCKET NO. 50-344

1.0 INTRODUCTION

The Trojan Nuclear Plant (Trojan or the facility) began commercial operation in 1976. In 1993, after 17 years of operation, Portland General Electric Company (PGE or the licensee) notified the U.S. Nuclear Regulatory Commission (NRC) of its decision to permanently cease power operations. In accordance with the requirements of Title 10, U.S. Code of Federal Regulations (10 CFR) 50.82(a)(9) the licensee submitted the "Trojan Nuclear Plant License Termination Plan" (LTP) for its facility. By letter dated August 5, 1999, and supplemented by letters dated November 23, 1999, December 27, 1999, May 4, 2000, October 19, 2000, and November 22, 2000, PGE submitted a request to amend Facility Operating License No. NPF-1 for Trojan to incorporate its LTP. Under the provisions of 10 CFR 50.82(a)(10), the NRC approved the LTP by license amendment dated February 12, 2001.

The licensee conducted decommissioning activities at Trojan in accordance with the approved LTP from February 2001 to December 2004. In accordance with the approved LTP, the licensee conducted final status surveys (FSSs) to demonstrate that the facility and site meet the criteria for unrestricted release as presented in 10 CFR 20.1402. Details of the FSS results were submitted to the NRC in 10 separate FSS reports (FSSRs). Additional information regarding each of these reports is provided in Section 2.2 of this safety evaluation report (SER).

In accordance with 10 CFR 50.82(a)(9), the licensee submitted an application for termination of its Facility Operating License on December 20, 2004 (ADAMS No. ML0500300540). This SER documents the NRC's approval PGE's application for license termination.

2.0 EVALUATION

In accordance with 10 CFR 50.82(a)(11), the Commission shall terminate the license if it determines that; (I) The remaining dismantlement has been performed in accordance with the approved license termination plan, and (ii) The final radiation survey and associated documentation, including an assessment of dose contributions associated with parts released for use before approval of the license termination plan, demonstrate that the facility and site have met the criteria for decommissioning in 10 CFR Part 20, Subpart E. The following is the staff's evaluation of this information.

2.1 Remaining Dismantlement Activities

In accordance with the requirement of 10 CFR 50.82(a)(9)(ii)(B), Section 2.3 of the LTP provided a discussion of the remaining dismantlement activities necessary for license termination as of early 1999. Section 2.3.1 of the LTP lists the remaining structures, systems and components to be dismantled or decontaminated after approval of the LTP, and Section

2.3.2 provides a corresponding description of the remediation considerations for each of the remaining structures, systems and components.

In the LTP the licensee stated it planned to remediate the site, including structures, systems, and components that remain on site to the criteria specified in 10 CFR Part 20, for unrestricted use. To meet these criteria, the licensee planned to use typical remediation methods, which included chemical decontamination, wiping, washing, vacuuming, scabbling, spalling, and abrasive blasting. For radiologically contaminated systems and components, the licensee planned to either: (1) remove them and send them to an offsite processing facility, or to a low-level radioactive waste facility, for disposal; or (2) decontaminate them onsite and ensure that any residual radioactivity remaining meets the release criteria for unrestricted use.

The staff has reviewed the licensee's FSSRs for Trojan and determined that the licensee has remediated the remaining structures, systems, and components consistent with Section 2.3 of the LTP. Therefore, the staff concludes that the dismantlement and decontamination activities have been completed in accordance with the approved LTP.

2.3 *Final Site Survey*

The FSS is the radiation survey performed after an area has been fully characterized, remediation has been completed, and the licensee believes that the area is ready to be released for unrestricted use. The purpose of the FSS is to demonstrate that the area meets the radiological criteria for license termination.

Details of the FSS results were submitted to the NRC in the following 10 separate FSSRs:
- Final Survey Report for Trojan ISFSI Site, (ML050810358)
- Final Survey Report for Containment Building Interior, (ML033160349, ML0408401690)
- Final Survey Report for Main Steam Support Structure, Electrical Penetration Area, and Steam Generator Blowdown Building, (ML0410400170, ML0429405730)
- Final Survey Report for Turbine Building and Control Building Interiors, (ML0429500880, ML0429500990, ML0429501060)
- Final Survey Report for Embedded Piping, (ML0432302300)
- Final Survey Report for Remaining Plant Secondary Systems, (ML0434302060)
- Final Survey Report for Auxiliary Building Interior, (ML043580425, ML0435804260, ML0435804320)
- Final Survey Report for Fuel Building Interior, (ML0436200150, ML0436200350, ML043620046)
- Final Survey Report for Spent Fuel Pool Impacted Areas, (ML0435701110)
- Final Survey Report for Support Facilities and Site Grounds, (ML0500300550).

The NRC conducted a number of performance-based in-process inspections of the licensee's FSS program during the decommissioning process. The purpose of the inspections was to verify that the FSS was being conducted in accordance with the commitments made by the licensee in the LTP, and to evaluate the quality of the FSS by reviewing the FSS procedures, methodology, equipment, surveyor training and qualifications, document quality control, and survey data supporting the FSSRs. In addition, the NRC conducted a number of independent confirmatory surveys to verify the FSS results obtained and reported by the licensee. Confirmatory surveys consisted of surface scans for beta and gamma radiation, direct

measurements for total beta activity, and collection of smear samples for determining removable radioactivity levels.

The staff's review and acceptance of the above referenced FSSRs is documented in correspondence with the licensee, and summarized below for completeness.

.3.1 Final Survey Report for Trojan ISFSI Site

PGE submitted the FSSR for the Trojan ISFSI Site in October 1996. The staff accepted the FSSR and approved the release of the area for use as an ISFSI in November 1996 (ML050800534). The staff concluded that the FSSR for the limited area of the ISFSI complies with the requirements of 10 CFR 50.82. The staff's conclusion was based on its review of PGE's FSSR and the results of a confirmatory survey. Documentation of the confirmatory survey is presented in NRC Inspection Report 72-17/96-01 (ML050800524) and the Oak Ridge Institute for Science and Education (ORISE) Trip Report dated September 27, 1996 (ML050800530).

2.3.2 Final Survey Report for Containment Building Interior

PGE submitted the FSSR for the Containment Building Interior on October 31, 2003, with revisions on March 11, 2004. The staff accepted the FSSR on September 22, 2004 (ML042680014), and concluded that (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Containment Building Interior meets the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys performed by ORISE.

The Containment Building Interior was divided into 76 survey units. Acceptance of the FSSR for the Containment Building Interior is supported by the staff's review of FSS release records for 23 Class 1 survey units which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff conclusions are also supported by confirmatory surveys in 28 survey units performed during inspections conducted in May 2001 and August 2002. Documentation of these surveys is presented in NRC Inspection Reports IR 50-344/01-02 and IR 50-344/02-03 (ML012470350 and ML0234502440).

2.3.3 Final Survey Report for Main Steam Support Structure, Electrical Penetration Area, and Steam Generator Blowdown Building

PGE submitted the FSSR for the Main Steam Support Structure, Electrical Penetration Area and Steam Generator Blowdown Building on March 30, 2004. The staff accepted the FSSR on September 23, 2004 (ML042670538), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Main Steam Support Structure, Electrical Penetration Area and Steam Generator Blowdown Building meet the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of a confirmatory surveys conducted by ORISE.

The Main Steam Support Structure, Electrical Penetration Area, and Steam Generator Blowdown Building were divided into 20 survey units. Acceptance of the FSSR for the Main Steam Support Structure, Electrical Penetration Area, and Steam Generator Blowdown Building is supported by the staff's review of FSS release records for 13 survey units (11 Class 1 survey units and 2 Class 2 survey units) which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff conclusions are also supported by confirmatory surveys in 12 survey units performed during an inspection conducted in December 2003. Documentation of these surveys is presented in NRC Inspection Report IR 50-344/03-004 (ML04630566).

2.3.4 Final Survey Report for Turbine Building and Control Building Interiors

PGE submitted the FSSR for the Turbine Building and Control Building Interiors on October 12, 2004. The staff accepted the FSSR on October 28, 2004 (ML043060002), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Turbine Building and Control Building Interiors meet the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys conducted by ORISE.

The Turbine Building Interior was divided into 32 survey units and Control Building Interior was divided into 16 survey units. Acceptance of the FSSR for the Turbine Building Interior is supported by the staff's review of FSS release records for all Turbine Building and Control Building Interior survey units which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff conclusions are also supported by confirmatory surveys in six Turbine Building survey units performed during inspections conducted in October 2002 and June 2004. Documentation of these surveys is presented in NRC Inspection Reports IR 50-344/02-04 and IR 50-344/04-02 (ML030380014 and ML042800601).

2.3.5 Final Survey Report for Embedded Piping

PGE submitted the FSSR for the Embedded Piping on November 10, 2004. The staff accepted the FSSR on December 2, 2004 (ML043370086), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Embedded Piping meet the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys conducted by ORISE.

The Embedded Piping was divided into 42 survey units. Acceptance of the FSSR for embedded piping is supported by the staff's review of FSS release records for 38 survey units (all 33 Class 1 survey units of the Auxiliary and Fuel Building and all nine Turbine Building Embedded Piping survey units) during the September 2004, inspection (ML043010649), which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff

conclusions are also supported by confirmatory surveys in 11 embedded piping survey units performed during inspections conducted in April 2003, December 2003, and June 2004.

Documentation of these surveys is presented in NRC Inspection Reports IR 050-344/03-02, 050-344/03-04, and IR 050-00344/04-002 (ML031611050, ML040630566, and ML042800601).

2.3.6 Final Survey Report for Remaining Plant Secondary Systems

PGE submitted the FSSR for the Remaining Plant Secondary Systems on November 10, 2004. The staff accepted the FSSR on December 2, 2004 (ML043370086), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Remaining Plant Secondary Systems meet the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys conducted by ORISE.

The Remaining Plant Secondary Systems were divided into 10 survey units. Acceptance of the FSSR for Remaining Plant Secondary Systems is supported by the staff's review of FSS release records for all 10 survey units. In addition, results from confirmatory surveys performed on accessible portions of three survey units, including the Main Turbine, all 3 hoods (A, B, C), the Main Condenser 'B' (hotwell), and both Moisture Separators in the Miscellaneous Systems, support the PGE conclusions that the survey units meet the regulatory requirements for unrestricted use. Documentation of these surveys is presented in NRC Inspection Report IR 050-344/04-03 (ML050450511).

2.3.7 Final Survey Report for Auxiliary Building Interior

PGE submitted the FSSR for the Auxiliary Building Interior on December 3, 2004. The staff accepted the FSSR on February 23, 2005 (ML050540035), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Auxiliary Building Interior meets the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys conducted by ORISE.

The Auxiliary Building Interior was divided into 144 survey units. Acceptance of the FSSR for the Auxiliary Building Interior is supported by the staff's review of FSS release records for 38 survey units (26 Class 1 survey units and 12 Class 2 survey units) which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff conclusions are also supported by confirmatory surveys in 29 Auxiliary Building Interior survey units during inspections conducted in October 2002, June 2004, and September 2004. Documentation of these surveys is presented in NRC Inspection Reports IR 050-344/02-04, IR 050-00344/04-002, and IR 050-344/04-03 (ML030380014, ML042800601, and ML050450511).

2.3.8 Final Survey Report for Fuel Building Interior

PGE submitted the FSSR for the Fuel Building Interior on December 15, 2004. The staff accepted the FSSR on February 23, 2005 (ML050540035), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Fuel Building Interior meets the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys conducted by ORISE.

The Fuel Building Interior was divided into 82 survey units. Acceptance of the FSSR for the Fuel Building Interior is supported by the staff's review of FSS release records for 25 survey units (12 Class 1, 10 Class 2, and 3 Class 3 survey units) which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff conclusions are also supported by confirmatory surveys in 12 Fuel Building Interior survey units during inspections conducted in October 2002, and September 2004. Documentation of these surveys is presented in NRC Inspection Reports IR 050-344/02-04 and IR 050-344/04-03 (ML030380014 and ML050450511).

2.3.9 Final Survey Report for Spent Fuel Pool Impacted Areas

PGE submitted the FSSR for the Spent Fuel Pool Impacted Areas on December 16, 2004. The staff accepted the FSSR on February 23, 2005 (ML050540035), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Spent Fuel Pool Impacted Areas meet the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys conducted by ORISE.

The Spent Fuel Pool Impacted Areas were divided into 15 survey units. Acceptance of the FSSR for the Spent Fuel Pool Impacted Areas is supported by the staff's review of FSS release records for all 15 survey units which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff conclusions are also supported by confirmatory surveys in two Spent Fuel Pool Impacted Areas survey units during an inspection conducted in September 2004. Documentation of these surveys is presented in NRC Inspection Report IR 050-344/04-03 (ML050450511).

2.3.10 Final Survey Report for Support Facilities and Site Grounds

PGE submitted the FSSR for the Support Facilities and Site Grounds on December 20, 2004. The staff accepted the FSSR on February 23, 2005 (ML050540035), and concluded that: (1) the FSS was conducted in accordance with the LTP; (2) the FSSR contains the information identified in NUREG-1757, "Consolidated NMSS Decommissioning Guidance," Section 4.5; and (3) the FSS results demonstrate that the Support Facilities and Site Grounds meet the radiological criteria for unrestricted release identified in the LTP. The staff's conclusion is

based on its review of PGE's FSSR and survey release records, and the results of confirmatory surveys conducted by ORISE.

The Support Facilities and Site Grounds were divided into 74 survey units. Acceptance of the FSSR for the Support Facilities and Site Grounds is supported by the staff's review of FSS release records for 20 survey units (8 Class 1, 6 Class 2, and 6 Class 3 survey units) which verified the adequacy of the FSS design, the training and qualifications of FSS technicians, the calibration of FSS survey instruments, and the adequacy of FSS supporting documents. Staff conclusions are also supported by confirmatory surveys in 12 Support Facilities and Site Grounds survey units during an inspection conducted in October 2002. Documentation of these surveys is presented in NRC Inspection Report IR 50-344/02-04 (ML030380014).

2.4 Other Documents Required for License Termination

In addition to the license termination requirements of 10 CFR Part 50, Parts 30, 40, and 70 also have requirements for forwarding of specific records to NRC prior to license termination. These requirements include:

Record Forwarding Requirements

10 CFR 30.51(d)	Prior to license termination, each licensee authorized to possess radioactive material with a half-life greater than 120 days, in an unsealed form, shall forward the following records to the appropriate NRC Regional Office: (1) Records of disposal of licensed material made under 20.2002 (including burials authorized before January 28, 1981), 20.2003, 20.2004, 20.2005; and (2) Records required by 20.2103(b)(4).
10 CFR 30.51(f)	Prior to license termination, each licensee shall forward the records required by 30.35(g) to the appropriate NRC Regional Office.
10 CFR 40.61(d)	Prior to license termination, each licensee authorized to possess source material, in an unsealed form, shall forward the following records to the appropriate NRC Regional Office: (1) Records of disposal of licensed material made under 20.2002 (including burials authorized before January 28, 1981), 20.2003, 20.2004, 20.2005; and (2) Records required by 20.2103(b)(4).
10 CFR 40.61(f)	Prior to license termination, each licensee shall forward the records required by 40.36(f) to the appropriate NRC Regional Office.
10 CFR 70.51(a)	Prior to license termination, licensees shall forward the following records to the appropriate NRC Regional Office: (1) Records of disposal of licensed material made under 20.2002 (including burials authorized before January 28, 1981), 20.2003, 20.2004, 20.2005; and (2) Records required by 20.2103(b)(4); and (3) Records required by 70.25(g).

PGE addressed each of these requirements in a letter to NRC dated December 20, 2004, (ML0503204820) as described below.

PGE addressed the requirements of 10 CFR 30.51(d)(1), 10 CFR 40.61(d)(1), and 10 CFR 70.51(a)(1) by stating, "Because PGE has not disposed of licensed material under 10 CFR 20.2002, 20.2003, 20.2004, and/or 20.2005, Trojan Nuclear Plant records of such disposals do not exist. Therefore, PGE considers the requirements of 10 CFR 30.51(d)(1), 10 CFR 40.61(d)(1), and 10 CFR 70.51(a)(1) satisfied for Trojan Nuclear Plant license termination".

PGE addressed the requirements of 10 CFR 30.51(d)(2), 10 CFR 40.61(d)(2), and 10 CFR 70.51(a)(2) collectively because they deal with the submittal of records required by 10 CFR 20.2103(b)(4). 10 CFR 20.2103(b)(4) addresses records associated with the release of radioactive effluents to the environment. From 1976 to 1993, PGE submitted semiannual Radioactive Effluent Release Reports to the NRC. From 1993 to present, PGE submitted the Radioactive Effluent Release Reports on an annual basis. PGE submitted the "Trojan Nuclear Plant Annual Radioactive Effluent Release Report to 2004" to NRC February 25, 2005 (ML050610678). With this submittal, PGE contends that it has met the requirements of 10 CFR 30.51(d)(2), 10 CFR 40.61(d)(2), and 10 CFR 70.51(a)(2).

Due to the similarity of the requirements, PGE also addressed the requirements of 10 CFR 30.51(f), 10 CFR 40.61(f), and 10 CFR 70.51(a)(3) collectively. These regulations require the licensee to forward information important to decommissioning as required by paragraphs (1), (2), (3), and (4) of 10 CFR 30.35(g), 10 CFR 40.36(f), and 10 CFR 70.25(g), respectively. PGE states that it has met these requirements through the submittal of: (1) Trojan Nuclear Plant *Decommissioning Plan and License Termination Plan* (PGE-1078); (2) *Trojan Nuclear Plant* Site Characterization Report; (3) Trojan Nuclear Plant Final Survey Reports; and (4) Trojan Nuclear Plant Groundwater Report.

In a letter dated February 1, 2005 (ML0503303020), NRC agreed that PGE has met the requirements of 10 CFR Parts 30, 40, and 70 for forwarding of specific records to NRC prior to license termination.

3.0 STATE CONSULTATION

This SER was prepared by the NRC staff without input from the State of Oregon. However, the State is on distribution for all correspondence between NRC and PGE and thus has been informed of NRC's intention to terminate the Trojan license. In addition, on January 28, 2005, NRC staff provided a briefing on the Trojan decommissioning project to the Oregon Energy Facility Siting Council at a scheduled public meeting. NRC staff provided an overview of the NRC decommissioning process and discussed NRC's review of TNP's FSSs.

4.0 ENVIRONMENTAL CONSIDERATIONS

Pursuant to 10 CFR 51.21, 51.32, and 51.35, an environmental assessment (EA) and finding of no significant impact (FONSI) was published in the *Federal Register* on February 12, 2001 (66 FR 9885) for approval of the LTP. Accordingly, no EA or FONSI will be prepared for termination of the Trojan license.

5.0 CONCLUSION

The Commission has concluded, based on the considerations discussed above, that: (I) The remaining dismantlement has been performed in accordance with the approved LTP, (ii) The FSS and associated documentation, including an assessment of dose contributions associated with parts released for use before approval of the LTP, demonstrate that the facility and site have met the criteria for decommissioning in 10 CFR part 20, subpart E, and (iii) PGE has met the Parts 30, 40, and 70 requirements for forwarding of specific records to NRC prior to license termination.

Principal Contributors: J. Buckley, NMSS/DWMEP/DCD
B. Watson, NMSS/DWMEP/DCD

Date: May 23, 2005

May 23, 2005

MEMORANDUM TO: Michael T. Lesar, Chief
Rules and Directives Branch
Division of Administrative Services
Office of Administration

FROM: Daniel M. Gillen, Deputy Director /RA/
Decommissioning Directorate
Division of Waste Management
and Environmental Protection
Office of Nuclear Material Safety
and Safeguards

SUBJECT: NOTICE OF TERMINATION OF TROJAN NUCLEAR PLANT FACILITY OPERATING LICENSE NO. NPF-1

Attached please find one signed original of the subject Federal Register notice for your transmittal to the Office of the Federal Register for publication. Also, attached are five copies of the signed notice and a 3.5" diskette with the notice in WordPerfect.

Docket Nos.: 50-344, 72-017
License Nos.: NPF-1, SNM-2509

Attachments:
1. Federal Register Notice
2. Diskette

CONTACT: John Buckley, NMSS/DWMEP
301-415-6607

Enclosure 2

May 23, 2005

MEMORANDUM TO: Michael T. Lesar, Chief
Rules and Directives Branch
Division of Administrative Services
Office of Administration

FROM: Daniel M. Gillen, Deputy Director /RA/
Decommissioning Directorate
Division of Waste Management
and Environmental Protection
Office of Nuclear Material Safety
and Safeguards

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Docket Nos.: 50-344, 72-017
License Nos.: NPF-1, SNM-2509

Attachments:
1. Federal Register Notice
2. Diskette

CONTACT: John Buckley, NMSS/DWMEP
301-415-6607

cc: Trojan distribution list

DISTRIBUTION: PDR DWM r/f DCB r/f JKennedy
BEvans, R IV BSpitzberg, R IV

ML050680345 *See previous concurrence

OFC	DCD	DCD	DCD	SFPO	OGC	DCD
NAME	JBuckley*	TMixon*	CCraig*	CRegan*	STreby*	DGillen
DATE	3/7/05	3/07/05	3/10 /05	3/14 /05	4/29/05	5/23/05

OFFICIAL RECORD COPY

[7590-01-]

NUCLEAR REGULATORY COMMISSION

PORTLAND GENERAL ELECTRIC COMPANY

DOCKET NO. 50-344, LICENSE NO. NPF-1

DOCKET NO. 72-017, LICENSE NO. SNM-2509

NOTICE OF TERMINATION OF

TROJAN NUCLEAR PLANT FACILITY OPERATING LICENSE NO. NPF-1

ACTION: Notice of Termination of the Portland General Electric Company (PGE) Trojan Nuclear Plant (TNP) Facility Operating (Possession Only) License, No. NPF-1.

SUMMARY: The Nuclear Regulatory Commission (NRC) is noticing the termination of the TNP Facility Operating (Possession Only) License, No. NPF-1, (NRC Docket No. 50-344), located near Portland, Oregon.

BACKGROUND: The TNP facility is located in Columbia County, Oregon, approximately 42 miles north of Portland, Oregon. TNP began commercial operation in May 1976. The reactor output was rated at 3411 MWt with an approximate net electrical output rating of 1130 MWe. The nuclear steam supply system was a four-loop pressurized water reactor designed by Westinghouse Electric Corporation. TNP was shut down for the last time on November 9, 1992.

In August 1999, PGE submitted its License Termination Plan (LTP) for the TNP facility. Under the provisions of 10 CFR 50.82(a)(10), the NRC approved the LTP by license amendment dated February 12, 2001. PGE conducted decommissioning activities at TNP in accordance with the approved LTP from February 2001 to December 2004. In accordance with the approved LTP, the licensee conducted final status surveys (FSSs) to demonstrate that the facility and site meet the criteria for unrestricted release as presented in 10 CFR 20.1402. Details of the FSS results were submitted to the NRC in 10 separate FSS reports (FSSRs).

PGE submitted an application for termination of the TNP Facility Operating (Possession Only) License, No. NPF-1, on December 20, 2004. The application states that PGE has completed remaining radiological decommissioning and FSSs of the TNP facility and site in accordance with the NRC-approved LTP, and the FSSs demonstrate that the facility and site meet the criteria for decommissioning and release of the site for unrestricted use that are stipulated in 10 CFR Part 20, Subpart E.

The NRC conducted a number of performance-based in-process inspections of the licensee's FSS program during the decommissioning process. The purpose of the inspections was to verify that the FSS was being conducted in accordance with of the commitments made by the licensee in the LTP, and to evaluate the quality of the FSS by reviewing the FSS procedures, methodology, equipment, surveyor training and qualifications, document quality control, and survey data supporting the FSSRs. In addition, the NRC conducted a number of independent confirmatory surveys to verify the FSS results obtained and reported by the licensee. Confirmatory surveys consisted of surface scans for beta and gamma radiation, direct measurements for total beta activity, and collection of smear samples for determining removable radioactivity levels.

The NRC staff reviewed the FSS Report and concludes that: (I) Dismantlement and decontamination activities were performed in accordance with the approved LTP; and (ii) The FSS and associated documentation, including an assessment of dose contributions associated with parts released for use before approval of the LTP, demonstrate that the facility and site have met the criteria for decommissioning in 10 CFR Part 20, Subpart E. Therefore, NRC is terminating TNP Facility Operating License No. NPF-1.

FOR FURTHER INFORMATION: See the application dated December 20, 2004, and the Safety Evaluation Report, available for public inspection at the Commission's Public

Document Room (PDR), located at One White Flint North, Public File Area O1 F21, 11555 Rockville Pike (first floor), Rockville, Maryland. Publicly available records will be accessible electronically from the Agency-wide Documents Access and Management System's (ADAMS) Public Electronic Reading Room on the Internet at the NRC Web site, *http://www.nrc.gov/reading-rm/adams.html* (ADAMS Accession Nos. ML050030054, and ML050680345). Persons who do not have access to ADAMS or who encounter problems in accessing the documents located in ADAMS, should contact the NRC PDR Reference staff by telephone at 1-800-397-4209, 301-415-4737 or by e-mail to *pdr@nrc.gov.*

Dated at Rockville, Maryland this 23rd day of May, 2005.

For The Nuclear Regulatory Commission

/RA/

Andrew Persinko, Acting Deputy Director
Decommissioning Directorate
Division of Waste Management and
Environmental Protection
Office of Nuclear Material Safety
and Safeguards

Trojan Nuclear Power Service List

cc:

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Chairman of the Board of County
Commissioners
Columbia County
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Regional Administrator, RIV
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Do It Yourself Committee
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Douglas Nichols, Esq.
Vice President, General Council
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EXHIBIT B

**Stock Purchase Agreement between Scottish Power plc,
PacifiCorp Holdings, Inc., and
MidAmerican Energy Holdings Company
(May 23, 2005)**

EXECUTION COPY

STOCK PURCHASE AGREEMENT

BY AND AMONG

SCOTTISH POWER PLC, AS SELLER PARENT,

PACIFICORP HOLDINGS, INC., AS SELLER,

AND

MIDAMERICAN ENERGY HOLDINGS COMPANY,
AS BUYER,

FOR THE PURCHASE AND SALE OF

ALL OF THE COMMON STOCK, NO PAR VALUE,

OF PACIFICORP, AN OREGON CORPORATION

Dated as of May 23, 2005

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Seller Parent Disclosure Letter

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "**Agreement**") is made and entered into as of this 23rd day of May, 2005, by and among Scottish Power plc, a Scottish public limited company registered under the laws of Scotland (the "**Seller Parent**"), PacifiCorp Holdings, Inc., a Delaware corporation and indirect wholly owned subsidiary of Seller Parent (the "**Seller**"), and MidAmerican Energy Holdings Company, an Iowa corporation (the "**Buyer**").

WITNESSETH:

WHEREAS, the Seller owns 312,176,089 shares (together with any and all shares of Common Stock issued pursuant to Section 4.1(e), the "**Shares**") of Common Stock, no par value (the "**Common Stock**"), of PacifiCorp, an Oregon corporation (the "**Company**"); and

WHEREAS, the Buyer desires to purchase all of the Shares from the Seller, and the Seller desires to sell its Shares to the Buyer, in each case upon the terms and subject to the conditions set forth in this Agreement; and

NOW, THEREFORE, in consideration of the mutual terms, conditions and other agreements set forth herein, the parties hereto hereby agree as follows:

ARTICLE I.

SALE AND PURCHASE

SECTION 1.1. Agreement to Sell and to Purchase. On the Closing Date and upon the terms and subject to the conditions set forth in this Agreement, the Seller shall (and the Seller Parent shall cause the Seller to) sell, assign, transfer, convey and deliver all of the Shares, free and clear of any pledges, restrictions on transfer, proxies and voting or other agreements, liens, claims, charges, mortgages, security interests or other legal or equitable encumbrances, limitations or restrictions of any nature whatsoever ("**Encumbrances**"), to the Buyer, and the Buyer shall purchase the Shares from the Seller.

SECTION 1.2. Closing. Subject to the provisions of the last sentence of Section 6.2(c), the closing of the sale and purchase of the Shares (the "**Closing**") shall take place at 10:00 A.M., three business days after the satisfaction or waiver of the conditions contained in Article VI (other than those conditions that by their nature are to be fulfilled at Closing), or at such other time and date as the Buyer and the Seller Parent shall agree in writing (the "**Closing Date**"), at the offices of Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019, or at such other place as the Buyer and the Seller Parent shall agree in writing. At the Closing, the Seller shall (and the Seller Parent shall cause the Seller to) deliver to the Buyer, or its designees, a certificate or certificates evidencing the Shares, with a stock power duly endorsed in blank. In full consideration for the Shares, the Buyer shall thereupon pay to the Seller an amount (the "**Purchase Price**") equal to $5,109,500,000 plus an amount equal to the aggregate amount of capital contributions made to the Company pursuant to Section 4.1(a)(i)(y) in immediately available funds to an account designated in writing by the Seller Parent to the Buyer at least 48

hours before the Closing without deduction, setoff or withholding except as provided in this Agreement.

ARTICLE II.

REPRESENTATIONS AND WARRANTIES OF THE SELLER PARENT AND THE SELLER

The Seller Parent and the Seller hereby, jointly and severally, represent and warrant to the Buyer, as of the date hereof and as of the Closing Date (or if made as of a specified date, such date), as follows:

SECTION 2.1. Organization and Qualification. (a) Each of the Seller Parent and the Seller is duly organized, validly existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of its jurisdiction of organization. Each of the Company and the Company's Subsidiaries is duly organized, validly existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of its jurisdiction of organization and has full corporate or partnership, as the case may be, power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties, except for such failures to be so organized, existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) or to have such power and authority which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. Each of the Company and its Subsidiaries is duly qualified, licensed or admitted to do business and is in good standing (with respect to jurisdictions which recognize the concept of good standing) in each jurisdiction in which the ownership, use or leasing of its assets and properties, or the conduct or nature of its business, makes such qualification, licensing or admission necessary, except for such failures to be so qualified, licensed or admitted and in good standing (with respect to jurisdictions which recognize the concept of good standing) which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. Section 2.1 of the letter, dated May 23, 2005, and delivered to the Buyer by the Seller Parent on such date (the "**Seller Parent Disclosure Letter**") (i) sets forth the name and jurisdiction of organization of each Subsidiary of the Company, (ii) with respect to Subsidiaries that are corporations, lists (A) such Subsidiary's authorized capital stock, (B) the number of issued and outstanding shares of such Subsidiary's capital stock and (C) the record owners of such Subsidiary's shares, (iii) with respect to Subsidiaries that are partnerships, lists the names and ownership interests of the partners thereof, and (iv) specifies each of the Subsidiaries that is (A) a "public utility company," a "holding company," an "exempt wholesale generator" or a "foreign utility company" within the meaning of Section 2(a)(5), 2(a)(7), 32(a)(1) or 33(a)(3) of the Public Utility Holding Company Act of 1935, as amended (the "**1935 Act**"), respectively, (B) a "public utility" within the meaning of Section 201(e) of the Federal Power Act (the "**Power Act**") or (C) a "qualifying facility" within the meaning of the Public Utility Regulatory Policies Act of 1978, as amended, or that owns such a qualifying facility. The Seller Parent or the Seller has previously delivered to Buyer copies of the Organizational Documents as currently in effect of the Company and its Subsidiaries. "**Organizational Documents**" shall mean certificates or articles of incorporation, bylaws, certificates of formation, limited liability

company agreements, partnership or limited partnership agreements, or other formation or governing documents of a particular entity.

(b) Section 2.1 of the Seller Parent Disclosure Letter sets forth a description of all Joint Ventures in existence as of the date hereof, including (i) the name of each such entity and the Company's interest therein, and (ii) a brief description of the principal line or lines of business conducted by each such entity. For purposes of this Agreement, "**Joint Venture**" shall mean any corporation or other entity (including, but not limited to, partnerships and other business associations) that is not a Subsidiary of the Company and in which the Company or one or more of its Subsidiaries owns directly or indirectly an equity or similar interest, other than equity interests which are less than 5% of each class of the outstanding voting securities or equity interests of any such entity.

(c) Except for interests in the Subsidiaries of the Company and the Joint Ventures, and as disclosed in the SEC Reports filed on or before the Cutoff Date or Section 2.1 of the Seller Parent Disclosure Letter, none of the Company nor any of its Subsidiaries owns, directly or indirectly, any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any material corporation, partnership, limited liability company, joint venture or other business association or entity. "**Cutoff Date**" shall mean (i) in the case of the Draft 2005 10-K, May 20, 2005, and (ii) in all other cases, the date which is 10 days before the date hereof.

(d) Except as disclosed in Section 2.1 of the Seller Parent Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar Contract (including without limitation any Contract relating to any transaction or relationship between or among the Company and any of its Subsidiaries, on the one hand, and any unconsolidated affiliate, including without limitation any structured finance, special purpose or limited purpose entity or person, on the other hand, or any "off-balance sheet arrangement" (as defined in Item 303(a) of Regulation S-K of the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "**Securities Act**")).

(e) Section 2.1 of the Seller Parent Disclosure Letter sets forth the direct and indirect ownership of the capital stock of the Seller.

SECTION 2.2. Capital Stock. (a) The authorized and outstanding capital stock of the Company consists of:

(i) 750 million shares of Common Stock, of which 312,176,089 are issued and outstanding, and

(ii) 126,533 shares of 5% preferred stock, of which 126,243 are issued and outstanding; 3.5 million shares of serial preferred stock, of which 288,390 are issued and outstanding and of which 2,065 are designated the 4.52% Series, 18,046 are designated the 7.00% Series, 5,930 are designated the 6.00% Series, 41,908 are designated the 5.00% Series, 65,959 are designated the 5.40% Series, 69,890 are designated the 4.72% Series, and 84,592 are designated the 4.56% Series, respectively; and 16 million shares of no par serial preferred stock,

of which 525,000 shares are designated the $7.48 Series (collectively, the **"Company Preferred Stock"**).

All of the issued and outstanding shares of capital stock of the Company, and all shares reserved for issuance will be, upon issuance in accordance with the terms specified in the instruments or agreements pursuant to which they are issuable, duly authorized, validly issued, fully paid and nonassessable. There were no outstanding subscriptions, options, warrants, rights (including, but not limited to, stock appreciation rights), preemptive rights or other contracts, commitments, understandings or arrangements, including, but not limited to, any right of conversion or exchange under any outstanding security, instrument or agreement (together, **"Options"**), obligating the Company or any of its Subsidiaries to issue or sell any shares of capital stock of the Company or to grant, extend or enter into any Option with respect thereto.

(b) Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date or Section 2.2 of the Seller Parent Disclosure Letter, all of the outstanding shares of capital stock of each Subsidiary of the Company are duly authorized, validly issued, fully paid and nonassessable and are owned, beneficially and of record, by the Company or a Subsidiary wholly owned, directly or indirectly, by the Company, free and clear of any Encumbrances, other than Encumbrances or failures to so own which are immaterial. Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date or Section 2.2 of the Seller Parent Disclosure Letter, there are no (i) outstanding Options obligating the Company or any of its Subsidiaries to issue or sell any shares of capital stock of any Subsidiary of the Company or to grant, extend or enter into any such Option or (ii) voting trusts, proxies or other commitments, understandings, restrictions or arrangements in favor of any person other than the Company or a Subsidiary wholly owned, directly or indirectly, by the Company with respect to the voting of, or the right to participate in dividends or other earnings on, any capital stock of any Subsidiary of the Company.

(c) The Company is a "public utility company" and a "subsidiary company" of a "holding company" that is registered under Section 5 of the 1935 Act. None of the Joint Ventures is a "public utility company" or a "holding company" within the meaning of Section 2(a)(5) or 2(a)(7) of the 1935 Act, respectively.

(d) Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date or Section 2.2 of the Seller Parent Disclosure Letter, there are no outstanding contractual obligations of the Company or any Subsidiary of the Company to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any material capital stock of any Subsidiary of the Company or to provide any material amount of funds to, or make any material investments (in the form of a loan, capital contribution or otherwise) in, any Subsidiary of the Company or any other person.

(e) No bonds, debentures, notes, or other indebtedness of the Company or any of its Subsidiaries having the right to vote (or which are convertible into or exercisable for securities having the right to vote) (collectively, **"Company Voting Debt"**) on any matters on which Company shareholders may vote are issued or outstanding nor are there any outstanding Options obligating the Company or any of its Subsidiaries to issue or sell any Company Voting Debt or to grant, extend or enter into any Option with respect thereto.

SECTION 2.3. Authority Relative to this Agreement. Each of the Seller Parent and the Seller has full corporate power and authority to enter into this Agreement, and, subject to obtaining the Seller Parent Shareholders' Approval, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by each of the Seller Parent and the Seller and the consummation by each of them of the transactions contemplated hereby have been duly and validly approved by their respective Boards of Directors (and, in the case of the Seller, all of its direct shareholders), and no other corporate proceedings on the part of the Seller Parent or the Seller are necessary to authorize the execution, delivery and performance of this Agreement by the Seller Parent and the Seller and the consummation by the Seller Parent and the Seller of the transactions contemplated hereby, other than obtaining the Seller Parent Shareholders' Approval.

The Board of Directors of the Seller Parent has unanimously passed a resolution declaring the advisability of this Agreement and the purchase and sale of the Shares (the "**Share Purchase**") and the other transactions contemplated hereby and resolving that the same be submitted for consideration by the shareholders of the Seller Parent. This Agreement has been duly and validly executed and delivered by the Seller Parent and the Seller and constitutes a legal, valid and binding obligation of each of them enforceable against each of them in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 2.4. Non-Contravention; Approvals and Consents. (a) The execution and delivery of this Agreement by the Seller Parent and the Seller do not, and the performance by each of them of its obligations hereunder and the consummation of the transactions contemplated hereby will not, conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any Encumbrances upon any of the assets or properties of the Seller Parent, the Seller, the Company or any of the Company's Subsidiaries or any of the Joint Ventures under, any of the terms, conditions or provisions of (i) the Organizational Documents of the Seller Parent, the Seller, the Company or any of the Company's Subsidiaries, or (ii) subject to the obtaining of the Seller Parent Shareholders' Approval and the taking of the actions described in Section 2.4(b), (x) any statute, law, rule, regulation or ordinance (together, "**laws**"), or any judgment, decree, order, writ, permit or license (together, "**orders**"), of any court, tribunal arbitrator, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision (a "**Governmental or Regulatory Authority**") applicable to the Seller Parent, the Seller, the Company or any of the Company's Subsidiaries or any of the Joint Ventures or any of their respective assets or properties, or (y) except as disclosed in Section 2.4 of the Seller Parent Disclosure Letter, any note, bond, mortgage, security agreement, indenture, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind (together, "**Contracts**") to which any of them is a party or by which any of them or any of their respective assets or properties is bound, excluding from the foregoing clauses (x) and (y) conflicts, violations, breaches, defaults, rights of payment or reimbursement, terminations, cancellations, modifications, accelerations and creations and impositions of Encumbrances

which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Seller Parent or the Seller to consummate the transactions contemplated by this Agreement.

(b) Except (i) for the filing of a premerger notification report by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the "**HSR Act**"), (ii) for the approval by the United Kingdom Listing Authority (the "**UKLA**") of the Seller Shareholder Disclosure Documents, (iii) for the filings with and notices to the Securities and Exchange Commission (the "**SEC**") pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "**Exchange Act**"), (iv) for the filings with, notices to, and orders, consents and approvals of, the SEC pursuant to the 1935 Act, (v) for the filing of an application under Section 203 of the Power Act for the sale or disposition of jurisdictional facilities of the Company, (vi) for the filings with, notices to, and orders, consents and approvals of, the Nuclear Regulatory Commission ("**NRC**"), (vii) for the filings with, notices to, and orders, consents and approvals of, the Federal Communications Commission ("**FCC**"), (viii) for the filings with, notices to, and orders, consents and approvals of, the state public utilities commission (including, without limitation, the state utility regulatory agencies of California, Idaho, Oregon, Utah, Washington and Wyoming), and (ix) as disclosed in Section 2.4 of the Seller Parent Disclosure Letter, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other public or private third party is necessary or required under any of the terms, conditions or provisions of any law or order of any Governmental or Regulatory Authority or any Contract to which the Seller Parent, the Seller, the Company or any of the Company's Subsidiaries or any of the Joint Ventures is a party or by which the Seller Parent, the Seller, the Company or any of the Company's Subsidiaries or any of the Joint Ventures or any of their respective assets or properties is bound, for the execution and delivery of this Agreement by the Seller Parent and the Seller, the performance by the Seller Parent and the Seller of their respective obligations hereunder or the consummation of the transactions contemplated hereby, other than such consents, approvals, actions, filings and notices which the failure to make or obtain, as the case may be, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Seller Parent or the Seller to consummate the transactions contemplated by this Agreement.

SECTION 2.5. SEC Reports, Financial Statements and Utility Reports.

(a) The Seller Parent has delivered or made available to the Buyer via EDGAR filings with the SEC a true and complete copy of each form, report, schedule, registration statement, registration exemption, if applicable, definitive proxy statement and other document (together with all amendments thereof and supplements thereto) filed by the Company or any of its Subsidiaries with the SEC under the Securities Act and the Exchange Act since March 31, 2003, and the draft annual report on Form 10-K of the Company, dated May 20, 2005, labeled Draft No. 12, for the fiscal year ended March 31, 2005 (the "**Draft 2005 10-K**") (as such documents have since the time of their filing been amended or supplemented, the "**SEC Reports**"), which are all the documents (other than preliminary materials) that the Company and its Subsidiaries were required to file with the SEC since such date. As of their respective dates, the SEC Reports (assuming, in the case of the Draft 2005 10-K, that the Company's consolidated unaudited financial statements contained therein for the fiscal year ended March 31, 2005 are

equivalent to audited financial statements) (i) complied as to form in all material respects with the requirements of the Securities Act and the Exchange Act (in each case, to the extent applicable), and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. For purposes of this Agreement, both the Draft 2005 10-K and the Company's actual report annual report on Form 10-K for the fiscal year ended March 31, 2005 shall be deemed SEC Reports, with the Draft 2005 10-K being assumed to have been filed with the SEC on May 20, 2005. The Seller Parent has, on or before May 20, 2005, delivered to the Buyer the unaudited consolidated financial statements of the Company as of and for the year ended March 31, 2005 as contained in the Draft 2005 10-K (the "**FY 2005 Statements**"). The FY 2005 Statements and the audited consolidated financial statements and unaudited interim consolidated financial statements (including, in each case the notes, if any, thereto) included in the SEC Reports (collectively, the "**Company Financial Statements**") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be expressly indicated therein or in the notes thereto and except with respect to unaudited statements (other than the FY 2005 Statements) as permitted by Form 10-Q under the Exchange Act) and fairly present (subject, in the case of the unaudited interim financial statements, to the absence of footnotes normally contained therein and normal year-end audit adjustments (which are not expected to be, individually or in the aggregate, materially adverse to the Company and its Subsidiaries taken as a whole)) the consolidated financial position of the Company and its consolidated subsidiaries as at the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended. Except as set forth in Section 2.5 of the Seller Parent Disclosure Letter, each Subsidiary of the Company is treated as a consolidated subsidiary of the Company in the Company Financial Statements for all periods covered thereby.

(b) The Company, its Subsidiaries and the Joint Ventures are in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated thereunder or under the Exchange Act (the "**Sarbanes-Oxley Act**"). Except as permitted by the Exchange Act, including, without limitation, Sections 13(k)(2) and (3) thereof, since the enactment of the Sarbanes-Oxley Act, neither the Company nor any of its affiliates has made, arranged or modified (in any material way) personal loans to any executive officer or director of the Company or any of its Subsidiaries.

(c) The Company its Subsidiaries and the Joint Ventures required to file documents with or furnish documents to the SEC pursuant to the Securities Act or the Exchange Act (a "**Company Reporting Entity**") has (i) designed disclosure controls and procedures to ensure that material information relating to it and its consolidated Subsidiaries, is made known to its management by others within those entities and (ii) to the extent required by applicable laws, disclosed, based on its most recent evaluation, to its auditors and the audit committee of its Board of Directors (A) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect its ability to record, process, summarize and report financial information and (B) to the knowledge of the Seller Parent, any

fraud, whether or not material, that involves management or other employees who have a significant role in such entity's internal control over financial reporting.

(d) The Company and each Company Reporting Entity has complied with the applicable requirements of Section 404 of the Sarbanes-Oxley Act on or before the date by which they must comply with such requirements.

(e) Through the date hereof, the Seller Parent has delivered to the Buyer copies of any written notifications it has received since December 31, 2002 of a (i) "reportable condition" or (ii) "material weakness" in the Company's internal controls. For purposes of this Agreement, the terms **"reportable condition"** and **"material weakness"** shall have the meanings assigned to them in the Statements of Auditing Standards No. 60, as in effect on the date hereof.

(f) All material filings required to be made by the Company or any of its Subsidiaries since December 31, 2002 under the 1935 Act, the Power Act and applicable state public utility laws and regulations, including, but not limited to, all material written forms, statements, reports, agreements and all material documents, exhibits, amendments and supplements appertaining thereto, including, but not limited to, all material rates, tariffs, franchises, service agreements and related documents, (i) have been filed with the SEC, the Federal Energy Regulatory Commission (the **"FERC"**), the Department of Energy (the **"DOE"**) or any appropriate state public utilities commission (including, without limitation, the state utility regulatory agencies of California, Idaho, Oregon, Utah, Washington and Wyoming), as the case may be, (ii) have been timely filed (in respect of filings with the SEC and the FERC), and (iii) complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statute and the rules and regulations thereunder.

SECTION 2.6. Absence of Certain Changes or Events. Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date, the FY 2005 Statements or Section 2.6 of the Seller Parent Disclosure Letter, since March 31, 2005, (a) there has not been (i) any change, event or development that would reasonably be expected to have individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole (other than those changes, events or developments occurring as a result of weather conditions or general economic or financial conditions, in each case which are not unique to or do not disproportionately affect in a material manner (in relation to the effects on other entities who participate or are engaged in the lines of business in which the Company and its Subsidiaries are engaged) the Company and its Subsidiaries), nor (ii) any transaction that would have been prohibited by Section 4.1(a)(ii), (iii) or (iv), 4.1(b) through 4.1(r), inclusive, 4.3, 4.4 or 4.5, as if such provisions had been in effect on March 31, 2005 (it being understood that for purposes of this Section 2.6(a)(ii), all references in Section 4.1(i) to "the date hereof" shall mean March 31, 2005), and (b) the Company and its Subsidiaries and the Joint Ventures have conducted their respective businesses only in the ordinary course consistent with past practice.

SECTION 2.7. Absence of Undisclosed Liabilities. Except for matters reflected or reserved against in the balance sheet for the period ended March 31, 2005 included in the Company Financial Statements (including the notes thereto) or as disclosed in the SEC Reports filed on or prior to the Cutoff Date or in Section 2.7 of the Seller Parent Disclosure Letter,

neither the Company nor any of its Subsidiaries had at such date, or has incurred since such date, any liabilities or obligations (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due) of any nature that would be required by U.S. generally accepted accounting principles applied on a consistent basis to be reflected on a consolidated balance sheet of the Company and its consolidated subsidiaries (including the notes thereto), except liabilities or obligations (i) which did not so exist on or before March 31, 2005 and were incurred in the ordinary course of business consistent with past practice or (ii) would not reasonably be expected to have individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

SECTION 2.8. Legal Proceedings. Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date, the FY 2005 Statements or in Section 2.8 of the Seller Parent Disclosure Letter and except for environmental matters which are governed by Section 2.15, (i) there are no actions, suits, arbitrations or proceedings (including, without limitation, Governmental or Regulatory Authority investigations or audits), pending or, to the knowledge of the Seller Parent, threatened in writing against the Seller Parent, the Seller, the Company or any of the Company's affiliates or any of the Joint Ventures or any of their respective officers, directors, employees (in each case in their capacity as such), assets and properties which, individually or in the aggregate, have had, or would reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Seller Parent or the Seller to consummate the transactions contemplated by this Agreement, and (ii) none of the Seller Parent, the Seller, the Company nor any of the Company's Subsidiaries is subject to any order of any Governmental or Regulatory Authority which, individually or in the aggregate, is having, or would reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Seller Parent or the Seller to consummate the transactions contemplated by this Agreement.

SECTION 2.9. Seller Parent Circular. (a) The Class 1 circular required by the Listing Rules (the "**Listing Rules**") of the UKLA to be issued to shareholders of Seller Parent (the "**Circular**") (together with any amendments or supplements thereto, the "**Seller Parent Disclosure Documents**")) will, at all relevant times, include all information, which, in each case, is required to enable the Seller Parent Disclosure Documents, the parties hereto and the Company to comply (in respect of the transactions contemplated hereby) in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act of 1985 of the United Kingdom (the "**Companies Act**"), the Financial Services and Markets Act 2000 of the United Kingdom and the rules and regulations made thereunder, and the rules and requirements of the UKLA and all such information contained in such documents will be in accordance with the facts and will not omit anything material likely to affect the import of such information.

(b) Notwithstanding the foregoing provisions of this Section 2.9, no representation or warranty is made by the Seller Parent or the Seller with respect to statements made or incorporated by reference in the Seller Parent Disclosure Documents based on information supplied by Buyer expressly for inclusion or incorporation by reference therein.

SECTION 2.10. Permits; Compliance with Laws and Orders. The Company, its Subsidiaries and the Joint Ventures hold all permits, licenses, authorizations, franchises,

variances, exemptions, orders and approvals of all Governmental and Regulatory Authorities (other than environmental permits which are governed by Section 2.15) necessary for the lawful conduct of their respective businesses (the "**Company Permits**"), except for failures to hold such Company Permits which, individually or in the aggregate, are not having, and would not reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole. The Company, its Subsidiaries and the Joint Ventures are in compliance with the terms of the Company Permits, except failures so to comply which, individually or in the aggregate, are not having, and would not reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole. Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date or Section 2.10 of the Seller Parent Disclosure Letter, the Company, its Subsidiaries and the Joint Ventures are not (and since December 31, 2002, have not been) in violation of or default under any law or order of any Governmental or Regulatory Authority, except for such violations or defaults which, individually or in the aggregate, are not having, and would not reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole. No modification, suspension or cancellation of any of the Company Permits is pending or, to the knowledge of the Seller Parent, threatened, except where the modification, suspension or cancellation of any of the Company Permits, individually or the aggregate, has not had, and would not reasonably be expected to have, a material adverse effect on the Company, its Subsidiaries and the Joint Ventures, and no notice of violation of any of the Company Permits has been received or, to the knowledge of the Seller Parent, threatened, except for violations of any of the Company Permits that would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company. With respect to any of the Company Permits that are required to be renewed or reissued in order for the Company to continue its business as conducted on the date hereof, to the knowledge of the Seller Parent, there are no actions, events or circumstances that could reasonably be expected to adversely affect the renewal, extension or reissuance of any such Company Permit, except those that would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company.

SECTION 2.11. Compliance with Agreements. Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date, the FY 2005 Statements or Section 2.11 of the Seller Parent Disclosure Letter:

(a) neither the Company nor any of its Subsidiaries nor any of the Joint Ventures nor, to the knowledge of the Seller Parent, any other party thereto is in breach or violation of, or in default in the performance or observance of any term or provision of, and no event has occurred which, with notice or lapse of time or both, would reasonably be expected to result in a default under, (i) the Organizational Documents of the Company or any of its Subsidiaries or (ii) any Contract to which the Company or any of its Subsidiaries or any of the Joint Ventures is a party or by which the Company or any of its Subsidiaries, or any of the Joint Ventures or any of their respective assets or properties is bound, except in the case of this clause (ii), for breaches, violations and defaults which, individually or in the aggregate, are not having, and would not reasonably be expected to have, a material adverse effect on the Company, its Subsidiaries and the Joint Ventures taken as a whole;

(b) neither the Company nor any of its Subsidiaries nor any of the Joint Ventures is a party to or bound by any Contract that (i) would, after giving effect to the

consummation of the transactions contemplated by this Agreement, limit or restrict the Company or any of its Subsidiaries or any successor thereto, from engaging or competing in any line of business or in any geographic area or that contains restrictions on pricing (including most favored nation provisions) or exclusivity or non-solicitation provisions with respect to customers, (ii) limits or otherwise restricts the ability of the Company, any of its Subsidiaries or any Joint Venture to pay dividends or make distributions to its shareholders, (iii) provides for the operation or management of any operating assets of the Company or any of its Subsidiaries by any person other than the Company and its Subsidiaries or (iv) is a material guarantee or contains a material guarantee by the Company, any of its Subsidiaries or any Joint Venture of any indebtedness or other obligations of any person and has had, or would have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as whole; and

(c) each Contract to which the Company, any of its Subsidiaries or any Joint Venture is a party is valid, binding and enforceable against the parties thereto, and is in full force and effect, except for such failures to be valid, binding and enforceable or to be in full force and effect, as, individually or in the aggregate, are not having, and would not materially be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole.

SECTION 2.12. Taxes.

(a) Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date, the FY 2005 Statements or Section 2.12 of the Seller Parent Disclosure Letter:

(i) The Seller is the common parent of an affiliated group of corporations (within the meaning of Section 1504(a) of the Internal Revenue Code of 1986, as amended (the "**Code**")) that file consolidated federal income Tax Returns and the Company and its Subsidiaries are members of such group. Each of the Company and its Subsidiaries has filed, or has joined in the filing of, all material Tax Returns required to be filed by or with respect to it, or requests for extensions to file such Tax Returns have been timely filed or granted and have not expired, and all Tax Returns are complete and accurate in all respects, except to the extent that such failures to either file, to have extensions granted that remain in effect or to file returns complete and accurate in all respects, as applicable, do not have, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole. The Company and each of its Subsidiaries has paid (or the Seller has paid on its behalf) all Taxes shown as due on such Tax Returns. No deficiencies for any Taxes have been proposed, asserted or assessed against the Company or any of its Subsidiaries that are not adequately reserved for, except for inadequately reserved Taxes and inadequately reserved deficiencies that do not have, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole. No requests for waivers or extensions of the time to assess any Taxes against the Company or any of its Subsidiaries have been granted or are pending, except for requests with respect to such Taxes that have been adequately reserved for in the FY 2005 Statements or, to the extent not adequately reserved, the assessment of which has not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

(ii) Except as disclosed in Section 2.12 of the Seller Parent Disclosure Letter or has not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole, neither the Company nor any of its Subsidiaries is obligated to make any payment, or is a party to any agreement that obligates it to make any payments that will not be deductible under Code Section 280G.

(iii) Each of the Company and its Subsidiaries has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of United States federal income tax within the meaning of Code Section 6662 and the regulations in respect thereof in existence on the date hereof.

(iv) Neither the Company nor any of its Subsidiaries has in any year for which the applicable statute of limitations remains open distributed stock of another person, or has had its stock distributed by another person, in a transaction that was purported or intended to be governed in whole or in part by Section 355 or Section 361 of the Code.

(v) All Taxes which the Company or any of its Subsidiaries are required to withhold or collect, including, but not limited to, Taxes required to have been withheld in connection with amounts paid or owing to an employee, independent contractor, creditor, shareholder or other third party and sales, gross receipts and use taxes, have been duly withheld or collected and, to the extent required, have been paid over to the proper governmental agency or are held in separate bank accounts for such purpose. The Company and its Subsidiaries have duly and timely filed all Tax Returns with respect to such withheld Taxes.

(vi) No claim has been made in writing by a Governmental or Regulatory Authority in a jurisdiction where the Company or any of its Subsidiaries does not file Tax Returns such that the Company or any of its Subsidiaries is or may be subject to taxation by that jurisdiction.

(vii) No material Encumbrance for Taxes exists with respect to any property or assets of the Company or any of its Subsidiaries, except Encumbrances for current Taxes not yet due and payable or Taxes being contested in good faith by appropriate proceedings and for which adequate reserves are being maintained on the most recent financial statements contained in the SEC Reports or in the FY 2005 Statements.

(viii) No closing agreements, private letter rulings, technical advice memoranda or similar agreements or rulings with respect to Taxes have been entered into with or issued by any governmental authority or requested from any governmental authority with respect to the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has executed or filed any power of attorney with respect to Taxes which is currently in force.

(ix) The Company and its Subsidiaries are, and have at all times been, in compliance with the provisions of Sections 6011, 6111 and 6112 of the Code relating to tax shelter disclosure, registration and list maintenance and with the Treasury Regulations thereunder, and neither the Company nor any of the Subsidiaries has at any time, engaged in or entered into a "listed transaction" within the meaning of Treasury Regulation Sections 1.6011-

4(b)(2), 301.6111-2(b)(2) or 301.6112-1(b)(2)(A). No IRS Form 8886 has been filed with respect to any Company or any Subsidiary. Neither the Company nor any of its Subsidiaries has entered into any tax shelter or listed transaction with the sole or dominant purpose of the avoidance or reduction of a Tax liability in a jurisdiction outside the United States with respect to which there is a significant risk of challenge of such transaction by a governmental authority in a jurisdiction outside the United States.

(b) The unpaid Taxes of the Company and its Subsidiaries for any taxable year or period ending on or before March 31, 2005 (or for any taxable year or period beginning on or before and ending after March 31, 2005, the portion of such taxable year or period) for which Tax Returns have not yet been filed do not exceed in any material amount the reserve for actual Taxes (as opposed to any reserve for deferred Taxes established to reflect timing differences between book and Tax income) taken into account on the Company Financial Statements.

(c) Except as set forth in Section 2.12 of the Seller Parent Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to, bound by or otherwise obligated under any Tax allocation, indemnity or sharing agreement or any similar contract or arrangement. Section 2.12 of the Seller Parent Disclosure Letter contains a true and correct copy of each agreement listed therein. No amounts are or will be due by the Company or any Subsidiary under any such agreement other than the Amended Tax Allocation Agreement, dated as of April 1, 2004, by and among the Seller and its Subsidiaries, a copy of which has been provided to the Buyer, and other than amounts reserved for on the FY 2005 Statements. Neither the Company nor any of its Subsidiaries (i) has been a member of an affiliated group filing a consolidated federal income tax return (other than a group the common parent of which is the Seller, or a predecessor thereof) or (ii) has any material liability for the Taxes of any person (other than any member of the Seller federal consolidated tax group) under United States Treasury Regulation Section 1.1502-6 (or any similar provision or state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

SECTION 2.13. Employee Benefit Plans; ERISA.

(a) Employee Benefit Plans; ERISA. Except as disclosed in Section 2.13 of the Seller Parent Disclosure Letter, the SEC Reports filed on or prior to the Cut-Off Date or as would not be reasonably expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole, (i) all Company Employee Benefit Plans are in compliance with all applicable requirements of law, including without limitation ERISA and the Code, and (ii) neither the Company nor any of its Subsidiaries has any liabilities or obligations with respect to any such Company Employee Benefit Plans, whether accrued, contingent or otherwise, nor to the knowledge of the Seller Parent are any such liabilities or obligations expected to be incurred. Except as specifically set forth in Section 2.13 of the Seller Parent Disclosure Letter, the execution of, and performance of the transactions contemplated by, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Employee Benefit Plan that will, or could reasonably be expected to, result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee in an amount that could reasonably be expected to have a material adverse

effect on the Company and its Subsidiaries taken as a whole. The only severance agreements or severance policies applicable to the Company or any of its Subsidiaries are the agreements and policies specifically referred to in Section 2.13 of the Seller Parent Disclosure Letter.

(b) As used herein:

"Employee Benefit Plan" means any material Plan (other than any "multiemployer plan," as that term is defined in Section 4001 of ERISA) entered into, established, maintained, sponsored, contributed to or required to be contributed to by the Seller Parent or any of its Subsidiaries for the benefit of the current or former employees or directors of the Company or any of its Subsidiaries (including any of the Company's former Subsidiaries) and existing on the date hereof or at any time subsequent thereto and, in the case of a Plan which is subject to Part 3 of Title I of the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations thereunder (**"ERISA"**), Section 412 of the Code or Title IV of ERISA, at any time during the five-year period immediately preceding the date of this Agreement;

"Plan" means any employment, bonus, incentive compensation, deferred compensation, long term incentive, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, medical, accident, disability, severance, separation, termination, change of control or other benefit plan, agreement, practice, policy, program, scheme or arrangement, whether written or oral, and whether applicable to only one individual or a group of individuals, including, but not limited to any "employee benefit plan" within the meaning of Section 3(3) of ERISA; and

"ERISA Affiliate" means any person, who on or before the Closing, is under common control with the Company within the meaning of Section 414 of the Code.

(c) Complete and correct copies of the following documents have been made available to Buyer, on or before the date hereof: (i) all Employee Benefit Plans and any related trust agreements or related insurance contracts and pro forma option agreements, (ii) the most current summary plan descriptions of each Employee Benefit Plan subject to the requirement to give a summary plan description under ERISA, (iii) the most recent Form 5500 and Schedules thereto for each Employee Benefit Plan subject to such reporting, (iv) the most recent determination of the Internal Revenue Service with respect to the qualified status of each Employee Benefit Plan that is intended to qualify under Section 401(a) of the Code, (v) the most recent accountings with respect to each Employee Benefit Plan funded through a trust and (vi) the most recent actuarial report of the qualified actuary of each Employee Benefit Plan with respect to which actuarial valuations are conducted.

(d) Except as set forth in Section 2.13 of the Seller Parent Disclosure Letter, neither the Company nor any Subsidiary maintains or is obligated to provide benefits under any life, medical or health Employee Benefit Plan (other than as an incidental benefit under a Plan qualified under Section 401(a) of the Code) which provides benefits to retirees or other terminated employees other than benefit continuations rights under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(e) Except as set forth in Section 2.13 of the Seller Parent Disclosure Letter, each Employee Benefit Plan covers only employees who are employed by the Company or a Subsidiary (or former employees or beneficiaries with respect to service with the Company or a Subsidiary).

(f) Except as set forth in Section 2.13 of the Seller Parent Disclosure Letter, neither the Company, any Subsidiary nor any ERISA Affiliate has at any time during the five (5) year period preceding the date hereof contributed to any "multiemployer plan", as that term is defined in Section 4001 of ERISA. Except as set forth in Section 2.13 of the Seller Disclosure Letter, with respect to each "multiemployer plan", as defined above, in which the Company, any Subsidiary or any ERISA Affiliate participates or has participated, (i) neither the Company, any Subsidiary nor any ERISA Affiliate has incurred, any withdrawal liability that could reasonably be expected to result in a material adverse effect on the Company and its Subsidiaries taken as a whole; (ii) neither the Company, any Subsidiary nor any ERISA Affiliate has received any notice that (A) any such plan is being reorganized in a manner that will result, or would reasonably be expected to result, in material liability, (B) increased contributions of a material amount may be required to avoid a reduction in plan benefits or the imposition of an excise tax or (C) any such plan is, or would reasonably be expected to become, insolvent; and (iii) on the knowledge of the Seller Parent, there are no PBGC proceedings against any such plan.

(g) Except as set forth in Section 2.13 of the Seller Parent Disclosure Letter, no transaction contemplated by this Agreement will result in liability to the Pension Benefit Guaranty Corporation ("PBGC") under Section 302(c)(11), 4062, 4063, 4064 or 4069 of ERISA, or otherwise, with respect to the Company, any of its Subsidiaries, Buyer or any corporation or organization controlled by or under common control with any of the foregoing within the meaning of Section 4001 of ERISA, and, to the knowledge of the Seller Parent, no event or condition exists or has existed which would reasonably be expected to result in any material liability to the PBGC with respect to the Buyer, the Company, any Subsidiary or any such corporation or organization. To the knowledge of the Seller Parent, except as disclosed in the FY 2005 Statements or Section 2.13 of the Seller Parent Disclosure Letter, no event has occurred and there exists no condition or set of circumstances in connection with any Company Employee Benefit Plan, under which the Company or any Subsidiary, directly or indirectly (through any indemnification agreement or otherwise), could reasonably be expected to be subject to any risk of material liability under Section 409 of ERISA, Section 502(i) of ERISA, Title IV of ERISA or Section 4975 of the Code.

(h) Except as set forth in Section 2.13 of the Seller Parent Disclosure Letter, no "reportable event" within the meaning of Section 4043 of ERISA has occurred with respect to any Employee Benefit Plan that is a defined benefit plan under Section 3(35) of ERISA other than "reportable events" as to which the requirement of notice to the PBGC within thirty days has been waived that could reasonably be expected to result in a material adverse effect on the Company and its Subsidiaries taken as a whole.

(i) Except as set forth in Section 2.13 of the Seller Parent Disclosure Letter, no employer securities (including, without limitation, securities of the Seller Parent and its Subsidiaries), employer real property or other employer property is included in the assets of any Employee Benefit Plan.

(j) Each of the actuarial reports disclosed in Section 2.13 of the Seller Parent Disclosure Letter is the most up to date actuarial report prepared with respect to the Employee Benefit Plan to which such report relates.

SECTION 2.14. Labor Matters. (a) Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date, the FY 2005 Statements or in Section 2.14 of the Seller Parent Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization. Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date, the FY 2005 Statements or in Section 2.14 of the Seller Parent Disclosure Letter, there are no disputes pending or, to the knowledge of the Seller Parent, threatened in writing between the Company or any of its Subsidiaries or any of the Joint Ventures and any trade union or other representatives of its employees, except in each case for such disputes as have not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole, and, to the knowledge of the Seller Parent, except as set forth in Section 2.14 of the Seller Parent Disclosure Letter, there are no material organizational efforts presently being made involving any of the now unorganized employees of the Company or any of its Subsidiaries or any of the Joint Ventures. Since December 31, 2002, there has been no work stoppage, or strike by employees of the Company or any of its Subsidiaries or any of the Joint Ventures except for such work stoppages or strikes as have not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

(b) To the knowledge of the Seller Parent, neither the Company nor any of its Subsidiaries nor any of the Joint Ventures is in material violation of any labor laws in any country (or political subdivision thereof) in which they transact business except for such violations as have not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

SECTION 2.15. Environmental Matters. Except as disclosed in the SEC Reports filed on or prior to the Cutoff Date, the FY 2005 Statements or in Section 2.15 of the Seller Parent Disclosure Letter or except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole:

(a) (i) Each of the Company, its Subsidiaries and the Joint Ventures is in compliance with all applicable Environmental Laws; and

(ii) Neither the Company nor any of its Subsidiaries nor any of the Joint Ventures has received any written communication since January 1, 2001 from any person or Governmental or Regulatory Authority that alleges that the Company or any of its Subsidiaries or any of the Joint Ventures is not in such compliance with applicable Environmental Laws, except for any such non-compliance that has been settled or resolved.

(b) Each of the Company, its Subsidiaries and the Joint Ventures has obtained or maintains all environmental, health and safety permits and governmental authorizations (collectively, the "**Environmental Permits**") necessary for the construction of its facilities and

the conduct of its operations as currently conducted, as applicable, and all such Environmental Permits are in good standing or, where applicable or a renewal application or an application for any new operations that has been timely filed and is pending agency approval, and the Company, its Subsidiaries and the Joint Ventures are in compliance with all terms and conditions of the Environmental Permits.

(c) There is no Environmental Claim pending:

(i) against the Company or any of its Subsidiaries or any of the Joint Ventures;

(ii) to the knowledge of the Seller Parent, against any person or entity whose liability for such Environmental Claim the Company or any of its Subsidiaries or any of the Joint Ventures has or may have been retained or assumed either contractually or by operation of law; or

(iii) against any real or personal property or operations which the Company or any of its Subsidiaries or any of the Joint Ventures currently owns, leases or manages, in whole or in part.

(d) To the knowledge of the Seller Parent, there have not been any Releases or threatened Releases of any Hazardous Material that would be reasonably likely to form the basis of any Environmental Claim against the Company or any of its Subsidiaries or any of the Joint Ventures, or against any person or entity whose liability for any Environmental Claim the Company or any of it Subsidiaries or any of the Joint Ventures has or may have been retained or assumed either contractually or by operation of law.

(e) With respect to any predecessor of the Company or of any of its Subsidiaries, to the knowledge of the Seller Parent, there is no Environmental Claim pending or threatened and there has been no Release or threatened Release of Hazardous Materials that would be reasonably likely to form the basis of any Environmental Claim.

(f) To the knowledge of the Seller Parent, there are no material facts arising since November 29, 1999, that have not been disclosed to the Buyer, which are reasonably likely to form the basis of an Environmental Claim against the Company or any of its Subsidiaries or any of the Joint Ventures arising from (i) environmental remediation or mining reclamation activities, (ii) obligations under the federal Clean Air Act, as amended, or any similar state air emissions permitting law relating to the construction of or modifications to facilities by the Company, its Subsidiaries and the Joint Ventures or such remediation or reclamation facility construction or modification costs known to be required in the future, or (iii) any other environmental matter affecting the Company or its Subsidiaries or any of the Joint Ventures.

(g) As used in this Section 2.15:

"Environmental Claims" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or written notices of noncompliance, liability or violation by any person or entity (including, but not limited to, any Governmental or Regulatory Authority) alleging potential

liability of the Company or any of its Subsidiaries or any of its Joint Ventures (including, without limitation, potential responsibility or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from:

(A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of its Subsidiaries or any of the Joint Ventures;

(B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or

(C) any and all claims by any third party seeking damages, remediation costs, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence, Release or threatened Release of any Hazardous Materials into the environment;

"Environmental Laws" means all Federal, state and local laws, rules and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata or rare, threatened or endangered species and critical habitat), mining or protection of human health as it relates to the Release of Hazardous Materials or mining including, without limitation, the Mine Safety and Health Act (30 U.S.C. § 801 et seq.) and other laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials;

"Hazardous Materials" means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls; (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", or words of similar import, under any Environmental Law; and (c) any other chemical, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which the Company or any of its Subsidiaries or any of its Joint Ventures operates or any jurisdiction which has received such chemical, substance or waste from the Company or its Subsidiaries; and

"Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or real or tangible property.

(h) This Section 2.15 contains the sole and exclusive representations and warranties of the Seller Parent and the Seller with respect to environmental matters arising under any Environmental Law or relating to Hazardous Materials.

SECTION 2.16. Intellectual Property. The Company and its Subsidiaries have all right, title and interest in, or a valid and binding license to use, all Intellectual Property individually or in the aggregate material to the conduct of the businesses of the Company and its Subsidiaries taken as a whole. Except as disclosed in Section 2.16 of the Seller Parent Disclosure Letter, neither the Company nor any Subsidiary of the Company is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property and, to the knowledge of the Seller Parent, such Intellectual Property is not being infringed by any third party, and neither the Company nor any Subsidiary of the Company is infringing any Intellectual Property of any third party, except for such defaults and infringements which, individually or in the aggregate, are not having and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole. For purposes of this Agreement, "**Intellectual Property**" means patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, copyrights and copyright rights and other proprietary intellectual property rights and all pending applications for and registrations of any of the foregoing.

SECTION 2.17. Regulation as a Utility. (a) The Company is not regulated as a public utility by any state other than the States of California, Idaho, Oregon, Utah, Washington and Wyoming. Section 2.17 of the Seller Parent Disclosure Letter lists each Subsidiary of the Company which is a public utility or is otherwise engaged in the regulated supply (including, but not limited to, generation, transmission or distribution) of electricity, natural gas and/or telecommunications. Except as set forth above and in Section 2.17 of the Seller Parent Disclosure Letter, neither the Company nor any "subsidiary company" or "affiliate" of the Company is subject to regulation as a public utility or public service company (or similar designation) by any state in the United States or any foreign country. The Company is not a public utility holding company under the 1935 Act.

(b) As used in this Section 2.17, the terms "**subsidiary company**" and "**affiliate**" shall have the respective meanings ascribed to them in Sections 2(a)(8) and 2(a)(11) of the 1935 Act.

SECTION 2.18. Insurance. Section 2.18 of the Seller Parent Disclosure Letter identifies as of the date hereof the material insurance policies of the Company and its Subsidiaries, and, to the extent applicable to the Company or any of its Subsidiaries, the material occurrence-based insurance policies and in respect of periods prior to the Closing, the material claims-made insurance policies of the Seller Parent and its affiliates. The Seller Parent has made available to the Buyer true and correct copies of each insurance policy identified in Section 2.18 of the Seller Parent Disclosure Letter. Except as set forth in Section 2.18 of the Seller Parent Disclosure Letter, each of the Company and its Subsidiaries is, and has been continuously since January 1, 2000, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business conducted by the Company and its Subsidiaries during such time period. Except as set forth in Section 2.18 of the Seller Parent Disclosure Letter, since March 31, 2003 neither the Company nor any of its Subsidiaries has received any written notice of cancellation or termination with respect to any material insurance policy of the Company or any of its Subsidiaries, or any recommendation from any insurer with respect to any such policy that the Company or any of its

Subsidiaries make any material improvements in, or repairs to, the assets or operations of the Company or any of its Subsidiaries. The material insurance policies of the Company and each of its Subsidiaries are valid and enforceable policies. Except as set forth in Section 2.18 of the Seller Parent Disclosure Letter, the insurance policies of the Company and each of its Subsidiaries are owned by the Seller Parent and, except for occurrence-based policies in respect of occurrences before the Closing and except for claims-made policies in respect of claims made before the Closing, will cease to cover the Company and its Subsidiaries upon Closing.

SECTION 2.19. Vote Required. The only votes of the holders of any class of securities of the Seller Parent or the Company required to approve the transactions are the affirmative vote of a majority of the votes cast by such ordinary shareholders of the Seller Parent as (being entitled to do so) are present and vote in person or by proxy at the Seller Parent Shareholders' Meeting in relation to the approval of the Share Purchase.

SECTION 2.20. Affiliate Transactions. Section 2.20 of the Seller Parent Disclosure Letter sets forth each material transaction since April 1, 2003 between the Company and its Subsidiaries and the Joint Ventures, on the one hand, and the Seller, the Seller Parent and/or any of their respective affiliates (other than the Company and its Subsidiaries) on the other.

SECTION 2.21. Trading. The Company has established risk parameters, limits and guidelines in compliance with the risk management policy approved by the Company's Board of Directors (the "**Company Trading Guidelines**") to restrict the level of risk that the Company, its Subsidiaries and the Joint Ventures are authorized to take with respect to, among other things, the net position resulting from all physical commodity transactions, exchange-traded futures and options transactions, over-the-counter transactions and derivatives thereof and similar transactions (the "**Net Company Position**") and monitors compliance by the Company, its Subsidiaries and the Joint Ventures with such Company Trading Guidelines. The Seller Parent has provided a copy of the Company Trading Guidelines to the Buyer prior to the date of this Agreement. At no time between March 31, 2005 and the date hereof, (i) has the Net Company Position not been within the risk parameters that are set forth in the Company Trading Guidelines, or (ii) has the exposure of the Company and its Subsidiaries with respect to the Net Company Position resulting from all such transactions been material to the Company and its Subsidiaries taken as a whole. From March 31, 2005 to the date hereof, the Company and its Subsidiaries have not, in accordance with generally recognized mark to market accounting policies, experienced an aggregate net loss in its trading and related operations that would be material to the Company and its Subsidiaries taken as a whole.

SECTION 2.22. Article VII of the Company's Articles of Incorporation and Sections 60.825-60.845 of the BCA Not Applicable. The Seller Parent has caused the Company to take all necessary actions so that neither the provisions of Article VII of the Company's Articles of Incorporation nor the provisions of Sections 60.825-60.845 of the BCA (i.e., affiliated transactions and fair price provisions) nor the Oregon Control Share Statute nor any other business combination statute or similar statutory provision will, before the termination of this Agreement, at any time apply to this Agreement or the transactions contemplated hereby.

SECTION 2.23. Sufficiency and Condition of Assets. The assets of the Company and its Subsidiaries are sufficient and adequate to carry on their respective businesses as presently conducted.

SECTION 2.24. Joint Venture Representations. Each representation or warranty made in this Article II relating to a Joint Venture that is neither operated nor managed by the Company or a Subsidiary of the Company shall be deemed to be made only to the Seller Parent's knowledge.

ARTICLE III.

REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer represents and warrants to the Seller Parent and the Seller, as of the date hereof and as of the Closing Date, as follows:

SECTION 3.1. Organization. The Buyer is a corporation duly incorporated, validly existing and in good standing under the laws of Iowa.

SECTION 3.2. Authority Relative to This Agreement. The Buyer has full power and authority to enter into this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution, delivery and performance of this agreement by the Buyer of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of the Buyer, and no other corporate proceedings on the part of the Buyer or its shareholders are necessary to authorize the execution, delivery and performance of this Agreement by the Buyer, and the consummation by the Buyer of the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Buyer and constitutes a legal, valid and binding obligation of the Buyer enforceable against the Buyer in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3.3. Non-Contravention; Approvals and Consents. (a) The execution and delivery of this Agreement by the Buyer do not, and the performance by the Buyer of its obligations hereunder and the consummation of the transactions contemplated hereby will not, conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any Encumbrance upon any of the assets or properties of the Buyer or any of its Subsidiaries under any of the terms, conditions or provisions of (i) the Organization Documents of the Buyer or any of its Subsidiaries, or (ii) subject to the taking of the actions described in Section 3.3(b), (x) any laws or orders of any Governmental or Regulatory Authority applicable to the Buyer or any of its Subsidiaries or any of their respective assets or properties, or (y) any Contracts to which the Buyer or any of its Subsidiaries is a party or by which the Buyer or any of its Subsidiaries or any of their respective assets or properties is bound, excluding from the foregoing clauses (x) and (y) conflicts, violations, breaches, defaults, rights of payment or reimbursement,

terminations, modifications, accelerations and creations and impositions of Encumbrances which, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the ability of the Buyer to consummate the transactions contemplated by this Agreement.

(b) Except (i) for the filing of a premerger notification report under the HSR Act, (ii) filings with the SEC under the Exchange Act and with various state securities authorities that are required in connection with the transactions contemplated by this Agreement, (iii) the approval of the FERC pursuant to Section 203 of the Power Act, (iv) to the extent required, notice to and approval of the applicable state public utility commissions, (v) registration, consents, approvals and notice required under the 1935 Act, and (vi) required pre-approvals of license transfers with the FCC, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other public or private third party is necessary or required under any of the terms, conditions or provisions of any law or order of any Governmental or Regulatory Authority or any Contract to which the Buyer or any of its Subsidiaries is a party or by which the Buyer or any of its Subsidiaries or any of their respective assets or properties is bound for the execution and delivery of this Agreement by the Buyer of its obligations hereunder or the consummation of the transactions contemplated hereby, other than such consents, approvals, actions, filings and notices which the failure to make or obtain, as the case may be, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the ability of the Buyer and any of its Subsidiaries to consummate the transactions contemplated by this Agreement.

SECTION 3.4. Financing. Buyer has sufficient cash and/or available sources of financing to pay the Purchase Price and to make all other necessary payments of fees and expenses in connection with the transactions contemplated by this Agreement, such that immediately following the Closing, the Buyer's credit rating is expected to be maintained or improved.

ARTICLE IV.

COVENANTS

SECTION 4.1. Covenants of the Seller Parent and Seller. At all times from and after the date hereof until the Closing, the Seller Parent and the Seller, jointly and severally, covenant and agree that (except as required, or expressly permitted, by this Agreement, as set forth in Section 4.1 of the Seller Parent Disclosure Letter, or to the extent that the Buyer shall otherwise previously consent in writing, which consent (except as provided in Section 4.1(a)(viii)) shall not be unreasonably withheld, conditioned or delayed) they shall:

(a) (i) make a cash capital contribution to the Company (for no consideration) (x) on or before the last day of June, September, December and March in the Company's fiscal year ending March 31, 2006 equal to $125 million; provided, that if the Closing occurs prior to the end of any fiscal quarter in the fiscal year ending March 31, 2006, a cash capital contribution shall be made at Closing in an amount equal to the product of $125 million and a fraction (the "**Pro-Ration Fraction**") with a numerator equal to the number of days elapsed in such quarter and a denominator equal to the number of days in such quarter; and

(y) on or before the last day of June, September, December and March in the Company's fiscal year ending March 31, 2007 equal to $131.25 million;

(ii) not grant any options to purchase ordinary shares of Seller Parent or a related appreciation right to the extent the same are to be assumed by the Buyer or the Company;

(iii) not willfully take or fail to take any action that would reasonably expected to result (x) in a material breach of any provision by any of them of this Agreement, or (y) in any of their representations and warranties set forth in this Agreement being untrue on and as of the Closing Date;

(iv) not take (and not permit the Company or any of its Subsidiaries to take) any action that would be reasonably likely to jeopardize the qualification of any amount of outstanding revenue bonds of the Company, its Subsidiaries or the Joint Ventures which qualify on the date hereof under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt industrial development bonds under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended, prior to the enactment of the Tax Reform Act of 1986;

(v) confer with the Buyer on a regular and frequent basis with respect to the Company's business and operations and other matters relevant to the Share Purchase, and to promptly advise the Buyer, orally and in writing, of any material change or event, including, without limitation, any complaint, investigation or hearing by any Governmental or Regulatory Authority (or communication indicating the same may be contemplated) or the institution or threat of material litigation; provided, that none of the Seller Parent, the Seller, or the Company shall be required to make any disclosure to the extent such disclosure would constitute a violation of any applicable law or regulation, the Seller Parent and the Seller hereby agreeing to (and to cause the Company to) use commercially reasonable efforts to cause any such disclosure to be permitted under such law or regulation;

(vi) (x) notify the Buyer in writing of, and use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practical after it becomes known to any of them or the Company, that causes, or is reasonably likely to cause, any covenant, or agreement of any of them or the Company under this Agreement to be breached or that renders, or is reasonably likely to render, untrue in any material respect as of the Closing Date any representation or warranty of the Seller Parent or the Seller contained in this Agreement, and (y) notify the Buyer in writing of, and use (at the Seller Parent's or Seller's sole cost and expense) all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practical after it becomes known to any of them or the Company of any representation, warranty, covenant or agreement made by the Seller Parent or the Seller that is having, or is reasonably likely to have, a material adverse effect on the Company, its Subsidiaries and the Joint Ventures, taken as a whole. No notice given pursuant to this paragraph shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein; and

(vii) subject to the terms and conditions of this Agreement, take or cause to be taken all commercially reasonable steps necessary or desirable and to proceed diligently and in good faith to satisfy each condition to Closing contained in Article VI of this Agreement and to consummate and make effective the transactions contemplated by this Agreement, and not take or fail to take any action that would reasonably be expected to result in the nonfulfillment of any such condition; and

(viii) not make any sale, disposition, issuance or other transfer of any capital stock of the Seller, ScottishPower NA 1 Limited or ScottishPower NA 2 Limited without the prior consent and approval of the Buyer, which shall not be withheld or delayed in any case involving a transfer of such capital stock which does not adversely affect (and could not reasonably be expected to adversely affect) the rights or obligations of the Buyer under this Agreement, the ability of the parties and the Company to fulfill their obligations hereunder and to timely consummate the transactions contemplated hereby, or the financial condition, results of operations, business, prospects, assets or liabilities of the Company, its Subsidiaries or the Joint Ventures; and

they shall cause and, in the case of the Joint Ventures, shall use their reasonable efforts to cause:

(b) Ordinary Course. The Company and each of its Subsidiaries to conduct their businesses only in, and not to take any action except in, the ordinary course consistent with past business practice and without limiting the generality of the foregoing to use all commercially reasonable efforts to preserve intact in all material respects their present business organizations, to maintain in effect all existing material permits, to keep available the services of their key officers and employees, to maintain their assets and properties in good working order and condition, ordinary wear and tear excepted, to maintain insurance on their tangible assets and businesses in substantially the same amounts and against substantially the same risks and losses as are currently in effect, to preserve their relationships with customers and suppliers and others having significant business dealings with them and to comply in all material respects with all laws and orders of all Governmental or Regulatory Authorities applicable to them.

(c) Charter Documents. The Company and its Subsidiaries not to amend or make any public (in respect of the Organizational Documents of the Company) or binding proposal to amend its Organizational Documents.

(d) Dividends. The Company and its Subsidiaries not to:

(i) declare, set aside or pay any dividends on or make other distributions in respect of any of their respective capital stock, except:

(A) that the Company may continue the declaration and payment of (x) regular and required cash dividends on the Company Preferred Stock, with usual record and payment dates for such dividends in accordance with past dividend practice, and (y) cash dividends on the Shares at the rate of $53.7 million in aggregate per fiscal quarter in the Company's fiscal year ending March 31, 2006 and at the rate of $60.575 million in aggregate per fiscal quarter in the Company's fiscal year ending March 31, 2007, each such dividend not to be paid

before the last day of the applicable fiscal quarter; provided, that (1) $50.8 million of the dividend for the fiscal quarter ending June 30, 2005 may be paid on May 27, 2005 and the remaining $2.9 million of such dividend may be paid on June 30, 2005, and (2) if the Closing occurs before the last day of a fiscal quarter, the Company may pay a dividend to the Seller in respect of such quarter equal to the product of $53.7 million (for fiscal quarters in the fiscal year ending March 31, 2006) or $60.575 million (for fiscal quarters in the fiscal year ending March 31, 2007), as applicable, and the Pro-Ration Fraction in respect of such quarter; and

(B) for the declaration and payment of dividends by (x) a wholly owned Subsidiary of the Company organized under the laws of a jurisdiction in the United States solely to the Company, (y) Bridger Coal Company in accordance with past practice and (z) Subsidiaries of regular cash dividends to the Company or another Subsidiary with usual record and payment dates (including, but not limited to, increases consistent with past practice) in accordance with past dividend practice;

(ii) split, combine, reclassify or take similar action with respect to any of their respective capital stock or share capital or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or comprised in its share capital;

(iii) except as disclosed in Section 4.1(d) of the Seller Parent Disclosure Letter, adopt a plan of complete or partial liquidation or resolutions providing for or authorizing such liquidation or a dissolution, merger, consolidation, restructuring, recapitalization or other reorganization; or

(iv) redeem, repurchase or otherwise acquire any shares of its capital stock or any Option with respect thereto; provided, that a wholly owned Subsidiary of the Company organized under the laws of a jurisdiction in the United States may redeem, repurchase or otherwise acquire such shares from its parent corporation.

(e) Share Issuances. The Company and its Subsidiaries not to issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or comprised in its share capital or any Option with respect thereto (other than the issuance by a wholly owned Subsidiary of its capital stock to its parent corporation or the issuance of shares of Common Stock to the Seller as set forth in the Company Budget), or modify or amend any right of any holder of outstanding shares of capital stock or Options with respect thereto.

(f) Acquisitions. Except as set forth in Section 4.1(f) of the Seller Parent Disclosure Letter and other than as provided in the fiscal year 2006 operating budget of the Company, a copy of which is set forth in Section 4.1(f) of the Seller Parent Disclosure Letter and which has been discussed with Buyer, or any other budget of the Company thereafter approved by Buyer, which approval shall not be unreasonably withheld, conditioned or delayed (collectively, the "**Company Budget**"), including a 10% increase in the relevant items therein stated, the Company and its Subsidiaries not to acquire (by merging or consolidating with, or by purchasing an equity interest in or a portion of the assets of, or by any other manner) any

business or any corporation, partnership, association or other business organization or division thereof in excess of $10 million in any one transaction (or related series of transactions) and $40 million in the aggregate; provided, that (i) in the case of an acquisition by the Company, the equity interest or assets so acquired are included in the rate base of the Company and (ii) ten days' prior written notice of any such transaction (or series of related transactions) not otherwise provided for in the Company Budget (including a 10% increase in the relevant items therein stated) involving consideration in excess of $5 million has been given to the Joint Executive Committee; and provided, further, that this Section 4.1(f) shall not prohibit any capital expenditures made in accordance with Section 4.1(k).

(g) Dispositions. Other than as set forth in Section 4.1(g) of the Seller Parent Disclosure Letter, the Company and its Subsidiaries not to sell, lease, grant any Encumbrances on or otherwise dispose of or Encumber any of their respective assets or properties, other than (i) as expressly provided in the Company Budget (including up to a 10% increase in the relevant amounts therein stated) or (ii) dispositions in the ordinary course of its business consistent with past practice and having an aggregate value of $10 million or less in any one transaction (or related series of transactions) and less than $40 million in the aggregate; provided, that ten days' prior written notice of any such transaction (or series of related transactions) not otherwise provided for in the Company Budget (including a 10% increase in the relevant items therein stated) involving consideration in excess of $5 million has been given to the Joint Executive Committee.

(h) Indebtedness. Other than as expressly provided in the Company Budget (including up to a 10% increase in the relevant amounts therein stated), the Company and its Subsidiaries not to incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed, including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial condition of another person or enter into any arrangement having the economic effect of any of the foregoing (any such guarantees, agreements or arrangements, collectively, "**Guarantees**"), other than (i) indebtedness entered into in connection with the refinancing of indebtedness outstanding on the date of this Agreement or of indebtedness otherwise incurred pursuant to this Section 4.1(h) (such refinancing not to increase the availability of indebtedness that may thereafter be incurred pursuant to this Section 4.1(h)), and (ii) indebtedness incurred pursuant to Section 5.4(b)(vi).

(i) Employee Benefits. Except as set forth on Section 4.1(i) of the Seller Parent Disclosure Letter, the Company and its Subsidiaries not to (x) enter into, adopt, amend (except as may be required by applicable law) or terminate any Employee Benefit Plan, or increase in any manner the compensation or fringe benefits of any employee (or former employee) of the Company or its Subsidiaries, or pay any benefit not required by any plan or arrangement in effect as of the date hereof to any employee (or former employee), in each case other than such normal increases or payments to employees who are not officers or directors of the Company or its Subsidiaries and that have been made in the ordinary course of business consistent with past practice and that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company and its Subsidiaries taken as a whole, or (y) grant to any employee (or former employee) any rights or allow any such employee (or former employee) to become a participant in any plan or arrangement that grants any rights, in each case

that are not in effect on the date hereof to any payment (whether of severance pay, supplemental executive retirement plans or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or increase in obligations to fund benefits with respect to any employee (or former employee) resulting from a change in control or change in ownership of the Company or any of its Subsidiaries or otherwise, or resulting from such employee's continued employment with the Company or any of its Subsidiaries for any specified period of time (including as a result of a termination prior to such specified period); provided, however, that the Company and its Subsidiaries shall not be prevented by reason of this clause (y) from entering into any retention agreement with any non-management employee of the Company or any of its Subsidiaries so long as such retention agreement does not relate to the transactions contemplated by this Agreement and such retention agreement (or similar agreements) is not made for the benefit of a class or classes of employees. Except as required by a collective bargaining agreement to which the Company is a party, or in the ordinary course of business of the Company and its Subsidiaries consistent with past practice, or as otherwise expressly permitted by the terms of this Agreement, the Company and its Subsidiaries shall not make any contributions to any trust or other similar funding arrangement relating to any deferred compensation plan, agreement or arrangement, including, without limitation, the Company's Supplemental Executive Retirement Plan.

(j) Affiliate Contracts. Except as disclosed in Section 2.20 of the Seller Parent Disclosure Letter, the Company and its Subsidiaries and, within the exercise of its reasonable commercial efforts, the Joint Ventures, not to enter any transaction with the Seller, the Seller Parent or any of their respective affiliates (other than the Company and its Subsidiaries).

(k) Capital Expenditures. The Company and its Subsidiaries not to make any capital expenditures or commitments other than (i) as required by applicable law, (ii) capital expenditures incurred in connection with the repair or replacement of facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance), and (iii) other capital expenditures not in excess of 110% of the aggregate amount provided for such purposes in the Company Budget.

(l) 1935 Act. The Company and its Subsidiaries not to engage in any activities which would cause a change in its or their status under the 1935 Act or that would impair the ability of the Buyer to obtain the approval of the SEC under the 1935 Act for the consummation of the Share Purchase or the other transactions contemplated hereby.

(m) Regulatory Status. The Company and its Subsidiaries not to agree or consent to any material agreements or modifications of material existing agreements with any Government or Regulatory Authority in respect of the operations of their businesses except where following discussion with the relevant authority such agreements or modifications are imposed upon the Company.

(n) Transmission, Generation. Except as required by, or pursuant to tariffs or rate schedules on file with, any Governmental or Regulatory Authority as of the date hereof, or as necessary to fulfill service commitments required by any Governmental or Regulatory Authority (with any regulatory order potentially imposing any such obligation to be immediately

forwarded to the Buyer), or as set forth in Section 4.1(n) of the Seller Parent Disclosure Letter, the Company and its Subsidiaries not to:

(i) commence construction of (or commit to construction of) any additional generating, transmission or delivery capacity; provided, that the Company's or any of its Subsidiaries' applying for or obtaining permits or engaging in development planning in respect of any such construction shall not be deemed to be a commencement of construction or a commitment to do the same for purposes of this clause (i);

(ii) obligate the Company or any of its Subsidiaries to purchase or otherwise acquire, or to sell or otherwise dispose of, or to share, any additional generating, transmission or delivery plants or facilities, in an amount in excess of 110% percent of the aggregate amount provided for such purposes in the Company Budget; or

(iii) retire, commit to retire or otherwise indicate an intention to retire any generation facility of the Company or any of its Subsidiaries.

(o) Trading. The Company and its Subsidiaries not to amend or modify the Company Trading Guidelines in a manner that results in such Company Trading Guidelines being less restrictive than the Company Trading Guidelines in effect on the date hereof or, other than in the ordinary course of business consistent with past practice, terminate the Company Trading Guidelines; provided that, in the case of any such termination, new Company Trading Guidelines are adopted that are at least as restrictive as the Company Trading Guidelines in effect on the date hereof or, take any action that violates the Company Trading Guidelines or cause or permit the Net Company Position to be outside the risk parameters set forth in the Company Trading Guidelines; and if at any time the Net Company Position becomes outside the risk parameters set forth in the Company Trading Guidelines due to a move in market prices then action will be taken to bring the Net Company Position back inside the parameters to the extent required by the Company Trading Guidelines.

(p) Accounting. The Company and its Subsidiaries not to make any material changes in their accounting methods, except as required by law, rule, regulation or applicable generally accepted accounting principles.

(q) Contracts Binding Affiliates. The Company and its Subsidiaries not to enter into any Contract that, after the Closing, (i) is binding on the Buyer or its Subsidiaries (other than the Company and its Subsidiaries), or (ii) provides that the Company or any of its Subsidiaries may be in breach or default thereunder based on any action or inaction of the Buyer or its Subsidiaries (other than the Company and its Subsidiaries).

(r) No Litigation. The Company and its Subsidiaries not to initiate any material actions, suits, arbitrations or proceedings excluding any state rate case proceedings.

SECTION 4.2. Covenants of the Buyer. At all times from and after the date hereof until the Closing, the Buyer covenants and agrees that (except as required or expressly permitted by this Agreement, or to the extent that the Seller Parent shall otherwise previously consent in writing, which consent shall not be unreasonably withheld or delayed):

(a) No Breach. The Buyer shall not willfully take or fail to take any action that would or is reasonably likely to result (i) in a material breach by the Buyer of any provision of this Agreement, or (ii) in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(b) Advice of Changes. The Buyer shall promptly advise the Seller Parent orally and in writing, of any material change or event, including, without limitation, any complaint, investigation or hearing by any Governmental or Regulatory Authority (or communication indicating the same may be contemplated) or the institution or threat of litigation, having, or which, insofar as can be reasonably foreseen, could have, a material adverse effect on the ability of the Buyer to consummate the transactions contemplated hereby; provided that the Buyer shall not be required to make any disclosure to the extent such disclosure would constitute a violation of any applicable law or regulation.

(c) Notice and Cure. The Buyer will notify the Seller Parent in writing of, and will use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practical after it becomes known to the Buyer, that causes or will cause any covenant or agreement of the Buyer under this Agreement to be breached or that renders or will render untrue any representation or warranty of the Buyer contained in this Agreement. The Buyer will also notify the Seller Parent in writing of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practical after it becomes known to the Buyer, of any representation, warranty, covenant or agreement made by the Buyer. No notice given pursuant to this paragraph shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining the satisfaction of any condition contained herein.

(d) Fulfillment of Conditions. Subject to the terms and conditions of this Agreement, the Buyer will take or cause to be taken all commercially reasonable steps necessary or desirable and proceed diligently and in good faith to satisfy each condition to the Closing contained in Article VI of this Agreement and to consummate and make effective the transactions contemplated by this Agreement, and the Buyer will not take or fail to take any action that would reasonably be expected to result in the nonfulfillment of any such condition.

SECTION 4.3. Tax Matters.

(a) Except as set forth in Section 4.3 of the Seller Parent Disclosure Letter, the Seller Parent and the Seller jointly and severally shall not, nor shall any of them permit the Company or any of its Subsidiaries to, make, change or rescind any material express or deemed election relating to Taxes, or change any of its methods of reporting income or deductions for Tax purposes, or other Tax accounting, from those employed in the preparation of its Tax Return(s) for the prior taxable year, except as may be required by applicable law or as agreed to by the Buyer, in each case or the same related to the Company or its Subsidiaries. The Seller Parent and the Seller shall inform the Buyer regarding the progress of any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes in respect of the Company or its Subsidiaries and shall obtain the consent of the Buyer (such consent not to be unreasonably held or delayed) before entering into any settlements or

compromises with regard to such matters that affect the Tax liability of the Buyer, the Company or any of the Company's Subsidiaries for the Tax periods ending after March 31, 2005.

(b) The Seller shall provide the Buyer on the Closing Date, duly executed and acknowledged affidavits of the Seller certifying that it is not a foreign person as described in Treasury Regulation Section 1.1445-2(b)(2).

(c) If the Buyer, the Company or any of the Company's Subsidiaries receives an amount from or on behalf of the Seller Parent or any affiliate thereof that is a return of tax sharing agreement payments previously made by the Company or a Subsidiary pursuant to any tax sharing agreement described in the second sentence of Section 2.12(c), and such amount is so returned pursuant to an Order of a Governmental or Regulatory Authority, the Buyer agrees to pay, or cause the Company or any Subsidiary to pay, any such amount so received by the Buyer, the Company or any Subsidiary to the Seller or the Seller's designee as additional purchase price unless such Order prohibits or restricts such payment to the Seller or the Seller's designee or requires the use of such returned amount for the benefit of rate payers.

SECTION 4.4. Discharge of Liabilities. The Seller Parent and the Seller jointly and severally, shall not permit the Company or its Subsidiaries to pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the FY 2005 Statements, or incurred in the ordinary course of business consistent with past practice.

SECTION 4.5. Contracts. The Seller Parent and the Seller jointly and severally, shall not permit the Company or its Subsidiaries or, within the exercise of its reasonable business efforts, the Joint Ventures to, except in the ordinary course of business consistent with past practice, modify, amend, terminate, fail to renew or fail to use reasonable business efforts to renew any material contract or agreement to which the Company, any such Subsidiary or such Joint Ventures of such party is a party or waive, release or assign any material rights or claims.

SECTION 4.6. No Solicitations. The Seller Parent agrees (i) that neither it nor any of its Subsidiaries or other affiliates nor their respective Representatives shall initiate, solicit or encourage, directly or indirectly, any inquiries or the making or implementation of any proposal or offer (including, without limitation, any proposal or offer to its shareholders) with respect to a merger, consolidation or other business combination involving the Company or any of its Subsidiaries or any acquisition or similar transaction (including, without limitation, a tender or exchange offer) involving the purchase (or indirect purchase through the purchase of capital stock of Subsidiaries of the Seller Parent) of (A) all or any significant portion of the assets of the Company and its Subsidiaries taken as a whole or (B) any shares of capital stock of the Company or any of its material Subsidiaries (any such proposal or offer being hereinafter referred to as an "**Alternative Proposal**"), or engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any person or group relating to an Alternative Proposal (excluding the transactions contemplated by this Agreement), or otherwise facilitate any effort or attempt to make or implement an Alternative Proposal; (ii)

that it will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties with respect to any of the foregoing, and it will take the necessary steps to inform such parties of its obligations under this Section; and (iii) that it will notify the Buyer promptly if any such inquiries, proposals or offers are received by, any such information is requested from, or any such negotiations or discussions are sought to be initiated or continued with, it or any of such persons provided, however, that nothing contained in this Section 4.6 shall prohibit the Board of Directors of the Seller Parent, until such time as the Seller Parent shall have obtained the Seller Parent Shareholders' Approval, from furnishing information to (but only pursuant to a confidentiality agreement in customary form and having terms and conditions no less favorable to the Company than the Confidentiality Agreement) or entering into discussions or negotiations with any person or group that makes an unsolicited bona fide Alternative Proposal, if, and only to the extent that, prior to receipt of the Seller Parent Shareholders' Approval, (A) the Board of Directors of the Seller Parent, based upon the advice of the Seller Parent's external legal advisors, determines in good faith that a failure to perform such action could reasonably be expected to result in a breach of its fiduciary duties imposed by law, (B) such Board of Directors has reasonably concluded in good faith (after consultation with its financial advisors) that the person or group making such Alternative Proposal is likely to have adequate sources of financing to consummate such Alternative Proposal, (C) such Board of Directors has reasonably concluded in good faith that such Alternative Proposal is more favorable to the Seller Parent than the Share Purchase contemplated hereby, (D) prior to furnishing such information to, or entering into discussions or negotiations with, such person or group, the Seller Parent provides written notice to the Buyer to the effect that it is furnishing information to, or entering into discussions or negotiations with, such person or group, which notice shall identify such person or group in reasonable detail, and (E) the Seller Parent keeps the Buyer appropriately informed of the status of any such discussions or negotiations; provided, further, that if the Seller Parent is unable to comply with the obligations set out in sub-clauses (D) or (E) above as a result of any obligation of confidentiality, the right to negotiate or provide information in the foregoing proviso shall be suspended (as if it had not been in effect since the date hereof) until such time as it is able to do so comply and has complied. Nothing in this Section 4.6 shall (x) permit the Seller Parent or the Seller to terminate this Agreement, (y) permit the Seller Parent or the Seller to enter into any agreement with respect to an Alternative Proposal for so long as this Agreement remains in effect (it being agreed that for so long as this Agreement remains in effect, the Seller Parent or the Seller, jointly and severally shall not enter into any agreement with any person or group that provides for, or in any way facilitates, an Alternative Proposal), or (z) affect any other obligation of the Seller Parent or the Seller under this Agreement.

SECTION 4.7. Third Party Standstill Agreements. After the date hereof, neither the Seller Parent or Seller shall, and, until Closing, the Seller Parent and Seller, jointly and severally, shall not permit the Company nor any of its Subsidiaries to, terminate, amend, modify or waive any provision of any confidentiality or standstill agreement in respect of the Company and its Subsidiaries to which it is a party. After the date hereof, the Seller Parent and Seller jointly and severally, shall enforce, to the fullest extent permitted under applicable law, the provisions of any such agreement, including, but not limited to, by obtaining injunctions to prevent any breaches of such agreements and to enforce specifically the terms and provisions thereof in any court having jurisdiction.

SECTION 4.8. Joint Executive Committee. As soon as practicable after the date hereof, the Buyer and the Seller Parent shall establish a joint executive committee (the "**Joint Executive Committee**") which shall be compromised of three nominees of the Buyer and three nominees of the Seller Parent. Each of the members of the Joint Executive Committee may be removed, with or without cause, by the person appointing the same. Vacancies shall be filled by the person appointing the member whose departure gives rise to such vacancy. The Joint Executive Committee shall be jointly chaired by a nominee of the Buyer and a nominee of the Seller Parent and shall have the objective of facilitating and achieving (including, without limitation, obtaining the consents and approvals in respect of the Company, its Subsidiaries and the Joint Ventures contemplated by Section 5.3) the transactions contemplated in this Agreement, integration planning, strategic development, developing recommendations concerning the structure and the general operation of the Company prior to the Closing subject to applicable law. The Joint Executive Committee shall meet monthly in the United States or upon such other date or dates, and in such other places, as the Buyer and the Seller Parent may agree from time to time and may be convened by telephone, video conference or similar means. All decisions of the Joint Executive Committee shall require the vote, by person or proxy, of a majority of the members thereof, whether or not in attendance at the meeting in which such decision is made, or the written consent of a majority of the members of such committee. The provisions of this Section 4.8 are subject to the provisions of Section 4.9.

SECTION 4.9. Control of Other Party's Business. Nothing contained in this Agreement shall give the Buyer, directly or indirectly, the right to control or direct the Company's operations prior to the Closing. Prior to the Closing, each of the Seller Parent, Seller and the Company shall exercise, consistent with the other terms and conditions of this Agreement, complete control and supervision over its operations.

ARTICLE V.

ADDITIONAL AGREEMENTS

SECTION 5.1. Access to Information. Each of the Seller Parent and the Seller, jointly and severally, shall, and shall cause each of the Company and its Subsidiaries and, so long as consistent with its confidentiality obligations under its Joint Venture agreements, shall use commercially reasonable efforts to cause the Joint Ventures to, throughout the period from the date hereof to the Closing, (i) provide the Buyer and its Representatives with full access, upon reasonable prior notice and during normal business hours, to all officers, employees, agents and accountants of the Company and its Subsidiaries and, to the extent possible, the Joint Ventures and their respective assets, properties, books and records, but only to the extent that such access does not unreasonably interfere with the business and operations of the Company and its Subsidiaries and the Joint Ventures, (ii) furnish promptly to such persons (x) a copy of each report, statement, schedule and other document filed or received by the Company, or any of its Subsidiaries or the Joint Ventures pursuant to the requirements of federal or state securities laws and each material report, statement, schedule and other document filed with any other Governmental or Regulatory Authority, and (iii) upon request from the Buyer, furnish to the Buyer audited financial statements of the Company and its Subsidiaries for each of the last three fiscal years ended prior to the date of the request and unaudited quarterly financial information for such periods, together with the related financial information, and to use its commercially

reasonable efforts to cause the Company's auditors to provide consents requested by the Buyer, and (y) all other information and data (including, without limitation, copies of Contracts, Employee Benefit Plans, and other books and records) concerning the business and operations of the Company and its Subsidiaries and the Joint Ventures as the Buyer or any of its Representatives reasonably may request. No investigation pursuant to this paragraph or otherwise shall affect any representation or warranty contained in this Agreement or any condition to the obligations of the parties hereto. Any such information or material obtained pursuant to this Section 5.1 shall be governed by the terms of the letter agreement between the Buyer and the Seller Parent relating to confidential information concerning the Company (the "**Confidentiality Agreement**").

SECTION 5.2. Approval of Shareholders.

(a) The Seller Parent shall, through its Board of Directors, duly call, give notice of, convene and hold a general meeting of its ordinary shareholders (the "**Seller Parent Shareholders' Meeting**"), for the purpose of voting on and approving the Share Purchase (the "**Seller Parent Shareholders' Approval**"). Subject to Section 5.2(b), the Seller Parent shall, through its Board of Directors, include in the Circular the recommendation of the Board of Directors of the Seller Parent that the shareholders of the Seller Parent approve the Share Purchase. The Seller Parent shall use its reasonable best efforts to obtain such approval as promptly as practicable but, in any event, on or before August 1, 2005, but the failure to obtain such approval shall not, in and of itself, be deemed to be a breach of this Agreement.

(b) The recommendation of the Board of Directors of the Seller Parent included in the Circular (or if such Circular has not been dispatched, the resolution of the Board of Directors of the Seller Parent described in the first sentence of the second paragraph of Section 2.3) may be withdrawn if the Board of Directors of the Seller Parent determines in good faith that the failure to withdraw such recommendation (or resolution) could reasonably be expected to result in a breach of its fiduciary duties by reason of an unsolicited bona fide Alternative Proposal having been made; provided, that:

(i) in making its determination, the Board of Directors of the Seller Parent shall conclude that the person or group making such Alternative Proposal will have adequate sources of financing to consummate such Alternative Proposal and, in that regard, the Seller Parent shall take advice from and have regard to the opinion of its financial advisors;

(ii) such Board of Directors has reasonably concluded in good faith that such Alternative Proposal is more favorable to the Seller Parent than the Share Purchase contemplated hereby;

(iii) such Board of Directors shall have been advised by its external legal counsel as to its applicable fiduciary duties and shall have been advised that a failure to withdraw such resolution or recommendation as a result of such Alternative Proposal could reasonably result in a breach of its fiduciary duties; and

(iv) prior to any such withdrawal, the Seller Parent shall, and shall cause its respective financial and legal advisors to, negotiate with the Buyer to make such

adjustments in the terms and conditions of this Agreement as would enable the Seller Parent and the Seller to proceed with the transactions contemplated herein on such adjusted terms.

(c) In connection with the Seller Parent Shareholders' Meeting, (i) the Seller Parent shall promptly publish the Circular and dispatch the Circular to its shareholders in compliance with all legal requirements applicable to the Seller Parent Shareholders' Meeting and the Listing Rules and (ii) if necessary, after the Circular has been so dispatched, promptly publish or circulate amended, supplemental or supplemented materials and, if required in connection therewith, resolicit votes. In the event that the Seller Parent Shareholders' Approval is not obtained without the vote having been taken on the date on which the Seller Parent Shareholders' Meeting is initially convened, the Seller Parent agrees to use its reasonable best efforts to adjourn such Seller Parent Shareholders' Meeting for the purpose of obtaining the Seller Parent Shareholders' Approval and to use reasonable best efforts during any such adjournments to promptly obtain the Seller Parent Shareholders' Approval.

SECTION 5.3. Regulatory and Other Approvals. Subject to the terms and conditions of this Agreement and without limiting the provisions of Section 5.2, each of the Buyer and the Seller Parent shall jointly, through the Joint Executive Committee, develop a regulatory approval plan and proceed cooperatively and in good faith to, as promptly as practicable, (i) obtain all consents, approvals or actions of, make all filings with and give all notices to Governmental or Regulatory Authorities or any other public or private third parties required of the Buyer, the Seller, the Seller Parent, the Company or any of the Company's Subsidiaries or the Joint Ventures to consummate the Share Purchase and the other transactions contemplated hereby (including without limitation those set forth on Section 2.4 of the Seller Parent Disclosure Letter), and (ii) provide such other information and communications to such Governmental or Regulatory Authorities or other public or private third parties as any of the Seller, the Seller Parent or the Buyer or such Governmental or Regulatory Authorities or other public or private third parties may reasonably request in connection therewith. In addition to and not in limitation of the foregoing, each of the parties will (w) take promptly all actions necessary to make the filings required of the Buyer, the Seller, the Seller Parent and the Company or their Affiliates under the HSR Act and to comply with filing and approval requirements of the FERC, the SEC, the FCC and each State Governmental or Regulatory Authority, (x) comply at the earliest practicable date with any request for additional information received by such person or its affiliates from the Federal Trade Commission (the "**FTC**") or the Antitrust Division of the Department of Justice (the "**Antitrust Division**") pursuant to the HSR Act, (y) cooperate with each other in connection with filings of the Buyer, the Seller Parent, the Seller, the Company, the Company's Subsidiaries and any Joint Ventures under the HSR Act and in connection with resolving any investigation or other inquiry concerning the Share Purchase commenced by either the FTC or the Antitrust Division or state attorneys general or by the FERC, the SEC, the FCC or any State Governmental or Regulatory Authority having jurisdiction with respect to the Share Purchase or another transaction contemplated by this Agreement, and (z) provide to the other promptly copies of all correspondence between the Buyer (in the case of the Buyer so providing such information) or the Seller Parent, the Seller, the Company, the Company's Subsidiaries in the Joint Venture (in the case of the Seller Parent providing such information) and the applicable Governmental or Regulatory Authority with respect to any filings referred to in this Section 5.3, and shall give the Seller Parent or the Buyer, as the case may be, the opportunity to review such filings and all responses to requests for additional information by such Governmental or

Regulatory Authority prior to their being filed therewith. Anything in this Agreement to the contrary notwithstanding, the Seller Parent and the Seller, jointly and severally, shall not permit the Company, its Subsidiaries or the Joint Ventures to incur any liability or obligation (other than ordinary and reasonably attorneys' fees and other third party costs directly related to the obtaining of necessary Final Orders from state public utility commissions) or grant any state concessions or to enter into any agreement or arrangement (including, without limitation, any amendment, waiver or modification of the terms of any rate agreement, Order, Contract or Company Permit) that has or is reasonably likely to have a "meaningful adverse effect" on the business, properties, assets, liabilities, financial condition, revenues, net income, results of operations or prospects of the Company and its Subsidiaries. For purposes of the immediately preceding sentence and the provisions of Section 6.1(d)(ii), "meaningful adverse effect" shall be deemed to be equivalent to a material adverse effect on an entity otherwise identical to the Company and its Subsidiaries but having only 25% of the business, properties, assets, liabilities, financial condition, revenues, net income, results of operations and prospects of the Company and its Subsidiaries.

SECTION 5.4. Employee Benefit Plans.

(a) Buyer Agreements. The Buyer shall use its reasonable best efforts to cause the Company Employee Benefit Plans (other than such plans in respect of equity of the Company, the Seller or the Seller Parent (collectively, "**Equity Plans**")) in effect at the date of this Agreement that have been disclosed to the Buyer prior to such date to remain in effect until the date (the "**Termination Date**") which is the later of 24 months after the date of this Agreement or six months after the Closing. To the extent the Buyer elects not to continue any such Company Employee Benefit Plans at any time prior to the Termination Date, the Buyer will maintain benefit plans during such period generally of the same type and of the same or comparable aggregate value as the Company Employee Benefit Plans (other than Equity Plans) not so continued, on terms substantially similar to those applicable to other employees of the same general status of the Buyer or its Subsidiaries; provided, however, that nothing contained herein shall be construed as requiring the Buyer or the Company to continue any specific plan or as preventing the Buyer or the Company from (i) establishing and, if necessary, seeking shareholder approval to establish, any other benefit plans in respect of all or any of the employees covered by such Company Employee Benefit Plans or any other employees, (ii) amending such Company Employee Benefit Plans (or any replacement benefit plans thereof) where required by applicable law including, without limitation, any amendments necessary to avoid application of Section 409A of the Code, or where such amendment is with the consent of the affected employees or as otherwise effected in accordance with the terms of such plans, or (iii) amending the Company Employee Benefit Plans in the ordinary course of business so long as the second sentence of this Section 5.4(a) remains true. From and after the Closing Date, the Buyer shall cause the Company and its Subsidiaries to honor, in accordance with its express terms, each existing collective bargaining, employment, change of control, severance and termination agreement between the Company or any of its Subsidiaries, and any representative union, officer, director or employee of such company, including without limitation all legal and contractual obligations pursuant to outstanding restoration plans, severance plans, bonus deferral plans, vested and accrued benefits and similar employment and benefit arrangements, policies and agreements that have been disclosed to the Buyer as of the date hereof and other obligations entered into in accordance with Section 4.1(i).

(b) Seller Agreements.

(i) Definitions. As used herein:

"Transferred Group Entity" means the Seller Parent or any current or former affiliate of the Seller Parent, other than the Company or any of its Subsidiaries.

"Transferred Group Pension Plan" means a defined benefit pension plan and trust to be established by a Transferred Group Entity on or prior to the Closing Date that is intended to qualify under Sections 401(a) and 501(a) of the Code.

"Transferred Group Savings Plan" means a defined contribution plan and trust to be established by a Transferred Group Entity on or prior to the Closing Date that is intended to qualify under Sections 401(a) and 501(a) of the Code.

"Transferred Group Post Retirement Welfare Plans" means health and welfare benefit plans to be established by a Transferred Group Entity on or prior to the Closing Date.

"Transferred Individuals" means (i) any present or former employee of any Transferred Group Entity, but shall exclude any former employee of any Transferred Group Entity who is currently employed by the Company or any Subsidiary or retired while an employee of the Company or any Subsidiary, and (ii) any present or former employee of any entity or business relating to the Centralia coal mine or the Centralia steam electric generating plant or any of the businesses related thereto that was disposed of by the Company or any of its Subsidiaries, including such individuals' beneficiaries, but shall exclude any such employee who is currently employed by the Company or any Subsidiary or retired while an employee of the Company or any Subsidiary from a business other than a business relating to the Centralia coal mine or the Centralia steam electric generating plant or any of the businesses related thereto that was disposed of by the Company or any of its Subsidiaries. The individuals described in clause (ii) shall be identified by reasonable efforts on the basis of employment and benefit records reasonably available to the Company.

(ii) General. Except as otherwise set forth herein, the Seller Parent hereby agrees to assume, or to cause a Transferred Group Entity to assume, all liabilities (regardless of when or where such liabilities arose or arise or were or are incurred) accrued or earned by, whether vested or unvested, Transferred Individuals under the Employee Benefit Plan, to the extent a Transferred Group Entity has not previously funded such liability by payment to the Company or any Subsidiary (it being understood that with respect to claims made by participants under any Employee Benefit Plans which are fully insured welfare benefit plans, all liabilities arising from claims made prior to the Closing shall remain liabilities of the Company and its Subsidiaries). Effective as of the Closing Date, each Transferred Group Entity shall cease to be a "participating employer" in the Employee Benefit Plans.

(iii) Defined Benefit Plan Assets.

(A) As soon as reasonably practicable after the Closing, the Seller Parent shall cause the transfer of a reasonably representative cross-section of assets

from the trust of the Company's Retirement Plan to the trust of the Transferred Group Pension Plan in an amount equal to the amount of trust assets required to be transferred as of the Closing Date in respect of the Transferred Individuals under Section 414(l) of the Code, using (to the extent permitted thereunder) the "safe harbor" rates and assumptions set forth in the regulations under Section 4044 of ERISA increased by a reasonable rate of interest agreed upon by the Plan Actuary and the Buyer Actuary (or if they cannot agree, the independent third party actuary described below) from the Closing to the date of transfer (the "**Pension Transfer Amount**").

(B) For purposes of this Section 5.4(b)(iii), the amount transferred shall be determined by the actuary for the Company's Retirement Plan (the "**Plan Actuary**"), provided, however, that the Plan Actuary shall provide the actuary selected by the Buyer (the "**Buyer Actuary**") with all documentation reasonably necessary for the Buyer Actuary to verify the Pension Transfer Amount; provided, further, however, that if the Buyer Actuary certifies, in writing within 30 days of receiving such supporting documentation, that the Buyer Actuary disagrees with the Plan Actuary's determination of the Pension Transfer Amount then, first the Seller Parent and the Buyer shall negotiate in good faith to resolve such dispute, and if unable to come to an agreement, then the Buyer and the Seller Parent shall select an independent third enrolled actuary to settle such disagreement. The determination of such third actuary shall be binding on the Buyer and the Seller Parent. The fees, costs and expenses of said third actuary shall be divided equally between the Buyer and the Seller Parent.

(iv) Defined Contribution Plan Accounts. On or prior to the Closing, the Seller Parent shall cause the accounts (including any outstanding loans) of the Transferred Individuals under the Company's Employee Savings and Stock Ownership Plan which are held by its related trust to be transferred to the Transferred Group Savings Plan and its related trusts. The amounts to be transferred pursuant to this Section 5.4(b)(iv) shall be in kind.

(v) Post Retirement Welfare Plans Assets.

(A) On or prior to the Closing, the Seller Parent shall cause the transfer in kind from each of the Company's voluntary employee benefits associations ("**VEBAs**") and 401(h) accounts under any qualified pension plan (with VEBAs, "**Funded Accounts**") to one or more Funded Accounts established by any Transferred Group Entity for the purpose of funding the liabilities under the Transferred Group Post Retirement Welfare Plans, an amount (the "**Medical Transfer Amount**") equal to the fair market value of the assets of the Company's Funded Accounts, determined as of the date of such transfer, multiplied by a fraction, the numerator of which shall be the difference between (a) the aggregate contributions made by each Transferred Group Entity to the Company's Funded Accounts, and (b) the aggregate distributions made to Transferred Individuals from the Company's Funded Accounts, and the denominator of which shall be the difference between (x) the aggregate contributions made to the Company's Funded Accounts, and (y) the aggregate distributions made from the Company's Funded Accounts.

(B) For purposes of this Section 5.4(b)(v), the amount transferred shall be determined by the Plan Actuary; provided, however, that the Plan Actuary shall provide the Buyer Actuary with all documentation reasonably necessary for the Buyer Actuary to verify the Medical Transfer Amount; provided, further, however, that if the Buyer Actuary certifies, in writing within 30 days of receiving such supporting documentation, that the Buyer Actuary disagrees with the Plan Actuary's determination of the Medical Transfer Amount then, first the Seller Parent and the Buyer shall negotiate in good faith to resolve such dispute, and if unable to come to an agreement, then the Buyer and the Seller Parent shall select an independent third enrolled actuary to settle such disagreement. The determination of such third actuary shall be binding on the Buyer and the Seller Parent. The fees, costs and expenses of said third actuary shall be divided equally between the Buyer and the Seller Parent. If, as a result of any dispute under this Section 5.4(b)(v), the asset transfer contemplated hereby is delayed until after the Closing, the amount that should have been transferred to the Funded Account of any Transferred Group Entity shall be increased by a reasonable rate of interest agreed upon by the Plan Actuary and Buyer Actuary (or if they cannot agree, the independent third party actuary described above) from the Closing to the date of transfer.

(vi) Additional Contributions to the Company Retirement Plan. Following the date hereof and through the Closing, upon the written request of the Buyer, the Seller Parent shall cause the Company to make any additional contributions to the Company's Retirement Plan necessary to avoid the requirement to provide participants with notice under Section 4011 of ERISA. The Company shall be permitted to incur indebtedness, in an amount not to exceed the amount of such requested contribution, in addition to the indebtedness otherwise permitted by Section 4.1(h) on terms and conditions reasonably acceptable to the Buyer to fund such contribution.

(c) The Seller Parent shall have caused the Company, on or before October 31, 2005, to take such actions as set forth in Section 5.4 of the Seller Parent Disclosure Letter.

SECTION 5.5. Directors' and Officers' Indemnification and Insurance.

(a) Except to the extent required by law, until the sixth anniversary of the Closing, Buyer will not take any action so as to amend, modify or repeal the provisions for indemnification of directors or officers contained in the Organizational Documents of the Company and/or its Subsidiaries in such a manner as would adversely affect the rights of any individual who shall have served as a director or officer of the Company or any of its Subsidiaries prior to the Closing to be indemnified by such corporations in respect of their serving in such capacities prior to the Closing.

(b) From and after the Closing, the Buyer shall cause the Company, until the sixth anniversary of the Closing, to cause to be maintained in effect, to the extent available, the policies of directors' and officers' liability insurance maintained by the Company and its Subsidiaries as of the date hereof (or policies of at least the same coverage and amounts containing terms that are no less favorable to the insured parties) with respect to claims arising from facts or events that occurred on or prior to the Closing; provided that in no event shall the Buyer be obligated to cause the Company to expend in order to maintain or procure insurance

coverage pursuant to this paragraph any amount per annum in excess of two hundred percent (200%) of the aggregate premiums payable by the Company and its Subsidiaries in 2004 for such purpose.

(c) From and after the Closing, the Seller Parent shall not, nor shall it permit any of its Subsidiaries to, bring or continue legal proceedings against any director or officer of the Company and/or any of its Subsidiaries benefiting from the agreements in Section 5.5(a) or (b), such that any such person could reasonably have a claim against any insurer in respect of the insurance policies described in Section 5.5(b) or against the Company or any of its Subsidiaries (whether by way of indemnity, contract, operation of law or otherwise).

SECTION 5.6. Additional Matters. Immediately following the Closing, the Company's headquarters shall continue to be located in Portland, Oregon. If requested by the Buyer, on or prior to the Closing Date, the Seller Parent shall use reasonable best efforts to cause those trustees of The PacifiCorp Foundation designated by the Buyer in writing at least three days before the Closing to resign and cause to be appointed designees of the Buyer in their place.

SECTION 5.7. Expenses. Except as set forth in Section 7.2, whether or not the Closing occurs, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby or any Alternative Proposal by the Buyer on the one hand, or the Seller Parent, the Seller, the Company or any of the Company's Subsidiaries on the other, shall be paid by the Buyer or the Seller Parent, as the case may be; provided, that, subject to Section 5.3, any and all out-of-pocket costs and expenses incurred by the Company or any of its Subsidiaries which are necessary to obtain the consents of Governmental or Regulatory Authorities required to consummate the Share Purchase and incurred after the date hereof shall be paid by the Company.

SECTION 5.8. Brokers or Finders. Each of the Buyer and the Seller Parent represents, as to itself and its affiliates, that no agent, broker, investment banker, financial advisor or other firm or person is or will be entitled to any broker's or finder's fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement except Houlihan Lokey Howard & Zukin, whose fees and expenses will be paid by the Buyer in accordance with the Buyer's agreement with such firm, and Morgan Stanley and UBS, each of whose fees and expenses will be paid by the Seller Parent in accordance with the Seller Parent's agreement with such firm, and the Buyer shall indemnify and hold harmless the Seller Parent and the Seller from and against, and the Seller Parent shall indemnify and hold the Buyer, the Company and its Subsidiaries from and against, any and all claims, liabilities or obligations with respect to any other such fee or commission or expenses related thereto asserted by any person on the basis of any act or statement alleged to have been made by such party or its affiliate.

SECTION 5.9. Conveyance Taxes. The Buyer shall, and the Seller Parent and the Seller, jointly and severally, shall, and shall cause the Company to, cooperate in the preparation, execution and filing of all Tax Returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp taxes and duties, any transfer, recording, registration and other fees, and any

similar taxes or fees (including any penalties and interest thereon) which become payable in connection with the transactions contemplated by this Agreement.

SECTION 5.10. Rate Matters. Except as provided in the Company Budget, during the period commencing on the date hereof and ending on the Closing Date, the Seller Parent and the Seller, jointly and severally shall cause the Company and its Subsidiaries to obtain Buyer's approval, not to be unreasonably withheld or delayed, prior to initiating any general rate case and to consult with the Buyer prior to making any material changes in the Company's or its Subsidiaries' rates or charges, standards of service or accounting from those in effect on the date hereof and to further consult with the Buyer prior to making any filing (or any amendment thereto), or effecting any agreement, commitment, arrangement or consent, whether written or oral, formal or informal, with respect thereto.

SECTION 5.11. Seller Parent Cure. If the condition to closing in Section 6.1(d)(ii), Section 6.2(a) (as a result of the breach or inaccuracy of the representation and warranty in Section 2.6(a)(i)) or 6.2(c) is not fulfilled at Closing, the Seller Parent (at it or the Seller's sole cost and expense) may, but shall not be required to, make such payments to the Company to promptly cure such inaccuracy or breach; provided, that such payment, in the Buyer's reasonable judgment, cures such inaccuracy or breach.

SECTION 5.12. Post Closing Payments.

(a) On each anniversary of the Closing Date until and including the twenty-fifth anniversary thereof, the Seller shall cause the Seller's wholly owned subsidiary, PacifiCorp Financial Services, Inc. ("PFS"), to pay to the Buyer cash in the amount of $4.0 million. Without limiting the Buyer's rights and remedies at law and in equity, (i) PFS shall pay interest on any amount otherwise due and payable pursuant to this Section 5.12(a) at an annual rate equal to the prime rate of JPMorgan Chase Bank at the time such payment was due and payable plus two percent (2%), accruing from the due date to the date of payment, and (ii) all amounts required to be paid pursuant to this Section 5.12 shall become immediately due and payable, at the option of the Buyer, on the date that is 30 days after the Buyer gives a second notice to the Seller Parent notifying the Seller Parent of such default (which notice may not be given sooner than 60 days after the scheduled due date or sooner than 15 days after a first default notice) and advising of the Buyer's election to accelerate the remaining amounts due under this Section 5.12 to the date that is 30 days after the date of the notice unless all amounts required to be paid have been paid on or before the date that is 90 days after the date on which such amounts are required to be paid pursuant to this Section 5.12(a).

(b) The Seller Parent hereby irrevocably and unconditionally guarantees and agrees to pay in full to the Buyer all of the payments owing under Section 5.12(a) as and when due, regardless of any defense, right of set off or counterclaim that any of the Seller Parent, the Seller, PacifiCorp Financial Services Inc. or any their respective direct or indirect subsidiaries may have or assert.

SECTION 5.13. Tax Returns. (a) The Seller shall prepare or cause to be prepared, and file or cause to be filed, (1) all Tax Returns required to be filed by or with respect to the Company or any of its Subsidiaries due on or prior to the Closing Date (taking into

account all applicable extensions), and (2) all combined, consolidated or unitary income Tax Returns under federal, state, local or foreign law that include Seller or any Affiliate and the Company or any of its Subsidiaries. Unless the written consent of the Buyer is obtained, all such Tax Returns shall be prepared on a basis that is consistent with the manner in which the Seller prepared or filed, or had caused to be prepared and filed, such Tax Returns for prior periods. No later than forty-five (45) days prior to the due date of such Tax Returns, the Seller shall provide the Buyer with copies of (A) in the case of consolidated, combined or unitary Tax Returns that include the Company or any of its Subsidiaries, pro forma materials for the Company and its Subsidiaries to be included in such consolidated, combined or unitary Tax Returns and (B) all other Tax Returns prepared or caused to be prepared by the Seller pursuant to this Section 5.13. and (C) such workpapers and other documents as may be reasonably necessary to determine the accuracy and completeness of such materials or Tax Returns. If the Buyer notifies the Seller Parent in writing within 14 days after receiving such materials or a Tax Return of any comments of the Buyer, the Seller Parent shall cause any such reasonable comments provided by the Buyer to be incorporated therein. If the Seller Parent disputes the reasonableness of any such comment by the Buyer, such dispute shall be resolved by an accounting firm or law firm mutually agreed upon by the Buyer and the Seller Parent. Such Tax Returns (or any amendments to such return) shall be filed in a manner consistent with resolution of such dispute; provided, however, that Seller Parent may filed a combined, consolidated or unitary Tax Return in an inconsistent manner but in such event, the tax sharing payment to be made by the Company or any of its Subsidiaries shall be made in a manner and amount consistent with the resolution of the dispute. The Buyer shall be responsible for filing all Tax Returns required to be filed by or on behalf of the Company and each of its Subsidiaries due after the Closing Date other than such Tax Returns described in the first sentence of this Section 5.13. The Buyer and the Seller shall reasonably cooperate with, and shall cause the Company and each of its Subsidiaries and their respective officers, employees and representatives to reasonably cooperate with, the Seller or the Buyer, as the case may be, with respect to the preparation and filing of all Tax Returns of the Company and its Subsidiaries. Upon reasonable written request, the Seller and the Buyer shall share information with the other party, to the extent reasonably necessary to enable each party to satisfy its respective Tax filing requirements.

(b) Amended Tax Returns. Neither Buyer nor any Affiliate shall (or shall cause or permit the Company or any Subsidiary to) amend, refile or otherwise modify any Tax Return relating in whole or in part to the Company or any Subsidiary with respect to any taxable period ending on or before March 31, 2005 or with respect to any taxable period that begins before and ends after March 31, 2005 without the written consent of the Seller Parent, which consent shall not be unreasonably withheld or delayed.

(c) Tax Elections. Except as required by law, Buyer shall not, without the prior consent of Seller Parent (which may, in its sole and absolute discretion, withhold such consent), make, or cause to permit to be made, any Tax election, or adopt or change any method of accounting, or undertake any other extraordinary action on the Closing Date, that would adversely affect the Seller, whether directly or by reason of any indemnification obligation.

SECTION 5.14. Intercompany Items. On the Closing Date, the Seller Parent shall pay and cause its Subsidiaries (other than the Company or its Subsidiaries) to pay to the Company and its Subsidiaries an amount in cash equal to all liabilities that the Seller Parent or

such Subsidiaries have to the Company or its Subsidiaries as the same would be reflected as an asset on a consolidated balance sheet of the Company as of the Closing Date prepared in acceptance with U.S. generally accepted accounting principles consistently applied. On the Closing Date, the Seller Parent shall cause the Company and its Subsidiaries to pay to the Seller Parent and its Subsidiaries (other than the Company and its Subsidiaries) an amount in cash equal to all liabilities that the Company and its Subsidiaries have to the Seller Parent or such Subsidiaries as the same would be reflected as a liability on a consolidated balance sheet of the Company as of the Closing Date prepared in accordance with U.S. generally accepted accounting principles consistently applied.

ARTICLE VI.

CONDITIONS

SECTION 6.1. Conditions to Each Party's Obligation to Effect the Share Purchase. The respective obligation of each party to effect the Share Purchase is subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

(a) Shareholder Approval. The ordinary shareholders of the Seller Parent shall have approved the Share Purchase by the requisite vote as required by the UKLA.

(b) HSR Act. Any waiting period (and any extension thereof) applicable to the consummation of a merger under the HSR Act shall have expired or been terminated.

(c) Injunctions or Restraints. No court of competent jurisdiction or other competent Governmental or Regulatory Authority shall have enacted, issued, promulgated, enforced or entered any law or order (whether temporary, preliminary or permanent) which is then in effect and has the effect of making illegal or otherwise restricting, preventing or prohibiting consummation of the Share Purchase or the other transactions contemplated by this Agreement.

(d) Governmental and Regulatory Consents and Approvals. (i) All consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority (including, but not limited to, consents, approvals and actions under the HSR Act and the approval by FERC pursuant to Section 203 of the Power Act, the SEC under the 1935 Act, the applicable state public utility commissions, the NRC and the FCC) required of the Buyer, the Seller Parent, the Seller, the Company or any of their Subsidiaries to consummate the Share Purchase and the other matters contemplated hereby shall have been made or obtained (as the case may be) and become Final Orders, and (ii) in the case of the applicable state public utility commissions, and subject to the last sentence of Section 5.3, such Final Orders shall not, individually or in the aggregate, contain terms or conditions that have a meaningful adverse effect on the business, properties, assets, liabilities, financial condition, revenues, net income, results of operations or prospects of the Company and its Subsidiaries unless the Buyer otherwise approves in writing the terms of each such Final Order.

A "**Final Order**" means an action by the relevant Governmental or Regulatory Authority that has not been reversed, stayed, enjoined, set aside, annulled or

suspended, with respect to which any waiting period prescribed by applicable law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by applicable law, regulation or order have been satisfied.

(e) Other Consents and Approvals. The consent or approval of each person (other than a Governmental or Regulatory Authority) whose consent or approval is required of the Buyer, the Seller Parent, the Seller, the Company or any of their Subsidiaries under any Contract in order to consummate the Share Purchase and the other transactions contemplated hereby shall have been obtained, except for those consents and approvals which, if not obtained, (i) would not have, or would not reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole or a material adverse effect on the ability of Buyer, on the one hand, or Seller Parent or Seller, on the other to consummate the transactions contemplated hereby, or (ii) would have, or be reasonably expected to have, such an effect but which the Buyer elects in writing not to require to be so obtained.

SECTION 6.2. Conditions to Obligation of the Buyer to Effect the Share Purchase. The obligation of the Buyer to effect the Share Purchase is further subject to the fulfillment, at or prior to the Closing, of each of the following additional conditions (all or any of which may be waived in whole or in part by the Buyer in its sole discretion):

(a) Representations and Warranties. (i) The representations and warranties made by the Seller Parent and the Seller in this Agreement shall be true and correct (without regard to any qualifier therein as to "materiality," "material adverse effect" or any derivative of such terms (except that the word "material" shall not be so disregarded as the same modifies (A) the word "Contracts" or the words "insurance policies," (B) the word "information" in Section 2.5(c)(i), (C) the word "filings" in Section 2.5(f), and (D)(I) the word "permits" in Section 4.1(b), (II) the word "agreement" in Section 4.1(m), (III) the word "changes" in Section 4.1(p), and (IV) the phrase "actions, suits, arbitrations or proceedings" in Section 4.1(r), in each case as such provisions are referred to in Section 2.6(a)(ii))) in all respects, as of the Closing Date as though made on and as of the Closing Date or, in the case of representations and warranties made as of a specified date earlier than the Closing Date, on and as of such earlier date, except (x) in the case of representations and warranties (other than those contained in Sections 2.1(e), 2.2(a) and 2.2(b)) if the facts and circumstances causing the failure of such representations and warranties to be so true and correct, individually or in the aggregate, have not had, and would not reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries, taken as a whole, or on the ability of the Seller Parent or Seller to perform their obligations hereunder or (y) as affected by the transactions expressly permitted by Sections 4.1(d) through (k), inclusive, and (ii) the Seller Parent and the Seller shall each have delivered to the Buyer a certificate, dated the Closing Date and executed in the name and on behalf of the Seller Parent by its Chairman of the Board, President or any Executive or Senior Vice President, and executed in the name and on behalf of the Seller by its Chairman of the Board, President or any Executive or Senior Vice President, to such effect.

(b) Performance of Obligations. The Seller Parent and the Seller shall have performed and complied with, in all material respects taken as a whole (other than the agreements, covenants and obligations of the Seller Parent and the Seller in Section 1.1, which

shall have been performed and complied with in all respects), the agreements, covenants and obligations which are required by this Agreement to be so performed or complied with by the Seller Parent or the Seller at or prior to the Closing, and the Seller Parent and the Seller shall each have delivered to the Buyer a certificate, dated the Closing Date and executed in the name and on behalf of the Seller Parent by its Chairman of the Board, President or any Executive or Senior Vice President, and executed in the name and on behalf of the Seller by its Chairman of the Board, President or any Executive or Senior Vice President, to such effect.

(c) Material Adverse Effect. There shall have not have occurred and be continuing a material adverse effect with respect to the Company and its Subsidiaries taken as a whole and there shall exist no facts or circumstances, which in the aggregate would, or insofar as reasonably can be foreseen, could, when taken together with any breaches or violations of any representations, warranties, covenants and agreements of the Seller Parent or Seller contained herein, have a material adverse effect on the Company and its Subsidiaries taken as a whole. Notwithstanding the provisions of 6.1(d), adverse effects arising from Final Orders (other than those described in Section 6.1(d)(ii)) shall be taken into account in the application of this Section 6.2(c). For purposes of this Section 6.2(c), any adverse effects on the Company and its Subsidiaries resulting from general weather, economic or financial conditions (unless (x) disproportionately affecting the Company or its Subsidiaries as compared to other investor owned utility companies located, in whole or in part, in any of the states of Washington, Oregon, California, Utah, Idaho, Montana, Wyoming, North Dakota, South Dakota, Nebraska, Iowa or Minnesota, or (y) arising, directly or indirectly, from any nuclear, radiological, biological or chemical terrorist attack(s) occurring in the United States (a "**Terrorist Attack**") after which Terrorist Attack there is a decrease of 10% or more in the Standard & Poor's Electric Utility Index between the average price of such index at the close of trading for the three trading days immediately preceding the date of the first of such Terrorist Attack(s) and the closing price for such index on at least 45 consecutive trading days in the 60 trading day period immediately following such Terrorist Attack(s)) shall not be taken into account in determining whether a material adverse effect has occurred under this Section 6.2(c). Anything in this Agreement to the contrary notwithstanding, if a Terrorist Attack occurs in the United States at any time prior to the Closing or the termination of this Agreement pursuant to Section 7.1(b)(i), the Closing Date and the date on which this Agreement may be terminated pursuant to Section 7.1(b)(i) shall be the later of (x) the date on which the Closing or the termination of this Agreement pursuant to Section 7.1(b)(i), would otherwise have occurred or (y) the 80th day after the occurrence of the Terrorist Attack; provided, that nothing in this sentence shall require that the Closing occur if the conditions to Closing have not been fulfilled on the date to which the Closing is deferred as provided in this sentence.

(d) Proceedings. All proceedings to be taken on the part of the Seller Parent, the Seller or the Company in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to the Buyer, and the Buyer shall have received copies of all such documents and other evidences as the Buyer may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

(e) Resignations. The directors of the Company and its Subsidiaries designated by the Buyer in writing at least three days before the Closing shall have delivered

letters of resignation from their respective positions to the Buyer in a form reasonably acceptable to the Buyer.

SECTION 6.3. Conditions to Obligation of the Seller Parent and the Seller to Effect the Share Purchase. The obligation of the Seller Parent and the Seller to effect the Share Purchase is further subject to the fulfillment, at or prior to the Closing, of each of the following additional conditions (all or any of which may be waived in whole or in part by the Seller Parent in its sole discretion):

(a) Representations and Warranties. (i) The representations and warranties made by the Buyer in this Agreement shall be true and correct (without regard to any qualifier therein as to "materiality" or "material adverse effect") in all respects, as of the Closing Date as though made on and as of the Closing Date or, in the case of representations and warranties made as of a specified date earlier than the Closing Date, on and as of such earlier date, except (x) in the case of representations and warranties if the facts and circumstances causing the failure of such representations and warranties to be so true and correct, individually or in the aggregate, have not, and would not reasonably be expected to have, a material adverse effect on the ability of the Buyer to perform its obligations hereunder or (y) as affected by the transactions required by this Agreement or the transactions expressly permitted by Section 4.2 and (ii) the Buyer shall have delivered to the Seller Parent a certificate, dated the Closing Date and executed in the name and on behalf of the Buyer by its Chairman of the Board, President or any Executive or Senior Vice President, to such effect.

(b) Performance of Obligations. The Buyer shall have performed and complied with, in all material respects taken as a whole (other than the agreement, covenants, and obligations of the Buyer in Section 1.1, which shall have been performed and complied with in all respects), the agreements, covenants and obligations required by this Agreement to be so performed or complied with by the Buyer at or prior to the Closing, and the Buyer shall have delivered to the Seller Parent a certificate, dated the Closing Date and executed in the name and on behalf of the Buyer by its Chairman of the Board, President or any Executive or Senior Vice President to such effect.

(c) Proceedings. All proceedings to be taken on the part of the Buyer in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to the Seller Parent, and the Seller Parent shall have received copies of all such documents and other evidences as the Seller Parent may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

ARTICLE VII.

TERMINATION, AMENDMENT AND WAIVER

SECTION 7.1. Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned, at any time prior to the Closing, whether prior to or after the Seller Parent Shareholders' Approval:

(a) By mutual written agreement of the Buyer and the Seller Parent hereto duly authorized by action taken by or on behalf of their respective Boards of Directors;

(b) By either the Seller Parent or the Buyer (except that only the Buyer shall have the right to terminate this Agreement pursuant to clause (b)(ii)(y) below) upon notification to the Buyer or the Seller Parent, as the case may be, by the terminating party:

(i) Subject to the last sentence of Section 6.2(c), at any time after the date which is twelve (12) months following the date of this Agreement if the Share Purchase shall not have been consummated on or prior to such date and such failure to consummate the same is not caused by a breach of the representations, warranties or covenants of the Seller Parent or the Seller contained in this Agreement, in the case the terminating party is the Seller Parent, or a breach of the representations, warranties or covenants of the Buyer contained in this Agreement, in case the terminating party is the Buyer; provided, however, that if on such date all of the approvals required in order to satisfy the conditions set forth in Section 6.1(d) have not been obtained, but all other conditions to effect the Share Purchase shall be fulfilled or shall be capable of being fulfilled, then, at the option of either the Seller Parent or the Buyer (which shall be exercised by written notice), the term of this Agreement shall be extended, subject to the last sentence of Section 6.2(c), until the expiration of such date which is 635 days after the date of this Agreement;

(ii) if the Seller Parent Shareholders' Approval shall not be obtained (x) by reason of the failure to obtain the requisite vote upon a vote actually held at a meeting of such shareholders, or any adjournment thereof, called therefor; or (y) in any event, on or before September 1, 2005;

(iii) if there has been a material breach of any representation, warranty, covenant or agreement on the part of the non-terminating party set forth in this Agreement (determined in all cases as if the qualifiers as to "material," "material adverse effect" or any derivative of such terms were not included in any such representation or warranty (except that the word "material" shall not be so disregarded as the same modifies (A) the word "Contracts" or the words "insurance policies," (B) the word "information" in Section 2.5(c)(i), (C) the word "filings" in Section 2.5(f), and (D)(I) the word "permits" in Section 4.1(b), (II) the word, "agreement" in Section 4.1(m), (III) the word "changes" in Section 4.1(p), and (IV) the phrase, "actions, suits, arbitrations or proceedings" in Section 4.1(r), in each case as such provisions are referred to in Section 2.6(a)(ii)), which breach is not waived by the non-terminating party or curable or, if curable, has not been cured within thirty (30) days following receipt by the non-terminating party of notice of such breach from the terminating party which breach, when taken together with any other breaches of representations, warranties, covenants and agreements of the

non-terminating party contained in this Agreement, has or would reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Seller Parent or the Buyer, as the case may be, to consummate the transactions contemplated hereby; or

(iv) if any court of competent jurisdiction or other competent Governmental or Regulatory Authority shall have issued an order making illegal or otherwise preventing or prohibiting the Share Purchase and such order shall have become final and nonappealable; or

(c) By the Buyer if the Board of Directors of the Seller Parent or the Seller (or any committee thereof) (i) shall have withdrawn or modified in a manner materially adverse to Parent its approval or recommendation of this Agreement or the Share Purchase, (ii) shall fail to reaffirm such approval or recommendation upon the Buyer's request, (iii) shall have approved, recommended or taken no position with respect to an Alternative Proposal or (iv) shall resolve to take any of the foregoing actions; or

(d) By the Seller Parent, if, after the date hereof, the Buyer or any of its affiliates directly or indirectly agrees to, or otherwise publicly announces any proposal to, acquire (i) in excess of 5% of the voting securities of a public utility company which would require approval under the 1935 Act (or if the 1935 Act is no longer in effect, which would have required such approval under such act had such act been in effect), (ii) securities (either in the form of common equity or common equity equivalents) that represent more than 10% of the outstanding common stock (on a fully diluted basis) of a public utility company located in the U.S. or (iii) an Energy Property or any equity interest therein in excess of 50% located in Washington, Oregon, Northern California, Idaho, Wyoming or Utah (any such transaction described in the foregoing clauses (i), (ii) or (iii) being a "**Competing Transaction**") and such Competing Transaction directly or indirectly results in the failure of the parties to satisfy any of the required regulatory conditions precedent to the obligation to complete the transactions contemplated by this Agreement (whether such approvals be state or federal) and/or otherwise directly or indirectly creates or imposes additional conditionality or costs which gives rise to an entitlement on the part of the Buyer such that the Buyer chooses to not complete or to terminate the Agreement. "**Energy Property**" shall mean any utility company, gas transmission or pipeline company or electric generating company or facility, but shall in no event include interests in or development of oil, gas, natural resources and mineral rights. A Competing Transaction shall not include construction to expand or improve existing pipelines or other facilities.

SECTION 7.2. Effect of Termination.

(a) If this Agreement is validly terminated by either the Seller Parent or the Buyer pursuant to Section 7.1, this Agreement will forthwith become null and void and there will be no liability or obligation on the part of either the Seller Parent or the Buyer (or any of their respective Representatives or affiliates), except (i) that the provisions of Sections 5.7 and 5.8, this Section 7.2, and Sections 9.8 and 9.9 will continue to apply following any such termination, (ii) that nothing contained herein shall relieve any party hereto from liability for willful breach of

its representations, warranties, covenants or agreements contained in this Agreement and (iii) as provided in paragraphs (b) and (c) below.

(b) In the event that

(i) the Seller Parent terminates this Agreement pursuant to Section 7.1(d), then the Buyer shall pay to the Seller Parent, by wire transfer of same day funds, within two (2) business days after termination of this Agreement, a termination fee of $250,000,000; or

(ii) (x) prior to the Seller Parent Shareholders' Approval (A) any person or group shall have announced or made to the Board of Directors of the Seller Parent an Alternative Proposal or (B) announced or made to the Board of Directors of the Seller Parent a bona fide proposal relating to a proposed transaction that, if consummated, would constitute a Change of Control (as defined below), (y) prior to the Seller Parent Shareholders' Approval, the Board of Directors of the Seller Parent shall have reasonably promptly rejected such proposal and reaffirmed its approval and recommendation of the Share Purchase, and (z) in each case thereafter, this Agreement is terminated by the Seller Parent or the Buyer pursuant to Section 7.1(b)(ii), then the Seller Parent shall pay to the Buyer, by wire transfer of same day funds, within two (2) business days after termination of this Agreement, a termination fee of $10 million; or

(iii) (x) prior to the Seller Parent Shareholders' Approval, any event in the immediately preceding clause (ii) occurs, (y) prior to the Seller Parent Shareholders' Approval, the Board of Directors of the Seller Parent (or any committee thereof) shall have taken any of the actions described in Section 7.1(c), and (z) in each case thereafter this Agreement is terminated by the Buyer or the Seller Parent pursuant to Section 7.1(b)(ii), then the Seller Parent shall pay to the Buyer, by wire transfer of same day funds, within two (2) business days after termination of this Agreement, a termination fee of $100 million.

If a termination fee has been paid or is payable pursuant to Section 7.2(b)(ii) or (iii) and (I) prior to the first anniversary of the termination of this Agreement, the Seller Parent, the Seller or any of their respective affiliates enters into a definitive agreement in respect of, or consummates, an Alternative Proposal (which agreement or consummation need not be with the person making a previous Alternative Proposal), or (II) prior to the first anniversary of the termination of this Agreement, any person announces (which announcement or consummation need not be made by a person making a previous proposal to effect a Change of Control) a firm intention to make an offer (for purposes of the United Kingdom's City Code on Takeovers and Mergers), whether by way of offer or scheme of arrangement, which transaction, when consummated, will result in a Change of Control or such a Change of Control is consummated, the Seller Parent shall pay to the Buyer, by wire transfer of same day funds, within two (2) business days after the entering into such agreement, such consummation or any such announcement, as the case may be, an additional termination fee of $240 million, in case a termination fee was paid or is payable pursuant to Section 7.2(b)(ii) or $150 million in case such fee was paid or is payable pursuant to Section 7.2(b)(iii). If an Alternative Proposal or Change of Control is consummated prior to the Seller Parent Shareholder Approval and this Agreement is terminated, the Seller Parent shall pay to the Buyer, by wire transfer of same day funds, within two (2) business days after termination

of this Agreement, a termination fee of $250 million. The Seller Parent shall in no event be obliged to pay to the Buyer more than $250 million in the aggregate in termination fees.

A "**Change of Control**" shall mean the occurrence of any of the following: (A) any "Person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Seller Parent representing 30 percent or more of the combined voting power of the Seller Parent's issued share capital; (B) the shareholders of the Seller Parent resolve to approve a proposed Change of Control of the Seller Parent; or (C) a tender or exchange offer is made for the ordinary shares of the Seller Parent (or securities convertible into ordinary shares of the Seller Parent) and such offer results in a portion of those securities being purchased and the offeror after the consummation of the offer is the beneficial owner (as determined pursuant to Section 13(d) of the Exchange Act), directly or indirectly, of securities representing at least 30 percent of the voting power of outstanding securities of the Seller Parent; provided, that a Change of Control shall not include a transaction initiated and promoted by the Seller Parent and not involving any unrelated third parties by way of reorganization or reconstruction under which a new holding company of the Seller Parent ("**Newholdco**") acquires the entire issued share capital of the Seller Parent (and on implementation of such transaction, references to a Change of Control of the Seller Parent shall apply to Newholdco as they apply to the Seller Parent) provided, that:

(A) the proposed transaction is first announced and implemented after termination of this Agreement;

(B) immediately after consummation of the transaction, Newholdco is a publicly listed company and the shareholders of Newholdco immediately after consummation of such transaction are the same (save as to a de minimis extent) as those of the Seller Parent immediately prior to the acquisition of the entire issued share capital of the Seller Parent;

(C) there is no agreement, arrangement or understanding to which the Seller Parent or Newholdco is a party (whether or not legally binding) in existence immediately prior to the time the transaction is implemented whereby there is to be a Change of Control of Newholdco; and

(D) Newholdco undertakes to the Buyer to be bound by and assumes all of the outstanding obligations of the Seller Parent under this Agreement and will be substituted in this Agreement for all purposes as though it were the Seller Parent.

(c) In the event that this Agreement is terminated by either the Buyer or the Seller Parent pursuant to Section 7.1(b)(ii) in circumstances in which the termination fee set forth in clause (b) above is not then payable, the Seller Parent shall pay to the Buyer an amount equal to $10,000,000.

(d) If the Buyer or the Seller Parent, as the case may be, fails promptly to pay the amount due pursuant to the preceding paragraphs, and in order to obtain such payment, the Seller Parent or the Buyer, as the case may be, commences a suit which results in a judgment against the Buyer or the Seller Parent, as the case may be, for the fee set forth in such paragraph, the Buyer or Seller Parent, as the case may be, shall pay to the Seller Parent or the Buyer, as the case may be, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee at an annual rate equal to the prime rate of JPMorgan Chase Bank in effect on the date such payment was required to be made.

SECTION 7.3. Amendment. This Agreement may be amended, supplemented or modified by action taken by or on behalf of the respective Boards of Directors of the Seller Parent and the Buyer, whether prior to or after the Seller Parent Shareholders' Approval shall have been obtained, but after such adoption and approval only to the extent permitted by applicable law. No such amendment, supplement or modification shall be effective unless set forth in a written instrument duly executed by or on behalf of the Seller Parent and the Buyer.

SECTION 7.4. Waiver. The Seller Parent (on behalf of itself and the Seller) and the Buyer may to the extent permitted by applicable law (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties of the other parties hereto contained herein or in any document delivered pursuant hereto or (iii) waive compliance with any of the covenants, agreements or conditions of the other parties hereto contained herein. No such extension or waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Seller Parent or the Buyer, as the case may be, extending the time of performance or waiving any such inaccuracy or non-compliance. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

ARTICLE VIII.

INDEMNIFICATION

SECTION 8.1. Survival. Subject to Section 8.2(c)(iii), the respective representations, warranties, covenants and conditions (with the exception of the representations, warranties, covenants and conditions described in the provisos to this Section 8.1) of the parties hereto contained herein or in any certificates or other documents delivered pursuant to this Agreement (with the exception of such portion of such certificate or other document pertaining to the representations, warranties, covenants and conditions described in the provisos to this Section 8.1) at the Closing shall survive the Closing until the date that is 365 days after the Closing Date; provided, however, that the representations, warranties, covenants and conditions in:

(a) Article I (Sale and Purchase), subsections (a) (as to Organizational Documents of the Company) and (e) of Section 2.1 (Organization and Qualification), subsections (a) and (b) of Section 2.2 (Capital Stock), subsection (a)(ii) (as it applies to Section 4.1(d), Section 4.1(h) (as to Guarantees), Section 4.1(i)(x) (as to executive officers and directors of the

Company or its Subsidiaries described therein) and Section 4.1(i)(y)) of Section 2.6 (Absence of Certain Changes or Events), Section 2.19 (Vote Required), Section 2.20 (Affiliate Transactions) (as to periods commencing after March 31, 2005), Section 3.1 (Organization), subsections (a)(i), (ii) and (iii), (c) (as to Organizational Documents of the Company), (d), (e), (h) (as to Guarantees), (i)(x) (as to matters involving the officers or directors described therein), (i)(y), (j) and (q) of Section 4.1 (Covenants of the Seller Parent and Seller), Section 4.5 (Contracts), Section 4.7 (Third Party Standstill Agreements), Section 5.4 (Employee Benefit Plans), Section 5.5 (Directors' and Officers' Indemnification Insurance), Section 5.7 (Expenses), Section 5.8 (Brokers or Finders), Section 5.12 (Post Closing Payments), Section 5.14 (Intercompany Items), Section 7.2 (Effect of Termination), Section 7.3 (Amendment), Section 7.4 (Waiver), Article VIII (Indemnification) (including the releases described in Section 8.6) and Article IX shall survive indefinitely and terminate (if at all) only as therein expressly provided;

(b) Section 2.12 (Taxes), subsection (a)(iv) of Section 4.1 (Covenants of the Seller Parent and Seller), Section 4.3 (Tax Matters), Section 5.9 (Conveyance Taxes) and Section 5.13 (Tax Returns) shall survive for a period equal to the applicable statute of limitation in respect of the Tax involved;

(c) Section 2.13 (Employee Benefits) and Section 2.15 (Environmental Matters) shall survive until the third anniversary of the Closing Date; and

(d) Section 4.6 (No Solicitations), Section 4.8 (Joint Executive Committee), Section 4.9 (Control of Other Party's Business) and Section 5.11 (Seller Parent Cure) shall not survive the Closing; and

provided, further, that a covenant or agreement that has been willfully breached by the Buyer, on the one hand, or the Seller Parent or the Seller, on the other, shall, as to such breach, survive indefinitely.

SECTION 8.2. Indemnification Coverage.

(a) Notwithstanding the Closing or the delivery of the Shares and regardless of any investigation at any time made by or on behalf of the Buyer or of any knowledge or information that the Buyer may have, the Seller Parent shall indemnify and agree to defend, save and hold the Buyer, the Company and each of their officers, directors, employees, agents and affiliates (other than the Seller Parent and the Seller) (collectively, the "**Buyer Indemnified Parties**") harmless if any such Buyer Indemnified Party shall at any time or from time to time suffer any damage, judgment, fine, penalty, demand, settlement, liability, loss, cost, Tax, expense (including, without limitation, reasonable attorneys', consultants' and experts' fees), claim or cause of action (each, a "**Loss**") arising out of, relating to or resulting from:

(i) any breach or inaccuracy (determined without regard to any qualifier as to "materiality," "material adverse effect" or any derivative of such terms (except that the word "material" shall not be so disregarded as the same modifies (A) the word "Contracts" or the words "insurance policies," (B) the word "information" in Section 2.5(c)(i), (C) the word "filings" in Section 2.5(f), and (D)(I) the word "permits" in Section 4.1(b), (II) the word "agreement" in Section 4.1(m), (III) the word "changes" in Section 4.1(p), and (IV) the

phrase "actions, suits, arbitrations or proceedings" in Section 4.1(r), in each case as such provisions are referred to in Section 2.6(a)(ii)) in any representation by the Seller Parent or the Seller contained in this Agreement or any certificates or other documents delivered by any of them pursuant to this Agreement at the Closing;

(ii) any failure by the Seller Parent or the Seller to perform or observe any term, provision, covenant, or agreement on the part of any of them to be performed or observed under this Agreement;

(iii) any liability in respect of any business (whether as a transfer of assets or capital stock) transferred (whether by way of sale, merger, reorganization or consolidation, distribution or otherwise) or discontinued by the Company or any of its present or former Subsidiaries after December 6, 1998 to any Person, but only to the extent such liability is not reflected in the Company's consolidated balance sheet in the FY 2005 Statements;

(iv) any liability resulting by reason of the several liability of the Company or any of its Subsidiaries pursuant to Treasury Regulations § 1.1502-6 or any analogous state, local or foreign law or regulation or by reason of the Company or any of its Subsidiaries having been a member of any consolidated, combined or unitary group on or prior to the Closing Date, but only to the extent such liability is not reflected in the Company's consolidated balance sheet in the FY 2005 Statements;

(v) any liability for Taxes resulting by reason of the Company or any of its Subsidiaries ceasing to be a member of any consolidated, combined or unitary group that includes the Seller, but only to the extent such liability is not reflected in the Company's consolidated balance sheet in the FY 2005 Statements; and

(vi) any liability relating to (x) the Company Employee Retention / Incentive Program (Apollo Transaction), or (y) any amendment, change, increase, addition or grant relating to any Employee Benefit Plan that is listed on Section 4.1(i) of the Seller Parent Disclosure Letter and effected after March 31, 2005 that is not previously approved in writing by the Buyer or required by any applicable collective bargaining agreement.

(b) Notwithstanding the Closing or the delivery of the Shares and regardless of any investigation at any time made by or on behalf of the Seller Parent or the Seller of any knowledge or information that the Seller Parent or the Seller may have, the Buyer shall indemnify and agree to defend, save and hold the Seller Parent and the Seller and their officers, directors, employees, agents and affiliates (other than the Buyer) (collectively, the "**Seller Indemnified Parties**") harmless if any such Seller Indemnified Party shall at any time or from time to time suffer any Loss arising out of, relating to, or resulting from:

(i) any breach or inaccuracy (determined without regard to any qualifier as to "materiality" or "material adverse effect" included therein) in any representation or warranty by the Buyer contained in this Agreement or any certificates or other documents delivered by the Buyer pursuant to this Agreement at the Closing; and

(ii) any failure by the Buyer to perform or observe any term, provision, covenant, or agreement on the part of the Buyer to be performed or observed under this Agreement.

(c) The foregoing indemnification obligations shall be subject to the following limitations:

(i) the Seller Parent's aggregate liability under Section 8.2(a)(i) and the Buyer's aggregate liability under Section 8.2(b)(i) shall not, in either case, exceed 50% of the Purchase Price (the "**Cap**"); provided, however, that the Cap shall not be applicable to breaches of the representations and warranties described in clause (a) of the first proviso to Section 8.1 or of the representations and warranties in the first two sentences of Section 2.12(c);

(ii) no indemnification for any Losses shall be asserted against:

(x) the Seller Parent under Section 8.2(a)(i) or against the Buyer under Section 8.2(b)(i) unless and until the cumulative aggregate amount of such Losses (other than those arising from breaches described in the penultimate sentence of this Section 8.2(c)(ii)) exceeds $50 million (the "**Threshold**"), at which point the Seller Parent or the Buyer, as the case may be, shall be obligated to indemnify the Buyer Indemnified Parties or Seller Indemnified Parties, as the case may be, only as to the amount of such Losses in excess of $25 million (the "**Deductible**"), subject to the limitation in Section 8.2(c)(i);

(y) the Seller Parent under Section 8.2(a) (other than in respect of a breach of Section 4.1(a)(viii) or of the Seller Parent's or the Seller's representations, warranties, covenants and conditions described in clause (a) of the first proviso to Section 8.1 (other than Section 2.6(a)(ii) (as to Section 4.1(h) and (i)), Section 4.1(h) and (i) and Section 4.5) or in the second proviso to Section 8.1) or the Buyer under Section 8.2(b) (other than in respect of the Buyer's representations, warranties, covenants and conditions described in clause (a) of the first proviso to Section 8.1 or in the second proviso to Section 8.1), if the amount of such Loss, together with all related claims, is less than $10,000 and in such case, such Loss shall be completely disregarded for the purposes of contributing toward the Threshold; or

(z) the Seller Parent under Section 8.2(a)(ii) or the Buyer under Section 8.2(b)(ii) unless and until the cumulative aggregate amount of Loss in respect of claims arising under Section 8.2(a)(ii) or 8.2(b)(ii), as the case may be, and not arising from breaches described in the last sentence of this Section 8.2(c)(ii), exceeds $7.5 million (the "**Covenant Deductible**");

provided, that for purposes of the immediately preceding clauses (y) and (z), a covenant shall be deemed breached without regard to any qualifier therein as to "materiality," "material adverse effect" or any derivative of such terms. The Threshold and the Deductible shall not be applicable to breaches of the representations and warranties described in clause (a) of the first proviso to Section 8.1 and the first two sentences of Section 2.12(c). The Covenant Deductible shall not be applicable to breaches of Section 4.1(a)(viii), Section 5.3 or the covenants described

in clause (a) of the first proviso to Section 8.1 (other than Section 4.1(h) and Section 4.5) or in the second proviso to Section 8.1;

(iii) no claim may be asserted nor may any action be commenced (A) against the Seller Parent pursuant to Section 8.2(a), unless written notice of such claim or action is received by the Seller Parent describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim or action and the basis upon which indemnity is claimed on or prior to the date on which the representation, warranty, covenant or condition on which such claim or action is based ceases to survive as set forth in Section 8.1 (it being agreed and understood that if a claim for a breach of a representation, warranty, covenant or condition is timely made, the representation, warranty, covenant or condition shall survive until the date on which such claim is finally liquidated or otherwise resolved), or (B) against the Buyer pursuant to Section 8.2(b), unless written notice of such claim or action is received by the Buyer describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim or action and the basis upon which indemnity is claimed on or prior to the date on which the representation, warranty, covenant or condition on which such claim or action is based ceases to survive as set forth in Section 8.1 (it being agreed and understood that if a claim for a breach of a representation, warranty, covenant or condition is timely made, the representation or warranty shall survive until the date on which such claim is finally liquidated or otherwise resolved);

(iv) an Indemnified Party shall not be entitled under this Agreement to multiple recovery for the same Losses;

(v) a Buyer Indemnified Party shall not be entitled under this Agreement to recover any Loss arising from the breach or inaccuracy of the Seller Parent's or the Seller's representations and warranties if such breach or inaccuracy resulted from (x) the effects of the transactions expressly permitted by Sections 4.1(d) through (k), inclusive, or (y) obtaining any consent or approval in respect of the Company, its Subsidiaries or the Joint Ventures of any Governmental or Regulatory Authority and, in respect of which consent or approval, the actions taken by the Company, its Subsidiaries and the Joint Ventures were approved by the Buyer or the Joint Executive Committee as provided in Section 4.8 or 5.3, as the case may be;

(vi) each of the Buyer and Seller Parent, as the case may be, shall use reasonable commercial efforts to mitigate Loss otherwise subject to indemnification hereunder. The Buyer shall, and shall cause the Company to, reasonably cooperate with the Seller Parent in recovering from the Company's insurers (other than the Buyer and its Subsidiaries and the Company and its Subsidiaries) or other third parties (including with respect to enforcement of the Company's indemnification rights), in each case to the extent the same are liable therefor, any Loss paid by the Seller Parent pursuant to this Article VIII; provided, that the Seller Parent promptly reimburses the Buyer or the Company, as the case may be, for any third party cost or expense incurred by any of them or the Company's Subsidiaries in connection with such cooperation. The Buyer shall, and shall cause the Company to, refrain from searching for environmental hazards on the property of the Company, its Subsidiaries or the Joint Ventures except, (x) as required by law, (y) in connection with any financing, sale or lease in respect of any such property, or (z) at any time after the Buyer, the Company or any of the Company's

Subsidiaries, or any Joint Venture becomes aware of the reasonable possibility of any such hazard existing, in each case, in the exercise of their prudent business judgment;

(vii) Seller will be entitled to any credits and refunds (including interest received thereon) in respect of any taxable period ending on or prior to March 31, 2005, except to the extent any such credit or refund is specifically reflected in the Company's consolidated balance sheet in the FY 2005 Statements;

(viii) it is the intention of the parties to treat any indemnity payment made under this Agreement as an adjustment to the Purchase Price for all federal, state, local and foreign Tax purposes, and the parties agree to file their Tax Returns accordingly;

(ix) the amount of any Loss shall be reduced by the Tax benefit actually realized by a Buyer Indemnified Party where a Buyer Indemnified Party is the Indemnified Party or a Seller Indemnified Party where a Seller Indemnified Party is the Indemnified Party. If there is no reduction in the amount of any indemnified Loss at the time an indemnification payment is made because no Tax benefit is actually realized in the Tax year for which the payment was made, the Indemnified Party will pay the Indemnifying Party an amount equal to any Tax benefit realized in each subsequent Tax year at the time the Tax Return for each subsequent Tax year is due (without regard to extensions). In computing the amount of any Tax benefit, a person shall be deemed to realize the benefit arising from the incurrence or payment of any amount for which indemnification is requested pursuant to this Section 8.2 after the use of all other items of loss, deduction and credit of such Indemnified Party, including net operating loss carryforwards. The Indemnified Party will determine in good faith the time and amount of any Tax benefit actually realized in any given year and will provide a summary explanation of such determination to the Indemnifying Party. If the Indemnifying Party disputes the computation of such benefit by the Indemnified Party, such dispute shall be resolved by an accounting firm or law firm mutually agreed upon by the Indemnified Party and the Indemnifying Party;

(x) a Buyer Indemnified Party shall not be entitled to recover under Section 8.2(a)(i) any incremental environmental remediation or corrective action costs associated with a material change in the use of the subject parcels from the use of the subject parcels as of the Closing Date; and

(xi) the indemnification obligations of the Seller Parent hereunder shall include any Losses (otherwise subject to the Seller Parent's indemnification obligations hereunder) which are paid or became payable or are otherwise incurred by the Company or its Subsidiaries at any time after March 31, 2005.

SECTION 8.3. Procedures. The person providing (as required to provide) indemnification in respect of a claim pursuant to this Article VIII as herein called, in respect of such claim, the "**Indemnifying Party**". Each Buyer Indemnified Party and each Seller Indemnified Party is, in respect of a claim for which indemnification is sought, is herein called, in respect of such claim, an "**Indemnified Party**". Any Indemnified Party shall notify the Indemnifying Party (with reasonable specificity) promptly after it becomes aware of facts supporting a claim or action for indemnification under this Article VIII, and shall provide to the

Indemnifying Party as soon as practicable thereafter all information and documentation reasonably necessary to support and verify any Losses associated with such claim or action. Subject to Section 8.2(c)(iii), the failure to so notify or provide information to the Indemnifying Party shall not relieve the Indemnifying Party of any liability that it may have to any Indemnified Party, except to the extent that the Indemnifying Party demonstrates that it has been materially prejudiced by the Indemnified Party's failure to give such notice, in which case the Indemnifying Party shall be relieved from its obligations hereunder to the extent of such material prejudice. The Indemnifying Party shall defend, contest or otherwise protect the Indemnified Party against any such claim or action by counsel of the Indemnifying Party's choice at its sole cost and expense; provided, however, that the Indemnifying Party shall not make any settlement or compromise without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed) unless the sole relief provided is monetary damages for which the Indemnifying Party has unconditionally acknowledged liability pursuant to the terms of this Article VIII. The Indemnified Party shall have the right, but not the obligation, to participate at its own expense in the defense thereof by counsel of the Indemnified Party's choice and shall in any event use its reasonable best efforts to cooperate with and assist the Indemnifying Party. If (a) the Indemnifying Party fails timely to defend, contest or otherwise protect against such suit, action, investigation, claim or proceeding with counsel reasonably acceptable to the Indemnified Party, (b) the Indemnifying Party fails to state in a written notice given to the Indemnified Party not later than 20 days after the Indemnified Party received notice of a claim pursuant to Section 8.2(c)(iii) that the claim is properly the subject of indemnification pursuant to this Agreement (subject only to the Cap, Threshold or Deductible, if applicable), (c) in the reasonable judgment of the Indemnified Party there are conflicts of interest (other than as a result of this Article VIII) between the interests of the Indemnified Party and the Indemnifying Party in respect of such claim, or (d) the claim is not solely for monetary relief or the claim involves a criminal matter, the Indemnified Party shall have the right to control the defense of such claim with counsel of its own choosing, including, without limitation, the right to make any compromise or settlement thereof, and the Indemnified Party shall be entitled to recover the entire cost thereof from the Indemnifying Party, including, without limitation, reasonable attorneys' fees, disbursements and amounts paid as the result of such suit, action, investigation, claim or proceeding.

SECTION 8.4. Remedy. Absent fraud, and except for seeking equitable relief, from and after the Closing the sole remedy of a party in connection with (i) a breach or inaccuracy of the representations or warranties in this Agreement or any certificates or other documents delivered pursuant to this Agreement at Closing, or (ii) any failure by a party to perform or observe any term, provision, covenant, or agreement on the part of such party to be performed or observed under this Agreement, shall, in each case, be as set forth in this Article VIII.

SECTION 8.5. Limitation on Claims. The Seller Parent and Seller shall not be liable pursuant to Section 8.2(a)(i) for any Loss in respect of any matter hereunder to the extent that:

(a) such Loss arises or, such Loss otherwise having arisen, is increased as a result of any change made after Closing in any accounting or taxation policies or accounting or taxation practice of the Company and its Subsidiaries or any other member of the Company's

consolidated tax group, save to the extent that any such change is required to bring the accounting or taxation policies or accounting or taxation practice of that company into line with U.S. generally accepted accounting or taxation policies or accounting or taxation practice or any Tax law (as the case may be) as at the Closing Date; or

(b) such Loss is recovered through a rate increase expressly attributable to such Loss that is approved by the applicable state Governmental or Regulatory Authority (and, to the extent the Seller Parent has made any payment pursuant to this Article VIII in respect of such Loss before such recovery, the Buyer shall, or shall cause the Buyer Indemnified Party receiving such recovery, to pay the same over to the Seller Parent).

SECTION 8.6. Release of Directors. The Buyer shall cause the Company to release each director of the Company who resigns at the Closing from any and all liability the same may have to the Company as a director thereof arising on or before the Closing other than liabilities arising from his negligence, recklessness, criminal conduct or self-dealing; provided, that (a) nothing in said release shall increase the obligations of the Buyer or of the Company under Section 5.5 or the liability of any insurer to such director in respect of any insurance policy described in Section 5.5(b) and (ii) such director releases the Company and its affiliates from any and all liabilities arising on or before the Closing for compensation of any nature (including directors' fees) or any reimbursement of expenses.

ARTICLE IX.

GENERAL PROVISIONS

SECTION 9.1. Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally or by facsimile transmission or mailed (first class postage prepaid) to the parties at the following addresses or facsimile numbers:

If to the Seller or the Seller Parent, to:

Scottish Power plc
1 Atlantic Quay
Glasgow G2 8SP
Facsimile No.: 011-44-141-248-8300
Attn: Company Secretary

with a copy to:

Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, N.Y. 10005
Facsimile No.: (212) 530-5219
Attn: M. Douglas Dunn and John T. O'Connor

and to:

Freshfields
65 Fleet Street
London EC4Y 1HS
Facsimile No.: 011-44-171-832-7001
Attn: Simon Marchant

If to the Company, to:

PacifiCorp
825 N.E. Multnomah
Portland, Oregon 97232-4116
Facsimile No.: (503) 813-7250
Attn: General Counsel

with a copy to:

Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, N.Y. 10005
Facsimile No.: (212) 530-5219
Attn: M. Douglas Dunn and John T. O'Connor

If to Buyer, to:

MidAmerican Energy Holdings Company
302 South 36th Street
Suite 400
Omaha, NE 68131-3845
Telephone: (402) 231-1642
Facsimile: (402) 231-1658
Attn: Douglas L. Anderson

with a copy to:

Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019-6099
Telephone: (212) 728-8000
Facsimile: (212) 728-3460
Attn: Peter J. Hanlon

and to:

LeBoeuf, Lamb, Greene & MacRae LLP
125 West 55th Street
New York, NY 10019
Telephone: (212) 424-8000
Facsimile: (212) 424-8500
Attn: William S. Lamb

and to:

Herbert Smith LLP
Exchange House
Primrose Street
London
EC2A 2HS
England
Telephone: +44 (0)20 7374 8000
Facsimile No. +44 (0)20 7374 0888
Attn: Henry Davey

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

SECTION 9.2. Entire Agreement; Incorporation of Exhibits. (a) Subject to paragraph (b) below, this Agreement supersedes all prior discussions and agreements among the parties hereto with respect to the subject matter hereof, other than the Confidentiality Agreement, which shall survive the execution and delivery of this Agreement in accordance with its terms, and contains, together with the Confidentiality Agreement, the sole and entire agreement among the parties hereto with respect to the subject matter hereof.

(b) The Seller Parent Disclosure Letter and any Exhibit or Schedule attached to this Agreement and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

SECTION 9.3. Public Announcements. Except as otherwise required by law or the rules of any applicable securities exchange or national market system or any other Governmental or Regulatory Authority (including, but not limited to, the UKLA and the U.K. Takeover Panel), and except as has been approved by the Buyer in favor of the Seller Parent, the

Seller or the Company as of the date hereof, so long as this Agreement is in effect, the Buyer on the one hand, and the Seller Parent, the Seller and the Company on the other hand, will not, and will not permit any of their respective Subsidiaries or Representatives to, issue or cause the publication of any press release or make any other public announcement with respect to the transactions contemplated by this Agreement without the consent of the Seller Parent or the Buyer as the case may be, which consent shall not be unreasonably withheld. The Buyer, the Seller Parent and the Company will cooperate with each other in the development and distribution of all press releases and other public announcements with respect to this Agreement and the transactions contemplated hereby, and will furnish the other with drafts of any such releases and announcements as far in advance as practicable.

SECTION 9.4. No Third Party Beneficiary. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and except as provided in Section 5.5, Article VIII and Section 9.14 (which are intended to be for the benefit of the persons entitled to therein, and may be enforced by any of such persons), it is not the intention of the parties to confer third-party beneficiary rights upon any other person.

SECTION 9.5. No Assignment; Binding Effect. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other parties hereto and any attempt to do so will be void, except that (a) the Buyer may assign any or all of its rights, interests and obligations hereunder to any of its affiliates and (b) the Seller may assign all of its rights, interests and obligations hereunder to the transferee of the Shares permitted by the proviso immediately following Section 4.1(a)(viii) hereof. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

SECTION 9.6. Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define, modify or limit the provisions hereof.

SECTION 9.7. Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law or order, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, and (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

SECTION 9.8. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

SECTION 9.9. Submission to Jurisdiction; Waivers. Each of the parties hereto agrees to submit to the exclusive jurisdiction of either the Supreme Court of the State of New York in New York County or the United States District Court for the Southern District of New

York, provided, that nothing in this clause shall prevent the Buyer at its discretion from bringing proceedings against the Seller, the Seller Parent or the Company (A) in any other court of competent jurisdiction in the United Kingdom, or (B) in any other court of competent jurisdiction to enforce any order or judgment from any of the aforesaid courts. Any service of process to be made in such action or proceeding may be made by delivery of process in accordance with the notice provisions contained in Section 9.1. Each of the Seller, the Seller Parent, and the Buyer hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (a) the defense of sovereign immunity, (b) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 9, (c) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (d) to the fullest extent permitted by applicable law that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper and (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

SECTION 9.10. Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specified terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

SECTION 9.11. Certain Definitions. As used in this Agreement:

(a) except as specifically provided otherwise or as used in Sections 2.2(a) and 2.7, the term "**affiliate,**" as applied to any person, shall mean any other person directly or indirectly controlling, controlled by, or under common control with, that person; for purposes of this definition, "**control**" (including, with correlative meanings, the terms "**controlling,**" "**controlled by**" and "**under common control with**"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, by contract or otherwise;

(b) a person will be deemed to "**beneficially**" own securities if such person would be the beneficial owner of such securities under Rule 13d-3 under the Exchange Act, including securities which such person has the right to acquire (whether such right is exercisable immediately or only after the passage of time);

(c) the term "**business day**" means a day other than Saturday, Sunday or any day on which banks located in New York, New York or London, England are authorized or obligated to close;

(d) the term "**capital stock**" means any of the various shares of ownership in a business, including, without limitation, stock of a corporation, membership interests in a limited liability company and partnership interests in a partnership;

(e) the term "**knowledge**" or any similar formulation of "**knowledge**" shall mean with respect to the Seller Parent or the Seller, the actual knowledge after due inquiry of the persons set forth in Section 9.11(e) of the Seller Parent Disclosure Letter;

(f) any reference to any event, change or effect having a "**material adverse effect**" on or with respect to an entity (or group of entities taken as a whole) means such event, change or effect is materially adverse to the business, properties, assets, liabilities, financial condition or results of operations of such entity (or of such group of entities taken as a whole);

(g) the term "**person**" shall include individuals, corporations, partnerships, trusts, other entities and groups (which term shall include a "**group**" as such term is defined in Section 13(d)(3) of the Exchange Act);

(h) the "**Representatives**" of any entity means such entity's directors, officers, employees, legal, investment banking and financial advisors, accountants and any other agents and representatives;

(i) except as used in Sections 2.2(c) and 2.17, the term "**Subsidiary**" means, with respect to any party, any corporation or other organization, whether incorporated or unincorporated, of which more than fifty percent (50%) of either the equity interests in, or the voting control of, such corporation or other organization is, directly or indirectly through Subsidiaries or otherwise, beneficially owned by such party;

(j) "**Tax**" (or "**Taxes**" as the context may require) shall mean any federal, state, local or foreign net income, gross income, gross receipts, severance, property, production, sales, use, license, excise, franchise, employment, payroll, withholding, premium, alternative or add-on minimum, estimated, ad valorem, value-added, transfer, stamp, or environmental (including taxes under Section 59A of the Code) tax, or any other similar tax, customs duty, withholding, charge, fee, levy or other assessment, including any interest, penalty or addition imposed on such taxes by any taxing authority of any jurisdiction;

(k) "**Tax Return**" (or "**Tax Returns**" as the context may require) shall mean any return, report, claim for refund, information return, amended return or declaration of estimated Tax or similar statement (including any schedule attached thereto) filed, or required to be filed, with respect to any Tax or Taxes; and

(l) any reference to "**transactions contemplated hereby,**" "**transactions contemplated hereunder,**" "**transactions contemplated by this Agreement,**" "**transactions contemplated under this Agreement**" or any similar formulation shall include the transactions contemplated by this Agreement.

SECTION 9.12. Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

SECTION 9.13. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTION CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.14. Limitation of Liability. No recourse shall be had for any claim based on or otherwise in respect of this Agreement or the transactions contemplated hereby (including, without limitation, any certificate delivered pursuant to Article VI at the Closing) against any stockholder of the Buyer or the Seller Parent or any officer, employee, partner, member or director (whether past, present or future) of the Buyer, the Seller Parent, the Seller or the Company or any of their respective affiliates.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SCOTTISH POWER PLC

By: /s/ James Stanley
Name: James Stanley
Title: Commercial Director

PACIFICORP HOLDINGS, INC.

By: /s/ James Stanley
Name: James Stanley
Title: Commercial Director

MIDAMERICAN ENERGY HOLDINGS COMPANY

By: /s/ Douglas L. Anderson
Name: Douglas L. Anderson
Title: Senior Vice President

GLOSSARY OF DEFINED TERMS

Each of the following terms have the meanings ascribed to them in the Section of this Agreement set forth opposite such term:

Defined Term	Section of Agreement
1935 Act	2.1(a)
affiliate	9.11(a)
Agreement	Preamble
Alternative Proposal	4.6
Antitrust Division	5.3
beneficially	9.11(b)
business day	9.11(c)
Buyer	Preamble
Buyer Actuary	5.4(b)(iii)(B)
Buyer Indemnified Parties	8.2(a)
Cap	8.2(c)(i)
capital stock	9.11(d)
Change of Control	7.2(b)
Circular	2.9(a)
Closing	1.2
Closing Date	1.2
Code	2.12(a)(i)
Common Stock	Recitals
Companies Act	2.9(a)
Company	Recitals
Company Budget	4.1(f)
Company Reporting Entity	2.5(c)
Company Financial Statements	2.5(a)
Company Permits	2.10
Company Preferred Stock	2.2(a)(ii)
Company Trading Guidelines	2.21
Company Voting Debt	2.2(e)
Competing Transaction	7.1(d)
Confidentiality Agreement	5.1
Contracts	2.4(a)
control	9.11(a)
Covenant Deductible	8.2(c)(ii)(z)
Cutoff Date	2.1(c)
Deductible	8.2(c)(ii)(x)
DOE	2.5(f)
Draft 2005 10-K	2.5(a)
Employee Benefit Plan	2.13(b)
Encumbrances	1.1
Energy Property	7.1(d)
Environmental Claims	2.15(g)

Defined Term	Section of Agreement
Environmental Laws	2.15(g)
Environmental Permits	2.15(b)
Equity Plans	5.4(a)
ERISA	2.13(b)
ERISA Affiliate	2.13(b)
Exchange Act	2.4(b)
FCC	2.4(b)
FERC	2.5(f)
Final Order	6.1(d)
FTC	5.3
Funded Accounts	5.4(b)(v)(A)
FY 2005 Statements	2.5(a)
Governmental or Regulatory Authority	2.4(a)
group	9.11(g)
Guarantees	4.1(h)
Hazardous Materials	2.15(g)
HSR Act	2.4(b)
Indemnified Party	8.3
Indemnifying Party	8.3
Intellectual Property	2.16
Joint Executive Committee	4.8
Joint Venture	2.1(b)
knowledge	9.11(e)
laws	2.4(a)
Listing Rules	2.9(a)
Loss	8.2(a)
material adverse effect	9.11(f)
material weakness	2.5(e)
Medical Transfer Amount	5.4(b)(v)(A)
Net Company Position	2.21
Newholdco	7.2(b)(iii)
NRC	2.4(b)
Options	2.2(a)
orders	2.4(a)
Organizational Documents	2.1(a)
person	9.11(g)
PBGC	2.13(g)
Pension Transfer Amount	5.4(b)(iii)(A)
PFS	5.12(a)
Plan	2.13(b)
Plan Actuary	5.4(b)(iii)(B)
Power Act	2.1(a)
Pro-Ration Fraction	4.1(a)(i)
Purchase Price	1.2
Release	2.15(g)

Defined Term	Section of Agreement
reportable condition	2.5(e)
Representatives	9.11(h)
Sarbanes-Oxley Act	2.5(b)
SEC	2.4(b)
SEC Reports	2.5(a)
Securities Act	2.1(d)
Seller	Preamble
Seller Indemnified Parties	8.2(b)
Seller Parent	Preamble
Seller Parent Disclosure Documents	2.9(a)
Seller Parent Disclosure Letter	2.1(a)
Seller Parent Shareholders' Approval	5.2(a)
Seller Parent Shareholders' Meeting	5.2(a)
Share Purchase	2.3
Shares	Recitals
Subsidiary	9.11(i)
Tax	9.11(j)
Tax Return	9.11(k)
Termination Date	5.4(a)
Terrorist Attack	6.2(c)
Threshold	8.2(c)(ii)(x)
transactions contemplated hereby / transactions contemplated hereunder / transactions contemplated by this Agreement / transactions contemplated under this Agreement	9.11(l)
Transferred Group Entity	5.4(b)(i)
Transferred Group Pension Plan	5.4(b)(i)
Transferred Group Post Retirement Welfare Plans	5.4(b)(i)
Transferred Group Savings Plan	5.4(b)(i)
Transferred Individuals	5.4(b)(i)
UKLA	2.4(b)
VEBAs	5.4(b)(v)(A)

EXHIBIT C

PacifiCorp Annual Report on Form 10-K
for the Fiscal Year ended March 31, 2005,
filed May 27, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number 1-5152

PACIFICORP

(Exact name of registrant as specified in its charter)

State of Oregon (State or other jurisdiction of incorporation or organization)	**93-0246090** (I.R.S. Employer Identification No.)
825 N.E Multnomah Street, Portland, Oregon (Address of principal executive offices)	**97232** (Zip Code)

(503) 813-5000
(Registrant's telephone number)

Securities registered pursuant to Section 12(g) of the Act:

Title of each Class

5% Preferred Stock (Cumulative; $100 Stated Value)
Serial Preferred Stock (Cumulative; $100 Stated Value)
No Par Serial Preferred Stock (Cumulative; $100 Stated Value)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☒

The aggregate market value of the shares of voting and non-voting common equity of the Registrant held by non-affiliates was $0 on September 30, 2004. As of May 19, 2005, there were 312,176,089 shares of common stock outstanding. All shares of outstanding common stock are indirectly owned by Scottish Power plc, 1 Atlantic Quay, Glasgow, G2 8SP, Scotland.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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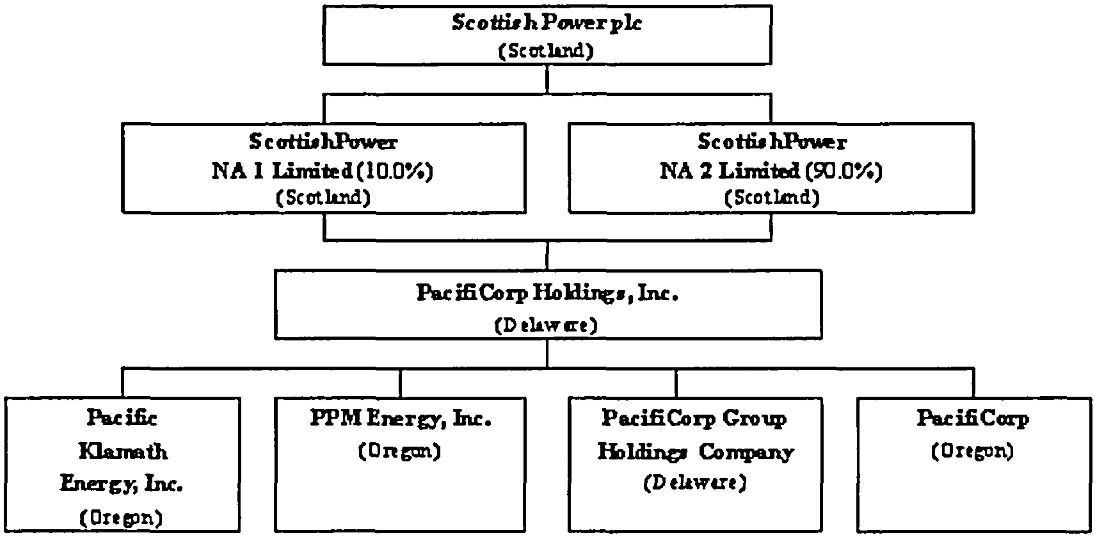
DEFINITIONS

When the following terms are used in the text, they will have the meanings indicated:

Term	Meaning
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
IPUC	Idaho Public Utilities Commission
kWh	Kilowatt-hour(s), one kilowatt continuously for one hour
MidAmerican	MidAmerican Energy Holdings Company, an Iowa corporation
MW	Megawatt
MWh	Megawatt-hour(s), one megawatt continuously for one hour
OPUC	Oregon Public Utility Commission
PacifiCorp	PacifiCorp, an Oregon corporation and direct, wholly owned subsidiary of PHI
Pacific Power	Pacific Power & Light Company, the assumed business name of PacifiCorp under which it conducts a portion of its retail electric operations
PFS	PacifiCorp Financial Services, Inc., an Oregon corporation and direct, wholly owned subsidiary of PGHC, and its subsidiaries
PGHC	PacifiCorp Group Holdings Company, a Delaware corporation and direct, wholly owned subsidiary of PHI
PHI	PacifiCorp Holdings, Inc., a Delaware corporation and non-operating United States holding company
PKE	Pacific Klamath Energy, Inc., an Oregon corporation and direct, wholly owned subsidiary of PHI
PPM	PPM Energy, Inc., formerly known as PacifiCorp Power Marketing, Inc., an Oregon corporation and direct, wholly owned subsidiary of PHI
ScottishPower	Scottish Power plc, the ultimate, indirect parent company of PHI and PacifiCorp
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SPUK	Scottish Power UK plc, incorporated under the laws of Scotland and an indirect, wholly owned subsidiary of Scottish Power plc
UPSC	Utah Public Service Commission
Utah Power	Utah Power & Light Company, the assumed business name of PacifiCorp under which it conducts a portion of its retail electric operations
Wheeling	The transmission of electricity by an entity that neither owns nor directly uses the electricity transmitted
WPSC	Wyoming Public Service Commission
WUTC	Washington Utilities and Transportation Commission

CORPORATE ORGANIZATION
(Jurisdiction of Organization)



PART I

ITEM 1. BUSINESS

OVERVIEW

PacifiCorp is a regulated electricity company serving retail customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. As a vertically integrated electric utility, PacifiCorp owns or has contracts for fuel sources such as coal and natural gas and uses these fuel sources, as well as wind, geothermal and water resources, to generate electricity at its power plants. This electricity, together with electricity purchased on the wholesale market, is then transmitted via a grid of transmission lines throughout PacifiCorp's six-state region. The electricity is then transformed to lower voltages and delivered to customers through PacifiCorp's distribution system. PacifiCorp sells electricity primarily in the retail market, with sales to residential, commercial and industrial customers. It conducts its retail electric utility business under the names Pacific Power and Utah Power. PacifiCorp also sells electricity in the wholesale market in connection with excess electricity generation or hedging activities. Wholesale electricity sales and purchases are conducted under the name PacifiCorp. Subsidiaries of PacifiCorp support its electric utility operations by providing coal mining facilities and services, and environmental remediation. PacifiCorp's goal is to provide safe, reliable, low-cost electricity to its customers, with fair and increasing earnings to its shareholder. PacifiCorp expects that costs prudently incurred to provide service to its customers will be included as allowable costs for state ratemaking purposes.

Ownership by ScottishPower; Agreement to Sell PacifiCorp

Currently, all outstanding shares of the common stock of PacifiCorp are indirectly owned by Scottish Power plc ("ScottishPower"), whose American Depository Shares are traded on the New York Stock Exchange under the ticker symbol "SPI."

On May 23, 2005, ScottishPower and PacifiCorp Holdings, Inc. ("PHI"), its wholly owned subsidiary directly holding PacifiCorp's common stock, executed a Stock Purchase Agreement (the "Stock Purchase Agreement") providing for the sale of all PacifiCorp common stock held by PHI to MidAmerican Energy Holdings Company ("MidAmerican") for a value of approximately $9.4 billion, consisting of approximately $5.1 billion in cash plus approximately $4.3 billion in net debt and preferred stock, which will remain outstanding at PacifiCorp. MidAmerican is based in Des Moines, Iowa, and is a privately owned global provider of energy services. The acquisition is subject to customary closing conditions, including the approval of the transaction by the shareholders of ScottishPower and the receipt of required state and federal regulatory approvals. The transaction is expected to be completed in calendar 2006. The Stock Purchase Agreement also requires ScottishPower to obtain MidAmerican's prior approval to certain actions taken by PacifiCorp, including incurring indebtedness and making capital expenditures, beyond agreed limits. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Sale of PacifiCorp" for a more detailed description.

The summary of the terms of the Stock Purchase Agreement contained in this Annual Report is modified in its entirety by reference to the terms of such agreement, which is included as an exhibit hereto.

Regulation

PacifiCorp is subject to comprehensive regulation by the Securities and Exchange Commission (the "SEC"), the Federal Energy Regulatory Commission (the "FERC"), and other federal, state and local regulatory agencies. These agencies regulate many aspects of PacifiCorp's business, including customer rates, service territories, sales of securities, asset acquisitions and sales, accounting policies and practices, wholesale sales and purchases of electricity, and the operation of its electric generation and transmission facilities.

Consistent with state regulations, PacifiCorp uses an Integrated Resource Plan to provide a framework and plan for prudent future actions required to help ensure that PacifiCorp continues to provide reliable and cost-effective electric service to its customers.

Employees

PacifiCorp had 6,654 employees on March 31, 2005. Approximately 57.3% of the employees of PacifiCorp are covered by union contracts, principally with the International Brotherhood of Electrical Workers, the Utility Workers Union of America, International Brotherhood of Boilermakers and the United Mine Workers of America. In PacifiCorp's judgment, employee relations are satisfactory.

Safe Harbor Statement

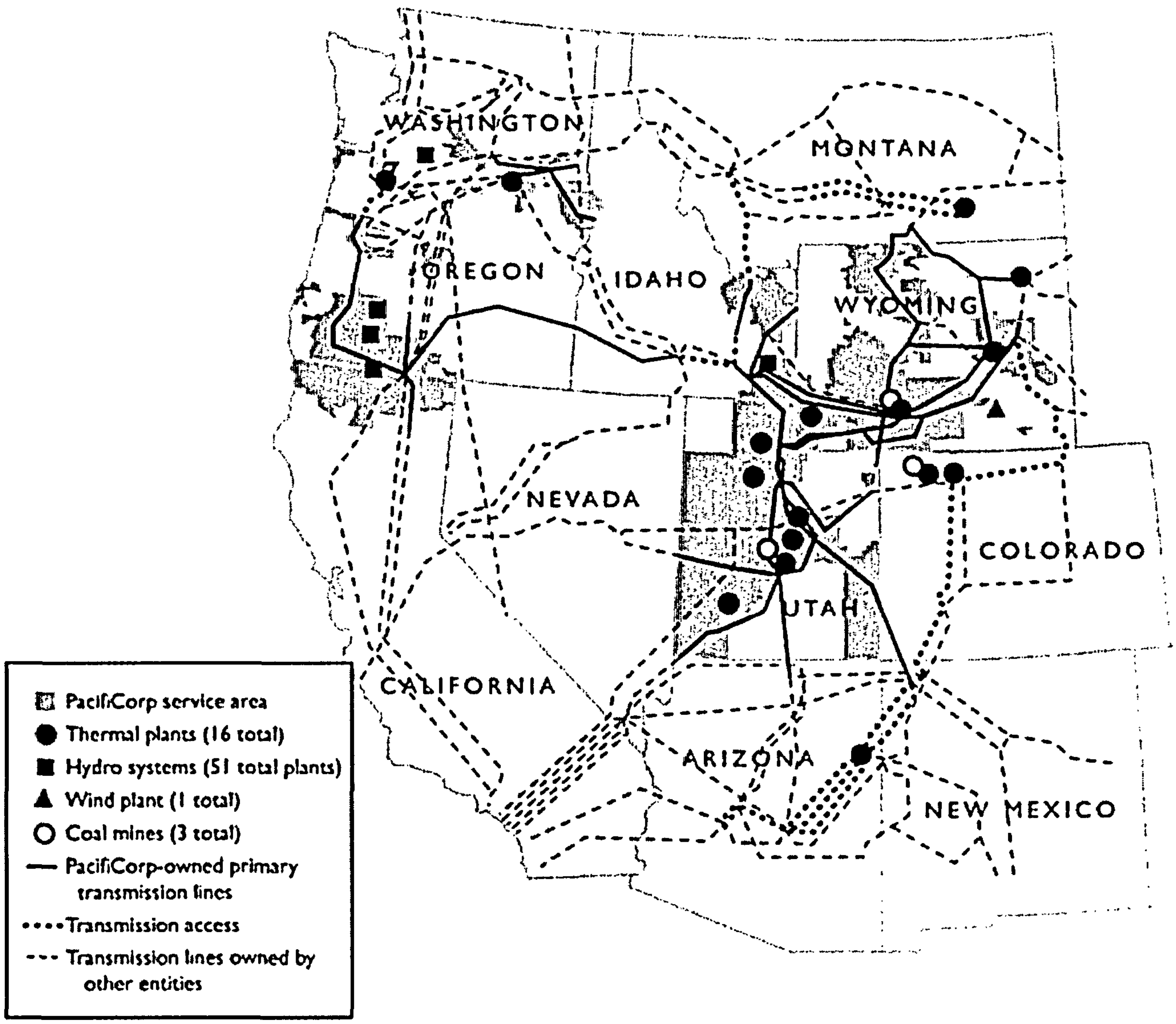
From time to time, PacifiCorp may make or issue forward-looking statements that involve a number of risks and uncertainties under the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995, as described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements." Any forward-looking statements made or issued by PacifiCorp, including statements in this report on Form 10-K, should be considered in light of these factors.

Location and Information Requests

The location of PacifiCorp's principal offices is 825 N.E. Multnomah Street, Portland, Oregon 97232. PacifiCorp's website address is www.pacificorp.com. PacifiCorp makes available free of charge, on or through its website, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the SEC. Information contained on PacifiCorp's website is not part of this report. Reports and other information regarding PacifiCorp that are required to be filed with the SEC may also be obtained from the SEC's website at www.sec.gov.

SERVICE TERRITORIES

PacifiCorp serves approximately 1.6 million retail customers in service territories aggregating about 136,000 square miles in portions of six western states: Utah, Oregon, Wyoming, Washington, Idaho and California. The combined service territory's diverse regional economy ranges from rural, agricultural and mining areas to urbanized manufacturing and government service centers. No one segment of the economy dominates the service territory, which mitigates PacifiCorp's exposure to economic fluctuations. In the eastern portion of the service territory, mainly consisting of Utah, Wyoming and southeast Idaho, the principal industries are manufacturing, health services, recreation and mining or extraction of natural resources. In the western portion of the service territory, mainly consisting of Oregon, southeastern Washington and northern California, the principal industries are agriculture and manufacturing, with forest products, food processing, high technology and primary metals being the largest industrial sectors. The following map highlights PacifiCorp's retail service territory, plant locations and PacifiCorp's primary transmission lines. PacifiCorp's generating facilities are interconnected through PacifiCorp's own transmission lines or by contract through the transmission lines owned by others. See "Item 2. Properties" for additional information on PacifiCorp's plants.



The geographic distribution of PacifiCorp's retail electric operating revenues for the years ended March 31, 2005 and 2004 was as follows:

	Years Ended March 31,	
	2005	2004
Utah	40.6%	38.5%
Oregon	29.3	31.5
Wyoming	13.6	12.8
Washington	8.0	8.4
Idaho	6.1	6.3
California	2.4	2.5
	100.0%	100.0%

PacifiCorp receives authorization from state public utility commissions to serve areas within each state. This authorization is perpetual until withdrawn by the state public utility commissions. In addition, PacifiCorp has received franchises to provide electric service to customers inside incorporated areas within the states. These franchises have terms of five years or more, some being granted indefinitely. PacifiCorp must renew franchises that expire. Governmental agencies have the right to challenge PacifiCorp's right to serve in a specific area and can condemn PacifiCorp's property under certain circumstances in accordance with the laws in each state. However, PacifiCorp vigorously challenges any attempts from individuals and governmental entities to undertake forced takeover of any portions of its service territory. See "Item 7. Risk Factors – PacifiCorp is subject to federal and state legislation, regulations and political risks that may adversely affect its business."

CUSTOMERS

Electricity sold to retail customers and the number of retail customers, by class of customer, for the years ended March 31, 2005, 2004 and 2003, were as follows:

	Years Ended March 31,					
	2005		2004		2003	
(Thousands of MWh)						
MWh sold						
Residential	14,117	28.9%	14,460	29.7%	13,287	28.3%
Commercial	14,642	29.9	14,413	29.6	14,006	29.8
Industrial	19,454	39.8	19,133	39.3	19,048	40.6
Other	706	1.4	673	1.4	631	1.3
Total MWh sold	48,919	100.0%	48,679	100.0%	46,972	100.0%
Number of Retail Customers (Thousands)						
Residential	1,373	85.5%	1,341	85.4%	1,317	85.4%
Commercial	194	12.1	190	12.1	186	12.1
Industrial	34	2.1	34	2.2	34	2.2
Other	4	0.3	5	0.3	5	0.3
Total	1,605	100.0%	1,570	100.0%	1,542	100.0%
Residential Customers						
Average annual usage (kWh)	10,411		10,889		10,182	

Average annual revenue per customer	$ 741	$ 749	$ 701
Revenue per kWh	7.1¢	6.9¢	6.9¢

During the year ended March 31, 2005, no single retail customer accounted for more than 2.0% of PacifiCorp's retail electric revenues, and the 20 largest retail customers accounted for 13.0% of PacifiCorp's retail electric revenues.

For the five years to March 31, 2010, PacifiCorp is estimating average growth in retail megawatt-hour ("MWh") sales in PacifiCorp's franchise service territories to be in the range of 2.2% to 3.3% annually, depending on factors such as economic conditions, number of customers, weather, conservation efforts and changes in prices.

Seasonality

As a result of the geographically diverse area of operations, PacifiCorp's service territory has historically experienced complementary seasonal load patterns. In the western portion, customer demand peaks in the winter months due to heating requirements. In the eastern portion, customer demand peaks in the summer when irrigation and air-conditioning systems are heavily used.

For residential customers, within a given year, weather conditions are the dominant cause of usage variations from normal seasonal patterns. Strong Utah residential growth over the last several years and increasing installations of central air conditioning systems are contributing to faster summer peak growth.

RETAIL COMPETITION

During the year ended March 31, 2005, PacifiCorp continued to operate its retail business under state regulation, which generally prohibits retail competition. However, certain of PacifiCorp's commercial and industrial customers in Oregon have the right to choose alternative electricity suppliers. As a result of Direct Access mandated by Oregon's Senate Bill 1149, a group of customers having a total average load of approximately 18 megawatts ("MW") have chosen service from suppliers other than PacifiCorp. A group of customers having a total average load of approximately 2 MW have taken service from PacifiCorp at the Daily Market Pricing Option. This service provides a market-based pricing option by linking the energy charge on a customer's bill to a representative market price index. PacifiCorp does not expect the Direct Access program and the Daily Market Pricing Option to have a material effect on earnings for the year ending March 31, 2006.

In addition to Oregon's Direct Access program, others in PacifiCorp's service territories are seeking to have a choice of suppliers, exploring options to build their own generation or co-generation plants, or considering the use of alternative energy sources such as natural gas. If these customers gain the right to receive electricity from alternative suppliers, they will make their energy purchasing decision based upon many factors, including price, service and system reliability. The use of alternative energy sources is typically based on availability, price and the general demand for electricity.

Any adoption of retail competition by the legislatures in the states served by PacifiCorp, in addition to the Direct Access program, and/or the unbundling of regulated electricity services could have a significant adverse financial impact on PacifiCorp due to an impairment of assets, a loss of retail customers, lower profit margins or increased costs of capital and could result in increased pressure to lower the price of electricity. Although PacifiCorp believes it will continue as a regulated entity and does not expect significant retail competition in the near future, it cannot predict if or to what extent it will be subject to changes in legislation or regulation allowing retail competitors, nor can PacifiCorp predict the impact of these changes. See "Item 7. Risk Factors – PacifiCorp is subject to federal and state legislation, regulations and political risks that may adversely affect its business."

POWER AND FUEL SUPPLY

Generating Plants

PacifiCorp uses its portfolio of electricity generating plants and wholesale purchases to meet its retail load obligations. PacifiCorp owns, or has interests in, the following types of electricity generating plants:

	Plants	Nameplate Rating (MW)	Net Plant Capability (MW)
Coal	11	6,585.9	6,104.4
Natural gas and geothermal	5	723.9	689.0
Hydroelectric	51	1,083.6	1,155.4
Wind	1	32.6	32.6
Total	68	8,426.0	7,981.4

In addition, PacifiCorp operates a 200.0 MW net plant capability natural gas-fired facility in Utah pursuant to an operating lease with West Valley Leasing Company, LLC ("West Valley") and is in the process of having two natural gas-fired facilities constructed in Utah, the Currant Creek and Lake Side Power Plants, with a total estimated capability of 1,059.0 MW. See "Item 2. Properties" for further discussion.

The following table shows the percentage of PacifiCorp's total energy requirements supplied by its generation plants during the years ended March 31, 2005 and 2004.

	Years Ended March 31,	
	2005	2004
Coal	69.4%	68.4%
Natural gas and geothermal	4.3	4.1
Hydroelectric	4.7	5.4
Wind	0.2	0.2
Total	78.6%	78.1%

PacifiCorp obtains the remainder of its energy requirements, including additional energy required beyond expectations, through short- and long-term contracts or spot market purchases described below under "Wholesale Sales and Purchased Electricity." The share of PacifiCorp's energy requirements generated by its plants will vary from year to year and is determined by factors such as planned and unplanned outages, availability and price of coal and natural gas, precipitation and snowpack levels, environmental considerations and the market price of electricity.

PacifiCorp's various Integrated Resource Plans have identified the need for additional electric generation resources due to expected load growth. Part of the additional generation resources of 525.0 MW will be met by the new natural gas-fired Currant Creek Power Plant at a cost of approximately $350.0, which is expected to begin its first phase of operations in June 2005. In May 2004, PacifiCorp entered into an agreement with Summit Vineyard LLC of Denver, Colorado, to develop and, with Siemens Westinghouse Power Corporation, to construct, a natural gas-fired combined-cycle combustion turbine electricity plant in Vineyard, Utah. The plant, to be known as the Lake Side Power Plant and to have a summer rated capacity of 534.0 MW, was identified as the best option submitted through PacifiCorp's competitive Request for Proposal process for a resource to be available by summer 2007. The Utah Public Service Commission ("UPSC") has granted all the authorizations required from it to construct and to operate the Lake Side Power Plant, and PacifiCorp is scheduled to begin operating the plant in May 2007. The Lake Side Power Plant is expected to cost approximately $347.0 million. Recovery of PacifiCorp's investment in the plant will be reviewed by the states PacifiCorp serves as part of future general rate cases.

Coal

As of March 31, 2005, PacifiCorp had an estimated 259.1 million tons of recoverable coal reserves in mines owned or leased by PacifiCorp. The coal from these reserves and from long-term contracts will be used to support PacifiCorp's fuel strategy at its generation plants. During the year ended March 31, 2005, these mines supplied 28.6% of PacifiCorp's total coal requirements, compared to 30.4% during the year ended March 31, 2004, and 32.7% during the year ended March 31, 2003. The remaining coal requirements are acquired through other long-term and short-term contracts. PacifiCorp-owned mines are located adjacent to many of its coal-fired generating plants, which significantly reduces overall transportation costs included in fuel expense. For further information, see "Item 2. Properties."

In an effort to lower costs and access better quality coal, the Jim Bridger Mine is in the process of converting from a surface operation to a primarily underground operation, while currently continuing production at its surface operations. Underground mine development and limited coal production began in fiscal 2005 and sustained operation is expected to begin by fiscal 2007. This conversion is expected to result in a reduction of the cost of mining coal over the life of the Jim Bridger Mine.

Natural Gas

PacifiCorp currently supplies four natural gas-fired generating plants (composed of 14 generating units) that, at full capacity, require a maximum of 229,000 MMBtu (million British thermal units) of natural gas per day.

The additional electric generation resources that PacifiCorp will require in accordance with its Integrated Resource Plans, including the Currant Creek and Lake Side Power Plants, could increase its maximum natural gas requirement to 500,000 MMBtu per day or more. PacifiCorp has entered into transportation contracts to facilitate movement of natural gas to the Currant Creek and Lake Side Power Plants. These contracts reflect PacifiCorp's fuel strategy that focuses on the management and mitigation of risks associated with supplying natural gas to fuel generation.

The prospective growth of PacifiCorp's natural gas requirements requires a prudent, disciplined and well-documented approach to natural gas procurement and hedging. PacifiCorp has developed a natural gas strategy that addresses the need to hedge the commodity risk (physical availability and price), the transportation risk and the storage risk associated with its forecasted and potentially growing natural gas requirements. The natural gas strategy, combined with the prospect for increasing natural gas requirements, is expected to increase the volume and types of PacifiCorp's procurement and hedging activity.

PacifiCorp manages its natural gas supply requirements by entering into forward commitments for physical delivery of natural gas. PacifiCorp also manages its exposure to increases in natural gas supply costs through forward commitments for the purchase of physical natural gas at fixed prices and financial swap contracts that settle in cash based on the difference between a fixed price that PacifiCorp pays and a floating market-based price that PacifiCorp receives. As of March 31, 2005, PacifiCorp had hedged 100.0% of its physical and financial exposure for the remainder of calendar 2005 and has hedged 100.0% of its physical and financial exposure for calendar 2006. For calendar 2007, PacifiCorp currently has hedged 77.0% of its physical exposure and 83.0% of its financial exposure. This hedging includes the additional supply requirements arising from the Currant Creek and Lake Side Power Plants.

Hydroelectric

PacifiCorp's hydroelectric portfolio consists of 51 plants with a net plant capability of 1,155.4 MW. These plants account for approximately 14.5% of PacifiCorp's total generating capacity, helping satisfy a significant portion of PacifiCorp's capability reserve margin requirements and providing operational benefits such as flexible generation and voltage control. Hydroelectric plants are located in the following states: Utah, Oregon, Wyoming, Washington, Idaho, California and Montana.

The amount of electricity PacifiCorp is able to generate from its hydroelectric plants depends on a number of factors, including snowpack in the mountains upstream of its hydroelectric facilities, reservoir storage, precipitation in its watersheds, plant availability and restrictions imposed by oversight bodies due to competing water management objectives. When these factors are favorable, PacifiCorp can generate more electricity using its hydroelectric plants. When these factors are unfavorable, PacifiCorp must increase its reliance on more expensive thermal plants and purchased electricity.

PacifiCorp operates the majority of its hydroelectric generating portfolio under long-term licenses from the FERC. These licenses are granted by the FERC for periods of 30 to 50 years. Several of PacifiCorp's long-term operating licenses have expired or will expire in the next few years. Hydroelectric facilities operating under expired licenses may operate under annual licenses granted by the FERC until new operating licenses are issued. Hydroelectric relicensing and the related environmental compliance requirements are subject to a degree of uncertainty. PacifiCorp expects that future costs relating to these matters may be significant and consist primarily of additional relicensing costs and capital expenditures. Electricity generation reductions may also result from additional environmental requirements. As of March 31, 2005, PacifiCorp had incurred $60.0 million in costs for ongoing hydroelectric relicensing in progress, which are included in Construction work-in-progress on PacifiCorp's Consolidated Balance Sheet. See "Relicensing and Decommissioning" both discussed below.

Wind and Other Renewable Resources

PacifiCorp is committed to renewable power as a viable, economic and environmentally prudent means of generating electricity. The benefits of renewable energy include low to no emissions and no fossil fuel requirements. Resources such as wind and solar are intermittent, so complementary thermal or hydroelectric resources are important to integrating renewable resources into the electric system.

PacifiCorp acquires wind and other renewable power through one PacifiCorp-owned wind farm in Wyoming and various purchased electricity agreements with wind farms in Oregon and Wyoming, as well as with renewable facilities classified as "qualifying facilities" under the Public Utility Regulatory Policies Act. PacifiCorp also owns a geothermal plant in Utah.

For the year ended March 31, 2005, PacifiCorp received 286,888 MWh from its owned wind farm and geothermal plant. In this same period, 250,951 MWh were purchased from other wind sources, not including qualifying facilities.

PacifiCorp has also released a Request for Proposal for renewable energy sources. See "Future Generation and Conservation - Requests for Proposals - RFP 2003B" below for more information about the request. During the year ended March 31, 2005, PacifiCorp proceeded with analysis and negotiations with potential counterparties, with the goal of entering into purchased electricity agreements that ensure low-cost and reliable power for customers.

To encourage the use of wind energy, PacifiCorp has generation, storage and delivery agreements with Bonneville Power Administration (the "BPA"), Eugene Water and Electric Board, Public Service Company of Colorado and Seattle City Light. For the year ended March 31, 2005, electricity under these agreements totaled 498,437 MWh in addition to the wind energy generated or purchased for PacifiCorp's own use.

Future Generation and Conservation

Integrated Resource Plans

As required by state regulators, PacifiCorp uses Integrated Resource Plans to provide a framework and plan for prudent future actions required to help ensure that PacifiCorp continues to provide reliable and cost-effective electric service to its customers. The Integrated Resource Plan process identifies PacifiCorp's anticipated future resource mix in a coordinated process with the stakeholders in each of the six states where PacifiCorp operates.

PacifiCorp published its 2003 Integrated Resource Plan in January 2003 and updated it in October 2003. PacifiCorp has segregated its 2003 Integrated Resource Plan supply-side action items into a series of separate Requests for Proposals, each of which focuses on a specific category of supply-side resources and provides for the staged procurement of resources in future years in an attempt to achieve load and resource balance. The outstanding Requests for Proposals are discussed below.

PacifiCorp filed its 2004 Integrated Resource Plan with the relevant state commissions in January 2005. Dockets have been established in Utah, Oregon, Idaho and Washington to determine acknowledgment of the plan. Projected growth rates and contract expirations indicate a need for approximately 2,800 MW of additional resources by 2015. These estimates are subject to ongoing review and revision.

As part of the 2004 Integrated Resource Plan process, PacifiCorp has identified an electricity generation resource deficit and plans to meet the resource deficit through a combination of thermal generation (2,629 MW) and load control programs (177 MW). PacifiCorp also plans to implement energy conservation programs (450 average MW) and will continue to seek procurement of 1,400 MW of economic renewable resources that were first identified in the 2003 Integrated Resource Plan. PacifiCorp intends to utilize wholesale electricity transactions to balance the remaining difference between retail load obligations and available resources and to optimize physical assets and minimize cost.

In addition to new generation resources, future load growth could require substantial transmission investments to deliver power to customers. The actual investment requirement will depend on the location and other characteristics of the new generation resources. See "Transmission and Distribution" discussion below.

Requests for Proposals

RFP 2003B - PacifiCorp's 2003 Integrated Resource Plan identified 1,400 MW of renewable resources as part of a least-cost portfolio of resources to meet PacifiCorp's growing demand over a 10-year period. PacifiCorp issued a Renewable Request for Proposals in February 2004 for up to 1,100 MW of economic renewable resources for PacifiCorp's system, which would become available in phases through calendar 2010. In May 2005, PacifiCorp entered into a 64.5 MW power purchase agreement, to take effect prior to January 2006, for the output of a wind farm located in southeastern Idaho. PacifiCorp is continuing to negotiate with other counterparties.

RFP 2009 (formerly RFP 2004A) - PacifiCorp expects to issue a third Request for Proposals following a review of the results from RFP 2003A and RFP 2003B and a new load and resource balance determination. PacifiCorp anticipates that it will issue RFP 2009 in calendar 2005 to request additional resources to serve PacifiCorp's growing load obligation. Utah Senate Bill 26, which became law in February 2005, provides PacifiCorp a process to obtain pre-approval of related assets and/or power purchase agreements. Based on PacifiCorp's 2003 Integrated Resource Plan, PacifiCorp expects that it will procure additional resources that can be delivered in or to PacifiCorp's service territory in Utah, southwest Wyoming and southeast Idaho.

Demand-side RFP - In addition to the three supply-side Requests for Proposals, PacifiCorp issued a separate Request for Proposals for the demand-side resources called for in its 2003 Integrated Resource Plan. The demand-side Request for Proposals was issued in June 2003 and requested an additional 100 MW or more of conservation to be obtained over the next 10 years and load control proposals specifically addressing peak load. Two conservation programs and one load control program were selected. Tariffs for each program have been filed with the UPSC.

WHOLESALE SALES AND PURCHASED ELECTRICITY

In addition to its portfolio of generating plants, PacifiCorp purchases electricity in the wholesale markets to meet its retail load obligations, long-term wholesale obligations, and energy and capacity balancing requirements. For the year ended March 31, 2005, 21.4% of PacifiCorp's energy requirements were supplied by purchased electricity under short- and long-term purchase arrangements, both as defined by the FERC. For the year ended March 31, 2004, 21.9% of PacifiCorp's energy requirements were supplied by purchased electricity under short- and long-term purchase arrangements.

Many of PacifiCorp's purchased electricity contracts have fixed-price components, which provide some protection against price volatility. PacifiCorp enters into wholesale purchase and sale transactions to balance its supply when generation and retail loads are higher or lower than expected. Generation varies with the levels of outages, hydroelectric generation conditions and transmission constraints, and retail load varies with the weather, distribution system outages, consumer trends and the level of economic activity. In addition, PacifiCorp purchases electricity in the wholesale markets when it is more economical than generating it at its own plants. PacifiCorp may also sell into the wholesale market excess electricity arising from imbalances between generation and retail load obligations, subject to pricing and transmission constraints.

PacifiCorp's wholesale transactions are integral to its retail business, providing for a balanced and economically hedged position and enhancing the efficient use of its generating capacity over the long-term. Historically, PacifiCorp has been able to purchase electricity from utilities in the western United States for its own requirements. These purchases are conducted through PacifiCorp's transmission system, which connects with market hubs in the Pacific Northwest to provide access to normally low-cost hydroelectric generation and in the southwestern United States to provide access to normally higher-cost fossil-fuel generation. The transmission system is available for common use consistent with open-access regulatory requirements.

TRANSMISSION AND DISTRIBUTION

PacifiCorp delivers electricity through approximately 58,360 miles of distribution lines and approximately 15,530 miles of transmission lines. Due to PacifiCorp's continuing commitment to improve customer service and network safety and to enhance system reliability and performance, PacifiCorp has focused on infrastructure improvement projects in targeted areas, particularly along Utah's Wasatch Front, where there has been rapidly growing demand for electricity due to customer growth and peak load growth. For the year ended March 31, 2005, PacifiCorp's capital spending along the Wasatch Front was $124.5 million, which included load growth, transmission and distribution upgrades and replacements. Part of this spending was attributed to a multi-year program aimed at improving service capability and reliability. As of March 31, 2005, PacifiCorp had invested approximately $172.7 million of the $202.0 million allocated to this program. As of March 31, 2005, PacifiCorp had added an additional 1,420 MW of system capacity through this program.

The regional electricity market in which PacifiCorp operates has changing transmission regulatory structures, which could affect the operation and ownership of transmission assets and related revenues and expenses. PacifiCorp currently owns and operates transmission facilities as part of its vertically integrated utility operations. It also provides wheeling, or transmission, services to third parties utilizing these facilities. Transmission costs are not separated from, but rather are "bundled" with, generation and distribution costs in approved retail rates. In 1996, the FERC issued new rules on transmission service to facilitate competition in the wholesale market on a nationwide basis. The rules give greater flexibility and more choices to wholesale electricity customers desiring transmission service from PacifiCorp. In December 1999, the FERC issued Order 2000 to promote voluntary coordination of electric transmission systems and more efficient use of resources through regional transmission organizations and related wholesale markets.

Grid West and Regional Transmission Projects

PacifiCorp, in conjunction with other western utilities (referred to as the filing utilities), is seeking to develop an independent regional transmission entity that would manage certain operational functions of the transmission grid and plan for necessary expansion. A non-profit corporation has been established known as Grid West (previously known as RTO West), and in December 2004, the filing utilities, in collaboration with regional stakeholders, adopted new bylaws for Grid West's interim board, on which PacifiCorp has a representative.

During the remainder of calendar 2005, the activities for Grid West are expected to include the continued development of the regional proposal for Grid West, initiating the process for parties to become members of the new Grid West organization and starting the search for candidates to be elected as independent members of a new five-person developmental board of trustees.

Assuming continued regional support, the filing utilities also plan to begin working with the proposed Grid West independent board of trustees to develop transmission agreements and a Grid West tariff in calendar 2006.

In January 2003, the filing utilities also entered into a Memorandum of Understanding with the other two potential western Regional Transmission Organizations, namely WestConnect and the California Independent System Operator, and anticipate continued work through either this agreement or a redefined forum to address transmission and related inter-regional market issues throughout the western interconnection.

In addition to the Grid West activities, PacifiCorp is involved in three other regional transmission expansion planning efforts. These planning efforts include technical studies that focus on evaluating the economic and operational implications of transmission expansion and resource alternatives to meet growing consumer demands in the western United States. A broad range of stakeholders is also involved in these public processes to identify the most critical electric transmission and generation project needs. The sub-regional planning processes provide a framework for regional collaboration to improve the western interconnection with technically, financially and environmentally viable transmission projects. These regional planning activities and Grid West activities are compatible, and PacifiCorp actively supports and participates in both.

ENVIRONMENTAL MATTERS

PacifiCorp's activities are subject to a broad range of federal, state and local laws and regulations designed to protect, restore and enhance the quality of the environment. PacifiCorp's costs of complying with complex environmental laws and regulations, as well as internal voluntary programs and goals, are significant and will continue to be so for the foreseeable future.

In the year ended March 31, 2005, PacifiCorp spent approximately $24.6 million on environmental capital projects either required by law or necessary to meet PacifiCorp's internal environmental goals. Subject to applicable restrictions in the Stock Purchase Agreement, PacifiCorp currently estimates expenditures for environmental-related capital projects will total approximately $110.0 million in the year ending March 31, 2006, $148.2 million in the year ending March 31, 2007 and $138.4 million in the year ending March 31, 2008. PacifiCorp monitors these requirements and annually revises its cost estimates to meet existing legal and regulatory requirements of the various jurisdictions in which it operates. The increase in estimated future expenditures, in comparison to expenditures for the year ended March 31, 2005, is largely due to air quality initiatives.

Air Quality

PacifiCorp's fossil fuel-fired electricity generation plants, as well as other facilities with significant air emissions, are subject to air quality regulation under federal, state and local laws and regulations. PacifiCorp believes it has all required permits and other approvals to operate its plants and that the plants are in material compliance with applicable requirements. PacifiCorp uses emission controls, low-sulfur coal, plant operating practices sensitive to environmental impacts and continuous emissions monitoring to enable its plants to comply with emissions limits, opacity limits, visibility and other air quality requirements.

The United States Environmental Protection Agency (the "EPA") has initiated a regional haze program intended to improve visibility at specific federally protected areas, some of which are located near PacifiCorp plants. PacifiCorp is working with the Western Regional Air Partnership to help develop the technical and policy tools needed to comply with this program. Carbon dioxide emissions are the subject of growing discussion and action in the context of global climate change, but such

emissions are not currently subject to regulation. PacifiCorp is working to help mitigate the effects of such climate changes by adding renewable generation, conservation and natural gas resources as outlined in its Integrated Resource Plans. When evaluating proposed new resources in PacifiCorp's Integrated Resource Plans, PacifiCorp includes a projected additional cost for carbon dioxide emissions from the proposed resources. PacifiCorp also supports development of U.S. or global carbon dioxide and other greenhouse gas emissions trading and other market mechanisms, as well as offset strategies, where feasible, to reduce future climate change compliance costs to customers.

Several bills have been introduced in the United States Congress that would create or modify enforceable limits on electricity plant emissions of sulfur dioxide, carbon dioxide, oxides of nitrogen and mercury. The EPA has proposed or intends to propose new regulations that could also impact emission limits. These requirements may require additional control equipment to be installed on PacifiCorp's thermal generation plants over the next 10 to 15 years. While PacifiCorp is unable at this time to predict with certainty the overall level of expenditures relating to air quality and carbon dioxide emissions, it believes these amounts could be significant but that they will be spread over a number of years.

In 1999, the EPA commenced enforcement actions alleging violations of New Source Review requirements by the owners of certain coal-fired generating plants in the eastern and mid-western United States. PacifiCorp is not part of those actions. However, PacifiCorp has responded to certain requests for information by the EPA relating to air quality compliance issues at seven of its coal-fired generating plants in Utah and Wyoming, three of which are jointly owned facilities. In addition, PacifiCorp strives to continuously work with the EPA, state air quality agencies and others in a cooperative effort to seek a mutual, comprehensive solution to air quality issues as they relate to such plants.

Water Quality

The federal Clean Water Act and individual state clean-water regulations require a permit for the discharge of wastewater, including storm water runoff from electricity plants and coal storage areas, into surface water and groundwater. PacifiCorp believes that it has management systems in place to monitor performance, identify problems and take action to ensure compliance with permit requirements. Additionally, PacifiCorp believes that it currently has, or has initiated the process to receive, all required water quality permits.

Endangered Species

The federal Endangered Species Act of 1973 and similar state statutes protect species threatened with possible extinction. Protection of the habitat of endangered and threatened species makes it difficult and more costly to perform some of PacifiCorp's core activities, including the siting, construction and operation of new and existing transmission and distribution facilities, as well as thermal, hydroelectric and wind generation plants. In addition, issues affecting endangered species can impact the relicensing of existing hydroelectric generating projects. This can generally raise the price PacifiCorp pays to purchase wholesale electricity from hydroelectric facilities owned by others, as well as reduce the generating output and operational flexibility, and potentially increase the costs of operation, of PacifiCorp's own hydroelectric resources.

Environmental Cleanups

Under the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and similar state statutes, entities that dispose of, or arrange for the disposal of, hazardous materials may be liable for cleanup of the contaminated property. In addition, the current or former owners or operators of affected sites may be liable. PacifiCorp has been identified as a potentially responsible party in connection with a number of cleanup sites because of its current or past ownership or operation of certain properties or because PacifiCorp sent materials deemed to be hazardous to the property in the past. PacifiCorp has completed several cleanup actions and is actively participating in investigations and remedial actions at other sites. See "Item 8. Financial Statements and Supplementary Data - Note 6" for further discussion.

Mine Reclamation

The federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes establish operational, reclamation and closure standards that must be met during and upon completion of mining activities. These obligations mandate that mine property be restored consistent with specific standards and the approved reclamation plan. PacifiCorp's mining operations are subject to these reclamation and closure requirements. Significant expenditures are being incurred for both ongoing and final reclamation. For further discussion, see "Item 2. Properties" and "Item 8. Financial Statements and Supplementary Data - Note 6."

Other Environmental Laws

PacifiCorp is required to comply with numerous other federal, state and local environmental laws in addition to those discussed above. PacifiCorp believes that it is in material compliance with all applicable environmental laws.

REGULATION

PacifiCorp is subject to the jurisdiction of public utility regulatory authorities in each of the states in which it conducts retail electric operations. These authorities regulate various matters, including customer rates, services, accounting policies and practices, allocation of costs by state, issuances of securities and other matters. In addition, PacifiCorp is a "licensee" and a "public utility" as those terms are used in the Federal Power Act and is therefore subject to regulation by the FERC as to accounting policies and practices, certain prices and other matters, including the terms and conditions of transmission service. Most of PacifiCorp's hydroelectric plants are licensed by the FERC as major projects under the Federal Power Act, and certain of these projects are licensed under the Oregon Hydroelectric Act. PacifiCorp is also subject to the requirements and restrictions of the Public Utility Holding Company Act of 1935 (the "PUHCA").

Federal Regulatory Issues

Securities and Exchange Commission - Public Utility Holding Company Act of 1935

The PUHCA and related regulations issued by the SEC govern activities of PacifiCorp and its affiliates, including ScottishPower, with respect to the issuance and acquisition of securities, acquisition and sale of utility assets, certain transactions among affiliates, engaging in business activities not directly related to the utility or energy business, and other matters.

Federal Energy Regulatory Commission Actions

The FERC has issued Standards of Conduct governing conduct between interstate transmission gas and electricity providers and their marketing function or their energy-related affiliates. The standards are designed to prevent transmission providers from giving their marketing functions or affiliates undue preferences. PacifiCorp has trained the appropriate personnel to ensure compliance with the new rules. Other FERC actions that affect PacifiCorp are discussed below.

California Refund Case

PacifiCorp is a party to a FERC proceeding that is investigating potential refunds for energy transactions in the California Independent System Operator and the California Power Exchange markets during past periods of high energy prices. PacifiCorp has a reserve of $17.7 million for these potential refunds. PacifiCorp's ultimate exposure to refunds is dependent upon any final order issued by the FERC in this proceeding. In addition, beginning in summer 2000, California market conditions resulted in defaults of amounts due to PacifiCorp from certain counterparties resulting from transactions with the California Independent System Operator and California Power Exchange. PacifiCorp has reserved $5.0 million for these receivables.

Northwest Refund Case

In June 2003, the FERC terminated its proceeding relating to the possibility of requiring refunds for wholesale spot-market bilateral sales in the Pacific Northwest between December 2000 and June 2001. The FERC concluded that ordering refunds would not be an appropriate resolution of the matter. In November 2003, the FERC issued its final order denying rehearing. Several market participants have filed petitions in the court of appeals for review of the FERC's final order. Court briefs from interested parties were filed between January 14, 2005 and April 15, 2005. A decision from the court of appeals is not expected to have a significant impact on PacifiCorp's consolidated financial position or results of operations.

Federal Power Act Section 206 Case

In June 2003, the FERC issued a final order denying PacifiCorp's request for recovery of excessive prices charged under certain wholesale electricity purchases scheduled for delivery during summer 2002 and dismissing PacifiCorp's complaints, under section 206 of the Federal Power Act, against five wholesale electricity suppliers. In July 2003, PacifiCorp filed its request for rehearing of the FERC's order, which request was granted in August 2003. The FERC issued its final order denying rehearing in November 2003. Also, in November 2003, PacifiCorp filed a petition in the Ninth Circuit Court of Appeals for review of the FERC's final order denying recovery. Court briefs from interested parties were filed by March 2005. Oral argument has been scheduled for July 2005.

FERC Show-Cause Orders

In May 2002, PacifiCorp, together with other California electricity market participants, responded to data requests from the FERC regarding trading practices connected with the electricity crisis during 2000 and 2001. PacifiCorp confirmed that it did not engage in any trading practices intended to manipulate the market as described in the FERC's data requests issued in May 2002. In June 2003, the FERC ordered 60 companies (including PacifiCorp) to show cause why their behavior during the California energy crisis did not constitute manipulation of the wholesale electricity market, as defined in the California Independent System Operator and the California Power Exchange tariffs. In setting the cases for hearing, the FERC directed the administrative law judge to hear evidence and render findings and conclusions quantifying the extent of any unjust enrichment that resulted and to recommend monetary or other appropriate remedies. In August 2003, PacifiCorp and the FERC staff reached a resolution on the show-cause order. Under the terms of the settlement agreement, PacifiCorp denied liability and agreed to pay a nominal amount of $67,745 in exchange for complete and total resolution of the issues raised in the FERC's show-cause order relating to PacifiCorp. In March 2004, the FERC issued its final order approving the settlement and terminating the docket. In April 2004, certain market participants filed requests for rehearing of the FERC's final order. A decision from the FERC on the rehearing requests is pending.

FERC Market Power Analysis

Pursuant to the FERC's orders granting PacifiCorp authority to sell capacity and energy at market-based rates, PacifiCorp and certain of its affiliates are required to submit a joint market power analysis every three years. Under the FERC's current policy, applicants must demonstrate that they do not possess market power in order to charge market-based rates for sales of wholesale energy and capacity. An analysis demonstrating an applicant's passage of certain threshold screens for assessing generation market power establishes a rebuttable presumption that the applicant does not possess generation market power, while failure to pass any screen creates a rebuttable presumption that the applicant has generation market power. In February 2005, PacifiCorp submitted a joint triennial market power analysis in compliance with the FERC's requirements. The analysis indicated that PacifiCorp failed to pass one of the generation market power screens in PacifiCorp's eastern control area and in Idaho Power Company's control area. On May 9, 2005, the FERC issued an order instituting a proceeding pursuant to section 206 of the Federal Power Act to determine whether PacifiCorp may continue to charge market-based rates for sales of wholesale energy and capacity. Under the terms of the order, PacifiCorp and its affiliated co-applicants are required to submit additional information and analysis to the FERC within 60 days to rebut the presumption that PacifiCorp has generation market power. PacifiCorp is in the process of responding to the FERC's May 9, 2005 order. If the FERC ultimately finds that PacifiCorp has market power, PacifiCorp will be required to implement measures to mitigate any exercise of market power.

The Bonneville Power Administration Residential Exchange Program

The Northwest Power Act, through the Residential Exchange Program, provides access to the benefits of low-cost federal hydroelectricity to the residential and small-farm customers of the region's investor-owned utilities. The BPA administers the Residential Exchange Program in accordance with federal law. Pursuant to a set of agreements between the BPA and PacifiCorp, PacifiCorp receives benefits from the BPA and passes such benefits through to its Oregon, Washington and Idaho residential and small-farm customers in the form of electricity bill credits through September 2006. In May 2004, PacifiCorp, the BPA and other parties executed an additional agreement that provides for a guaranteed range of benefits to customers for BPA's fiscal years 2007 through 2011.

Several publicly owned utilities, cooperatives and the BPA direct-service industry customers have filed lawsuits with the Ninth Circuit Court of Appeals seeking review of certain aspects of the BPA's Residential Exchange Program, as well as challenging the level of benefits previously paid to investor-owned utility customers. This litigation could possibly affect the amount of benefits paid by the BPA to PacifiCorp and, accordingly, the amount passed on to PacifiCorp's customers. However, since these benefits are passed through to PacifiCorp's customers through adjustments to customer rates, which must be approved by state utility commissions, the outcome of this litigation is not expected to have a significant effect on PacifiCorp's consolidated financial position or results of operations.

Hydroelectric Actions

Several of PacifiCorp's hydroelectric plants are in some stage of the relicensing process with the FERC. PacifiCorp also requested the FERC to allow decommissioning of three hydroelectric plants. The following summarizes the status of these projects.

Relicensing

Bear River hydroelectric project – (Bear River, Utah and Idaho)

In December 2003, the FERC issued a new 30-year operating license for the 84.5 MW Bear River hydroelectric project. The license became final and PacifiCorp accepted the new license on May 25, 2004. The FERC included in the Bear River license a requirement to evaluate decommissioning the 7.5 MW Cove plant and associated project features. As part of this evaluation, PacifiCorp has been working with stakeholders to determine the actions that would be required to decommission this plant. In addition to the project's capital and operations and maintenance costs associated with the new license, PacifiCorp is committed, over the life of the license, to fund approximately $25.9 million for environmental mitigation and enhancement projects. The present value of the portion of these obligations for which PacifiCorp is currently committed, net of costs incurred to date of $0.1 million, was $12.5 million at March 31, 2005.

Klamath hydroelectric project – (Klamath River, Oregon and California)

In February 2004, PacifiCorp filed with the FERC a final application for a new license to operate the 161.4 MW Klamath hydroelectric project. The FERC is scheduled to complete its required analysis by December 2006. PacifiCorp continues to participate in the mediated settlement discussions with state and federal agencies, Native American tribes and other stakeholders in an effort to reach a comprehensive agreement on project relicensing.

Lewis River hydroelectric projects – (Lewis River, Washington)

PacifiCorp filed new license applications for the 136.0 MW Merwin and 240.0 MW Swift No. 1 hydroelectric projects in April 2004. An application for a new license for the 134.0 MW Yale hydroelectric project was filed with the FERC in April 1999. However, consideration of the Yale application was delayed pending filing of the Merwin and Swift No. 1 applications so that the FERC could complete a comprehensive environmental analysis.

On November 30, 2004, PacifiCorp executed a comprehensive settlement agreement with 25 other parties including state and federal agencies, Native American tribes, conservation groups, and local government and citizen groups to resolve, among the parties, issues related to the pending applications for new licenses for PacifiCorp's Merwin, Swift No. 1 and Yale hydroelectric projects. As part of this settlement agreement, PacifiCorp has agreed to implement certain protection, mitigation and enhancement measures prior to and during a proposed 50-year license period. However, these commitments are contingent on ultimately receiving a license from the FERC that is consistent with the settlement agreement and other required permits. The FERC is scheduled to complete its process and required analysis in order to be ready for a decision in March 2006.

North Umpqua hydroelectric project – (North Umpqua River, Oregon)

In November 2003, the FERC issued a new 35-year operating license for the 188.5 MW North Umpqua hydroelectric project. Both PacifiCorp and environmental groups sought rehearing of the license, and in March 2004 the FERC issued an order on rehearing favorable to PacifiCorp and denying the motion of the environmental groups. In May 2004, the environmental groups appealed the FERC order in the Ninth Circuit Court of Appeals, where the case is currently pending. The new FERC license is currently effective, but not final, and certain implementation measures may be delayed pending the outcome of the appeal. In addition to the project's capital and operations and maintenance costs associated with the new license, when the license becomes final PacifiCorp will be committed, over the life of the license, to fund approximately $48.9 million for environmental mitigation and enhancement projects. The present value of the portion of these obligations for which PacifiCorp is currently committed, net of costs incurred to date of $0.3 million, was $13.1 million at March 31, 2005. Additional liabilities amounting to $21.2 million, undiscounted, will be recognized when the license becomes final.

Prospect hydroelectric project – (Rogue River, Oregon)

In June 2003, PacifiCorp submitted a final license application to the FERC for the Prospect Nos. 1, 2 and 4 hydroelectric projects, which total 36.8 MW. The FERC is expected to complete its required analysis and issue a new license before the end of fiscal 2006.

Decommissioning

American Fork hydroelectric project – (American Fork River, Utah)

The FERC issued a surrender order for American Fork on August 4, 2004, which calls for project removal to be completed by December 2007. Removal costs for this 1.0 MW project are estimated to be approximately $1.2 million, including process and permitting costs (adjusted for inflation). The parties have agreed that project removal will begin in September 2006, subject to the FERC and other regulatory approvals.

Condit hydroelectric project – (White Salmon River, Washington)

In September 1999, a settlement agreement to remove the 9.6 MW Condit hydroelectric project was signed by PacifiCorp, state and federal agencies, and non-governmental agencies. Under the original settlement agreement, removal was expected to begin in October 2006, for a total cost to decommission not to exceed $17.2 million, excluding inflation. In early February 2005, the parties agreed to modify the settlement agreement so that removal will not begin until October 2008 for a total cost to decommission not to exceed $20.5 million, excluding inflation. The settlement agreement is contingent upon receiving an amended FERC license and removal order that is not materially inconsistent with the amended settlement agreement and other regulatory approvals. PacifiCorp is in the process of acquiring all necessary permits, within the terms and conditions of the amended settlement agreement.

Powerdale hydroelectric project – (Hood River, Oregon)

In June 2003, PacifiCorp entered into a settlement agreement to remove the 6.0 MW Powerdale plant rather than pursue a new license, based on an analysis of the costs and benefits of relicensing versus decommissioning. Removal of the Powerdale plant and associated project features, which is subject to the FERC and other regulatory approvals, is projected to cost $5.9 million (adjusted for inflation). The plant will continue to operate until its removal, which is scheduled to commence in 2010.

State Regulatory Actions

PacifiCorp is currently pursuing a regulatory program in all states, with the objective of keeping rates closely aligned to ongoing costs. The following discussion provides a state-by-state update, but does not address the possible effect of the proposed sale of ScottishPower's indirect interest in PacifiCorp to MidAmerican. In each state, the sale of PacifiCorp will require regulatory notification and/or approval. Although PacifiCorp intends to pursue general rate increase requests as currently planned, management is unable to predict the impact, if any, of the proposed sale and the process of obtaining such approvals, on the pending matters described below.

Utah

On August 4, 2004, PacifiCorp filed a general rate case request with the UPSC for approximately $111.0 million annually related to operating cost increases and recovery of investments that support Utah's growing demand and need for enhanced network reliability. In October 2004, the UPSC approved the use of a forward-looking test year in this general rate case, based on projected results for the year ending March 31, 2006. PacifiCorp filed rebuttal testimony in January 2005 reducing the revenue requirement request from $111.0 million to $96.3 million. The main reasons for the change were to reflect increased revenues from updated customer contracts and to update specific items in the filing. In February 2005, the UPSC approved a stipulation settling the general rate case. Under the stipulation, PacifiCorp was awarded an increase in prices of $51.0 million annually, resulting in an average price increase of 4.7% and an allowed return on equity of 10.5%. The stipulation also included an effective date of March 1, 2005, which was a month earlier than the April 1, 2005 date required by Utah statute, resulting in a onetime benefit of $4.3 million of additional revenues.

Senate Bill 26 was signed into law in February 2005. This bill establishes rules and a mandatory process for the solicitation and evaluation of bids to procure significant energy resources. It also provides PacifiCorp with the opportunity to obtain advance approval from the UPSC of a resource decision and an assurance of the recovery of costs associated with the resource. Senate Bill 26 also establishes a voluntary process for utilities to obtain advance approval of certain other resource commitments and investment decisions.

In May 2004, PacifiCorp delivered a comprehensive report on the 2003 Utah winter storm inquiry to the UPSC. The December 2003 storm was one of the worst in Utah's recorded history. The report identified 28 areas of improvement related to problems encountered during the storm and PacifiCorp has established a program for implementation of the improvements outlined in the report to improve system operations and service to PacifiCorp customers. In April 2004, four Utah customers filed a petition with the UPSC on behalf of themselves and other similarly situated customers seeking monetary compensation from PacifiCorp as a result of the December 2003 storm. The UPSC denied the customers' petition for "class status" and all of their requests, other than the right of the individual customers to participate in the existing regulatory winter storm inquiry. In December 2004, a group of customers again filed a petition with the UPSC based on substantially the same claims in an attempt to have the UPSC consider their claims. PacifiCorp is seeking to have the claims dismissed or limited.

Oregon

In November 2000, PacifiCorp made a deferred accounting filing to track its excess net power costs. In July 2002, the Oregon Public Utility Commission (the "OPUC") approved the filing, finding that PacifiCorp had prudently incurred the excess net power costs. The order authorized recovery of $131.0 million, plus carrying charges, at a rate of $45.6 million annually. The Industrial Customers of Northwest Utilities and the Citizens' Utility Board appealed the OPUC order. The Marion County, Oregon circuit court affirmed the OPUC order. The Industrial Customers of Northwest Utilities and the Citizens' Utility Board appealed the circuit court decision to the Oregon Court of Appeals. The Court of Appeals heard oral arguments in May 2004. On October 27, 2004, the Oregon Court of Appeals affirmed the circuit court decision. The deadline for further appeals has passed. As of March 31, 2005, approximately $13.7 million remained to be collected by the authorized surcharge. PacifiCorp expects this to be collected by the end of September 2005.

In November 2004, PacifiCorp filed a general rate case with the OPUC related to increases in operating costs, including fuel, purchased power, and pension and health care costs. PacifiCorp is seeking an increase of $102.0 million annually, or 12.5%. If approved by the OPUC, the increase would take effect in September 2005. Settlement conferences were held in April 2005 and hearings are scheduled to occur in July 2005.

PacifiCorp filed an application in February 2005 for deferral of higher power costs in calendar 2005 due to continuing poor hydroelectric conditions. PacifiCorp seeks deferral of these costs to track and preserve them for later incorporation in rates. On May 25, 2005, this deferral application was suspended to allow the parties to focus on the power cost adjustment mechanism filed by PacifiCorp in April 2005. The power cost deferral may be reopened at the option of the parties at a later time. If approved, the proposed power cost adjustment mechanism will address Oregon's share of PacifiCorp's total net power cost volatility resulting from such factors as hydroelectric, natural gas and load variability. The proposed power cost adjustment mechanism is designed to be a longer-term, ongoing mechanism that passes through to customers a portion of excess net power costs or returns to customers a portion of over-collected net power costs, keeping rates more closely aligned with PacifiCorp's actual costs. Any approved power cost adjustment mechanism could result in the creation of related regulatory assets and liabilities.

Wyoming

In March 2003, the Wyoming Public Service Commission (the "WPSC") denied recovery of the Hunter No. 1 replacement power costs and the deferred excess net power costs. On appeal, the Laramie County District Court certified the case to the Wyoming Supreme Court. PacifiCorp filed its reply brief in April 2004. Oral arguments before the Wyoming Supreme Court took place in June 2004. On December 13, 2004, the Wyoming Supreme Court issued its decision affirming the order of the WPSC to deny recovery of replacement power and deferred excess net power costs.

Also, in April 2004, PacifiCorp filed a complaint with the federal district court in Wyoming challenging the WPSC's March 2003 decision on the grounds that the decision violates federal law by denying PacifiCorp recovery in retail rates of its wholesale electricity and transmission costs incurred to serve Wyoming customers. The lawsuit seeks an injunction requiring the WPSC to pass through PacifiCorp's wholesale electricity and transmission costs in retail rates. In May 2004, the defendants filed a motion to dismiss the complaint. In January 2005, the defendants appealed the court's ruling on the motion to dismiss and requested a stay of the underlying litigation. The defendants' appeal on sovereign immunity grounds is pending at the Tenth Circuit Court of Appeals. The defendants' opening brief was filed on April 4, 2005. In April 2005, the Tenth Circuit Court of Appeals issued an order staying the briefing schedule pending resolution of a jurisdictional issue. On May 17, 2005, the parties filed jurisdictional briefs on the issue of whether the defendants' notice of appeal was timely.

In June 2004, the WPSC concluded hearings on the joint application of Powder River Energy Corporation and Kennecott Energy Company for a certificate of public convenience and necessity to serve the Antelope Coal Mine in Converse County, Wyoming. The Antelope Coal Mine is in PacifiCorp's service territory and PacifiCorp has been serving this mine for 20 years. The joint application proposed a dual certificate arrangement that would allow Kennecott Energy Company to choose its electric service provider. PacifiCorp argued that it should be the sole service provider. The WPSC deliberated this issue in September 2004 and directed parties to enter into further discussions over a six- to eight-week period to determine whether a solution could be proposed that keeps the authorized service territory of PacifiCorp and Powder River Energy Corporation intact. On October 28, 2004, the WPSC approved a stipulation that was filed by PacifiCorp, Powder River Energy Corporation and Kennecott Energy Company. The terms of the stipulation include a continued recognition of PacifiCorp's authorized territory in Converse County through a regulatory recovery fee payment that Kennecott Energy Company will make to PacifiCorp. The regulatory recovery fee protects other Wyoming customers from any impacts due to the loss of the mine load. Powder River Energy Corporation will be the sole energy provider to the mine.

In July 2004, PacifiCorp applied to the WPSC for a stand-alone pass-on of $11.9 million in increased net wholesale purchased electricity costs. Following discussions with various parties, PacifiCorp filed a joint stipulation reducing this request to $9.3 million annually, or 2.7%. This stipulation was heard by the WPSC on September 14, 2004, and approved effective September 15, 2004. The expedited treatment of this application was recognized in the stipulation with an agreement that PacifiCorp will not file a general rate application until at least September 30, 2005. Further, the parties agreed to hold discussions on the development of a commodity cost recovery mechanism and alternative forms of regulation. Meetings have taken place with the parties to evaluate inputs into a commodity cost recovery mechanism and an alternative form of regulation.

Washington

In December 2003, PacifiCorp filed with the Washington Utilities and Transportation Commission (the "WUTC") for a general rate increase of $26.7 million annually, or 13.5%. In addition, PacifiCorp requested that the WUTC adopt the findings of a prudence review of generating resources acquired since the last Washington general rate case. In August 2004, PacifiCorp entered into a settlement agreement with the WUTC staff and the Natural Resources Defense Council that recommended a $15.5 million annual increase, or 7.8%. On October 27, 2004, the WUTC issued an order adopting the multi-party settlement agreement with limited conditions, resulting in a total rate increase of $15.1 million, or 7.5%, effective November 16, 2004. On November 10, 2004, the WUTC issued a supplemental order with revised calculations. As a result, the WUTC authorized an annual increase of $15.5 million, or 7.8%, effective November 16, 2004.

PacifiCorp filed an application in March 2005 for the deferral of higher power costs in 2005 due to poor hydroelectric conditions. PacifiCorp seeks deferral of these costs to track and preserve them for later incorporation in rates, to be considered as part of PacifiCorp's Washington general rate case proceeding described in the following paragraph. PacifiCorp requested that the deferral continue through the conclusion of that general rate proceeding. As part of that proceeding, PacifiCorp expects to address the rate treatment of the current low hydroelectric trend and power cost volatility through a proposed power cost adjustment mechanism. It is anticipated that deferral of hydroelectric impacts can be discontinued at the conclusion of that proceeding and replaced with a power cost adjustment mechanism that would address hydroelectric variability thereafter.

On May 5, 2005, PacifiCorp filed a general rate case request with the WUTC for approximately $39.2 million related to increases in operating costs, including fuel, purchased power, pension and other employee benefit costs, as well as investment in new generation, the implementation of a power cost adjustment mechanism and ratification of the Multi-State Process protocol discussed below that has been adopted by four other states served by PacifiCorp. PacifiCorp is seeking an allowed rate of return on equity of 11.125%, in line with recent requests in other states. If approved by the WUTC, customer rates would increase by 17.9% in April 2006.

Idaho

In December 2003, PacifiCorp filed with the Idaho Public Utility Commission (the "IPUC") to recover Idaho's portion of income tax payments resulting from Internal Revenue Service audits of prior years. In April 2004, the IPUC staff held public input meetings concerning PacifiCorp's application. A stipulated agreement signed by the parties was filed with the IPUC in May 2004 and was approved by the IPUC in June 2004. This allowed recovery of $4.2 million over 16 months beginning in June 2004 when a power cost recovery surcharge, which began in June 2002, expired.

On January 14, 2005, PacifiCorp filed a general rate case with the IPUC related to continuing investment to serve Idaho load, increases in employee-related costs and general inflation impacts. PacifiCorp seeks an increase of $15.1 million annually, or 12.5%. If approved by the IPUC, new rates would take effect September 16, 2005. On that date, unrelated surcharges currently in effect will expire, so the net effect to customers of this increase would be $11.4 million annually, or 9.2% overall.

On January 28, 2005, the IPUC approved PacifiCorp's application to reduce the BPA credit effective January 31, 2005. The change will result in an 8.0% reduction in the credit given to residential customers and a 20.5% reduction in the credit given to small-farm customers. Changes in the level of the BPA credit affect the net electricity costs to customers but do not impact PacifiCorp's results of operations or earnings.

Affiliated Interest Filings

Commencing on April 1, 2004, PacifiCorp and Scottish Power UK plc ("SPUK"), an indirect subsidiary of ScottishPower, implemented a cross-charge policy governing the allocation of costs incurred by PacifiCorp and SPUK, on behalf of each other. This policy, approved by the SEC in its administration of the PUHCA, permits PacifiCorp to receive certain administrative services, priced at cost, from SPUK. These include shareholder, investor relations, management and human resource services. PacifiCorp also provides administrative services to SPUK and other ScottishPower affiliates under the cross-charge policy. Cross-charges from SPUK to PacifiCorp amounted to $14.9 million for the year ended March 31, 2005, and were recorded in Operations and maintenance expense.

On May 16, 2005, the SEC approved PacifiCorp's participation in a captive insurance program recently established by ScottishPower for its group companies. The captive insurance company, Dornoch International Insurance Limited ("DIIL"), is an indirect wholly owned consolidated subsidiary of ScottishPower. DIIL covers all or significant portions of the property damage and liability insurance deductibles in many of PacifiCorp's current policies, as well as activities that commercial insurance industry carriers will no longer cover, such as overhead distribution and transmission line property damage. PacifiCorp has no equity interest in DIIL and has no obligation to contribute equity or loan funds to DIIL. Premium amounts are established to cover loss claims, administrative expenses and appropriate reserves, but otherwise DIIL is not operated to generate profits.

Multi-State Process

The Multi-State Process commenced in April 2002 and was a collaborative process with stakeholders from five of the six states PacifiCorp serves. The project's focus was to design, develop and implement a cost allocation methodology that would achieve a more permanent consensus on each state's responsibility for the costs and benefits of PacifiCorp's existing assets, enabling PacifiCorp to recover the cost of future investments and providing states with the ability to independently implement state energy policy objectives.

A number of collaborative meetings and conferences occurred during 2002 and 2003, which concluded in the development of a cost allocation methodology proposal, referred to as the "Protocol." The Protocol was filed with each of the state commissions in Utah, Oregon, Wyoming and Idaho in September 2003 and in Washington as part of a general rate case in December 2003. Following discussions with all parties, the proposal was further refined and re-submitted to each of the state commissions as the "Revised Protocol."

During June 2004 through November 2004, settlement discussions occurred in each of the states, agreements were reached with parties and hearings or oral arguments took place. Final ratification of the Revised Protocol was achieved in March 2005, and each of the state commissions in Utah, Oregon, Wyoming and Idaho issued orders approving and accepting the use of the Revised Protocol cost allocation methodology for future rate setting in each of those states. In accordance with this agreement, ongoing rate case filings in Oregon and Idaho have been based on the Revised Protocol and the recent Utah settlement was based on the Revised Protocol. In Washington, the WUTC issued its formal order approving and adopting the Washington general rate case settlement in October 2004, accepting the Revised Protocol for reporting purposes and establishing a process for ongoing discussions for a permanent allocation methodology during fiscal 2006. The Revised Protocol will be filed in the state of California with the next general rate case.

ITEM 2. PROPERTIES

PacifiCorp owns its principal properties in fee (except as indicated below), subject to defects and encumbrances that do not interfere materially with their use. Substantially all of PacifiCorp's electric utility properties are subject to the lien of PacifiCorp's Mortgage and Deed of Trust. See "Item 15. Exhibits, Financial Statement Schedules - Exhibit 4.1." PacifiCorp considers all of its properties to be well maintained, in good operating condition, and suitable for their intended purposes.

Headquarters/Offices

PacifiCorp's corporate headquarters consist of approximately 900,000 square feet of owned and leased office space located in several buildings in Portland, Oregon, and Salt Lake City, Utah. PacifiCorp's principal headquarters are in Portland, but there are several executives and departments located in Salt Lake City. In addition to the corporate headquarters, PacifiCorp owns and leases approximately 1.2 million square feet of office and warehouse space in various other locations in Utah, Oregon, Wyoming, Washington, Idaho and California.

Generation

PacifiCorp owns, or has an interest in, various hydroelectric, thermal-electric and wind electricity generating plants. A generator's nameplate rating is its full-load capacity (in megawatts) under normal operating conditions as defined by the manufacturer. The following table summarizes PacifiCorp's existing generating plants:

	Location	Energy Source	Unit Installation Date(s)	Nameplate Rating (MW)	Plant Net Capability (MW)
HYDROELECTRIC PLANTS (a)					
Swift No. 1 (b)	Cougar, WA	Lewis River	1958	240.0	264.0
Merwin	Ariel, WA	Lewis River	1931-1958	136.0	144.0
Yale	Amboy, WA	Lewis River	1953	134.0	165.0
Five North Umpqua Plants	Toketee Falls, OR	N. Umpqua River	1950-1956	136.5	138.5
John C. Boyle	Keno, OR	Klamath River	1958	90.4	90.0
Copco Nos. 1 and 2 Plants	Hornbrook, CA	Klamath River	1918-1925	47.0	54.5
Clearwater Nos. 1 and 2 Plants	Toketee Falls, OR	Clearwater River	1953	41.0	41.0
Grace	Grace, ID	Bear River	1908-1923	33.0	33.0
Prospect No. 2	Prospect, OR	Rogue River	1928	32.0	36.0
Cutler	Collingston, UT	Bear River	1927	30.0	29.1
Oneida	Preston, ID	Bear River	1915-1920	30.0	28.0
Iron Gate	Hornbrook, CA	Klamath River	1962	18.0	20.0
Soda	Soda Springs, ID	Bear River	1924	14.0	14.0
Fish Creek	Toketee Falls, OR	Fish Creek	1952	11.0	12.0
31 Minor Hydroelectric Plants (c)	Various	Various	1895-1990	90.7*	86.3*
Subtotal (51 Hydroelectric Plants)				1,083.6	1,155.4
THERMAL ELECTRIC PLANTS					
Jim Bridger	Rock Springs, WY	Coal-Fired	1974-1979	1,541.1*	1,413.4*
Huntington	Huntington, UT	Coal-Fired	1974-1977	996.0	895.0
Dave Johnston	Glenrock, WY	Coal-Fired	1959-1972	816.8	762.0
Naughton	Kemmerer, WY	Coal-Fired	1963-1971	707.2	700.0
Hunter Nos. 1 and 2	Castle Dale, UT	Coal-Fired	1978-1980	728.0*	662.0*
Hunter No. 3	Castle Dale, UT	Coal-Fired	1983	495.6	460.0
Cholla No. 4	Joseph City, AZ	Coal-Fired	1981	414.0*	380.0*
Wyodak	Gillette, WY	Coal-Fired	1978	289.6*	268.0*
Carbon	Castle Gate, UT	Coal-Fired	1954-1957	188.6	172.0
Craig Nos. 1 and 2	Craig, CO	Coal-Fired	1979-1980	172.1*	165.0*
Colstrip Nos. 3 and 4	Colstrip, MT	Coal-Fired	1984-1986	155.6*	149.0*
Hayden Nos. 1 and 2	Hayden, CO	Coal-Fired	1965-1976	81.3*	78.0*
Gadsby Steam	Salt Lake City, UT	Natural Gas-Fired	1951-1952	251.6	235.0
Hermiston	Hermiston, OR	Natural Gas-Fired	1996	237.0*	245.0*
Gadsby Peakers	Salt Lake City, UT	Natural Gas-Fired	2002	141.0	120.0
Little Mountain	Ogden, UT	Natural Gas-Fired	1972	16.0	14.0
Camas Co-Gen	Camas, WA	Black Liquor	1996	52.2	52.0
Blundell	Milford, UT	Geothermal	1984	26.1	23.0

Subtotal (16 Thermal Electric Plants)				7,309.8	6,793.4
WIND PLANT					
Foote Creek	Arlington, WY	Wind Turbines	1998	32.6*	32.6*
Subtotal (1 Other Plant)				32.6	32.6
Total Hydro, Thermal and Other Generating Plants (68)				8,426.0	7,981.4

* Jointly owned plants; amount shown represents PacifiCorp's share only.

(a) Hydroelectric project locations are stated by locality and river watershed.

(b) On April 21, 2002, a failure occurred to the Swift No. 2 power canal located on the Lewis River in the state of Washington and owned by the Cowlitz County Public Utility District. The failure impacted, but did not damage, the PacifiCorp-owned and -operated 240.0 MW Swift No. 1 hydroelectric facility, which is upstream of the Swift No. 2 power canal. In June 2004, PacifiCorp and Cowlitz County Public Utility District amended the existing power purchase agreement addressing, among other things, the general nature of the canal rebuild configuration and providing the mechanism for settling all claims between the parties related to the canal failure. Cowlitz County Public Utility District has initiated the reconstruction of the Swift No. 2 project facility with contracts currently in place for rehabilitation of the turbine generators, switchyard and reconstruction of the Swift No. 2 power canal. Based on the current schedule, the first Swift No. 2 turbine generator unit is expected to be on-line in the fourth quarter of fiscal 2006 and the second unit is expected to follow shortly thereafter.

(c) PacifiCorp has negotiated settlement agreements with resource agencies and other interested parties to decommission the American Fork, Condit and Powerdale plants, which have a combined net capability of 16.6 MW. These settlement agreements have been filed with the FERC and are pending further regulatory action. See "Item 1. Business – Regulation – Hydroelectric Actions" for further details.

In May 2002, PacifiCorp entered into a 15-year operating lease for an electric generation facility with West Valley, a subsidiary of PPM Energy Inc. ("PPM"). The Utah facility consists of five generation units with an aggregate nameplate rating of 217.0 MW and a net plant capability of 200.0 MW. PacifiCorp, at its sole option, may terminate the lease, or purchase the facility, if written notice is provided to West Valley on or before December 1, 2006.

New Generation Resources

As part of its 2003 Integrated Resource Plan, PacifiCorp is in the process of having two new natural gas-fired combined-cycle combustion turbine power plants constructed. The Currant Creek Power Plant in Mona, Utah, is estimated to begin a simple-cycle operation with 280.0 MW of capacity in June 2005. Full combined-cycle operation is estimated to be substantially complete and begin operation March 2006, at which time the full capacity of the Currant Creek Power Plant is estimated to be 525.0 MW. The Lake Side Power Plant in Vineyard, Utah, is estimated to begin a combined cycle operation May 2007, adding an estimated 534.0 MW of capacity. These two plants, with full commercial operation, will add a total of 1,059.0 MW of capacity to PacifiCorp's generating portfolio.

Transmission and Distribution

PacifiCorp's generating facilities are interconnected through PacifiCorp's own transmission lines or by contract through the transmission lines of other transmission owners. Substantially all of PacifiCorp's generating plants and reservoirs are managed on a coordinated basis to obtain maximum load-carrying capability and efficiency. Portions of PacifiCorp's transmission and distribution systems are located:

- On property owned or leased by PacifiCorp;
- Under or over streets, alleys, highways and other public places, the public domain and national forests and state lands under franchises, easements or other rights that are generally subject to termination;
- Under or over private property as a result of easements obtained primarily from the record holder of title; or
- Under or over Native American reservations under grant of easement by the Secretary of Interior or lease by Native American tribes.

It is possible that some of the easements, and the property over which the easements were granted, may have title defects or may be subject to mortgages or liens existing at the time the easements were acquired.

At March 31, 2005, PacifiCorp owned, or participated in, an electric transmission and distribution system consisting of:

Nominal Voltage (In kilovolts)	Miles
Transmission Lines	
500	720
345	1,900
230	3,310
161	280
138	2,050
115	1,540
69	2,970
57	110
46	2,650
	15,530
Distribution Lines	
Less than 46	58,360
Total	73,890

At March 31, 2005, PacifiCorp owned 948 substations.

Mining

Recoverability by surface mining methods typically ranges from 90.0% to 95.0%. Recoverability by underground mining techniques ranges from 50.0% to 70.0%. PacifiCorp believes that the respective coal reserves available to the Craig, Huntington, Hunter and Jim Bridger plants, together with coal available under both long-term and short-term contracts with external suppliers, will be substantially sufficient to provide these plants with fuel that meets the Clean Air Act standards for their current economically useful lives. Blending of PacifiCorp-owned and contracted coal, together with electricity plant technologies for controlling sulfur and other emissions, are utilized to meet the applicable standards. PacifiCorp-owned plants held sufficient sulfur dioxide emission allowances to comply with the EPA Title IV requirements during the compliance year. The sulfur content of the coal reserves ranges from 0.30% to 0.94%, and the British Thermal Units value per pound of the reserves ranges from 8,600 to 12,400. Coal reserve estimates are subject to adjustment as a result of the development of additional data, new mining technology and changes in regulation and economic factors affecting the utilization of such reserves. Recoverable coal reserves at March 31, 2005, based on PacifiCorp's most recent engineering studies, were as follows:

Location	Plant Served	Mining Method	Recoverable Tons (In Millions)	
Craig, CO	Craig	Surface	48.4	(a)
Huntington & Castle Dale, UT	Huntington and Hunter	Underground	67.6	(b)
Rock Springs, WY	Jim Bridger	Surface/Underground	143.1	(c)

(a) These coal reserves are leased and mined by Trapper Mining, Inc., a Delaware non-stock corporation operated on a cooperative basis, in which PacifiCorp has an ownership interest of 21.4%.

(b) These coal reserves are mined by subsidiaries of PacifiCorp.

(c) These coal reserves are leased and mined by Bridger Coal Company, a joint venture between Pacific Minerals, Inc. ("PMI") and a subsidiary of Idaho Power Company. PMI, a subsidiary of PacifiCorp, has a two-thirds interest in the joint venture. In December 2003, PacifiCorp acquired reserves from a third party for underground mining at the Bridger mine. On January 19, 2005, Bridger Coal Company's federal coal lease bid was accepted by the Bureau of Land Management. The coal lease was purchased for $7.0 million and includes 32.0 million of estimated recoverable tons of coal that are adjacent to the Bridger mine. The Bridger mine is in the process of conversion from surface operation to primarily underground operation, while currently continuing production at its surface operations.

Most of PacifiCorp's coal reserves are held pursuant to leases from the federal government through the Bureau of Land Management and from certain states and private parties. The leases generally have multi-year terms that may be renewed or extended and require payment of rents and royalties. In addition, federal and state regulations require that comprehensive environmental protection and reclamation standards be met during the course of mining operations and upon completion of mining activities. PacifiCorp expended $11.9 million in reclamation costs during the year ended March 31, 2005, and $13.9 million during the year ended March 31, 2004. PacifiCorp and Idaho Power have previously contributed funds to a trust for the reclamation of the Bridger Mine. At March 31, 2005, these reclamation funds totaled $92.5 million, of which PacifiCorp's portion is $61.7 million. See "Item 8. Financial Statements and Supplementary Data - Note 6."

ITEM 3. LEGAL PROCEEDINGS

In May 2004, PacifiCorp was served with a complaint filed in the United States District Court for the District of Oregon by the Klamath Tribes of Oregon, individual Klamath Tribal members and the Klamath Claims Committee. The complaint generally alleges that PacifiCorp and its predecessors affected the Klamath Tribes' federal treaty rights to fish for salmon in the headwaters of the Klamath River in southern Oregon by building dams that blocked the passage of salmon upstream to the headwaters beginning in 1911. In September 2004, the Klamath Tribes filed their first amended complaint adding claims of damage to their treaty rights to fish for sucker and steelhead in the headwaters of the Klamath River. The complaint seeks in excess of $1.0 billion in compensatory and punitive damages. In February 2005, PacifiCorp filed a motion for summary judgment seeking dismissal of the Klamath Tribes' claims as untimely under the applicable statute of limitations. In April 2005, the magistrate judge issued an opinion recommending that PacifiCorp's motion for summary judgment be granted and the case be dismissed as untimely. In May 2005, the Klamath Tribes filed objections to the recommendation and PacifiCorp filed its response to the Klamath Tribes' objections. Any final order will be subject to appeal.

From time to time, PacifiCorp is also a party to various other legal claims, actions and complaints, certain of which seek significant amounts. Although PacifiCorp is unable to predict with certainty whether it will ultimately be successful in these legal proceedings or, if not, what the impact might be, management currently believes that disposition of these matters will not have a material adverse effect on PacifiCorp's consolidated financial position or results of operations. See "Item 1. Business - Regulation" for information concerning pending regulatory and related proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No information is required to be reported pursuant to this item.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PacifiCorp is an indirect subsidiary of ScottishPower, which owns all shares of PacifiCorp's outstanding common stock. Therefore, there is no public market for PacifiCorp's common stock. Dividend information required by this item is included in "Item 8. Financial Statements and Supplementary Data - Quarterly Financial Data."

On May 23, 2005, ScottishPower and PHI executed a Stock Purchase Agreement providing for the sale of all PacifiCorp common stock held by PHI to Mid American. Pursuant to the Stock Purchase Agreement, ScottishPower has agreed to cause PacifiCorp to not pay dividends to PHI in excess of $53.7 million per quarter during fiscal 2006 and $60.575 million per quarter during fiscal 2007. These restrictions will terminate upon either the close of the sale of PacifiCorp or the earlier termination of the Stock Purchase Agreement.

PacifiCorp is restricted from making any distributions without prior state regulatory approval to the extent that it would reduce PacifiCorp's common stock equity below 40.0% of its total capitalization, excluding short-term debt and current maturities of long-term debt. As of March 31, 2005, under this measure, PacifiCorp's actual common stock equity percentage was 47.3%.

PacifiCorp is also subject to maximum debt-to-total capitalization ratios under various debt agreements. For further discussion, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Under the PUHCA, PacifiCorp may pay dividends out of capital or unearned surplus only with SEC approval. Dividends from earned surplus are permitted without approval. PacifiCorp has previously received approval to pay dividends out of unearned surplus of the lesser of (a) $900.0 million or (b) the proceeds received from sales of non-utility assets. At March 31, 2005, PacifiCorp's unearned surplus available for distribution pursuant to SEC authorization was approximately $220.0 million. In addition, PacifiCorp must give the OPUC 30 days' prior notice of any special cash dividend or any transfer involving more than 5.0% of PacifiCorp's retained earnings in a six-month period. There were no special cash dividends or transfers during the year ended March 31, 2005, that required giving prior notice to the OPUC.

ITEM 6. SELECTED FINANCIAL DATA (Unaudited)

(Millions of dollars, except per share and employee amounts)	Years Ended March 31,				
	2005	2004	2003	2002	2001
Revenues:					
Electric Operations	$ 3,048.8	$ 3,194.5	$ 3,082.4	$ 3,341.1	$ 3,343.5
Australian Operations	—	—	—	—	399.3
Other Operations (a)	—	—	—	12.6	122.2
Total	$ 3,048.8	$ 3,194.5	$ 3,082.4	$ 3,353.7	$ 3,865.0
Income (loss) from operations:					
Electric Operations (b)	$ 656.4	$ 617.9	$ 488.9	$ 598.6	$ 453.1
Australian Operations	—	—	—	27.4	(133.1)
Other Operations (a)	—	—	—	15.0	19.8
Total	$ 656.4	$ 617.9	$ 488.9	$ 641.0	$ 339.8
Net income (loss)	$ 251.7	$ 248.1	$ 140.1	$ 327.3	$ (88.2)
Earnings on common stock:					
Continuing operations					
Electric Operations	$ 249.6	$ 245.7	$ 134.7	$ 232.8	$ 110.1
Australian Operations	—	—	—	27.4	(187.2)
Other Operations (a)	—	—	—	20.5	(29.0)
Total	249.6	245.7	134.7	280.7	(106.1)
Discontinued operations (c)	—	—	—	146.7	—
Cumulative effect of accounting change (d)	—	(0.9)	(1.9)	(112.8)	—
Total earnings on common stock	$ 249.6	$ 244.8	$ 132.8	$ 314.6	$ (106.1)
Common dividends declared per share	$ 0.62	$ 0.51	$ —	$ 0.81	$ 1.31
Common dividends paid per share	$ 0.62	$ 0.51	$ —	$ 1.00	$ 1.12

	At March 31,				
	2005	2004	2003	2002	2001
Capitalization:					
Short-term debt	$ 468.8	$ 124.9	$ 25.0	$ 177.5	$ 240.5
Long-term debt, including current maturities	3,898.9	3,760.2	3,554.3	3,698.3	2,958.1
Preferred Securities of Trusts	—	—	341.8	341.5	341.2

Preferred stock subject to mandatory redemption	52.5	60.0	66.7	74.2	175.0
Preferred stock	41.3	41.3	41.3	41.3	41.5
Common equity	3,335.8	3,278.7	3,194.4	2,891.9	3,414.4
Total Capitalization	$ 7,797.3	$ 7,265.1	$ 7,223.5	$ 7,224.7	$ 7,170.7
Total assets	$ 12,520.9	$ 11,677.1	$ 11,695.8	$ 10,234.9	$ 10,539.7
Total employees	6,654	6,507	6,140	6,287	6,626

(a) Other Operations includes the operations of PPM and Pacific Klamath Energy, Inc. until their transfer to PHI in March 2001 and the activities of PacifiCorp Financial Services, Inc. and PacifiCorp Group Holdings Company, including financing costs, until their transfer in February 2002 to PHI.

(b) Prior year amounts have been reclassified to conform to current year method of presentation. The year ended March 31, 2002, includes an unrealized gain of $182.8 million related to the effects of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"). Upon receiving regulatory approval, PacifiCorp has subsequently recorded the effects of unrealized gains/losses on certain long-term contracts as regulatory assets and liabilities.

(c) Amounts in 2002 represent the collection of a contingent note receivable relating to the discontinued operations of a former mining and resource development business, NERCO, Inc.

(d) The year ended March 31, 2004 reflects the effect of implementation of SFAS No. 143, *Asset Retirement Obligations*("SFAS No. 143").

The year ended March 31, 2003 reflects the effect of the implementation of the Derivatives Implementation Group (the "DIG") Revised Issue C15, *Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity* ("Issue C15"), and Issue C16, *Applying the Normal Purchases and Normal Sales Exception to Contracts that Combine a Forward Contract and a Purchased Option Contract* ("Issue C16").

The year ended March 31, 2002, reflects the effect of the implementation of SFAS No. 133.

ELECTRIC OPERATIONS (Unaudited)

(Millions of dollars)	Years Ended March 31, * 2005	2004	2003	2002	2001
Revenues:					
Residential	$ 1,004.6	$ 994.5	$ 914.7	$ 901.7	$ 852.1
Commercial	833.1	792.9	763.4	747.7	710.5
Industrial	774.8	725.6	699.2	705.1	730.1
Other retail	36.3	34.0	31.4	34.5	32.5
Retail sales	2,648.8	2,547.0	2,408.7	2,389.0	2,325.2
Wholesale sales and other	400.0	647.5	673.7	952.1	1,018.3
Total	3,048.8	3,194.5	3,082.4	3,341.1	3,343.5
Expenses:					
Purchased electricity	448.0	672.8	698.5	974.4	1,287.7
Fuel	500.0	483.9	482.2	490.9	491.0
Operations and maintenance	913.1	895.8	885.1	785.2	625.2
Depreciation and amortization	436.9	428.8	434.3	401.3	389.0
Taxes, other than income taxes	94.4	95.3	93.4	90.7	97.5
Total	2,392.4	2,576.6	2,593.5	2,742.5	2,890.4
Income from operations	656.4	617.9	488.9	598.6	453.1
Interest expense	267.4	256.5	270.3	238.3	262.0
Interest income	(9.1)	(13.8)	(21.6)	(28.9)	(10.7)
Interest capitalized	(14.8)	(19.9)	(18.0)	(6.9)	(12.9)
Merger costs	—	—	—	—	9.3
Minority interest and other	(7.3)	1.6	19.0	12.0	(10.2)
Income tax expense	168.5	144.5	97.2	138.6	87.6
Income before cumulative effect of accounting change	251.7	249.0	142.0	245.5	128.0
Cumulative effect of accounting change	—	(0.9)	(1.9)	(112.8)	—
Net income	251.7	248.1	140.1	132.7	128.0
Preferred dividend requirement	(2.1)	(3.3)	(7.3)	(12.7)	(17.9)
Earnings on common stock (a)	$ 249.6	$ 244.8	$ 132.8	$ 120.0	$ 110.1
Total assets	$ 12,520.9	$ 11,677.1	$ 11,695.8	$ 10,234.9	$ 10,456.6
Capital expenditures	$ 851.6	$ 690.4	$ 550.0	$ 505.3	$ 376.1

(a) Does not reflect elimination of interest on intercompany borrowing arrangements; includes income taxes on a separate-company basis.

* Certain prior year amounts have been reclassified to conform to the current year method of presentation.

ELECTRIC OPERATIONS STATISTICS (Unaudited)

	Years Ended March 31,				
	2005	2004	2003	2002	2001
Energy sales (Thousands of MWh):					
Residential	14,117	14,460	13,287	13,395	13,455
Commercial	14,642	14,413	14,006	13,810	13,634
Industrial	19,454	19,133	19,048	19,611	20,659
Other	706	673	631	711	705
Retail sales	48,919	48,679	46,972	47,527	48,453
Energy source:					
Coal and natural gas	73.7	72.5	71.1	73.0	71.1%
Hydroelectric	4.7	5.4	5.6	5.7	5.0
Wind	0.2	0.2	0.2	0.2	0.2
Purchase and exchange contracts	21.4	21.9	23.1	21.1	23.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Number of retail customers (thousands):					
Residential	1,373	1,341	1,317	1,296	1,278
Commercial	194	190	186	182	179
Industrial	34	34	34	35	35
Other	4	5	5	4	4
Total	1,605	1,570	1,542	1,517	1,496
Residential customers:					
Average annual usage (kWh)	10,411	10,889	10,182	10,411	10,614
Average annual revenue per customer	$ 741	$ 749	$ 701	$ 701	$ 672
Revenue per kWh	7.1¢	6.9¢	6.9¢	6.7¢	6.3¢
Miles of line:					
Transmission	15,530	15,180	14,950	14,900	14,900
Distribution					
— overhead	43,850	43,750	43,770	43,800	43,700
— underground	14,510	13,710	13,301	12,500	11,900
System peak demand (MW):					
Net system load (a)					
— summer	8,628	8,922	8,549	7,899	8,056
— winter	7,965	8,013	7,613	7,688	7,475
Total firm load (b)					
— summer	9,527	10,104	9,542	10,029	10,115
— winter	8,819	8,662	8,628	9,511	9,592

(a) Excludes loads outside PacifiCorp's control area.

(b) Includes loads outside PacifiCorp's control area that are associated with long-term sales commitments.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

PacifiCorp is a regulated electricity company serving approximately 1.6 million residential, commercial and industrial customers in service territories aggregating approximately 136,000 square miles in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. The regulatory commissions in each state approve rates for retail electric sales within their respective states. PacifiCorp also sells electricity on the wholesale market to public and private utilities, energy marketing companies and to incorporated municipalities. Wholesale activities are regulated by the FERC. PacifiCorp owns, or has interests in, 68 thermal, hydroelectric and wind generating plants, with an aggregate nameplate rating of 8,426.0 MW and plant net capability of 7,981.4 MW. The FERC and the six state regulatory commissions also have authority over the construction and operation of PacifiCorp's electric generation facilities. PacifiCorp delivers electricity through approximately 58,360 miles of distribution lines and approximately 15,530 miles of transmission lines.

Sale of PacifiCorp

On May 23, 2005, ScottishPower and PHI executed a Stock Purchase Agreement providing for the sale of all PacifiCorp common stock held by PHI to MidAmerican for a value of approximately $9.4 billion, consisting of approximately $5.1 billion in cash plus approximately $4.3 billion in net debt and preferred stock, which will remain outstanding at PacifiCorp. MidAmerican is based in Des Moines, Iowa, and is a privately owned global provider of energy services. Through its energy-related business platforms - CalEnergy, CE Electric UK, Kern River Gas Transmission Company, Northern Natural Gas Company and MidAmerican Energy Company - MidAmerican provides electric and natural gas service to 5 million customers worldwide.

The closing of the sale of PacifiCorp is subject to a number of conditions, including ScottishPower shareholder consent and regulatory notification and/or approvals from the SEC, the FERC, the Department of Justice or the Federal Trade Commission, the Nuclear Regulatory Commission and the public utility commissions in the states of Utah, Oregon, Wyoming, Washington, Idaho and California, as well as approvals under existing third-party agreements. Pending satisfaction of the closing conditions, which is expected to occur in calendar 2006, the Stock Purchase Agreement requires ScottishPower to cause PacifiCorp to operate its business in the ordinary course consistent with past business practice. The Stock Purchase Agreement also requires ScottishPower to obtain MidAmerican's prior approval to certain actions taken by PacifiCorp beyond limits specified in the Stock Purchase Agreement, including:

- borrowings or debt issuances;
- capital expenditures;
- construction or acquisition of new generation, transmission or delivery facilities or systems, other than as currently planned or necessary to fulfill regulatory commitments (for example, the construction of the Currant Creek and Lake Side Power Plants is permitted to proceed as planned);
- unbudgeted significant acquisitions or dispositions;
- modifications to material agreements with regulators;
- issuance or sale of any capital stock to any person, other than PHI in certain circumstances;
- adoption or amendment of employee benefit plans or material increases to employee compensation; and
- payment of dividends to PHI.

Although PacifiCorp intends to, and the Stock Purchase Agreement requires ScottishPower to cause PacifiCorp to, operate its business in the normal course pending the sale of PacifiCorp to MidAmerican, some of the agreements and restrictions in the Stock Purchase Agreement may affect how PacifiCorp manages its affairs. Although PacifiCorp also intends to pursue general rate increase requests as currently planned, management is unable to predict the impact, if any, of the proposed sale and the process of obtaining state regulatory approvals on the pending general rate increase requests and any future regulatory filings.

While the sale of PacifiCorp is pending and the Stock Purchase Agreement is in effect, PHI has agreed to make common equity contributions to PacifiCorp of $125.0 million at the end of each quarter in fiscal 2006 and $131.25 million at the end of each quarter in fiscal 2007. If the sale is completed, MidAmerican will refund to PHI the amount of required fiscal 2007 common equity contributions as an increase to the purchase price.

Prior to completion of the sale (or termination of the Stock Purchase Agreement), a joint executive committee with an equal number of representatives from ScottishPower and MidAmerican will facilitate the transactions contemplated in the Stock Purchase Agreement, integration planning and strategic development and will develop recommendations concerning the structure and the general operation of PacifiCorp prior to the closing. If ScottishPower completes the sale of PacifiCorp, MidAmerican will cause the election of its own

directors and influence the management and policies of PacifiCorp following the sale.

Strategic Priorities and Economic Factors

PacifiCorp's goal is to excel as a regulated utility providing safe, reliable, low-cost electricity to its customers with fair and increasing earnings to its shareholder.

Return on Equity and Earnings

PacifiCorp seeks to maximize its return on equity within the limits permitted by state regulators. In addition to the other factors that affect PacifiCorp's revenues, PacifiCorp's earnings are substantially impacted by the extent to which state regulators allow it to reflect costs through rate setting. Results in any particular period may also be affected by delays in recovering costs through the regulatory process.

PacifiCorp's current challenges include obtaining full and timely recovery of increased costs of insurance, pensions and health care, net power costs and capital expenditures for investments made to support growth within its operating regions. Ongoing changes in the regulatory landscape make it difficult for PacifiCorp to predict with certainty the extent of recovery of these types of increased costs and the full impact that any future changes will have on its business. PacifiCorp's investment activity and increased costs have created more regulatory activity, including more frequent general rate cases. PacifiCorp has also filed power cost adjustment mechanisms in Oregon and Washington and may make filings for such mechanisms in other states. Power cost adjustment mechanisms are designed to keep regulatory rates more closely aligned with actual net power costs. The result of these recovery efforts, as affected by the changing regulatory landscape, could have a significant impact on PacifiCorp's earnings.

Implications of Growing Retail Demand

PacifiCorp must continue to find sources of power supply to meet the growing retail customer demand for electricity across its service territories, particularly in Utah. In response to the growing demand in its service territories, PacifiCorp's Integrated Resource Plans provide a process that achieves stakeholder support for procurement of new base load, peaking plant, purchase and renewable resources through a combination of market transactions, competitive solicitations and demand-side management initiatives. In accordance with the 2003 Integrated Resource Plan, PacifiCorp's Currant Creek Power Plant near Mona, Utah is expected to begin simple-cycle operation with 280.0 MW of capacity in June 2005. Full combined-cycle operation is expected to be substantially complete and begin operation in March 2006, at which time the full capacity of the Currant Creek Power Plant will be an estimated 525.0 MW. Also, consistent with the 2003 Integrated Resource Plan, the Lake Side Power Plant in Vineyard, Utah is expected to begin combined-cycle operation in May 2007, adding an estimated 534.0 MW of capacity. These two plants, when in full commercial operation, will add a total of 1,059.0 MW of capacity to PacifiCorp's generation portfolio.

In addition, PacifiCorp intends to improve the performance of its infrastructure with reinforcement and replacement of existing network assets.

Increases or reductions in future retail demand for electricity as a result of economic growth or downturns or abnormal weather, among other factors, will impact retail revenues, cash flows and investment levels.

Risk Management

PacifiCorp continues to maintain a strong focus on risk management and controlling its fuel and electricity costs by utilizing a range of physical and financial hedges to ensure an ongoing balance between supply and demand for electricity. Although PacifiCorp proactively manages its supply and demand balance, any unanticipated changes in future customer demand, weather conditions, commodity prices and thermal or hydroelectric generation resource availability, including unplanned outages, will affect the level of PacifiCorp's fuel and electricity costs. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

Sources of Funding

PacifiCorp has recently relied primarily upon access to short- and long-term debt capital markets as a source of liquidity to fund future investments to the extent not covered by cash from operations. PacifiCorp targets a capital structure that is intended to provide a competitive cost of capital and predictable capital market access. While the sale of PacifiCorp is pending and the Stock Purchase Agreement is in effect, PHI has agreed to make common equity contributions to PacifiCorp of $125.0 million at the end of each quarter in fiscal 2006 and $131.25 million at the end of each quarter in fiscal 2007 until completion of the sale or termination of the Stock Purchase Agreement. In addition, if market conditions are favorable during the year ending March 31, 2006, PacifiCorp will seek to issue long-term debt to more permanently fund its liquidity requirements or refinance maturing long-term debt. See "Liquidity and Capital Resources - Financing Activities - Cautionary Statement" below.

Forward-Looking Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, made in this report are forward-looking. When used in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report, the words "will," "may," "could," "estimates," "expects," "anticipates," "forecasts," "plans," "intends" and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements included in this report relate to, among other matters, the effect on PacifiCorp of the following: the effect of the terms of the Stock Purchase Agreement for the sale of PacifiCorp and the completion of the sale; potential adjustment of regulatory rates to cover costs; growth of retail customers and demand; the impact of new accounting standards or accounting policy changes; the outcome of litigation or regulatory proceedings; environmental laws; capital expenditure levels; results from the construction or repair of generating facilities; hydroelectric relicensing; electricity outages; retirement plan contributions; outcome of tax proceedings; sufficiency of PacifiCorp's available funds to meet its liquidity needs and future financing; off-balance sheet arrangements; the effect of risk management measures, including use of financial derivatives to manage and mitigate interest rate exposure; and the efficiency and effectiveness of PacifiCorp's resource and fuel procurement. Forward-looking statements reflect management's current expectations, plans or projections and are inherently uncertain. There can be no assurance the results predicted will be realized. Actual results may vary from those represented by the forecasts, and those variations may be material. The following are among the factors, in addition to those set forth below under "Risk Factors," that could cause actual results to differ materially from the forward-looking statements:

- The effect of the Stock Purchase Agreement for the sale of PacifiCorp, including the consummation of the sale or the termination of the Stock Purchase Agreement;
- The outcome of general rate cases and other proceedings conducted by regulatory commissions;
- Changes in prices and availability (for both purchases and sales) of wholesale electricity, natural gas and other fuel sources and other changes in operating costs that could affect PacifiCorp's cost recovery;
- Changes in regulatory requirements or other legislation, including industry restructuring and deregulation initiatives;
- Choice of alternative suppliers by customers;
- Changes in expected industrial, commercial and residential customer usage in PacifiCorp's service territories;
- Economic trends that could impact electricity usage;
- Changes in weather conditions and other natural events that could affect customer demand or electricity supply;

- A high degree of variance between actual and forecasted load and prices that could impact the hedging strategy and costs to balance electricity load and supply;
- Hydroelectric conditions, as well as natural gas and coal production and price levels, that could have a significant impact on electric capacity and cost and on PacifiCorp's ability to generate electricity;
- Performance of PacifiCorp's generation facilities, including the level of planned and unplanned outages;
- The cost, feasibility and eventual outcome of hydroelectric facility relicensing proceedings;
- Changes in, and compliance with, environmental and endangered species laws, regulations, decisions and policies that could increase operating and capital improvement costs, reduce plant output and/or delay plant construction;
- The impact of new accounting pronouncements on results of operations;
- The impact of interest rates and investment performance on pension and post-retirement expense;
- The impact of the newly formed Regional Transmission Entity, or the formation of any similar organization; and
- Timely and appropriate completion of PacifiCorp's resource procurement process, unanticipated construction delays, changes in costs, receipt of required permits and authorizations, ability to fund resource projects and other factors that could affect future generation plants and infrastructure additions.

Any forward-looking statements issued by PacifiCorp should be considered in light of these factors. PacifiCorp does not intend to update or revise any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or if PacifiCorp later becomes aware that these assumptions are not likely to be achieved.

Accounting Matters

Critical Accounting Estimates and Related Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the results of operations and the reported amounts of assets and liabilities in the Consolidated Financial Statements. The estimates and assumptions may change as time passes and accounting guidance evolves. Management bases its estimates and assumptions on historical experience and on other various judgments that it believes are reasonable at the time of application. Changes in these estimates and assumptions could have a material impact on the Consolidated Financial Statements. If estimates and assumptions are different than the actual amounts recorded, adjustments are made in subsequent periods to take into consideration the new information. Critical accounting estimates, in addition to certain less significant accounting estimates, are discussed with senior members of management and PacifiCorp's Board of Directors, as appropriate, and are disclosed to the ScottishPower Audit Committee. Those estimates that management considers critical are described below.

Derivatives

On April 1, 2001, PacifiCorp adopted SFAS No. 133, as amended. PacifiCorp uses derivative instruments (primarily forward purchases and sales) to manage the commodity price risk inherent in its fuel and electricity obligations, as well as to optimize the value of power generation assets and related contracts. PacifiCorp also enters into short-term energy derivatives on a limited basis for arbitrage purposes to take advantage of opportunities arising from market inefficiencies. SFAS No. 133 applies not only to traditional financial derivative instruments, but to any contract having the accounting characteristics of a derivative.

SFAS No. 133 requires that derivative instruments be recorded on the balance sheet at fair value. The fair values of derivative instruments are determined using forward price curves. Forward price curves represent PacifiCorp's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity at future dates. PacifiCorp bases its forward price curves upon market price quotations when available and uses internally developed, modeled prices when market quotations are unavailable. In general, PacifiCorp estimates the fair value of a contract by calculating the present value of the difference between the contract and the applicable forward price curve.

Price quotations for certain major electricity trading hubs are generally readily obtainable for the first six years and, therefore, PacifiCorp's forward price curves for those locations and periods reflect observable market quotes. However, in the later years or for locations that are not actively traded, forward price curves must be estimated in other ways. For short-term contracts at less actively traded locations, prices are modeled based on observed historical price relationships with actively traded locations. For long-term contracts extending beyond six years, the forward price curve is based upon the use of a fundamentals model (cost-to-build approach), due to the limited information available. Factors used in the fundamentals model include the forward prices for the commodities used as fuel to generate electricity, the expected system heat rate (which measures the efficiency of power plants in converting fuel to electricity) in the region where the purchase or sale takes place and a fundamentals forecast of expected spot prices for a commodity in a region based on modeled supply of and demand for the commodity in the region. The assumptions in these models are critical, since any changes in assumptions could have a significant impact on the fair value of the contract.

Despite the large volume of implementation guidance, SFAS No. 133 and the supplemental guidance do not provide specific guidance on all contract issues. As a result, significant judgment must be used in applying SFAS No. 133 and its interpretations.

Pensions and Other Postretirement Benefits

PacifiCorp sponsors defined benefit pension plans that cover the majority of its employees. In addition, certain bargaining unit employees participate in a joint trust plan to which PacifiCorp contributes. PacifiCorp accounts for these plans in accordance with SFAS No. 87, *Employers' Accounting for Pensions* ("SFAS No. 87"). PacifiCorp accounts for its other postretirement benefit plans in accordance with SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* ("SFAS No. 106"). The expense and benefit obligations relating to PacifiCorp's pension and other postretirement benefit plans are based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, expected returns on plan assets, compensation increases, PacifiCorp contributions and health care cost trend rates. These actuarial assumptions are reviewed annually and modified as appropriate. The effect of modifications is generally amortized over future periods. PacifiCorp believes that the assumptions utilized in recording obligations under the plans are reasonable based on prior experience, market conditions and the advice of plan actuaries. However, actual results may differ from such assumptions.

The PacifiCorp Retirement Plan (the "Retirement Plan") currently has assets with a fair value that is less than the accumulated benefit obligation, primarily due to declines in the equity markets during calendar years 2000 through 2002 and lower discount rates. PacifiCorp recognized a minimum pension liability in the fourth quarter of the year ended March 31, 2003, and continues to recognize this liability at March 31, 2005. The liability adjustment did not affect the consolidated results of operations. PacifiCorp requested and received accounting orders from the regulatory commissions in Utah, Oregon, Wyoming and Washington to classify most of this charge as a Regulatory asset instead of a charge to Other comprehensive income. This increase to Regulatory assets was adjusted as of March 31, 2005 and 2004, and will be adjusted in future periods as the difference between the fair value of the trust assets and the accumulated benefit obligation changes. PacifiCorp has determined that costs related to SFAS No. 87 for the Retirement Plan are currently recoverable in rates.

PacifiCorp's contributions to the Retirement Plan have exceeded the minimum funding requirements of the Employee Retirement Income Security Act ("ERISA"). PacifiCorp made $61.6 million in cash contributions to the Retirement Plan during the year ended March 31, 2005, and made $33.4 million in cash contributions to the Retirement Plan during the year ended March 31, 2004. PacifiCorp also made a $60.0 million cash contribution to the Retirement Plan in April 2005. PacifiCorp is funding the Retirement Plan at what it believes to be an adequate level, but currently expects to make larger cash contributions in the future due to its underfunded pension obligation and ERISA requirements. Such cash requirements could be material to PacifiCorp's cash flows. PacifiCorp believes it has adequate access to capital resources to support these contributions.

PacifiCorp discounted its future pension and other postretirement plan obligations using a rate of 5.75% at March 31, 2005, compared to 6.25% at March 31, 2004. Thus, the discount rate used for PacifiCorp's fiscal 2005 expense was 6.25% and the discount rate that will be used for PacifiCorp's fiscal 2006 expense is 5.75%. PacifiCorp chooses a discount rate based upon high quality fixed-income investment yields. The pension and other postretirement benefit liabilities, as well as expenses, increase as the discount rate is reduced.

At March 31, 2005 and 2004, PacifiCorp assumed that the pension and other postretirement assets would generate a long-term rate of return of 8.75%. In establishing its assumption as to the expected return on assets, PacifiCorp reviews the expected asset allocation and develops return assumptions for each asset class based on historical performance and independent advisors' forward-looking views of the financial markets. Pension and other postretirement benefit expenses increase as the expected rate of return on Retirement Plan assets decreases.

Based on the above assumptions, PacifiCorp expects to record pension expense of $62.4 million for the year ending March 31, 2006, as compared to $40.3 million for the year ended March 31, 2005.

The following table reflects the sensitivities of the March 31, 2005 disclosures and the projected pension expense for the year ending March 31, 2006, associated with a change in certain actuarial assumptions by the indicated percentage:

(Millions of dollars) Actuarial Assumption	Change in Assumption	Impact on Projected Benefit Obligation Increase (Decrease)	Impact on Minimum Pension Liability Increase (Decrease)	Impact on Annual Pension Cost Increase (Decrease)
Expected long-term return on plan assets	(0.5) %	$ —	$ —	$ 4.4
Expected long-term return on plan assets	0.5	—	—	(4.4)
Discount rate	(0.5)	88.6	76.9	8.8
Discount rate	0.5	(81.1)	(70.3)	(8.2)

PacifiCorp expects to record other postretirement benefit expense of $29.9 million for the year ending March 31, 2006, as compared to $26.0 million for the year ended March 31, 2005. PacifiCorp has determined that costs related to SFAS No. 106 for other postretirement benefits are currently recoverable in rates. PacifiCorp contributed $24.9 million for the year ended March 31, 2005, and $25.3 million for the year ended March 31, 2004, to the funding vehicles for its other postretirement benefit plans. PacifiCorp expects to contribute $29.9 million to the funding vehicles for its other postretirement benefit plans for the year ending March 31, 2006, and expects future cash contributions to be comparable.

In valuing its accumulated postretirement benefit obligation, PacifiCorp must make an assumption regarding future changes in health care costs. Assumed changes impact the obligation and expense as follows:

(Millions of dollars) Assumed health care cost trend rates	Impact on Accumulated Postretirement Benefit Obligation Increase (Decrease)	Impact on Annual Other Postretirement Benefit Cost Increase (Decrease)
One percentage point increase	$ 31.6	$ 4.7
One percentage point decrease	(27.2)	(4.1)

Regulation

PacifiCorp prepares its Consolidated Financial Statements in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation* ("SFAS No. 71"). SFAS No. 71 requires PacifiCorp to reflect the impact of regulatory decisions in its Consolidated Financial Statements and requires that certain costs be deferred on the balance sheet until matching revenues can be recognized. Similarly, certain items may be deferred as regulatory liabilities and are amortized to the Statements of Consolidated Income as rates to customers are reduced or costs previously recovered in rates are actually incurred. SFAS No. 71 provides that regulatory assets may be capitalized if it is probable that future revenue in an amount at least equal to the capitalized costs will result from the inclusion of those costs in allowable costs for ratemaking purposes. In addition, the rate action should permit recovery of the specific previously incurred cost rather than provide for expected levels of similar future costs.

PacifiCorp is subject to state and federal regulation. In the event of deregulation, PacifiCorp would seek recovery of its net regulatory assets, and any additional stranded costs. If unsuccessful, the unrecoverable portion of its net regulatory assets would be written-off and PacifiCorp would evaluate the remaining assets on its balance sheet for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. PacifiCorp is unable to predict the likelihood of deregulation and its future impacts.

At March 31, 2005, PacifiCorp had recorded specifically identified regulatory assets, net of regulatory liabilities, totaling $336.8 million. In the event PacifiCorp stopped applying SFAS No. 71 at March 31, 2005, an after-tax loss of approximately $208.9 million would be recognized.

Unbilled Revenues

Electricity sales to retail customers are determined based on meter readings taken throughout the month. PacifiCorp accrues an estimate of unbilled revenues, net of estimated line losses, each month for electric service provided after the meter reading date to the end of the month. The unbilled revenue estimate is based on three components: PacifiCorp's total electricity delivered during the month, assignment of unbilled revenues to customer type and valuation of the unbilled energy. Factors involved in the estimation of consumption and line losses relate to weather conditions, amount of natural light, historical trends, economic impacts and customer type. Valuation of unbilled energy is based on estimating the average price for the month for each customer type. These estimates can vary significantly from period to period depending on monthly weather patterns, customers' space heating and cooling, production levels due to economic activity or changing irrigation patterns due to precipitation conditions.

Differences between unbilled revenue and billed revenue would most likely occur due to inaccurate meter readings, improper assignment of customers or inaccurate estimates of line losses. At March 31, 2005, the amount accrued for unbilled revenues was $143.8 million.

Contingencies

PacifiCorp follows SFAS No. 5, *Accounting for Contingencies* ("SFAS No. 5"), to determine accounting and disclosure requirements for contingencies. According to SFAS No. 5, an estimated loss from a contingency shall be charged to income if (i) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (ii) the amount of the loss can be reasonably estimated. Disclosure in the notes to the financial statements is required for loss contingencies not meeting both of these conditions if there is a reasonable possibility that a loss may have been incurred. Gain contingencies are not recorded until realized.

PacifiCorp operates in a highly regulated environment. Governmental bodies such as the FERC, state regulatory commissions, the SEC, Internal Revenue Service, Department of Labor, the EPA and others have authority over various aspects of PacifiCorp's business operations and public reporting. Reserves are established when required based upon management's best judgment. Appropriate disclosures are made regarding litigation, tax matters, environmental issues, assessments and creditworthiness of customers or counterparties, among others. The evaluation of these contingencies is performed by various specialists inside and outside of PacifiCorp. Accounting for contingencies requires significant judgment by management regarding the estimated probabilities and ranges of exposure to potential loss. Management's assessment of PacifiCorp's exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact the consolidated results of operations, cash flows and financial position of PacifiCorp. Management has used its best judgment in applying SFAS No. 5 to these matters.

Asset Retirement Obligations

PacifiCorp recognizes the fair value of legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated in accordance with SFAS No. 143. The initial recognition of this liability is accompanied by a corresponding increase in Property, plant and equipment. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to Property, plant and equipment) and for accretion of the liability due to the passage of time. Additional depreciation expense is recorded prospectively for any Property, plant and equipment increases.

At March 31, 2005, PacifiCorp had recorded an asset retirement obligation liability of $199.6 million. Amounts recorded under SFAS No. 143 are subject to various assumptions and determinations, such as determining whether a legal obligation exists to remove assets and estimating the fair value of the costs of removal, the timing of final removal, inflation rates and the credit-adjusted risk-free interest rates to be used for discounting future liabilities. Changes that may arise over time with regard to these assumptions will change the amounts recorded in conjunction with the asset retirement obligations.

Depreciation and accretion expense generated by SFAS No. 143 accounting is recorded as a regulatory asset or liability since such amounts are recoverable in rates.

PacifiCorp does not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. PacifiCorp has asset retirement obligations associated with the transmission and distribution systems and certain coal mines. However, due to the indeterminate removal date, the fair value of the associated liabilities currently cannot be estimated and no amounts are recognized in the Consolidated Financial Statements.

PacifiCorp is currently in the process of evaluating the impact of the Financial Accounting Standards Board (the "FASB") Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143* ("FIN 47") as discussed below. See also "Item 8. Financial Statements and Supplementary Data - Note 1."

New Accounting Standards

FSP SFAS No. 106-2

In May 2004, the FASB released FASB Staff Position ("FSP") SFAS No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("FSP SFAS No. 106-2"). FSP SFAS No. 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Medicare Act"). The Medicare Act introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care plans that include prescription drug benefits. Employers that sponsor postretirement health care plans that offer prescription drug benefits must determine if their prescription drug benefits are actuarially equivalent to the drug benefit provided under Medicare Part D as of the date of enactment of the Medicare Act to be entitled to receive the subsidy. Employers are required to disclose the effect of the federal subsidy afforded by the Medicare Act if its prescription drug benefits are determined to be actuarially equivalent to the Medicare Part D benefit. FSP SFAS No. 106-2 was effective for the first interim or annual period beginning after June 15, 2004. PacifiCorp elected to adopt FSP SFAS No. 106-2 early upon its release with retroactive application to PacifiCorp's Welfare Benefits Plan December 31, 2003 measurement date. Because that measurement date is used only to determine net periodic postretirement benefit cost for the period beginning April 1, 2004, there was no impact on previously reported information. The effects of the Medicare Act decreased PacifiCorp's accumulated postretirement benefit obligation by $42.6 million. This decrease is treated as an actuarial experience gain. This actuarial experience gain reduces the unrecognized net loss resulting from differences in prior periods between actuarial assumptions and actual experience. The actuarial experience gain will be amortized to expense through a decrease in the amortization of the unrecognized net loss. The effects of the Medicare Act decreased net periodic postretirement benefit cost for the year ended March 31, 2005, when compared to the expense calculated before the adoption of FSP SFAS No. 106-2, as follows:

(Millions of dollars)	Year Ended March 31, 2005
Decrease in:	
Interest cost	$ 2.7
Service cost	0.1
Amortization of unrecognized loss	2.9
Decrease in Net periodic postretirement benefit cost	$ 5.7

On January 21, 2005, the Centers for Medicare and Medicaid Services released final regulations for implementing the Medicare Act. These regulations provide guidance for making a determination of whether the benefits under a plan will meet the definition of actuarial equivalence. As this was subsequent to PacifiCorp's measurement date, these regulations had no impact on the year ended March 31, 2005. PacifiCorp expects these regulations to result in an additional decrease in the accumulated postretirement benefit obligation of approximately $18.0 million and an additional decrease in the net periodic postretirement benefit cost of approximately $3.3 million during the year ending March 31, 2006.

EITF No. 03-1 and FSP EITF No. 03-1-1

In June 2004, the Emerging Issues Task Force ("EITF") issued EITF No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ("EITF No. 03-1"). Application guidance in EITF No. 03-1 should be used to determine when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of such impairment. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures in annual financial statements about unrealized losses that have not been recognized as other-than-temporary impairments.

In September 2004, the FASB issued FSP EITF No. 03-1-1, *Effective Date of Paragraphs 10-20 of EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ("FSP EITF No. 03-1-1"). FSP EITF No. 03-1-1 delayed the previously required effective date of July 1, 2004, for PacifiCorp regarding the measurement and recognition guidance contained in the applicable paragraphs. The delay of the effective date is likely to be superceded with the final issuance of an FSP on other-than-temporary impairment of investments. The adoption of the measurement and recognition guidance of EITF No. 03-1, if implemented in its present form, is not anticipated to have a material impact on PacifiCorp's consolidated financial position or results of operations.

SFAS No. 151

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs* ("SFAS No. 151"), which amends Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*. SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) be included as current-period charges, eliminating the option for capitalization. This statement is effective for inventory costs that PacifiCorp incurs on or after April 1, 2006. PacifiCorp does not typically incur abnormal costs related to inventory balances; therefore, the adoption of this statement is not anticipated to have a material impact on PacifiCorp's consolidated financial position or results of operations.

SFAS No. 153

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets* ("SFAS No. 153"), which amends Accounting Principles Board ("APB") Opinion No. 29, *Accounting for Non-monetary Transactions* ("APB No. 29"). SFAS No. 153 eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets in APB No. 29 and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions in this statement will apply to PacifiCorp for any exchanges of non-monetary assets that occur on or after April 1, 2006. The adoption of this statement is not expected to have a material impact on PacifiCorp's consolidated financial position or results of operations.

SFAS No. 123R and SAB No. 107

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* ("SFAS No. 123R"), a revision of the originally issued SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107 ("SAB No. 107"), which provides additional guidance in applying the provisions of SFAS No. 123R. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements using the fair value method. The intrinsic value method of accounting established by APB No. 25, *Accounting for Stock-Based Compensation* ("APB No. 25"), will no longer be allowed. SAB No. 107 describes the SEC Staff's guidance in determining the assumptions that underlie the fair value estimates and discusses the interaction of SFAS No. 123R with other existing SEC guidance.

In April 2005, the effective date of SFAS No. 123R was deferred until the beginning of the fiscal year that begins after June 15, 2005; however, early adoption is encouraged. A modified prospective application is required for new awards and to awards modified, repurchased or cancelled after the required effective date. The provisions of SAB No. 107 will be applied upon adoption of SFAS No. 123R.

The PacifiCorp Stock Incentive Plan (the "PSIP") expired November 29, 2001; therefore, no awards under the PSIP are expected to be newly issued, modified, repurchased or cancelled as of the effective date. As of the effective date, all requisite service under the PSIP will have been previously rendered; therefore, no compensation expense is expected to result from the adoption of SFAS No. 123R in relation to the PSIP.

Certain PacifiCorp employees receive awards under various ScottishPower share-based payment plans. Application to these awards of the fair value method required by SFAS No. 123R, as compared to the application of the intrinsic value method allowed under APB No. 25, is not expected to result in a material change to recorded compensation expense upon adoption of SFAS No. 123R.

FSP SFAS No. 109-1

In December 2004, the FASB issued FSP SFAS No. 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* ("FSP SFAS No. 109-1"). This tax deduction will be treated as a "special deduction" as described in SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction could be claimed on a separate return basis in accordance with PacifiCorp's accounting policy. This statement became effective upon issuance. The impact of the deduction to PacifiCorp will depend on the application of forthcoming guidance from the Internal Revenue Service to PacifiCorp's future qualifying electric generation activities and cannot be estimated at this time.

FIN 47

In March 2005, the FASB issued FIN 47, which clarifies that the term "conditional asset retirement obligation," as used in SFAS No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective at the end of the fiscal year ending after December 15, 2005. PacifiCorp is currently evaluating the impact of adopting FIN 47 on its consolidated financial position and results of operations.

RESULTS OF OPERATIONS

Overview

PacifiCorp's earnings on common stock for the year ended March 31, 2005, were $249.6 million, as compared to $244.8 million for the year ended March 31, 2004, and $132.8 million for the year ended March 31, 2003. Significant factors affecting results for the year ended March 31, 2005, included increased regulatory rates to retail customers, partly offset by higher net wholesale electricity costs due to substitution of higher priced market transactions for reduced hydroelectric and thermal production, and increased Operations and maintenance expense.

PacifiCorp's total revenues for the year ended March 31, 2005, decreased by $145.7 million, or 4.6%, compared to the prior year.

Retail revenues increased by $101.8 million, or 4.0%, primarily as a result of higher regulatory rates and customer growth. These benefits were partially offset by a reduction in usage per customer, in part due to milder weather in fiscal 2005. Retail energy sales volumes for the year ended March 31, 2005, increased by 240,000 MW, or 0.5%.

Wholesale sales and other revenue declined by $247.5 million, or 38.2%, primarily due to unrealized losses on wholesale sales contracts and an increase in the level of wholesale sales contracts that did not physically settle being recorded on a net basis. These decreases were partially offset by higher levels of physically settled wholesale sales activity and higher net realized prices on short- and long-term electricity sale contracts.

Purchased electricity expense for the year ended March 31, 2005, declined by $224.8 million, or 33.4%, primarily due to unrealized gains on purchased power contracts and an increase in the level of purchased power contracts that did not physically settle being recorded on a net basis. These decreases were partially offset by higher levels of physically settled power purchases, due primarily to lower hydroelectric and thermal production, and higher net realized electricity prices on short- and long-term power purchase contracts.

Output from PacifiCorp-owned hydroelectric facilities for the year ended March 31, 2005, decreased by 473,064 MWh, or 13.4%, as compared to the prior year, primarily as a result of unusually dry conditions. Hydroelectric output for both the years ended March 31, 2005 and 2004, was lower than the level of hydroelectric generation expected under normal conditions.

Output from PacifiCorp's thermal plants for the year ended March 31, 2005, decreased by 416,776 MWh, or 0.9%, as compared to the prior year, due to slightly higher levels of planned and unplanned outages.

Revenues from wholesale sales contracts that do not physically settle are recorded net of the cost of the energy sold. Revenues from physically settled contracts are recorded on a gross basis, and the cost of energy sold pursuant to physically settled contracts is recorded as purchased electricity expense.

Significant Regulatory Outcomes

In January 2004, the UPSC approved a stipulation settling PacifiCorp's general rate case filed in May 2003. Under the stipulation, base rates in Utah increased by $65.0 million annually starting in April 2004, resulting in an average price increase of 7.0% and an authorized return on equity of 10.7%. In February 2005, the UPSC approved a stipulation settling PacifiCorp's general rate case filed in August 2004. Under the stipulation, base rates in Utah increased by an additional $51.0 million annually starting in March 2005, resulting in an average price increase of 4.7% and an authorized return on equity of 10.5%.

In September 2004, the WPSC approved a stipulation for a stand-alone pass-on of increased net wholesale purchased electricity costs. This stipulation was effective September 15, 2004, and resulted in an overall price increase of $9.3 million annually, or 2.7%.

In October 2004, the WUTC issued an order adopting a multi-party settlement agreement with limited conditions. A subsequent supplemental order was issued in November 2004, resulting in a total rate increase of $15.5 million annually, or 7.8%, effective November 16, 2004.

PacifiCorp pursues a regulatory program in all states, with the objective of keeping rates closely aligned to ongoing costs. See "Item 1. Business – Regulation" for more detail on the state regulatory issues and pending rate case filings.

Affiliated Interest Cross-Charge Policy

Commencing on April 1, 2004, PacifiCorp and SPUK, an indirect subsidiary of ScottishPower, implemented a cross-charge policy governing the allocation of costs incurred by PacifiCorp and SPUK, on behalf of each other. This policy, approved by the SEC in its administration of the PUHCA, permits PacifiCorp to receive certain administrative services, priced at cost, from SPUK. These include shareholder, investor relations, management and human resource services. PacifiCorp also provides administrative services to SPUK and other ScottishPower affiliates under the cross-charge policy. Cross-charges from SPUK to PacifiCorp amounted to $14.9 million for the year ended March 31, 2005, and were recorded in Operations and maintenance expense.

Year Ended March 31, 2005 Compared to Year Ended March 31, 2004

Revenues

(Millions of dollars)	Year Ended March 31, 2005	2004	Favorable/(Unfavorable) $ Change	% Change
Residential	$ 1,004.6	$ 994.5	$ 10.1	1.0%
Commercial	833.1	792.9	40.2	5.1
Industrial	774.8	725.6	49.2	6.8
Other retail	36.3	34.0	2.3	6.8
Retail sales	2,648.8	2,547.0	101.8	4.0
Wholesale sales and other	400.0	647.5	(247.5)	(38.2)
Total revenues	$ 3,048.8	$ 3,194.5	$ (145.7)	(4.6)
Energy sales (Thousands of MWh)				
Residential	14,117	14,460	(343)	(2.4)
Commercial	14,642	14,413	229	1.6
Industrial	19,454	19,133	321	1.7
Other	706	673	33	4.9
Total	48,919	48,679	240	0.5
Average residential usage (kWh)	10,411	10,889	(478)	(4.4)
Total customers - end of period (in thousands)	1,605	1,570	35	2.2

Residential revenues increased $10.1 million, or 1.0%, primarily due to:

- $36.5 million of increases from higher regulatory rates; and
- $20.7 million of increases relating to growth in the average number of residential customers; partially offset by,
- $45.7 million of decreases from lower average estimated customer usage, including $32.1 million due to the impact of milder weather, compared to the prior year; and
- $1.4 million of decreases due to a change in price mix, which resulted from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves.

Commercial revenues increased $40.2 million, or 5.1%, primarily due to:

- $34.7 million of increases from higher regulatory rates;
- $18.5 million of increases relating to growth in the average number of commercial customers; and
- $5.9 million of increase in average estimated customer usage, excluding the effects of weather, partially offset by,
- $11.5 million of decrease due to the impact of milder weather compared to the prior year; and
- $7.6 million of decreases due to a change in price mix, which resulted from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves.

Industrial revenues increased $49.2 million, or 6.8%, primarily due to:

- $37.7 million of increases from higher regulatory rates;
- $9.8 million of increases relating to growth in the average number of industrial customers; and
- $1.7 million of increases due to a change in price mix, which resulted from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves.

Wholesale sales and other revenues decreased $247.5 million, or 38.2%, primarily due to:

- $300.6 million of decreases from unrealized losses from short and long-term energy sales contracts recorded at fair value, primarily due to adverse movements in market prices;
- $252.0 million of decreases due to contracts that did not physically settle being recorded on a net basis;
- $56.9 million of decreases in energy volumes delivered pursuant to long-term contracts as a result of contract expirations; partially offset by,
- $198.9 million of increases in energy volumes delivered pursuant to short-term contracts, primarily due to increased system balancing activity from variations in retail load and generation levels;
- $107.8 million of increases due to higher electricity prices on realized short- and long-term wholesale sales transactions;
- $47.2 million of increases due to higher revenues related to regulatory asset recovery, including $27.9 million due to a new tariff in Utah; and
- $2.8 million of increases due to higher wheeling revenue.

Operating Expenses

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2005	2004	$ Change	% Change
Purchased electricity	$ 448.0	$ 672.8	$ 224.8	33.4%
Fuel	500.0	483.9	(16.1)	(3.3)
Operations and maintenance	913.1	895.8	(17.3)	(1.9)
Depreciation and amortization	436.9	428.8	(8.1)	(1.9)
Taxes, other than income taxes	94.4	95.3	0.9	0.9
Total operating expenses	$ 2,392.4	$ 2,576.6	$ 184.2	7.1

Purchased electricity expense decreased $224.8 million, or 33.4%, primarily due to:

- $302.9 million of decreases from unrealized gains from short- and long-term energy purchase contracts recorded at fair value, primarily due to favorable movements in market prices;
- $252.0 million of decreases due to contracts that did not physically settle being recorded on a net basis; and
- $27.5 million of decreases from increased gains in the current year on weather derivative contracts; partially offset by,
- $191.3 million of increases related to higher volumes of short- and long-term purchases resulting from lower hydroelectric and thermal generation, and increased retail load; and
- $159.1 million of increases due to the effects of higher electricity prices on realized short- and long-term energy purchase contracts.

Fuel expense increased $16.1 million, or 3.3%, primarily due to:

- $30.0 million of increases as a result of an increase in the price of coal consumed; partially offset by,
- $9.9 million of decreases relating to lower supply volumes due mainly to a reduction in thermal plant generation; and
- $4.0 million of decreases as a result of a decrease in the price of natural gas consumed.

Operations and maintenance expense increased $17.3 million, or 1.9%, primarily due to:

- $44.3 million of increases in employee salary expense and other direct employee expenses, primarily due to an increase in headcount and higher benefit and pension costs;
- $14.9 million of increases from services rendered by SPUK and charged to PacifiCorp pursuant to the affiliated interest cross-charge policy, which became effective April 1, 2004; and
- $12.1 million of net increases due to changes in regulatory assets and liabilities, including $27.0 million of increased Utah demand-side management amortization; partially offset by,
- $26.9 million of decreases in third-party contract and service fees, including a reduction in the use of contractors for certain activities, including information technology, planned outages and field operations;
- $6.3 million of a decrease arising from the reversal of an accrual for certain tax-related employee severance liabilities that were resolved in fiscal 2004;
- $5.5 million of a decrease due to the recognition of claims in the prior year due to the bankruptcy of an insurance carrier;
- $5.5 million of decreases in insurance costs;
- $3.5 million of decreases in rent expense;
- $2.1 million of decreases in the level of write-offs of cancelled capital projects; and
- $1.7 million of decreases due to contract settlements in the prior year.

Depreciation and amortization expense increased $8.1 million, or 1.9%, primarily due to:

- $15.8 million of increases in depreciation and amortization expense due to an increase in plant in service; and
- $4.6 million of increases in amortization expense due to higher capitalized software balances; partially offset by,
- $12.9 million of decreases in capitalized software amortization following a change in the estimated useful lives of certain computer software systems.

Interest and Other (Income) Expense

	Year Ended March 31,		Favorable/(Unfavorable)	
(Millions of dollars)	2005	2004	$ Change	% Change
Interest expense	$ 267.4	$ 256.5	$ (10.9)	(4.2)%
Interest income	(9.1)	(13.8)	(4.7)	(34.1)
Interest capitalized	(14.8)	(19.9)	(5.1)	(25.6)
Minority interest and other	(7.3)	1.6	8.9	556.3
Total	$ 236.2	$ 224.4	$ (11.8)	(5.3)

Interest expense increased $10.9 million, or 4.2%, primarily due to:

- $8.9 million of increases resulting from an increase in average amount of debt outstanding, due in part to the refinancing of $352.0 million of Preferred securities redeemed in August 2003 with long-term debt, partially offset by a decrease in average interest rates.

Interest income decreased $4.7 million, or 34.1%, primarily due to:

- Decreases in interest income on regulatory assets.

Interest capitalized decreased $5.1 million, or 25.6%, primarily due to:

- Lower average capitalization rates applied to higher qualifying construction work-in-progress balances during the year ended March 31, 2005.

Minority interest and other expense changed $8.9 million, primarily due to:

- $11.7 million of a decrease in expense relating to distributions on Preferred securities, which were redeemed in August 2003;
- $2.3 million of a decrease in charitable donations; partially offset by,
- $4.3 million of an increase in income relating to proceeds from company-owned life insurance.

Income Tax Expense

Income tax expense increased $24.0 million, or 16.6%, primarily due to:

- $14.2 million of increases in the change in the federal tax contingency reserve due to $8.5 million of additional accruals in the current year related to new activities/development of tax examinations, compared to $5.7 million of contingency reserve releases in the prior year due to the resolution of certain tax examinations;
- $9.5 million of increases due to higher levels of income from continuing operations before income taxes and cumulative effect of accounting change for the year ended March 31, 2005; and
- $5.4 million of increases due to permanent book and tax differences of Internal Revenue Service settlements; partially offset by,
- $3.9 million of decreases from the tax effect of regulatory treatment of book and tax differences; and
- $3.7 million of decreases in state income tax effect.

Cumulative Effect of Accounting Change

- PacifiCorp recorded a $0.9 million after-tax loss from the implementation of SFAS No. 143 during the year ended March 31, 2004.

Year Ended March 31, 2004 Compared to Year Ended March 31, 2003

Revenues

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2004	2003	$ Change	% Change
Electric Operations				
Residential	$ 994.5	$ 914.7	$ 79.8	8.7%
Commercial	792.9	763.4	29.5	3.9
Industrial	725.6	699.2	26.4	3.8
Other retail	34.0	31.4	2.6	8.3
Retail sales	2,547.0	2,408.7	138.3	5.7
Wholesale sales and other	647.5	673.7	(26.2)	(3.9)
Total revenues	$ 3,194.5	$ 3,082.4	$ 112.1	3.6
Energy sales (Thousands of MWh)				
Electric Operations				
Residential	14,460	13,287	1,173	8.8
Commercial	14,413	14,006	407	2.9
Industrial	19,133	19,048	85	0.4
Other	673	631	42	6.7
Total	48,679	46,972	1,707	3.6
Average residential usage (kWh)	10,889	10,182	707	6.9
Total customers - end of period (in thousands)	1,570	1,542	28	1.8

Residential revenues increased $79.8 million, or 8.7%, primarily due to:

- $64.3 million of increases from higher average estimated customer usage, including the impact of warmer summer and colder winter weather, both as compared to the prior year;
- $16.8 million of increases relating to growth in the average number of residential customers; and
- $4.8 million of increases from higher regulatory rates; partially offset by,
- $6.1 million of decreases due to a change in price mix, which resulted from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves.

Commercial revenues increased $29.5 million, or 3.9%, primarily due to:

- $16.3 million of increases relating to growth in the average number of commercial customers;
- $7.0 million of increases from higher average estimated customer usage;
- $4.8 million of increases from higher regulatory rates; and
- $1.4 million of increases due to a change in price mix, which resulted from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves.

Industrial revenues increased $26.4 million, or 3.8%, primarily due to:

- $14.9 million of increases due to a change in price mix, which resulted from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves;
- $7.5 million of increases from higher regulatory rates; and

- $4.0 million of increases from higher average estimated customer usage.

Wholesale sales and other revenues decreased $26.2 million, or 3.9%, primarily due to:

- $148.0 million of decreases in long-term and short-term energy volumes delivered as a result of a combination of contract expiration and higher prior year wholesale activity;
- $33.2 million of decreases from unfavorable movements of unrealized gains and losses on derivatives;
- $20.7 million of decreases from the release of reserves in the year ended March 31, 2003, on a power sales contract following settlement of a dispute with respect to the contract;

- $14.0 million of decreases in wheeling revenues due to discontinuation of long-term contracts, less energy usage by third-party customers and unfavorable market conditions; and
- $4.6 million of decreases from the conclusion of the amortization of a regulatory liability; partially offset by,
- $117.1 million of increases due to contracts that did not physically settle being recorded on a net basis;
- $55.7 million of increases from higher realized prices on both long- and short-term wholesale sales transactions, due to increases in market prices and escalation on long-term contract prices;
- $6.0 million of increases from the reduction of the Oregon merger credit liability in the year ended March 31, 2003;
- $5.7 million of increases due to the conclusion of a temporary regulatory surcharge;
- $4.8 million of increases due to increased revenues from third parties jointly using PacifiCorp's distribution poles; and
- $2.0 million of increases due to the release of a previously established reserve for an industrial customer in the year ended March 31, 2004.

Operating Expenses

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2004	2003	$ Change	% Change
Electric Operations				
Purchased electricity	$ 672.8	$ 698.5	$ 25.7	3.7%
Fuel	483.9	482.2	(1.7)	(0.4)
Operations and maintenance	895.8	885.1	(10.7)	(1.2)
Depreciation and amortization	428.8	434.3	5.5	1.3
Taxes, other than income taxes	95.3	93.4	(1.9)	(2.0)
Total operating expenses	$ 2,576.6	$ 2,593.5	$ 16.9	0.7

Purchased electricity expense decreased $25.7 million, or 3.7%, primarily due to:

- $124.2 million of decreases due to lower energy purchase volumes resulting from higher thermal plant generation and lower wholesale activity than in the prior year;
- $38.2 million of decreases primarily relating to unrealized gains on energy contracts;
- $23.6 million of decreases resulting from favorable power cost deferral movements; and
- $11.0 million of decreases from lower wheeling expenses due to expired transmission contracts that were not renewed; partially offset by,
- $117.1 million of increases due to contracts that did not physically settle being recorded on a net basis;
- $49.5 million of increases from higher realized electricity prices on both long- and short-term energy purchase contracts, as a result of higher market prices; and
- $4.7 million of other increases, primarily from higher costs of ancillary services.

Fuel expense increased $1.7 million, or 0.4%, primarily due to:

- $9.6 million of increases relating to higher volumes as a result of higher output from coal-fired generation plants; and
- $7.1 million of increases as a result of an increase in the price of coal consumed; partially offset by,
- $9.2 million of decreases from lower natural gas volumes caused by unfavorable market conditions; and
- $5.8 million of decreases from lower realized natural gas prices.

Operations and maintenance expense increased $10.7 million, or 1.2%, primarily due to:

- $14.9 million of increases in pension costs due to the continued phasing in of the negative asset returns from 2000 through 2002, and a lower discount rate;

- $13.2 million of increases primarily due to changes in regulatory assets and liabilities;
- $10.8 million of increases in employee salary expense and other direct employee expenses;
- $9.2 million of increases in consulting and technical service fees; and
- $8.3 million of increases related to winter storm damages, primarily uninsured losses and overtime payments; partially offset by,
- $24.0 million of decreases from the establishment of a reserve in the prior year for the FERC issues and for potential California refunds;
- $18.9 million of decreases due to prior year mine reclamation liability adjustments for the Glenrock mine pursuant to a mine reclamation study performed; and
- $3.4 million of decreases in workers' compensation expense.

Depreciation and amortization expense decreased $5.5 million, or 1.3%, primarily due to:

- $27.7 million of decreases as a result of new depreciation rates approved by regulators, effective April 1, 2003; partially offset by,
- $13.0 million of increases in depreciation and amortization expense due to higher plant in service;
- $6.6 million of increases in software development depreciation; and
- $2.6 million of increases in the amortization of regulatory assets.

Interest and Other (Income) Expense

(Millions of dollars)	Year Ended March 31, 2004	2003	Favorable/(Unfavorable) $ Change	% Change
Interest expense	$ 256.5	$ 270.3	$ 13.8	5.1%
Interest income	(13.8)	(21.6)	(7.8)	(36.1)
Interest capitalized	(19.9)	(18.0)	1.9	10.6
Minority interest and other	1.6	19.0	17.4	91.6
Total	$ 224.4	$ 249.7	$ 25.3	10.1

Interest expense decreased $13.8 million, or 5.1%, primarily due to:

- $15.3 million of decreases in interest expense on regulatory liabilities; partially offset by,
- Dividends declared on Preferred stock subject to mandatory redemption of $3.4 million that were included as interest expense for the year ended March 31, 2004, in accordance with *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ("SFAS No. 150"), which became effective beginning after June 30, 2003.

Interest income decreased $7.8 million, or 36.1%, primarily due to:

- $3.6 million of decreases in interest income on regulatory assets;
- A $1.5 million decrease due to interest income on the settlement of an excise tax case in March 2002; and
- A $1.1 million decrease due to interest income recognized on an electricity sales contract settlement in September 2002.

Interest capitalized increased $1.9 million, or 10.6%, primarily due to:

- Higher capitalization rates and qualifying construction work-in-progress balances.

Minority interest and other expense changed $17.4 million, or 91.6%, primarily due to:

- A decrease in distributions on Preferred Securities, which were redeemed in August 2003.

Income Tax Expense

Income tax expense increased $47.3 million, or 48.7%, primarily due to:

- Higher levels of income from continuing operations before income taxes and cumulative effect of accounting change for the year ended March 31, 2004, compared to the prior year; partially offset by,
- $12.2 million of a net tax contingency reserve released during the year ended March 31, 2004, as a result of agreements in principle with the Internal Revenue Service and state tax authorities on prior year tax examinations.

Cumulative Effect of Accounting Change

- PacifiCorp recorded a $0.9 million after-tax loss from the implementation of SFAS No. 143 in the year ended March 31, 2004.
- PacifiCorp recorded a $1.9 million after-tax loss from the implementation of the DIG revised Issue C15 and Issue C16 recorded in the year ended March 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

PacifiCorp depends on both internal and external sources of liquidity to provide working capital and to fund capital requirements. Short-term cash requirements not met by cash provided by operating activities are generally satisfied with proceeds from short-term borrowings. Long-term cash needs are met through sales of securities, including additional long-term debt issuances, and also by issuance of common stock to PHI. Issuance of longer-term securities is influenced by levels of short-term debt, cash from operations, capital expenditures, market conditions, regulatory approvals and other considerations.

Operating Activities

Net cash flows provided by operating activities decreased $120.8 million to $711.1 million for the year ended March 31, 2005, compared to $831.9 million for the year ended March 31, 2004, primarily due to the activities described below:

- The change in Accounts receivable, prepayments and other current assets decreased $136.1 million during the year ended March 31, 2005 compared, to the year ended March 31, 2004, primarily due to:
  - $67.8 million increase in the change in net power costs receivable due to increased system balancing activities and higher electricity prices;
  - $52.2 million increase in the change in margin deposits due to the effects of market prices on forward natural gas and electricity purchase and sales contracts; and
  - $18.9 million increase in the change in accounts receivable primarily due to increases in revenues from retail customers.
- The change in Inventories decreased $30.3 million during the year ended March 31, 2005, compared to the year ended March 31, 2004, primarily due to:
  - $19.1 million decrease in the change in inventories due to the decrease in the levels of fuel inventory during the year ended March 31, 2004, that were maintained through March 31, 2005; and
  - $11.1 million decrease in the change in inventories due to the increase in the baseline restocking levels of materials and supplies during the year ended March 31, 2005.
- The change in Accounts payable and accrued liabilities increased $87.4 million during the year ended March 31, 2005, compared to the year ended March 31, 2004, primarily due to an increase in the change in net power costs payable of $60.0 million due to higher volumes of purchased electricity as a result of lower hydroelectric and thermal generation and increased retail load, as well as higher costs in March 2005 compared to March 2004.
- Other changes in cash flows from operating activities during the year ended March 31, 2005, compared to the year ended March 31, 2004, included a $23.2 million increase in the level of funding for pension and other post-retirement benefits.

Net cash provided by operating activities increased $150.3 million to $831.9 million for the year ended March 31, 2004, compared to $681.6 million for the year ended March 31, 2003, due primarily to a $108.0 million increase in Net income, a $66.6 million decrease in tax payments related to prior period Internal Revenue Service audits, and the timing of collections and payments. Net cash provided by operating activities is impacted by seasonal movements in working capital, by whether or not operating costs are recovered in rates and by the timing of such recovery.

Investing Activities

Net cash used in investing activities increased $143.2 million to $846.7 million for the year ended March 31, 2005, primarily due to higher capital expenditures during the year ended March 31, 2005, as compared to the prior year. Capital expenditures totaled $851.6 million for the year ended March 31, 2005, compared to $690.4 million for the year ended March 31, 2004. The increase was primarily due to $158.9 million of increased expenditures on the construction of the Currant Creek Power Plant and $49.6 million towards the construction of the Lake Side Power Plant, partially offset by lower expenditures on the distribution and transmission upgrades along the Wasatch Front, as well as reductions in other capital expenditures. Expenditures for the Currant Creek and Lake Side Power Plants continue to be capitalized as construction work-in-progress until the completed components of the plants are placed into service.

Net cash used in investing activities increased $178.4 million to $703.5 million for the year ended March 31, 2004, primarily due to higher capital expenditures during the year ended March 31, 2004, as compared to the prior year. Capital expenditures totaled $690.4 million for the year ended March 31, 2004, as compared to $550.0 million for the year ended March 31, 2003. The increase was primarily due to increasing expenditures for distribution network growth and system upgrades (primarily along the Wasatch Front), plant refurbishments, power plant construction and hydroelectric relicensing. For the year ended March 31, 2004, $44.7 million was spent for the construction of the Currant Creek Power Plant and $91.5 million was spent on distribution and transmission system upgrades along the Wasatch Front.

Financing Activities

Because certain of the transactions contemplated by the Stock Purchase Agreement for the sale of PacifiCorp would, if the sale is consummated, constitute an event of default under certain of PacifiCorp's financing agreements, PacifiCorp will need to obtain waivers or amendments to those agreements, or replace them with other facilities, prior to consummation of the sale. The following discussion does not reflect any such amendments or replacement facilities.

Short-Term Debt

PacifiCorp's short-term debt increased by $343.9 million during the year ended March 31, 2005, to $468.8 million, primarily due to capital expenditures in excess of cash from operations and pre-funding of maturing long-term debt, partially offset by the proceeds from the long-term debt financing during the period, which were used to reduce short-term debt. Regulatory authorities limit PacifiCorp to $1.5 billion of short-term debt, of which $468.8 million was outstanding at March 31, 2005, at a weighted average interest rate of 2.9%.

Short-term debt increased by $99.9 million during the year ended March 31, 2004, primarily due to changes in working capital, maturing long-term debt, increased capital expenditures and the resumption of paying dividends on common shares. Short-term debt decreased $152.5 million during the year ended March 31, 2003, primarily due to the issuance of Common stock and an increase in cash from operations.

Revolving Credit Agreement

PacifiCorp's short-term borrowings and certain other financing arrangements are supported by an $800.0 million committed bank revolving credit agreement with a three-year term that became effective May 28, 2004. The interest on advances under this facility is based on the London Interbank Offered Rate (LIBOR) plus a margin that varies based on PacifiCorp's credit ratings. As of March 31, 2005, this facility was fully available and there were no borrowings outstanding. In addition to this committed credit facility, at March 31, 2005, PacifiCorp had $182.2 million in money market accounts included in Cash and cash equivalents available to meet its liquidity needs.

PacifiCorp's revolving credit agreement contains customary covenants and default provisions, including a covenant not to exceed a specified debt-to-capitalization ratio of 60.0%. PacifiCorp monitors these covenants on a regular basis to ensure that events of default will not occur. As of March 31, 2005, PacifiCorp was in compliance with the covenants of its revolving credit agreement, which also apply to its letters of credit. See "Future Uses of Cash - Contractual Obligations and Commercial Commitments - Commercial Commitments" below for information regarding PacifiCorp's letters of credit.

Long-Term Debt

During March 2005, the maturity dates for three series of variable-rate pollution-control revenue bonds totaling $38.1 million were extended to December 1, 2020.

For the year ended March 31, 2005, PacifiCorp made scheduled long-term debt repayments of $239.8 million. Additionally, during December 2004, PacifiCorp redeemed, prior to maturity, all of the 8.625% First Mortgage Bonds due in December 2024 and totaling $20.0 million. This retirement was initially funded through short-term debt with the expectation that it will be funded through long-term financing in the next 12 months, subject to regulatory authorization.

On August 24, 2004, PacifiCorp issued $200.0 million of its 4.95% Series of First Mortgage Bonds due August 15, 2014, and $200.0 million of its 5.90% Series of First Mortgage Bonds due August 15, 2034. PacifiCorp used the proceeds for general corporate purposes, including the reduction of short-term debt.

For the year ended March 31, 2004, PacifiCorp made scheduled long-term debt repayments of $136.6 million. Additionally, during July and August 2003, PacifiCorp redeemed, prior to maturity, First Mortgage Bonds totaling $57.5 million and Preferred Securities totaling $352.0 million. These retirements were funded initially with short-term debt. In September 2003, PacifiCorp issued $200.0 million of its 4.30% First Mortgage Bonds due September 15, 2008, and $200.0 million of its 5.45% First Mortgage Bonds due September 15, 2013.

For the year ended March 31, 2003, PacifiCorp issued no long-term debt and made scheduled long-term debt repayments of $144.6 million.

PacifiCorp's Mortgage and Deed of Trust creates a lien on most of PacifiCorp's electric utility property.

PacifiCorp's Mortgage allows the issuance of bonds based on:

- A percentage of utility property additions;
- Bond credits arising from retirement of previously outstanding bonds; and/or
- Deposits of cash.

The amount of bonds that PacifiCorp may issue generally is also subject to a net earnings test. As of March 31, 2005, PacifiCorp estimated it would be able to issue up to $3.2 billion of new First Mortgage Bonds under the most restrictive issuance test in the mortgage. Any issuances would be subject to market conditions and amounts may be further limited by regulatory authorizations or by covenants and tests contained in other financing agreements. PacifiCorp also has the ability to release property from the lien of the Mortgage on the basis of property additions, bond credits and/or deposits of cash. See also "Limitations" below.

Amounts Available Under Shelf Registrations and State Authorizations

At March 31, 2005, PacifiCorp had $250.0 million available under a currently effective shelf registration. Securities that may be issued under this registration include first mortgage bonds, unsecured debt securities and no par serial preferred stock. PacifiCorp plans to file a shelf registration statement with the SEC during fiscal year 2006 covering $750.0 million of first mortgage bonds and unsecured debt.

During April 2005, PacifiCorp filed proposed amendments to existing state regulatory orders requesting an increase in the number of common shares that PacifiCorp may issue to PHI from approximately 35 million to 50 million shares. The IPUC and the WUTC have issued orders approving the amendments, and the OPUC is expected to consider the proposed amendments at its May 31, 2005 meeting.

During May 2005, PacifiCorp received authority to issue up to an additional $1.0 billion of long-term debt from the OPUC and the IPUC and up to $400.0 million of PacifiCorp's first mortgage bonds from the WUTC. Prior issuances have fully utilized previous state commission authorizations.

Common Stock

In December 2002, PacifiCorp issued 14,851,485 shares of its common stock to PHI at a total price of $150.0 million, or $10.10 per share. PacifiCorp used the proceeds from the sale of these shares to repay debt and for general corporate purposes.

Preferred Stock Redemptions

PacifiCorp redeemed $7.5 million of Preferred stock subject to mandatory and optional redemption during each of the years ended March 31, 2005, 2004 and 2003.

Dividends

During the year ended March 31, 2005, PacifiCorp had the following dividend activity:

- $193.3 million declared and paid on common stock; and
- $6.1 million declared, which includes $4.0 million of interest expense, and $6.2 million paid on Preferred stock and Preferred stock subject to mandatory redemption.

During the year ended March 31, 2004, PacifiCorp had the following dividend activity:

- $160.6 million declared and paid on common stock; and
- $6.7 million declared and $6.8 million paid on Preferred stock and Preferred stock subject to mandatory redemption. Dividends declared after June 30, 2003, of $3.4 million were recorded as interest expense in accordance with SFAS No. 150, adopted on July 1, 2003.

During the year ended March 31, 2003, PacifiCorp had the following dividend activity:

- $7.3 million declared and $7.3 million paid on Preferred stock and Preferred stock subject to mandatory redemption.

Capitalization

(Millions of dollars)	March 31, 2005		2004	
Short-term debt	$ 468.8	6.0%	$ 124.9	1.7%
Long-term debt, including current maturities	3,898.9	50.0	3,760.2	51.8
Preferred stock subject to mandatory redemption	52.5	0.7	60.0	0.8
Preferred stock	41.3	0.5	41.3	0.6
Common equity	3,335.8	42.8	3,278.7	45.1
Total capitalization	$ 7,797.3	100.0%	$ 7,265.1	100.0%

PacifiCorp manages its capitalization and liquidity position through policies established by senior management and the PacifiCorp Board of Directors. A key objective is retention of existing credit ratings, which is expected to help allow access to flexible borrowing arrangements at favorable costs and rates. These policies, subject to periodic review and revision, attempt to balance the interests of all shareholders, ratepayers and creditors and to provide a competitive cost of capital and predictable capital market access.

On a consolidated basis, PacifiCorp attempts to maintain total debt at approximately 48.0% to 54.0% of capitalization. The total debt-to-capitalization ratio was 56.0% at March 31, 2005, and 53.5% at March 31, 2004. PacifiCorp seeks to maintain, over time, its capital structure in accordance with its targets. PacifiCorp currently anticipates that additional common equity contributions from its parent, PHI, will be necessary to achieve its target capitalization over the next 12 months. See "Cautionary Statement" below.

As a result of recent changes in accounting standards, such as FIN 46R, *Consolidation of Variable-Interest Entities, an interpretation of Accounting Research Bulletin No. 51,* and EITF No. 01-08, *Determining Whether an Arrangement Is a Lease,* it is possible that new purchase power and gas agreements, transmission arrangements or amendments to existing arrangements may be accounted for as capital lease obligations or debt on PacifiCorp's financial statements. While PacifiCorp has successfully amended covenants in financing arrangements that may be impacted by these changes, it may be more difficult for PacifiCorp to comply with its capitalization targets or regulatory commitments concerning minimum levels of common equity as a percentage of capitalization. This may lead PacifiCorp to seek amendments or waivers from regulators, delay or reduce spending programs, seek additional new common equity contributions from its immediate parent, PHI, or take other actions.

Variable-Rate Liabilities

(Millions of dollars)	March 31, 2005	2004
Short-term debt	$ 468.8	$ 124.9
Variable-rate long-term debt	541.7	541.7
	$ 1,010.5	$ 666.6
Percentage of total capitalization	13.0%	9.2%

PacifiCorp's capitalization policy targets consolidated variable-rate liabilities at between 10.0% and 25.0% of total capitalization. PacifiCorp was at the lower end of the target range at March 31, 2005, and anticipates that variable-rate exposure will continue to be at the lower end of the range during the year ending March 31, 2006.

Limitations

In addition to PacifiCorp's capital structure policies, its debt capacity is also governed by its contractual commitments. PacifiCorp's credit agreement contains customary covenants and default provisions, including covenants to maintain a debt-to-capitalization ratio. PacifiCorp's principal debt limitations are a 60.0% debt-to-defined capitalization test and an interest coverage covenant contained in its credit agreement. PacifiCorp monitors the covenants on a regular basis in order to ensure that events of default will not occur. As of March 31, 2005, PacifiCorp was in compliance with the covenants of its credit agreement. Based on PacifiCorp's most restrictive covenant under the credit agreement, management believes that PacifiCorp could have borrowed an additional $0.8 billion at March 31, 2005. Any additional borrowings would be subject to market conditions, and amounts may be further limited by regulatory authorizations or by covenants and tests contained in other financing agreements.

Pursuant to the Stock Purchase Agreement with MidAmerican for the sale of PacifiCorp, ScottishPower has agreed to limit PacifiCorp's ability to borrow money or incur debt beyond agreed limits without prior MidAmerican approval.

PacifiCorp is restricted from making any distributions without prior state regulatory approval to the extent that it would reduce PacifiCorp's common stock equity below 40.0% of its total capitalization, excluding short-term debt and current maturities of long-term debt. As of March 31, 2005, under this measure, PacifiCorp's actual common stock equity percentage was 47.3%.

Cautionary Statement

Management expects that it will be necessary to supplement cash generated from operations, the additional equity contributions from PHI required by the Stock Purchase Agreement with MidAmerican and availability under committed credit facilities with new issuances of long-term debt to fund liquidity needs during the next 12 months. However, if market conditions are not favorable for the issuance of long-term debt, it may be necessary for PacifiCorp to postpone certain planned capital expenditures, or take other actions, to the extent those expenditures are not fully covered by cash from operations, additional PHI equity and availability under committed credit facilities. In addition, if PacifiCorp cannot obtain appropriate amendments or waivers under certain of its financing agreements or arrange replacement facilities, the sale of all of its common stock by PHI to MidAmerican would constitute an event of default under these agreements.

FUTURE USES OF CASH

Dividends

On April 21, 2005, the PacifiCorp Board of Directors declared a dividend on common stock of $0.163 per share for a total of approximately $50.8 million and was paid on May 27, 2005. PacifiCorp presently anticipates that it will declare quarterly dividends on common stock at this rate per share during fiscal year 2006, subject to results of operations, financial condition and other considerations. Pursuant to the Stock Purchase Agreement for the sale of PacifiCorp, ScottishPower has agreed to cause PacifiCorp to not pay dividends to PHI in excess of $53.7 million per quarter during fiscal 2006 and $60.575 million per quarter during fiscal 2007. These restrictions will terminate upon either the close of the sale of PacifiCorp or the earlier termination of the Stock Purchase Agreement.

Capital Expenditure Program

The following table shows actual capital expenditures for the year ended March 31, 2005, and PacifiCorp's estimated capital expenditures for the years ending March 31, 2006 and 2007. Except for major construction projects specifically exempted by the Stock Purchase Agreement, any capital expenditures for the year ending March 31, 2007, will require the prior approval of MidAmerican.

	Actual	Estimated	
		Years Ending March 31,	
(Millions of dollars)	Year Ended March 31, 2005	2006	2007
Distribution and Transmission	$ 324.2	$ 369.5	$ 436.8
Generation and Mining	482.6	634.7	497.9
Other	44.8	78.2	124.5
Total	$ 851.6	$ 1,082.4	$ 1,059.2

Actual and estimated future capital expenditures include upgrades to distribution and transmission lines, upgrades of generating plant equipment, connections for new customers, facilities to accommodate load growth, coal mine investments, air-quality and environmental expenditures, hydroelectric relicensing costs and information technology systems. In addition, these estimates include the remaining costs to have the Currant Creek Power Plant constructed into fiscal 2007 and the costs to have the Lake Side Power Plant developed and constructed to meet customer resource needs in summer 2007. PacifiCorp expects that these and future costs will be deemed prudent and recoverable in future rates. All of these expenditures are subject to continuing review and revision by PacifiCorp, and actual costs could vary from estimates due to various factors, such as changes in business conditions, revised load-growth estimates, future legislative and regulatory developments and increasing costs in labor, equipment and materials.

The estimates of capital expenditures for the years ending March 31, 2006 and 2007, generally exclude the potential impact on generation and transmission capacity of future decisions arising from further stages of the Requests for Proposals process to support the Integrated Resource Plans. Additional expenditures may be significant but are spread over a number of years and cannot be accurately estimated, or included in the table, at this time. Based on future decisions arising from the Request for Proposals process, the estimate of capital expenditures may be updated in future quarters.

In funding its capital expenditure program, PacifiCorp expects to obtain funds required for construction and other purposes from sources similar to those used in the past, including operating cash flows and the issuance of new long-term and short-term debt. While the sale of PacifiCorp is pending and the Stock Purchase Agreement is in effect, PHI has agreed to make common equity contributions to PacifiCorp of $125.0 million at the end of each quarter in fiscal 2006 and $131.25 million at the end of each quarter in fiscal 2007. However, the amount, type and timing of any additional financings, if necessary, will depend upon levels of capital expenditures, operating cash flows, returns available, market conditions and regulatory approval, and there can be no assurance that such financings will be available on favorable terms, if at all.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The table below shows PacifiCorp's contractual obligations as of March 31, 2005.

(Millions of dollars)	Payments due during the years ending March 31,				
	2006	2007 - 2008	2009 - 2010	Thereafter	Total
Long-term debt, including interest					
Fixed-rate obligations	$ 480.0	$ 715.6	$ 867.4	$ 3,691.4	$ 5,754.4
Variable-rate obligations (a)	12.5	25.0	25.0	663.1	725.6
Short-term debt, including interest	470.0	—	—	—	470.0
Preferred stock subject to mandatory redemption	3.7	48.8	—	—	52.5
Capital leases, including interest	3.3	7.0	7.3	43.1	60.7
Operating leases	21.3	38.0	7.4	9.4	76.1
Asset retirement obligations (b)	17.8	28.7	23.8	319.5	389.8
Power purchase agreements (c)					
Electricity commodity contracts	528.2	378.3	53.8	86.4	1,046.7
Electricity capacity contracts	143.2	291.4	294.7	1,254.7	1,984.0
Electricity mixed contracts	22.9	42.8	41.2	236.1	343.0
Transmission	64.2	104.0	92.8	551.2	812.2
Fuel purchase agreements (c)					
Natural gas supply and transporation	130.8	317.9	57.6	255.6	761.9
Coal supply and transportation	187.8	359.5	296.3	493.1	1,336.7
Purchase obligations (d)	259.6	83.6	1.8	3.1	348.1
Owned hydroelectric commitments (e)	25.2	34.5	25.2	352.9	437.8
Other long-term liabilities (f)	5.0	8.1	2.4	8.5	24.0
Total contractual cash obligations	$ 2,375.5	$ 2,483.2	$ 1,796.7	$ 7,968.1	$ 14,623.5

(a) Consists of principal and interest for pollution-control revenue bond obligations with interest rates scheduled to reset within the next 12 months. Future variable interest rates are set at March 31, 2005 rates. See "Item 7A. Interest Rate Risk" for additional discussion related to variable-rate liabilities.

(b) Represents expected cash payments adjusted for inflation for estimated costs to perform legally required asset retirement activities.

(c) Commodity contracts are agreements for the delivery of energy. Capacity contracts are agreements that provide rights to the energy output of a specified facility. Forecasted or other applicable estimated rates were used to determine total dollar value of the commitments for purposes of the table.

(d) Includes minimum commitments for maintenance, outsourcing of certain services, contracts for software, telephone, data and consulting or advisory services. Also includes contractual obligations for engineering, procurement and construction costs on the Currant Creek and Lake Side Power Plants.

The purchase obligation amounts include only the minimum amount of items for which PacifiCorp is contractually obligated to purchase pursuant to contracts PacifiCorp cannot unilaterally terminate, and do not include the entire amounts that PacifiCorp may purchase in the future. For this reason, the amounts presented in the table will not provide a reliable indicator of PacifiCorp's expected future cash outflows on a stand-alone basis. For purposes of identifying and accumulating purchase obligations, PacifiCorp has included all contracts meeting the definition of a purchase obligation (e.g., legally binding and specifying all significant terms, including fixed or minimum amount or quantity to be purchased and the approximate timing of the transaction). For those contracts involving a fixed or minimum quantity but variable pricing, PacifiCorp has estimated the contractual obligation based on its best estimate of pricing that will be in effect at the time the obligation is incurred.

(e) PacifiCorp has entered into settlement agreements with various interested parties to resolve issues necessary to obtain new

hydroelectric licenses from the FERC. These settlement agreements generally include clauses that allow for termination of certain of PacifiCorp's obligations if the FERC license order is not consistent with the settlement agreement. The table only includes contractual obligations made in settlement agreements that are not contingent upon the FERC license being consistent with the settlement agreement and obligations that are required by the FERC licenses. Hydroelectric licenses have varying expiration dates, and several expire within the next five years. The contractual obligations included in the table expire with the license expiration dates. However, PacifiCorp plans to acquire new licenses that will allow for continued operation for more than 30 years and expects contractual obligations to continue or increase.

(f) Includes environmental commitments recorded on the balance sheet, which are contractually or legally binding. Excludes regulatory liabilities and employee benefit plan obligations that are not legally or contractually fixed as to timing and amount. Deferred income taxes are also excluded since cash payments are based primarily on taxable income for each discrete fiscal year.

Commercial Commitments

In September 2004, PacifiCorp entered into a new $296.9 million letter of credit facility with a maturity date of September 14, 2007. This facility provides credit enhancement and liquidity support for seven series of variable-rate pollution-control revenue bond obligations. In connection with the commencement of this new facility, corresponding amounts of previously existing letters of credit were cancelled.

At March 31, 2005, PacifiCorp had $517.8 million of standby letters of credit and standby bond purchase agreements, including the new letter of credit facility, available to provide credit enhancement and liquidity support for variable-rate pollution-control revenue bond obligations. In addition, PacifiCorp had approximately $29.0 million of standby letters of credit to provide credit support for certain transactions as requested by third parties. These committed bank arrangements were all fully available as of March 31, 2005 and expire periodically through the year ending March 31, 2010.

PacifiCorp's commercial commitments include surety bonds that provide indemnities for PacifiCorp in relation to various commitments it has to third parties for obligations in the event of default on behalf of PacifiCorp. The majority of these bonds are continuous in nature and renew annually. Based on current contractual commitments, PacifiCorp's level of surety bonding beyond the year ended March 31, 2005, is estimated to be approximately $25.2 million. This estimate is based on current information and actual amounts may vary due to rate changes or changes to the general operations of PacifiCorp.

CREDIT RATINGS

PacifiCorp's credit ratings as of May 27, 2005, are as follows:

	Moody's	Standard & Poor's
Issuer/Corporate	Baa1	A-
Senior secured debt	A3	A-
Senior unsecured debt	Baa1	BBB+
Preferred stock	Baa3	BBB
Commercial paper	P-2	A-2
Outlook	Developing	Stable

On May 25, 2005, Standard & Poor's Ratings Services placed the corporate credit rating and securities ratings of PacifiCorp on credit watch with negative implications. On May 26, 2005, Moody's Investors Service affirmed the debt ratings of PacifiCorp and changed the rating outlook to developing from stable.

On March 3, 2005, Moody's Investors Service revised its outlook on PacifiCorp to stable from negative. On August 18, 2004, Standard & Poor's Ratings Services revised its outlook on PacifiCorp to stable from negative. At the same time, Standard & Poor's lowered the senior secured debt rating on PacifiCorp to A- from A. These security ratings are not recommendations to buy, sell or hold securities. The ratings are subject to change or withdrawal at any time by the respective credit rating agencies. Each credit rating should be evaluated independently of any other rating.

PacifiCorp has no rating-downgrade triggers that would accelerate the maturity dates of its debt. A change in ratings is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon PacifiCorp's credit agreement. However, interest rates on loans under the credit agreement and commitment fees are tied to credit ratings and would increase or decrease when ratings are changed. A ratings downgrade may reduce the accessibility and increase the cost of PacifiCorp's commercial paper program, its principal source of short-term borrowing, and may result in the requirement that PacifiCorp post collateral under certain of PacifiCorp's power purchase and other agreements. Certain authorizations or exemptions by regulatory commissions for the issuance of securities are valid as long as PacifiCorp maintains investment grade ratings on senior secured debt. A downgrade below that level would necessitate new regulatory applications and approvals.

In addition, a number of PacifiCorp's agreements in the wholesale electric, wholesale natural gas and energy derivatives markets contain provisions that provide the right for either counterparty to receive cash or other security if credit exposures on a net basis exceed certain negotiated threshold levels. Generally, these threshold levels are based on long-term senior unsecured or corporate ratings. As such, a ratings downgrade could require PacifiCorp to provide additional funds to a counterparty if threshold amounts were exceeded. At March 31, 2005, PacifiCorp estimates that a one level downgrade, by either Moody's or Standard & Poor's, of its senior unsecured debt ratings would result in $5.0 million of additional collateral requirements.

OFF-BALANCE SHEET ARRANGEMENTS

PacifiCorp from time to time enters into arrangements in the normal course of business to facilitate commercial transactions with third parties that involve guarantee, indemnification or similar arrangements. PacifiCorp currently has indemnification obligations for breaches of warranties or covenants in connection with the sale of certain assets. In addition, PacifiCorp evaluates potential obligations that arise out of variable interests in unconsolidated entities, determined in accordance with the FASB Interpretation No. 46, *Consolidation of Variable-Interest Entities, an interpretation of Accounting Research Bulletin No. 51*. See "Item 8. Financial Statements and Supplementary Data - Note 13" for more information on these obligations and arrangements. PacifiCorp believes that the likelihood that it would be required to perform or otherwise incur any significant losses associated with any of these obligations is remote.

INFLATION

PacifiCorp is subject to rate-of-return regulation and the impact of inflation on the level of cost recovery under regulation varies by state depending upon the type of test-period convention used in the state. In PacifiCorp's state jurisdictions, a 12-month period of historical costs is typically used as the basis for developing a "test year," which may also include various adjustments to eliminate abnormal or onetime events, normalize cost levels, or escalate the historical costs to a future level when the new rates will actually be in effect. To the extent that the levels of costs beyond the historical 12-month period can be established either through known adjustments or through the escalation of cost levels in establishing prices, PacifiCorp can mitigate the impacts of inflationary pressures. Forecasted test periods may be used in some jurisdictions and may include, but are not limited to, projected rate base levels and expenses, which are adjusted for both inflation and known and measurable changes. They may also include projected revenue and power cost changes related to load growth. PacifiCorp is seeking to establish future test periods to deal with the rising cost of service and required capital investment.

RISK FACTORS

The following are certain risks and other factors to be considered when evaluating PacifiCorp. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a discussion of additional important risks and other factors.

The proposed sale of PacifiCorp could cause regulators, customers, suppliers and other parties with whom PacifiCorp does business to delay or defer decisions, or change existing arrangements, affecting PacifiCorp's business.

The proposed sale of PacifiCorp will be completed only if stated conditions are met, including approval of the sale by ScottishPower's shareholders and various federal and state regulatory approvals. Accordingly, there may be uncertainty regarding the completion of the transaction. This uncertainty may cause customers, suppliers and other parties with whom PacifiCorp does business to delay or defer decisions concerning PacifiCorp, which could negatively affect PacifiCorp's businesses. Such parties may also seek to change existing agreements or arrangements with PacifiCorp as a result of the sale, or may choose not to continue to do business with PacifiCorp. Any such delay or deferral of decisions or changes in existing agreements or arrangements could have a material adverse effect on PacifiCorp's business regardless of whether the sale is completed. Furthermore, the process of obtaining state regulatory approvals could delay the consideration of the pending general rate case filings and any future regulatory filings. While PacifiCorp intends to pursue general rate increase requests as currently planned, delay of requested rate increases could defer or limit PacifiCorp's ability to fully recover its operational expenses and the costs of necessary investments.

PacifiCorp is subject to market risk, counterparty performance risk and other risks associated with wholesale energy markets.

In general, market risk is the risk of adverse fluctuations in the market price of wholesale electricity and fuel, including natural gas and coal, which is compounded by volumetric changes affecting the availability of and/or demand for electricity and fuel. PacifiCorp purchases electricity and fuel in the open market or pursuant to short-term or variable-priced contracts as part of its normal operating business. If market prices rise, especially in a time when PacifiCorp requires larger than expected volumes that must be purchased at market or short-term prices, PacifiCorp may have significantly greater expense than anticipated. In addition, PacifiCorp may not be able to timely recover all, if any, of those increased expenses through ratemaking, due to retroactive ratemaking prohibitions, unless deferred accounting has been previously authorized. Likewise, if electricity market prices drop in a period when PacifiCorp is a net seller of electricity in the wholesale market, PacifiCorp will earn less revenue, possibly to the extent of not recovering the cost of generating the electricity. Wholesale electricity prices are influenced primarily by factors throughout the western United States relating to supply and demand. Those factors include the adequacy of generating capacity, scheduled and unscheduled outages of generating facilities, hydroelectric generation levels, prices and availability of fuel sources for generation, disruptions or constraints to transmission

facilities, weather conditions, economic growth and changes in technology. Volumetric changes are caused by unanticipated changes in generation availability and/or changes in PacifiCorp's loads due to the weather, the economy and customer behavior. Although PacifiCorp plans for resources to meet its current and expected retail and wholesale load obligations, PacifiCorp's net power costs may be adversely impacted by market risk.

PacifiCorp is also exposed to risk related to performance of contractual obligations by its wholesale suppliers and customers. PacifiCorp relies on suppliers to deliver natural gas, coal and electricity, in accordance with short- and long-term contracts. Failure or delay by suppliers to provide natural gas, coal or electricity pursuant to existing contracts could disrupt PacifiCorp's ability to deliver electricity and require PacifiCorp to incur additional expenses to meet the needs of PacifiCorp's customers. In addition, as these contractual agreements end, PacifiCorp may not be able to continue to purchase natural gas, coal or electricity on terms equivalent to the terms of current contractual agreements. PacifiCorp relies on wholesale customers to take delivery of the energy they have committed to purchase and paying for the energy on a timely basis. Failure of customers to take delivery may require PacifiCorp to find other customers to take the energy at lower prices than the original customers committed to pay. At certain times of year, prices paid by PacifiCorp to obtain certain load balancing resources to satisfy its load requirements may exceed the amounts it receives through retail rates from those loads. If the strategy used to hedge the exposure to these risks is ineffective, PacifiCorp could incur significant losses.

PacifiCorp is subject to various operational and event risks.

PacifiCorp faces a number of ongoing operational and event risks, particularly risks arising from the complexity and geographically dispersed nature of its operations. In addition to those highlighted elsewhere in these risk factors, management believes the following operational and event risks are significant:

- Risks relating to PacifiCorp's generation facilities:
    - Unscheduled outages at PacifiCorp's thermal and hydroelectric plants could lead to loss of generating availability; and
    - Shortages in PacifiCorp's physical fuel supply, including sufficient amounts of natural gas and of coal at a quality required for full generation at PacifiCorp's coal-fired facilities, could also adversely affect PacifiCorp's generation output and cost.
- Risks relating to PacifiCorp's distribution and transmission system:
    - PacifiCorp's distribution and transmission system could be adversely affected by catastrophic events such as fires, floods, severe weather, terrorist activities and other emergency conditions that can affect PacifiCorp's network reliability; and
    - System restrictions, transmission scheduling and capacity limits could also negatively impact the reliability and operation of PacifiCorp's transmission system.
- Risks relating to PacifiCorp's wholesale energy transactions:
    - Any rapid increase in load requirements, particularly if coupled with transmission constraints, could adversely impact PacifiCorp's ability to meet the energy needs of its customers; and
    - Any rapid decrease in load requirements could result in excess energy that may need to be sold at depressed market prices.
- Risks relating to PacifiCorp's information technology:
    - PacifiCorp's critical information technology systems may suffer unanticipated failures, which could have a material adverse impact on PacifiCorp's business operations.
- Risks relating to PacifiCorp's labor relations:
    - Work stoppages due to labor disputes or PacifiCorp's inability to attract and retain key personnel and keep available skilled labor, upon which PacifiCorp's operations rely, could have a material adverse effect on PacifiCorp's results of operations.
- Risks relating to PacifiCorp's security:
    - The failure of PacifiCorp's security policies and disaster recovery plans to adequately safeguard PacifiCorp's assets could have a material adverse effect on PacifiCorp's business operations and, consequently, its results of operations and financial condition.

PacifiCorp attempts to manage these risks through a combination of risk management policies, procedures and prudent operational practices and processes.

Construction of new generating facilities may not be successful and may be adversely affected by numerous factors beyond PacifiCorp's control.

PacifiCorp is in the process of having new generating facilities constructed in Utah, the Currant Creek and Lake Side Power Plants. As demand and resource availability forecasts change, additional facilities may need to be constructed for or by PacifiCorp. The *completion of these facilities without delays or cost overruns is subject to risks, including:*

- the effect of the Stock Purchase Agreement for the sale of PacifiCorp on future resource procurement decisions;
- changes in regulations or in their interpretation or implementation;
- shortages and inconsistent quality of equipment, materials and labor;
- transportation delays for major equipment;
- work stoppages or delays due to labor disputes, safety violations or accidents;
- substandard performance or delays by independent contractors;
- the denial or delay in obtaining permits or approvals or the outcome of other regulatory matters;
- adverse weather conditions;
- unforeseen engineering problems;
- adverse environmental and geological conditions;
- delays or increased costs to interconnect its facilities to transmission grids;
- increased costs of raw materials; and
- other unanticipated cost increases.

In addition, if PacifiCorp is unable to complete the development or construction of a facility, or if PacifiCorp decides to delay or cancel the construction of a facility, PacifiCorp may not be able to recover its investment in that facility. Construction delays and contractor performance shortfalls also can result in increased costs for purchased electricity and may, in turn, adversely affect PacifiCorp's results of operations and financial position. Furthermore, if construction projects are not completed according to specification, PacifiCorp may incur liabilities and suffer reduced plant efficiency, higher operating costs and reduced earnings.

PacifiCorp's operating results can be adversely affected by weather conditions.

As a result of the geographically diverse area of PacifiCorp's operations, its service territory has historically experienced complementary seasonal load patterns, weather conditions can significantly affect operating results. For residential customers, within a given year, weather conditions are the dominant cause of usage variations from normal seasonal patterns. For example, in periods of unusually hot summer weather, residential customers tend to use significantly greater amounts of electricity to run air conditioners, which may substantially increase summer peak loads. Changes in weather conditions and other natural events could impact customer behavior and PacifiCorp's loads. Additionally, a portion of PacifiCorp's supply of electricity comes from hydroelectric projects that are dependent upon rainfall and snowpack. During or following periods of low rainfall or snowpack, PacifiCorp may obtain substantially less electricity from hydroelectric projects and must purchase greater amounts of electricity from the wholesale market or from other sources at market prices. This could lead to increased costs to PacifiCorp. Accordingly, PacifiCorp's operating results could be adversely affected by variations in weather conditions.

PacifiCorp's recovery of costs is subject to regulatory review, and its inability to recover costs may adversely affect its operating income.

PacifiCorp is subject to the jurisdiction of federal and state regulatory authorities. The FERC establishes tariffs under which PacifiCorp provides wheeling service to the wholesale market and the retail market for states allowing retail competition. The FERC also establishes both cost-based and market-based tariffs under which PacifiCorp sells electricity at wholesale and has licensing authority over most of PacifiCorp's hydroelectric generation facilities. In addition, the utility regulatory commissions in each state independently determine the rates PacifiCorp may charge its retail customers in that state.

Each state's rate-setting process is based upon the state commission's acceptance of an allocated share of total PacifiCorp costs for purposes of setting that state's retail rates. When different states adopt different methods to address this interjurisdictional cost allocation issue, some costs may not be incorporated into rates in any state. Ratemaking is done on the basis of normalized costs, so if in a specific year realized costs are higher than normal, rates will not be sufficient to cover those costs. Likewise, if in a given year costs are lower than normal or revenues

are higher, PacifiCorp retains the resulting higher-than-normal profit. Each commission sets rates based on a test year established according to that commission's policies. Certain states use a future test year or allow for escalation of historical costs. In states that use a historical test year, rate adjustments could lag cost increases, or decreases, by up to two years. This regulatory lag causes PacifiCorp to incur costs, including new investments, for which recovery through rates is delayed. In addition, each commission decides what level of expense and investment is necessary, reasonable and prudent in providing service. If a commission decides that part of PacifiCorp's costs do not meet this standard, those costs will be disallowed and not recovered in rates. For these reasons, the rates authorized by the regulators may be less than the costs incurred by PacifiCorp to provide electrical service to its customers in a given period.

Several of PacifiCorp's hydroelectric projects are in some stage of the FERC relicensing under the Federal Power Act. The relicensing process is a political and public regulatory process that involves sensitive resource issues. PacifiCorp cannot predict with certainty the requirements that may be imposed during the relicensing process, the economic impact of those requirements, whether new licenses will ultimately be issued or whether PacifiCorp will be willing to meet the relicensing requirements to continue operating its hydroelectric projects.

Federal, state and local authorities regulate many of PacifiCorp's activities pursuant to laws designed to restore, protect and enhance the quality of the environment. PacifiCorp cannot predict with certainty what material impact, if any, future changes in environmental laws and regulations may have on PacifiCorp's consolidated financial position, results of operations, cash flows, liquidity and capital expenditure requirements.

PacifiCorp is subject to federal and state legislation, regulations and political risks that may adversely affect its business.

PacifiCorp conducts its business in conformance with a multitude of federal and state laws. During the past several years, the United States Congress has had, and continues to have, under active consideration, significant changes in energy and air quality policy. For example, comprehensive energy legislation could possibly change the hydroelectric relicensing process under the Federal Power Act, repeal the PUHCA and encourage investment in renewable and lower-emission coal generation. In late calendar 2004, an extension of the renewable energy production tax credit was enacted so that projects placed in service before January 1, 2006, are eligible for the production tax credit. The President has proposed a further extension of the credit, for two years, and Congress is expected to act on that proposal in whole or in part during calendar 2005. Changes to the Clean Air Act have been proposed in the form of the President's Clear Skies Act. Other bills seek to limit emissions of carbon dioxide, as well as to impose further stringent limits on already regulated emissions such as sulfur dioxide and oxides of nitrogen. The Senate Environment and Public Works Committee has been deadlocked on the Clear Skies Act and other proposals, and statutory changes to the Clean Air Act may not be enacted this calendar year. The Clear Skies Act and other air quality initiatives could require additional control of emissions from PacifiCorp's fossil-fueled generation plants, which would increase PacifiCorp's costs or lower electricity generation output.

Part of the President's budget for federal fiscal 2006 is a proposal to change over time the basis for setting certain wholesale electricity rates of the federal Power Marketing Administration from cost to market. This change, if adopted, likely would reduce the size of the residential and small-farm exchange benefit and consequently increase electricity bills for many PacifiCorp customers in Oregon, Washington and Idaho. PacifiCorp is currently required to pass the value of the exchange benefit directly on to participating customers, so any reduction in the benefit proportionately increases the rates PacifiCorp charges these customers. PacifiCorp customers in all six states may experience an increase in costs as a result. The actual impacts of this change, if enacted, on consumers and PacifiCorp are difficult to predict because they would depend on future market prices as well as on how any change is implemented. Given the level of opposition to this plan from members of Congress from the Pacific Northwest states, PacifiCorp currently believes it is unlikely that the Congress will adopt the legislation necessary to effect the proposed change in pricing of Power Marketing Administration's electricity.

Legislation reauthorizing a series of federal surface transportation programs recently passed the House of Representatives and is now pending before the Senate. The bill exempts utility service vehicles from hours of service rules. Utilities have been under a temporary enforcement moratorium. Application of significant new limits on hours of service would hamper the ability of utilities to address service problems on a timely basis and could result in higher operational costs.

Generally, PacifiCorp provides electric service to retail consumers on an exclusive basis in service territory defined by state and local laws and franchise agreements. From time to time, local disputes arise over territory boundaries, particularly with respect to serving new customers. PacifiCorp faces a small number of local service controversies. In Washington, PacifiCorp and Columbia Rural Electric Association have service disagreements over a small number of new as well as existing customers in areas where there is not an exclusive local franchise. Efforts to resolve these disagreements through negotiations did not reach a successful conclusion, and state legislation establishing a formal dispute resolution process stalled in the House of Representatives. In Oregon, some customers in Klamath County have expressed an interest in forming a People's Utility District, which under Oregon law requires an affirmative vote of the people in the affected area to proceed. The Oregon Legislature may consider changes to state statutes governing the formation of a People's Utility District during its 2005 general session. PacifiCorp cannot predict whether the Legislature will act on such legislation or what impact any statutory changes may have on the likelihood of the formation of a People's Utility District.

The Oregon legislature is considering a proposal to prohibit electric and gas utilities operating in Oregon from filing state income tax returns on a consolidated basis with their parent and affiliate companies. Although enactment of proposed or similar legislation would not affect the level of PacifiCorp's income tax expense, if PacifiCorp is required to file its Oregon income tax return on a stand-alone basis, PacifiCorp could potentially pay greater Oregon state income taxes than otherwise payable by its parent company, PHI, which files its tax returns on a consolidated basis.

Threats or acts of terrorism could negatively impact PacifiCorp's business.

Terrorism threats, both domestic and foreign, are an ongoing risk to the entire utility industry, including PacifiCorp. Specific potential disruptions to operations and information technologies or destruction of facilities from terrorism are not readily determinable. PacifiCorp has identified critical assets, created an effective management structure to respond to threats and developed several approaches to security to meet the changed environment. A project is well under way that implements a comprehensive security plan, starting with the most critical assets. This plan is meant to mitigate threats from terrorist attacks and to initiate contingency plans in case PacifiCorp's physical facilities or information technology environment are attacked. Additionally, the FERC and the North American Electric Reliability Council are promulgating standards to which PacifiCorp will be subject. PacifiCorp has completed a self-assessment of its current security plan as part of the North American Electric Reliability Council 1200 Urgent Action standard, which is directing PacifiCorp's efforts. PacifiCorp is also communicating with the governmental entities in the United States and the United Kingdom that are charged with counteracting and preventing terrorist activities to help it refine its security approaches. Although PacifiCorp has taken steps to mitigate threats from terrorism, any terrorist attack could have a material adverse effect on PacifiCorp's business operations and, consequently, its results of operations and financial position.

Declines in the availability, or increases in the cost, of PacifiCorp's insurance policies and increases in self-insurance levels could result in material liabilities and costs, which could have a material adverse effect on PacifiCorp's results of operations or financial position.

PacifiCorp's insurance strategy is to minimize and stabilize insurance costs, including uninsured losses. Insurance is purchased where appropriate, while certain risks are self-insured. This balance is monitored continually and modified as insurance market conditions and other factors change.

PacifiCorp's insurance program was reviewed during fiscal 2005. No significant changes have been made to the range of coverages purchased from commercial insurers, and PacifiCorp believes the limits of coverage and level of deductibles are appropriate for the risks identified. Market developments and new insurance products are analyzed as they become available, to identify whether they would be beneficial to PacifiCorp's insurance program.

The energy insurance market has continued to show mixed trends in pricing over the past year. For property insurance, there has been a general decrease in premiums, although the extent of decreases has shown signs of leveling off. Other classes of insurance are still experiencing upward pressure on premiums. PacifiCorp has worked closely with its insurance advisors and insurers to maintain efficiencies and long-term stability in premium costs. Additional security requirements continue to be imposed by insurers, such as the requirement to post letters of credit as security for insurance programs including surety bonds and workers' compensation coverage.

Declines in the availability, or increases in the cost, of PacifiCorp's insurance policies and increases in self-insurance levels could result in material liabilities and costs, which could have a material adverse effect on PacifiCorp's results of operations or financial position.

Poor investment performance of pension plan holdings and other factors impacting pension plan costs could unfavorably impact PacifiCorp's liquidity and results of operations.

As a result of the continuing recognition of losses from the decline in the equity markets from 2000 to 2002, and low interest rates, PacifiCorp anticipates that pension expense and PacifiCorp cash contributions into the pension trust will continue to increase in the near term. PacifiCorp is exposed to further increases in both expense and contribution levels if the capital markets underperform PacifiCorp's long-term return expectations. In addition, low interest rates increase expense levels since PacifiCorp's pension liability increases as the discount rate declines. Increased expenses or cash funding obligations could have a material impact on PacifiCorp's liquidity by reducing its cash flows and negatively affecting its results of operations.

PacifiCorp has a substantial amount of debt, which could adversely affect its ability to obtain future financing and limit its expenditures.

As of March 31, 2005, PacifiCorp had approximately $4.3 billion in total debt securities outstanding. PacifiCorp's principal financing agreements contain restrictive covenants that limit PacifiCorp's ability to borrow funds. PacifiCorp expects that it will be necessary to supplement cash generated from operations, additional equity from PHI as required by the Stock Purchase Agreement with MidAmerican, and availability under committed credit facilities with new issuances of long-term debt. However, if market conditions are not favorable for the issuance of long-term debt, it may be necessary for PacifiCorp to postpone planned capital expenditures, or take other actions, to the extent those expenditures are not fully covered by cash from operations, or additional PHI equity, and not available under committed credit facilities. In addition, the sale of all of PacifiCorp's common stock by PHI to MidAmerican would constitute an event of default under certain of PacifiCorp's financing agreements. If PacifiCorp is unable to obtain waivers of such default or amendments to those agreements or arrange replacement facilities and the sale is completed, the lenders may accelerate PacifiCorp's outstanding indebtedness and exercise their other rights under these agreements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PacifiCorp participates in a wholesale energy market that includes public utility companies, electricity and natural gas marketers, financial institutions, industrial companies and government entities. A variety of products exist in this market, ranging from electricity and natural gas purchases and sales for physical delivery to financial instruments such as futures, swaps, options and other complex derivatives. Transactions may be conducted directly with customers and suppliers, through brokers, or with an exchange that serves as a central clearing mechanism.

PacifiCorp is subject to the various risks inherent in the energy business, including credit risk, interest rate risk and commodity price risk.

Risk Management

PacifiCorp has risk management committees that are responsible for the oversight of market and credit risk relating to the commodity transactions of PacifiCorp. To limit PacifiCorp's exposure to market risk, the risk forum committee, with the approval of the PacifiCorp and ScottishPower Boards of Directors, sets policies and limits and approves commodity strategies, which are reviewed frequently to respond to changing market conditions. To limit PacifiCorp's exposure to credit risk in these activities, the credit committee regularly reviews counterparty credit exposure, as well as credit policies and limits.

Risk is an inherent part of PacifiCorp's business and activities. The risk management process established by PacifiCorp is designed to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business and activities and to measure quantitative market risk exposure and identify qualitative market risk exposure in its businesses. To assist in managing the volatility relating to these exposures, PacifiCorp

enters into various transactions, including derivative transactions, consistent with PacifiCorp's risk management policy and procedures. The risk management policy governs energy transactions and is designed for hedging PacifiCorp's existing energy and asset exposures, and to a limited extent, the policy permits arbitrage activities to take advantage of market inefficiencies. The policy and procedures also govern PacifiCorp's use of derivative instruments for commodity derivative transactions, as well as its energy purchase and sales practices, and describe PacifiCorp's credit policy and management information systems required to effectively monitor such derivative use. PacifiCorp's risk management policy provides for the use of only those instruments that have a similar volume or price relationship to its portfolio of assets, liabilities or anticipated transactions, thereby ensuring that such instruments will be primarily used for hedging. PacifiCorp's portfolio of energy derivatives is substantially used for non-trading purposes.

PacifiCorp continues to actively manage commodity price volatility and reduce exposure. These activities may include adding to the generation portfolio and entering into transactions that help to shape PacifiCorp's system resource portfolio, including wholesale contracts and financially settled temperature-related derivative instruments that reduce volume and price risk due to weather extremes.

Credit Risk

Credit risk relates to the risk of loss that might occur as a result of non-performance by counterparties of their contractual obligations to make or take delivery of electricity, natural gas or other commodities and to make financial settlements thereon. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances involving other market participants that have a direct or indirect relationship with such counterparty.

PacifiCorp seeks to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. PacifiCorp continues to actively monitor the creditworthiness of those counterparties with whom it executes wholesale energy and natural gas purchase and sales transactions and uses a variety of risk mitigation techniques to limit its exposure where it believes appropriate. When PacifiCorp considers a new asset purchase, transaction or contractual arrangement, market liquidity and the ability to optimize the investment are main considerations. To mitigate exposure to the financial risks of wholesale counterparties, PacifiCorp has entered into netting and collateral agreements, including margining, guarantee, letters of credit and cash deposit arrangements. Counterparties may be assessed interest fees for delayed receipts. If required, collection rights are exercised, including calling on the counterparty's credit support arrangement.

The table below represents PacifiCorp's March 31, 2005 distribution of unsecured credit exposure, net of collateral, within its electricity and natural gas portfolio of purchase and sale contracts and takes into account contractual netting rights.

Distribution of Credit Exposure	% of Total
Investment grade - Externally rated	83.2%
Non-investment grade - Externally rated	0.5
Investment grade - Internally rated	4.5
Non-investment grade - Internally rated	11.8
	100.0%

"Externally rated" represents enterprise relationships that have published ratings from at least one major credit rating agency. "Internally rated" represents those relationships that have no rating by a major credit rating agency. For those relationships, PacifiCorp utilizes internally developed, commercially appropriate rating methodologies and credit scoring models to develop a public rating equivalent.

The "Non-investment grade – Internally rated" component of PacifiCorp's overall credit exposure increased during the year ended March 31, 2005, due to a rise in forward electricity prices at certain points of delivery, which increased the market value of the contracts with a small number of non-investment grade counterparties. These contracts support PacifiCorp's Integrated Resource Plan and compliance with a FERC regulatory order requiring PacifiCorp to purchase power from qualifying facilities.

Interest Rate Risk

PacifiCorp is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt and commercial paper. PacifiCorp manages its interest rate exposure by maintaining a blend of fixed- and variable-rate debt and by monitoring the effects of market changes in interest rates. Changing interest rates will affect interest paid on variable-rate debt and interest earned by PacifiCorp's pension plan assets, mining reclamation trust funds and cash balances. PacifiCorp's principal sources of variable-rate debt are commercial paper and pollution-control revenue bonds remarketed on a periodic basis. Commercial paper is periodically refinanced with fixed-rate debt when needed and when interest rates are considered favorable. PacifiCorp may also enter into financial derivative instruments, including interest rate swaps, swaptions and United States Treasury lock agreements, to manage and mitigate interest rate exposure. PacifiCorp does not anticipate using financial derivatives as the principal means of managing interest rate exposure. PacifiCorp's cost of debt is recoverable in rates. Increases or decreases in interest rates are reflected in PacifiCorp's cost of debt calculation as rate cases are filed. Any adverse change to PacifiCorp's credit rating could negatively impact PacifiCorp's ability to borrow and the interest rates that are charged.

As of March 31, 2005, PacifiCorp had $1,010.5 million of variable-rate liabilities and $182.2 million of temporary cash investments. At March 31, 2005, PacifiCorp had no financial derivatives in effect relating to interest rate exposure.

Based on a sensitivity analysis as of March 31, 2005, for a one-year horizon, PacifiCorp estimates that if market interest rates average 1.0% higher (lower) in fiscal 2006 than in fiscal 2005, interest expense, net of offsetting impacts on interest income, would increase (decrease) by $8.3 million. Comparatively, based on a sensitivity analysis as of March 31, 2004, for a one-year horizon, had interest rates averaged 1.0% higher (lower) in fiscal 2005 than in fiscal 2004, PacifiCorp estimated that interest expense, net of offsetting impacts in interest income, would have increased (decreased) by $6.2 million. These amounts include the effect of invested cash and were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of March 31, 2005 and 2004. The increase in interest rate sensitivity is primarily due to the increase in outstanding variable-rate commercial paper, partially offset by the increase in invested cash. If interest rates change significantly, PacifiCorp might take actions to manage its exposure to the change. However, due to the uncertainty of the specific actions that might be taken and their possible effects, the sensitivity analysis assumes no changes in PacifiCorp's financial structure.

Commodity Price Risk

PacifiCorp's market risk to commodity price change is primarily related to its fuel and electricity commodities, which are subject to fluctuations due to unpredictable factors, such as weather, electricity demand and plant performance, that affect energy supply and demand. PacifiCorp's energy purchase and sales activities are governed by PacifiCorp's risk management policy and the risk levels established as part of that policy.

PacifiCorp's energy commodity price exposure arises principally from its electric supply obligation in the western United States. PacifiCorp manages this risk principally through the operation of its generation plants, with a net capability of 7,981.4 MW, as well as transmission rights held both on some of its own 15,530-mile transmission system and on third-party transmission systems, and through its wholesale energy purchase and sales activities. Wholesale contracts are utilized to balance PacifiCorp's physical excess or shortage of net electricity for future time periods. Financially settled contracts are utilized to further mitigate commodity price risk. PacifiCorp may from time to time enter into other financially settled temperature-related derivative instruments that reduce volume and price risk on days with weather extremes. In addition, a financially settled hydroelectric streamflow hedge is in place through September 2006 to reduce volume and price risks associated with PacifiCorp's hydroelectric generation resources.

PacifiCorp measures the market risk in its electricity and natural gas portfolio daily utilizing a historical Value at Risk ("VaR") approach, as well as other measurements of net position. PacifiCorp also monitors its portfolio exposure to market risk in comparison to established thresholds and measures its open positions subject to price risk in terms of quantity at each delivery location for each forward time period.

VaR computations for the electricity and natural gas commodity portfolio are based on a historical simulation technique, utilizing historical price changes over a specified (holding) period to simulate potential forward energy market price curve movements to estimate the potential unfavorable impact of such price changes on the portfolio positions scheduled to settle within the following 24 months. The quantification of market risk using VaR provides a consistent measure of risk across PacifiCorp's continually changing portfolio. VaR represents an estimate of possible changes at a given level of confidence in fair value that would be measured on its portfolio assuming hypothetical movements in future market rates and is not necessarily indicative of actual results that may occur.

PacifiCorp's VaR computations for its electricity and natural gas commodity portfolio utilize several key assumptions, including a 99.0% confidence level for the resultant price changes and a holding period of five business days. The calculation includes short-term derivative commodity instruments held for risk mitigation and balancing purposes, the expected resource and demand obligations from PacifiCorp's long-term contracts, the expected generation levels from PacifiCorp's generation assets and the expected retail and wholesale load levels. The portfolio reflects flexibility contained in contracts and assets, which accommodate the normal variability in PacifiCorp's demand obligations and generation availability. These contracts and assets are valued to reflect the variability PacifiCorp experiences as a load-serving entity. Contracts or assets that contain flexible elements are often referred to as having embedded options or option characteristics. These options provide for energy volume changes that are sensitive to market price changes. Therefore, changes in the option values affect the energy position of the portfolio with respect to market prices, and this effect is calculated daily. When measuring portfolio exposure through VaR, these position changes that result from the option sensitivity are held constant through the historical simulation to avoid understating VaR.

As of March 31, 2005, PacifiCorp's estimated potential five-day unfavorable impact on fair value of the electricity and natural gas commodity portfolio over the next 24 months was $15.5 million, as measured by the VaR computations described above, compared to $16.0 million as of March 31, 2004. The minimum, average and maximum daily VaR (five-day holding periods) for the years ended March 31, 2005 and 2004 are as follows:

	Years Ended March 31,	
(Millions of dollars)	2005	2004
Maximum VaR (measured)	$ 26.3	$ 23.3
Average VaR (calculated)	16.6	14.3
Minimum VaR (measured)	10.6	7.9

PacifiCorp maintained compliance with its VaR limit procedures during the year ended March 31, 2005. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed estimates.

Fair Value of Derivatives

The following table shows the changes in the fair value of energy-related contracts subject to the requirements of SFAS No. 133, as amended, from April 1, 2004, to March 31, 2005, and quantifies the reasons for the changes.

(Millions of dollars)	Net Asset (Liability) Trading	Net Asset (Liability) Non-trading	Regulatory Net Asset (Liability) (c)
Fair value of contracts outstanding at March 31, 2004	$ (0.5)	$ (414.3)	$ 422.2
Contracts realized or otherwise settled during the period	0.3	(39.2)	42.6
Changes in fair values attributable to changes in valuation techniques and assumptions (a)	—	(27.2)	27.2
Other changes in fair values (b)	0.4	326.3	(322.0)
Fair value of contracts outstanding at March 31, 2005	$ 0.2	$ (154.4)	$ 170.0

(a) Effective September 30, 2004, PacifiCorp changed to a U.S. London Interbank Offered Rate (LIBOR) from the U.S. Treasury rate for discounting the portfolio. This change had the effect of increasing the fair value of non-trading contracts by $25.5 million, offset by a decrease in regulatory net assets by the same amount.

Effective March 31, 2005, PacifiCorp adjusted its estimate of the period covered by market quotes from three years to six years due to the increased availability of verifiable market quotations. This change had the effect of decreasing the fair value of non-trading contracts by $52.7 million, offset by an increase in regulatory net assets by the same amount.

(b) Other changes in fair values include the effects of changes in market prices, inflation rates and interest rates, including those based on models, on new and existing contracts for the year ended March 31, 2005.

(c) Contracts that have received commission approval for regulatory recovery are included as a Regulatory Net Asset (Liability).

The fair value of derivative instruments is determined using forward price curves. Forward price curves represent PacifiCorp's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity at future dates. PacifiCorp bases its forward price curves upon market price quotations when available and internally developed and commercial models with internal and external fundamental data inputs when market quotations are unavailable. In general, PacifiCorp estimates the fair value of a contract by calculating the present value of the difference between the prices in the contract and the applicable forward price curve. As noted above, price quotations for certain major electricity trading hubs are generally readily obtainable for the first six years, and therefore PacifiCorp's forward price curves for those locations and periods reflect observable market quotes. However, in the later years or for locations that are not actively traded, PacifiCorp must develop forward price curves. For short-term contracts at less actively traded locations, prices are modeled based on observed historical price relationships with actively traded locations. For long-term contracts extending beyond six years, the forward price curve (beyond the first six years) is based upon the use of a fundamentals model (cost-to-build approach) due to the limited information available. Factors used in the fundamentals model include the forward prices for the commodities used as fuel to generate electricity, the expected system heat rate (which measures the efficiency of electricity plants in converting fuel to electricity) in the region where the purchase or sale takes place and a fundamental forecast of expected spot prices based on modeled supply and demand in the region. The assumptions in these models are critical since any changes to the assumptions could have a significant impact on the fair value of the contract. Contracts with explicit or embedded optionality are valued by separating each contract into its physical and financial forward and option components. Forward components are valued against the appropriate forward price curve. The optionality is valued using a modified Black-Scholes model or a stochastic simulation (Monte Carlo) approach. Each option component is modeled and valued separately using the appropriate forward price curve.

PacifiCorp's valuation models and assumptions are continuously updated to reflect current market information, and evaluations and refinements of model assumptions are performed on a periodic basis.

The following table shows summarized information with respect to valuation techniques and contractual maturities of PacifiCorp's energy-related contracts qualifying as derivatives under SFAS No. 133 as of March 31, 2005.

	Fair Value of Contracts at Period-End				
(Millions of dollars)	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Trading:					
Values based on quoted market prices from third-party sources	$ 0.2	$ —	$ —	$ —	$ 0.2
Values based on models and other valuation methods	—	—	—	—	—
Total trading	$ 0.2	$ —	$ —	$ —	$ 0.2
Non-trading:					
Values based on quoted market prices from third-party sources	$ (213.0)	$ (262.5)	$ (38.9)	$ (16.8)	$ (531.2)
Values based on models and other valuation methods	328.8	379.3	(7.3)	(324.0)	376.8
Total non-trading	$ 115.8	$ 116.8	$ (46.2)	$ (340.8)	$ (154.4)

Standardized derivative contracts that are valued using market quotations are classified as "values based on quoted market prices from third-party sources." All remaining contracts, which include non-standard contracts and contracts for which market prices are not routinely quoted, are classified as "values based on models and other valuation methods." Both classifications utilize market curves as appropriate for the first six years.

PacifiCorp has executed a contract to hedge changes in hydroelectric generation due to variation in streamflows. This contract is not exchange-traded, and settlement is based on climatic or other physical variables. Therefore, on a periodic basis PacifiCorp estimates and records a gain or loss in earnings corresponding to the total expected future cash flow from this contract in accordance with EITF No. 99-2, *Accounting for Weather Derivatives*. The net asset (liability) recorded for this contract was $20.3 million at March 31, 2005, and $(5.3) million at March 31, 2004. PacifiCorp recognized a gain of $27.9 million for the year ending March 31, 2005, a gain of $0.4 million for the year ended March 31, 2004, and no gain or loss for the year ended March 31, 2003. The gain increased during the year ended March 31, 2005, due to the unusually dry weather conditions experienced during the current year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PacifiCorp:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, common shareholder's equity and cash flows present fairly, in all material respects, the financial position of PacifiCorp and its subsidiaries at March 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, PacifiCorp changed the manner in which it applies the normal purchases and normal sales exception to derivative contracts entered into or modified after June 30, 2003, upon its adoption of SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, as of July 1, 2003.

As discussed in Note 6 to the consolidated financial statements, PacifiCorp changed the manner in which it accounts for asset retirement obligations, as of April 1, 2003.

As discussed in Note 9 to the consolidated financial statements, PacifiCorp reclassified to liabilities certain financial instruments that, under previous guidance, issuers could account for as equity, as of July 1, 2003.

PricewaterhouseCoopers LLP
Portland, Oregon
May 27, 2005

PACIFICORP AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(Millions of dollars)	Years Ended March 31,		
	2005	2004	2003
Revenues:			
Residential	$ 1,004.6	$ 994.5	$ 914.7
Commercial	833.1	792.9	763.4
Industrial	774.8	725.6	699.2
Other retail	36.3	34.0	31.4
Wholesale sales and other	400.0	647.5	673.7
Total	3,048.8	3,194.5	3,082.4
Operating expenses:			
Purchased electricity	448.0	672.8	698.5
Fuel	500.0	483.9	482.2
Operations and maintenance	913.1	895.8	885.1
Depreciation and amortization	436.9	428.8	434.3
Taxes, other than income taxes	94.4	95.3	93.4
Total	2,392.4	2,576.6	2,593.5
Income from operations	656.4	617.9	488.9
Interest expense and other (income) expense:			
Interest expense	267.4	256.5	270.3
Interest income	(9.1)	(13.8)	(21.6)
Interest capitalized	(14.8)	(19.9)	(18.0)
Minority interest and other	(7.3)	1.6	19.0
Total	236.2	224.4	249.7
Income from operations before income tax expense and cumulative effect of accounting change	420.2	393.5	239.2
Income tax expense	168.5	144.5	97.2
Income before cumulative effect of accounting change	251.7	249.0	142.0
Cumulative effect of accounting change (less applicable income tax benefit of $(0.6)/2004 and $(1.1)/2003	—	(0.9)	(1.9)
Net income	251.7	248.1	140.1
Preferred dividend requirement	(2.1)	(3.3)	(7.3)
Earnings on common stock	$ 249.6	$ 244.8	$ 132.8

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

	March 31, 2005	March 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 199.3	$ 58.5
Accounts receivable less allowance for doubtful accounts of $11.6/2005 and $23.3/2004	293.0	235.1
Unbilled revenue	143.8	127.8
Amounts due from affiliates	36.5	2.4
Inventories at average costs:		
Materials and supplies	114.7	101.0
Fuel	58.5	56.0
Current derivative contract asset	252.7	118.9
Current deferred tax asset	—	31.5
Other	115.8	25.2
Total current assets	1,214.3	756.4
Property, plant and equipment:		
Generation	5,238.7	5,135.7
Transmission	2,507.7	2,439.2
Distribution	4,308.7	4,104.7
Intangible plant	607.0	599.5
Other	1,596.9	1,533.7
Construction work-in-progress	593.4	345.4
Total	14,852.4	14,158.2
Accumulated depreciation and amortization	(5,361.8)	(5,121.7)
Total property, plant and equipment - net	9,490.6	9,036.5
Other assets:		
Regulatory assets	972.8	1,032.3
Derivative contract regulatory asset	170.0	422.2
Non-current derivative contract asset	360.3	110.3
Deferred charges and other	312.9	319.4
Total other assets	1,816.0	1,884.2
Total assets	$ 12,520.9	$ 11,677.1

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, continued

(Millions of dollars)

	March 31, 2005	March 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 350.4	$ 262.6
Amounts due to affiliates	3.9	2.6
Accrued employee expenses	134.3	131.5
Taxes payable	39.8	54.2
Interest payable	64.8	66.1
Current derivative contract liability	136.7	76.9
Current deferred tax liability	2.0	—
Long-term debt and capital lease obligations, currently maturing	269.9	240.0
Preferred stock subject to mandatory redemption, currently maturing	3.7	3.7
Notes payable and commercial paper	468.8	124.9
Other	123.4	111.8
Total current liabilities	1,597.7	1,074.3
Deferred credits:		
Deferred income taxes	1,629.0	1,564.6
Investment tax credits	75.6	83.5
Regulatory liabilities	806.0	807.5
Non-current derivative contract liability	630.5	567.1
Pension liability	422.4	398.9
Other	304.8	284.7
Total deferred credits	3,868.3	3,706.3
Long-term debt and capital lease obligations, net of current maturities	3,629.0	3,520.2
Preferred stock subject to mandatory redemption, net of current maturities	48.8	56.3
Total liabilities	9,143.8	8,357.1
Commitments, contingencies and guarantees (See Notes 10 and 11)		
Shareholders' equity:		
Preferred stock	41.3	41.3
Common equity:		
Common shareholder's capital	2,894.1	2,892.1
Retained earnings	446.4	390.1
Accumulated other comprehensive income (loss):		
Unrealized gain on available-for-sale securities, net of tax of $2.6/2005 and $2.7/2004	4.3	4.5
Minimum pension liability, net of tax of $(5.5)/2005 and $(4.9)/2004	(9.0)	(8.0)
Total common equity	3,335.8	3,278.7

Total shareholders' equity	3,377.1	3,320.0
Total liabilities and shareholders' equity	$ 12,520.9	$ 11,677.1

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Millions of dollars)	Years Ended March 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 251.7	$ 248.1	$ 140.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change, net of tax	—	0.9	1.9
Unrealized gain on derivative contracts	(8.4)	(6.1)	(3.1)
Depreciation and amortization	436.9	428.8	434.3
Deferred income taxes and investment tax credits - net	120.0	80.5	31.8
Regulatory asset/liability establishment and amortization	66.7	111.1	146.8
Other	(27.0)	(6.5)	3.4
Changes in:			
Accounts receivable, prepayments and other current assets	(137.8)	(1.7)	7.6
Inventories	(16.2)	14.1	(17.8)
Amounts due to/from affiliates, net	(32.8)	(36.8)	32.5
Accounts payable and accrued liabilities	84.1	(3.3)	(97.1)
Other	(26.1)	2.8	1.2
Net cash provided by operating activities	711.1	831.9	681.6
Cash flows from investing activities:			
Capital expenditures	(851.6)	(690.4)	(550.0)
Proceeds from sales of assets	7.1	3.3	16.3
Proceeds from available-for-sale securities	49.1	95.8	132.9
Purchases of available-for-sale securities	(44.7)	(89.4)	(134.3)
Other	(6.6)	(22.8)	10.0
Net cash used in investing activities	(846.7)	(703.5)	(525.1)
Cash flows from financing activities:			
Changes in short-term debt	343.9	99.9	(152.5)
Proceeds from long-term debt, net of issuance costs	395.2	396.7	—
Proceeds from issuance of common stock to PHI	—	—	150.0
Dividends paid	(195.4)	(165.1)	(7.3)
Repayments and redemptions of long-term debt	(259.8)	(194.1)	(144.6)
Repayment of preferred securities	—	(352.0)	—
Redemptions of preferred stock	(7.5)	(7.5)	(7.5)
Other	—	(0.3)	—
Net cash provided by (used in) financing activities	276.4	(222.4)	(161.9)
Change in cash and cash equivalents	140.8	(94.0)	(5.4)
Cash and cash equivalents at beginning of period	58.5	152.5	157.9
Cash and cash equivalents at end of period	$ 199.3	$ 58.5	$ 152.5

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CHANGES IN COMMON SHAREHOLDER'S EQUITY

(Millions of dollars, thousands of shares)

	Common Shareholder's Capital				
	Shares	Amounts	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Comprehensive Income (Loss)
Balance at March 31, 2002	297,325	$ 2,742.1	$ 173.1	$ (23.3)	
Comprehensive income					
Net income	—	—	140.1	—	$ 140.1
Other comprehensive income (loss):					
Unrealized loss on available-for-sale securities, net of tax of $(2.1)	—	—	—	(2.4)	(2.4)
Minimum pension liability, net of tax of $(1.1)	—	—	—	(1.9)	(1.9)
Unrealized gain on derivative financial instruments, net of tax of $14.7	—	—	—	24.0	24.0
Sale of common stock to PHI	14,851	150.0	—	—	—
Cash dividends declared:					
Preferred stock	—	—	(7.3)	—	—
Balance at March 31, 2003	312,176	2,892.1	305.9	(3.6)	$ 159.8
Comprehensive income					
Net income	—	—	248.1	—	$ 248.1
Other comprehensive income (loss):					
Unrealized gain on available-for-sale securities, net of tax of $3.8	—	—	—	6.2	6.2
Minimum pension liability, net of tax of $(3.8)	—	—	—	(6.1)	(6.1)
Cash dividends declared:					
Preferred stock	—	—	(3.3)	—	—
Common stock ($0.51 per share)	—	—	(160.6)	—	—
Balance at March 31, 2004	312,176	2,892.1	390.1	(3.5)	$ 248.2
Comprehensive income					
Net income	—	—	251.7	—	$ 251.7
Other comprehensive loss:					
Unrealized loss on available-for-sale securities, net of tax of $(0.1)	—	—	—	(0.2)	(0.2)
Minimum pension liability, net of tax of $(0.6)	—	—	—	(1.0)	(1.0)
Stock-based compensation expense	—	2.0	—	—	—
Cash dividends declared:					
Preferred stock	—	—	(2.1)	—	—
Common stock ($0.62 per share)	—	—	(193.3)	—	—
Balance at March 31, 2005	312,176	$ 2,894.1	$ 446.4	$ (4.7)	$ 250.5

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

Nature of operations - PacifiCorp (which includes PacifiCorp and its subsidiaries) is a United States electricity company serving retail customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. PacifiCorp generates electricity and conducts its retail electric utility business as Pacific Power and Utah Power and also engages in electricity sales and purchases on a wholesale basis. The subsidiaries of PacifiCorp support its electric utility operations by providing coal mining facilities and services, and environmental remediation services.

Basis of presentation - The Consolidated Financial Statements of PacifiCorp include its integrated electric utility operations and its wholly owned and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

Regulation - Accounting for the electric utility business conforms to accounting principles generally accepted in the United States of America as applied to regulated public utilities and as prescribed by agencies and the commissions of the various locations in which the electric utility business operates. PacifiCorp prepares its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation* ("SFAS No. 71") as further discussed in Note 2.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual results could differ materially from these estimates.

Reclassifications - Certain reclassifications of prior years' amounts have been made to conform to the 2005 method of presentation. These reclassifications had no effect on previously reported consolidated net income.

Cash and cash equivalents - For the purposes of these financial statements, PacifiCorp considers all liquid investments with maturities of three months or less, at the time of acquisition, to be cash equivalents.

Accounts receivable and allowance for doubtful accounts - Accounts receivable includes billed services plus any accrued and unpaid interest. Credit is granted to customers, which include retail and wholesale customers, government agencies and other utilities. Management performs continuing credit evaluations of customers' financial conditions, and although PacifiCorp does not require collateral, deposits may be required from customers in certain circumstances. Accounts receivable are considered delinquent based on regulations provided by each state, which is generally if payment is not received by the date due, typically 30 days after the invoice date. PacifiCorp charges interest on delinquent customer accounts or past due balances in the states where PacifiCorp does business based on the respective regulation of that state, and this interest varies between 1.0% to 1.5% per month.

Management reviews accounts receivable on a monthly basis to determine if any receivable will potentially be uncollectible. The allowance for doubtful accounts includes amounts estimated through an evaluation of specific accounts, based upon the best available facts and circumstances, of customers that may be unable to meet their financial obligations, and a reserve based on historical experience. After all attempts to collect a receivable have failed or by six months from when a customer becomes inactive, the receivable is written-off against the allowance. Management believes that the allowance for doubtful accounts as of March 31, 2005, was adequate. However, actual write-offs could exceed the recorded allowance. The allowance activity was as follows:

(Millions of dollars)	Years Ended March 31, 2005	2004	2003
Beginning balance	$ 23.3	$ 31.1	$ 34.8
Charged to costs and expenses	5.0	5.2	10.6
Write-offs, net	(16.7)	(13.0)	(14.3)
Ending balance	$ 11.6	$ 23.3	$ 31.1

Inventories - Inventories are valued at the lower of average cost or market.

Property, plant and equipment - Property, plant and equipment are stated at original cost of contracted services, direct labor and materials, interest capitalized during construction and indirect charges for engineering, supervision and similar overhead items. The cost of depreciable electric utility properties retired, less salvage, is charged to accumulated depreciation. The cost of removal is charged against the regulatory liability established through depreciation rates. Annual overhead costs for the replacement of defined retirement units are capitalized. Generally other costs of overhaul activities and other repairs and maintenance are expensed as they are incurred.

Intangible plant consists primarily of computer software costs. Accumulated amortization on Intangible plant was $307.6 million and $310.0 million at March 31, 2005 and 2004. Amortization expense on Intangible plant was $48.5 million and $54.7 million for the years ended March 31, 2005 and 2004. The estimated aggregate amortization on Intangible plant for the next five succeeding fiscal years from fiscal 2006 to fiscal 2010 is $44.3 million, $39.2 million, $32.6 million, $25.1 million and $18.8 million. Unamortized computer software costs were $185.1 million at March 31, 2005, and $194.8 million at March 31, 2004.

Depreciation and amortization - The average depreciable lives of Property, plant and equipment currently in use by category are as follows:

Generation	
Steam plant	20 – 43 years
Hydroelectric plant	14 – 85 years
Other plant	15 – 35 years
Transmission	20 – 70 years
Distribution	44 – 50 years
Intangible plant	5 – 50 years
Other	5 – 30 years

Computer software costs included in Intangible plant are initially assigned a depreciable life of 5 to 10 years.

During the year ended March 31, 2005, PacifiCorp changed the estimated average lives of certain computer software systems to reflect operational plans. This change reduced amortization expense by $12.9 million annually on existing computer software systems, with an annual impact to net income of approximately $8.0 million.

Depreciation and amortization are computed by the straight-line method either over the life prescribed by PacifiCorp's various regulatory jurisdictions for regulated assets or over the assets' estimated useful lives. Composite depreciation rates of average depreciable assets on utility plants (excluding amortization of capital leases) were 3.0% for the year ended March 31, 2005, 3.0% for the year ended March 31, 2004, and 3.2% for the year ended March 31, 2003.

Asset impairments - Long-lived assets to be held and used by PacifiCorp are reviewed for impairment when events or circumstances indicate costs may not be recoverable. Such reviews are performed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). The impacts of regulation on cash flows are considered when determining impairment. Impairment losses on long-lived assets are recognized when book values exceed expected undiscounted future cash flows with the impairment measured on a discounted future cash flows basis.

Allowance for funds used during construction - The Allowance for funds used during construction (the "AFUDC") represents the cost of debt and may also include equity funds used to finance utility property additions during construction. As prescribed by regulatory authorities, the AFUDC is capitalized as a part of the cost of utility property and is recorded in the Statements of Consolidated Income as Interest capitalized. Under regulatory rate practices, PacifiCorp is generally permitted to recover the AFUDC, and a fair return thereon, through its rate base after the related utility property is placed in service.

The composite capitalization rates were 4.5% for the year ended March 31, 2005, 7.9% for the year ended March 31, 2004, and 7.2% for the year ended March 31, 2003. PacifiCorp's AFUDC rates do not exceed the maximum allowable rates determined by regulatory authorities.

Derivatives - In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, ("SFAS No. 133"), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS No. 149") (collectively "SFAS No. 133"), derivative instruments are measured at fair value and recognized as either assets or liabilities on the Consolidated Balance Sheets, unless they qualify for the exemptions afforded by the standard. Changes in the fair value of derivatives are recognized in earnings during the period of change. Certain long-term derivative contracts have been approved by regulatory authorities for recovery through retail rates. Accordingly, changes in fair value of these contracts are deferred as regulatory assets or liabilities pursuant to SFAS No. 71. Derivative contracts for commodities used in PacifiCorp's normal business operation and that settle by physical delivery, among other criteria, are eligible for the normal purchases and normal sales exemption afforded by SFAS No. 133. These contracts are accounted for under accrual accounting and recorded in Wholesale sales and other revenues or Purchased electricity in the Statements of Consolidated Income when the contracts settle.

Marketable securities - PacifiCorp accounts for marketable securities, included in Deferred charges and other on PacifiCorp's Consolidated Balance Sheets, in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* PacifiCorp determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase and re-evaluates such classification as of each balance sheet date. As shown in Note 5, at March 31, 2005 and 2004, all of PacifiCorp's investments in marketable securities were classified as available-for-sale and were reported at fair value. PacifiCorp uses the specific identification method in computing realized gains and losses on the sale of its available-for-sale securities. Realized gains and losses are included in Other (income) expense. Unrealized gains and losses are reported as a component of Accumulated other comprehensive income (loss). Investments that are in loss positions as of the end of each reporting period are analyzed to determine whether they have experienced a decline in market value that is considered other-than-temporary. An investment will generally be written down to market value if it has a significant unrealized loss for more than nine months. If additional information is available that indicates an investment is other-than-temporarily impaired, it will be written down prior to the nine-month time period. In the alternative, if an investment has been impaired for more than nine months but available information indicates that the impairment is temporary, the investment will not be written down.

Asset retirement obligation and accrued removal costs - Effective April 1, 2003, PacifiCorp recognizes the fair value of legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). The initial recognition of this liability is accompanied by a corresponding increase in Property, plant and equipment. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to Property, plant and equipment) and for accretion of the liability due to the passage of time. Additional depreciation expense is recorded prospectively for any Property, plant and equipment increases. In general, depreciation and accretion expense generated by SFAS No. 143 accounting is recorded as a regulatory asset or liability because such amounts are recoverable in rates.

PacifiCorp does not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. PacifiCorp has asset retirement obligations associated with the transmission and distribution systems and certain coal mines. However, due to the indeterminate removal dates, the fair value of the associated liabilities currently cannot be estimated and no amounts are recognized in the Consolidated Financial Statements.

For those asset retirement removal costs that do not meet the requirements of SFAS No. 143, PacifiCorp recovers through approved depreciation rates estimated removal costs and accumulates such amounts in Asset retirement removal costs within Regulatory liabilities as described in Note 2.

Income taxes - PacifiCorp uses the liability method of accounting for deferred income taxes. Deferred tax liabilities and assets reflect the expected future tax consequences, based on enacted tax law, of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts.

PacifiCorp, as a wholly owned subsidiary of PacifiCorp Holdings, Inc. ("PHI"), is included in a consolidated tax return. PacifiCorp's provision for income taxes has been computed on the basis that it files separate consolidated income tax returns with its subsidiaries. Amounts payable for federal and state taxes are remitted to PHI.

Historically, PacifiCorp did not recognize deferred taxes on many of the timing differences between book and tax depreciation. In prior years, these benefits were flowed through to the utility customer as prescribed by PacifiCorp's various regulatory jurisdictions. Deferred income tax liabilities and Regulatory assets have been established for those flow-through tax benefits, as shown in Note 19.

Investment tax credits are deferred and amortized to income over periods prescribed by PacifiCorp's various regulatory jurisdictions.

Stock-based compensation - As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), PacifiCorp accounts for its stock-based compensation arrangements, primarily employee stock options, under the intrinsic value recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), and related interpretations in accounting for employee stock options issued to PacifiCorp employees. Under APB No. 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded if the ultimate number of shares to be awarded is known at the date of the grant. All options are issued in Scottish Power plc ("ScottishPower") American Depository Shares, as discussed in Note 18. Had PacifiCorp determined compensation cost based on the fair value at the grant date for all stock options vesting in each period under SFAS No. 123, PacifiCorp's Net income would have been reduced to the pro forma amounts below:

	Years Ended March 31,		
(Millions of dollars)	2005	2004	2003
Net income as reported	$ 251.7	$ 248.1	$ 140.1
Add: stock-based compensation using the intrinsic value method, net of related tax effects	3.1	—	—
Less: stock-based compensation expense using the fair value method, net of related tax effects	(4.3)	(1.1)	(1.6)
Pro forma net income	$ 250.5	$ 247.0	$ 138.5

The $3.1 million of stock-based compensation expense presented net of tax under the intrinsic value method in the above table represents estimated expense associated with the Executive Share Option Plan 2001 (the "ExSOP"), the deferred share program and the Long-Term Incentive Plan described in Note 18.

Revenue recognition - Electricity sales to retail customers are determined based on meter readings taken throughout the month. PacifiCorp accrues an estimate of unbilled revenues, which are earned but not yet billed, net of estimated line losses, each month for electric service provided after the meter reading date to the end of the month. The process of calculating the Unbilled revenue estimate consists of three components: quantifying PacifiCorp's total electricity delivered during the month, assigning Unbilled revenues to customer type and valuing the unbilled energy. Factors involved in the estimation of consumption and line losses relate to weather conditions, amount of natural light, historical trends, economic impacts and customer type. Valuation of unbilled energy is based on estimating the average price for the month for each customer type. The amount accrued for Unbilled revenues was $143.8 million at March 31, 2005 and $127.8 million at March 31, 2004. Electricity sales to wholesale customers are recorded upon delivery.

Segment information - PacifiCorp currently has one segment, which includes the regulated retail and wholesale electric operations.

New accounting standards -

FSP SFAS No. 106-2

In May 2004, the Financial Accounting Standards Board (the "FASB") released FASB Staff Position ("FSP") SFAS No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("FSP SFAS No. 106-2"). FSP SFAS No. 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Medicare Act"). The Medicare Act introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care plans that include prescription drug benefits. Employers that sponsor postretirement health care plans that offer prescription drug benefits must determine if their prescription drug benefits are actuarially equivalent to the drug benefit provided under Medicare Part D as of the date of enactment of the Medicare Act to be entitled to receive the subsidy. Employers are required to disclose the effect of the federal subsidy afforded by the Medicare Act if its prescription drug benefits are determined to be actuarially equivalent to the Medicare Part D benefit. FSP SFAS No. 106-2 was effective for the first interim or annual period beginning after June 15, 2004. PacifiCorp elected to adopt FSP SFAS No. 106-2 early upon its release with retroactive application to PacifiCorp's Welfare Benefits Plan December 31, 2003 measurement date. Because that measurement date is used only to determine net periodic postretirement benefit cost for the period beginning April 1, 2004, there was no impact on previously reported information. The effects of the Medicare Act decreased PacifiCorp's accumulated postretirement benefit obligation by $42.6 million. This decrease is treated as an actuarial experience gain. This actuarial experience gain reduces the unrecognized net loss resulting from differences in prior periods between actuarial assumptions and actual experience. The actuarial experience gain will be amortized to expense through a decrease in the amortization of the unrecognized net loss. The effects of the Medicare Act decreased net periodic postretirement benefit cost for the year ended March 31, 2005, when compared to the expense calculated before the adoption of FSP SFAS No. 106-2, as follows:

(Millions of dollars)	Year Ended March 31, 2005
Decrease in:	
Interest cost	$ 2.7
Service cost	0.1
Amortization of unrecognized loss	2.9
Decrease in Net periodic postretirement benefit cost	$ 5.7

On January 21, 2005, the Centers for Medicare and Medicaid Services released final regulations for implementing the Medicare Act. These regulations provide guidance for making a determination of whether the benefits under a plan will meet the definition of actuarial equivalence. As this was subsequent to PacifiCorp's measurement date, these regulations had no impact on the year ended March 31, 2005. PacifiCorp expects these regulations to result in an additional decrease in the accumulated postretirement benefit obligation of approximately $18.0 million and an additional decrease in the net periodic postretirement benefit cost of approximately $3.3 million during the year ending March 31, 2006.

EITF No. 03-1 and FSP EITF No. 03-1-1

In June 2004, the Emerging Issues Task Force ("EITF") issued EITF No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ("EITF No. 03-1"). Application guidance in EITF No. 03-1 should be used to determine when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of such impairment. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures in annual financial statements about unrealized losses that have not been recognized as other-than-temporary impairments.

In September 2004, the FASB issued FSP EITF No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments ("FSP EITF No. 03-1-1"). FSP EITF No. 03-1-1 delayed the previously required effective date of July 1, 2004, for PacifiCorp regarding the measurement and recognition guidance contained in the applicable paragraphs. The delay of the effective date is likely to be superceded with the final issuance of an FSP on other-than-temporary impairment of investments. The adoption of the measurement and recognition guidance of EITF No. 03-1, if implemented in its present form, is not anticipated to have a material impact on PacifiCorp's consolidated financial position or results of operations.

SFAS No. 151

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs* ("SFAS No. 151"), which amends Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing.* SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) be included as current-period charges, eliminating the option for capitalization. This statement is effective for inventory costs that PacifiCorp incurs on or after April 1, 2006. PacifiCorp does not typically incur abnormal costs related to inventory balances; therefore, the adoption of this statement is not anticipated to have a material impact on PacifiCorp's consolidated financial position or results of operations.

SFAS No. 153

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets* ("SFAS No. 153"), which amends APB Opinion No. 29, *Accounting for Non-monetary Transactions* ("APB No. 29"). SFAS No. 153 eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets in APB No. 29 and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions in this statement will apply to PacifiCorp for any exchanges of non-monetary assets that occur on or after April 1, 2006. The adoption of this statement is not expected to have a material impact on PacifiCorp's consolidated financial position or results of operations.

SFAS No. 123R and SAB No. 107

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* ("SFAS No. 123R"), a revision of the originally issued SFAS No. 123. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 107 ("SAB No. 107"), which provides additional guidance in applying the provisions of SFAS No. 123R. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements using the fair value method. The intrinsic value method of accounting established by APB No. 25 will no longer be allowed. SAB No. 107 describes the SEC Staff's guidance in determining the assumptions that underlie the fair value estimates and discusses the interaction of SFAS No. 123R with other existing SEC guidance.

In April 2005, the effective date of SFAS No. 123R was deferred until the beginning of the fiscal year that begins after June 15, 2005; however, early adoption is encouraged. A modified prospective application is required for new awards and to awards modified, repurchased or cancelled after the required effective date. The provisions of SAB No. 107 will be applied upon adoption of SFAS No. 123R.

The PacifiCorp Stock Incentive Plan (the "PSIP") expired November 29, 2001; therefore, no awards under the PSIP are expected to be newly issued, modified, repurchased or cancelled as of the effective date. As of the effective date, all requisite service under the PSIP will have been previously rendered; therefore, no compensation expense is expected to result from the adoption of this statement in relation to the PSIP.

Certain PacifiCorp employees receive awards under various ScottishPower share-based payment plans. Application to these awards of the fair value method required by SFAS No. 123R, as compared to the application of the intrinsic value method allowed under APB No. 25, is not expected to result in a material change to recorded compensation expense upon adoption of SFAS No. 123R.

FSP SFAS No. 109-1

In December 2004, the FASB issued FSP SFAS No. 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. This tax deduction will be treated as a "special deduction" as described in SFAS No. 109, Accounting for Income Taxes. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction could be claimed on a separate return basis in accordance with PacifiCorp's accounting policy. This statement became effective upon issuance. The impact of the deduction to PacifiCorp will depend on the application of forthcoming guidance from the Internal Revenue Service to PacifiCorp's future qualifying electric generation activities and cannot be estimated at this time.

FIN 47

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143* ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective at the end of the fiscal year ending after December 15, 2005. PacifiCorp is currently evaluating the impact of adopting FIN 47 on its consolidated financial position and results of operations.

Note 2 - Accounting for the Effects of Regulation

Regulated utilities have historically applied the provisions of SFAS No. 71, which is based on the premise that regulators will set rates that allow for the recovery of a utility's costs, including cost of capital. Accounting under SFAS No. 71 is appropriate as long as (i) rates are established by or subject to approval by independent, third-party regulators, (ii) rates are designed to recover the specific enterprise's cost of service, and (iii) in view of demand for service, it is reasonable to assume that rates are set at levels that will recover costs and can be collected from customers.

SFAS No. 71 provides that regulatory assets may be capitalized if it is probable that future revenue in an amount at least equal to the capitalized costs will result from the inclusion of that cost in allowable costs for ratemaking purposes. In addition, the rate action should permit recovery of the specific previously incurred costs rather than provide for expected levels of similar future costs. PacifiCorp records regulatory assets and liabilities based on management's assessment that it is probable that a cost will be recovered (asset) or that an obligation has been incurred (liability). The final outcome, or additional regulatory actions, could change management's assessment in future periods. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future, with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs, PacifiCorp recognizes amounts charged pursuant to such rates as liabilities and takes those amounts to income only when the associated costs are incurred. In applying SFAS No. 71, PacifiCorp must give consideration to changes in the level of demand or competition during the cost recovery period. In accordance with SFAS No. 71, PacifiCorp capitalizes certain costs as regulatory assets in accordance with regulatory authority whereby those costs will be expensed and recovered in future periods.

PacifiCorp continuously evaluates the appropriateness of applying SFAS No. 71 to each of its jurisdictions. At March 31, 2005, PacifiCorp had recorded specifically identified net regulatory assets of $336.8 million. In the event PacifiCorp stopped applying SFAS No. 71 at March 31, 2005, an after-tax loss of approximately $208.9 million would be recognized. While regulatory orders and market conditions may affect PacifiCorp's cash flows, its cash flows would not be affected if it stopped applying SFAS No. 71 unless a regulatory order limited its ability to recover the cost of a specific regulatory asset.

PacifiCorp is subject to the jurisdiction of public utility regulatory authorities of each of the states in which it conducts retail electric operations with respect to prices, services, accounting, issuance of securities and other matters. The jurisdictions in which PacifiCorp operates are in various stages of evaluating deregulation. At present, PacifiCorp is subject to cost-based ratemaking for its business. PacifiCorp is a "licensee" and a "public utility" as those terms are used in the Federal Power Act and is, therefore, subject to regulation by the Federal Energy Regulatory Commission (the "FERC") as to accounting policies and practices, certain prices and other matters.

Regulatory assets include the following:

(Millions of dollars)	March 31, 2005	March 31, 2004
Deferred income taxes	$ 499.9	$ 519.1
Minimum pension liability	280.7	226.2
Unamortized issuance expense on retired debt	34.6	40.6
Demand-side resource costs	25.5	40.1
Transition plan - retirement and severance	24.9	38.2
Various other costs	107.2	168.1
Subtotal	972.8	1,032.3
Derivative contracts (a)	170.0	422.2
Total	$ 1,142.8	$ 1,454.5

(a) Represents the fair market value of the current and non-current derivative contracts that are specifically recoverable through rates.

At March 31, 2005, PacifiCorp had $1,095.6 million of regulatory assets not accruing carrying charges. Of this amount, $170.0 million of regulatory assets for derivative contracts were offset by like amounts of derivative instrument contract liabilities. Additionally, $280.7 million relates to regulatory assets in respect of minimum pension liability offsets where interest cost is included as a component of rates. Finally, this amount includes a deferred income tax balance of $499.9 million, representing accelerated tax benefits previously flowed through to ratepayers, which will be included in rates concurrently with recognition of the associated tax expense.

Regulatory liabilities include the following:

(Millions of dollars)	March 31, 2005	March 31, 2004
Asset retirement removal costs (a)	$ 689.3	$ 670.6
Gain on sale of Centralia plant	15.8	43.7
Deferred income taxes	44.4	36.2
Various other costs	56.5	57.0
Total	$ 806.0	$ 807.5

(a) Represents removal costs recovered in rates that do not qualify as asset retirement obligations under SFAS No. 143.

PacifiCorp evaluates the recovery of all regulatory assets periodically and as events occur. The evaluation includes the probability of recovery as well as changes in the regulatory environment. Regulatory and/or legislative action in Utah, Oregon, Wyoming, Washington, Idaho and California may require PacifiCorp to record regulatory asset write-offs and charges for impairment of long-lived assets in future periods. Impairment would be measured in accordance with PacifiCorp's asset impairment policy, as discussed in Note 1.

Note 3 - Derivative Instruments

PacifiCorp's business is to serve its retail customers. PacifiCorp's business is exposed to risks relating to, but not limited to, changes in certain commodity prices, weather conditions and counterparty performance. PacifiCorp enters into derivative instruments, including electricity, natural gas, oil and coal forward, option and weather contracts, to manage its exposure to commodity price and volume risk and to ensure supply, thereby attempting to minimize variability in net power costs for customers. PacifiCorp has policies and procedures to manage the risks inherent in these activities and a risk management committee to monitor compliance with PacifiCorp's risk management policies and procedures.

The risk management process established by PacifiCorp is designed to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business and activities, to measure quantitative market risk exposure and to identify qualitative market risk exposure in its businesses. To assist in managing the volatility relating to these exposures, PacifiCorp enters into various transactions, including derivative transactions, consistent with PacifiCorp's risk management policy. The risk management policy governs energy transactions and is designed for hedging PacifiCorp's existing energy and asset exposures, and to a limited extent the policy permits arbitrage activities to take advantage of market inefficiencies. The policy also governs PacifiCorp's use of derivative instruments for commodity derivative transactions, as well as its energy purchase and sales practices, and describes PacifiCorp's credit policy and management information systems required to effectively monitor such derivative use. PacifiCorp's risk management policy provides for the use of only those instruments that have a similar volume or price relationship to its portfolio of assets, liabilities or anticipated transactions, thereby ensuring that such instruments will be primarily used for hedging. PacifiCorp's portfolio of energy derivatives is substantially used for non-trading purposes.

In April 2001, PacifiCorp adopted SFAS No. 133. Under SFAS No. 133, derivative instruments are recorded on the Consolidated Balance Sheets as assets or liabilities measured at estimated fair value, unless they qualify for the exemptions afforded by the standard.

In June 2002, PacifiCorp's SFAS No. 133 contract assessments were updated to reflect the revised Issue C15, *Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity* ("Issue C15"), guidance from the Derivatives Implementation Group ("DIG"), effective April 1, 2002. The revision to Issue C15 includes criteria to be considered for designation of a contract as a "capacity contract" and disallows the use of the exception for contracts that include a pricing element that is not clearly and closely related to the price of energy. The cumulative effect from adopting revised Issue C15 at April 1, 2002, was a $2.1 million loss (net of a tax benefit of $1.3 million) on the Consolidated Statement of Income for the year ended March 31, 2003. In addition, PacifiCorp deferred $0.7 million in gains at the adoption date as a regulatory liability for contracts qualifying for deferred accounting under SFAS No. 71.

In October 2001, the DIG issued guidance under Issue C16, *Applying the Normal Purchases and Normal Sales Exception to Contracts that Combine a Forward Contract and a Purchased Option Contract* ("Issue C16"). The guidance disallows normal purchases and normal sales treatment for commodity contracts (other than power contracts) that contain volumetric variability or optionality. Issue C16 was effective April 1, 2002. The cumulative effect of adopting Issue C16 at April 1, 2002, was a $0.2 million gain (net of tax of $0.2 million) on the Consolidated Statement of Income for the year ended March 31, 2003. For contracts qualifying for deferred accounting under SFAS No. 71, the effect of adopting Issue C16 was a $126.5 million loss. The applicable contracts pertain to the purchase and transport of natural gas. The costs of these contracts have been allowed in rates and the liability is, therefore, offset by a corresponding amount included in Derivative contract regulatory assets.

In June 2002, the EITF released Issue No. 02-3, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* ("EITF No. 02-3"). In accordance with the guidance, trading contracts that meet the definition of a derivative are accounted for at market value, and unrealized and realized gains and losses from all trading contracts, including those where physical delivery is required, are recorded net for all periods presented. PacifiCorp adopted EITF No. 02-3 in March 2003.

In April 2003, the FASB issued SFAS No. 149, which amended and clarified financial reporting for derivative instruments, including among other things the qualifications for the normal purchases and normal sales exception under SFAS No. 133. This statement was effective for contracts entered into or modified after June 30, 2003. Certain modifications and changes to the applicability of the normal purchases and normal sales scope exception for contracts led PacifiCorp to commence marking-to-market certain transactions that were entered into after June 30, 2003 that, prior to the implementation of SFAS No. 149, would have qualified for the normal purchases and normal sales exemption under SFAS No. 133.

In July 2003, the EITF issued *Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes* ("EITF No. 03-11"), which provides guidance on whether to report realized gains or losses on physically settled derivative contracts not held for trading purposes on a gross or net basis and requires realized gains or losses on derivative contracts that do not settle physically to be reported on a net basis. The adoption of EITF No. 03-11 during the year ended March 31, 2004, resulted in PacifiCorp netting certain contracts that were previously recorded on a gross basis in Wholesale sales and other revenues and Purchased electricity expense. The adoption of EITF No. 03-11 had no impact on PacifiCorp's consolidated Net income and all periods presented are consistent with the requirements of EITF 03-11.

As the FASB continues to issue interpretations, PacifiCorp may change the conclusions that it has reached and, as a result, the accounting treatment and financial statement impact could change in the future.

The accounting treatment for the various classifications of derivative financial instruments is as follows:

Normal purchases and normal sales - The contracts that qualify as normal purchases and normal sales are excluded from the requirements of SFAS No. 133. The realized gains and losses on these contracts are reflected in the Statements of Consolidated Income at the contract settlement date.

Undesignated - The realized and unrealized gains and losses relating to derivative contracts classified as trading and risk management activities are reflected in the Consolidated Statements of Income as Wholesale sales and other revenues. For the remaining undesignated contracts that are not classified as involving trading and risk management activities, unrealized gains and losses from sale and purchase contracts, along with the gross revenues or expenses upon realization, are reported in Wholesale sales and other revenues and Purchased electricity expense in the Consolidated Statements of Income.

PacifiCorp has the following types of commodity transactions:

Coal, natural gas and other fuel purchase contracts - PacifiCorp enters into long-term and short-term coal, natural gas and other purchase contracts to provide adequate fuel resources to its electricity generation facilities and its other fuel needs. These contracts generally have limited optionality and require PacifiCorp to take physical delivery of the commodity. These contracts are generally determined to be normal purchases and normal sales contracts under SFAS No. 133.

Weather derivatives - PacifiCorp has executed a contract to hedge changes in hydroelectric generation due to variation in streamflows. This contract is not exchange-traded, and settlement is based on climatic or other physical variables. Therefore, on a periodic basis, PacifiCorp estimates and records a gain or loss in earnings corresponding to the total expected future cash flow from this contract in accordance with EITF No. 99-2, *Accounting for Weather Derivatives*. The net asset (liability) recorded for this contract was $20.3 million at March 31, 2005, and $(5.3) million at March 31, 2004. PacifiCorp recognized a gain of $27.9 million for the year ended March 31, 2005, a gain of $0.4 million for the year ended March 31, 2004, and no gain or loss for the year ended March 31, 2003. The gain increased during the year ended March 31, 2005, due to the unusually dry weather conditions experienced during the current year.

Wholesale electricity purchase and sales contracts - PacifiCorp makes continuing projections of future retail and wholesale loads and future resource availability to meet these loads based on a number of criteria, including historical load and forward market and other economic information and experience. Based on these projections, PacifiCorp purchases and sells electricity on a forward yearly, quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements and sells any surplus at the prevailing market price. This process involves hedging transactions, which include the purchase and sale of firm energy under long-term contracts, forward physical contracts or financial contracts for the purchase and sale of a specified amount of energy at a specified price over a given period of time (typically for one month, three months or one year) and forward purchases and sales of transmission service.

PacifiCorp has entered into master netting agreements with significant trading counterparties. These agreements, which provide the right to offset unrealized gains and losses with the same counterparty across more than one commodity and/or allow for settlement of purchase and sale transactions with the same counterparty by a single payment, reduced PacifiCorp's credit exposure by approximately $95.3 million at March 31, 2005, and approximately $47.1 million at March 31, 2004. Amounts that qualify for offset or payment netting under master netting agreements are presented net on the Consolidated Financial Statements.

The following table shows the changes in the fair value of energy-related contracts subject to the requirements of SFAS No. 133, as amended, from April 1, 2004, to March 31, 2005, and quantifies the reasons for the changes.

(Millions of dollars)	Net Asset (Liability) Trading	Net Asset (Liability) Non-trading	Regulatory Net Asset (Liability) (c)
Fair value of contracts outstanding at March 31, 2004	$ (0.5)	$ (414.3)	$ 422.2
Contracts realized or otherwise settled during the period	0.3	(39.2)	42.6
Changes in fair values attributable to changes in valuation techniques and assumptions (a)	—	(27.2)	27.2
Other changes in fair values (b)	0.4	326.3	(322.0)
Fair value of contracts outstanding at March 31, 2005	$ 0.2	$ (154.4)	$ 170.0

(a) Effective September 30, 2004, PacifiCorp changed to a U.S. London Interbank Offered Rate (LIBOR) from the U.S. Treasury rate for discounting the portfolio. This change had the effect of increasing the fair value of non-trading contracts by $25.5 million, offset by a decrease in regulatory net assets by the same amount.

Effective March 31, 2005, PacifiCorp adjusted its estimate of the period covered by market quotes from three years to six years due to the increased availability of verifiable market quotations. This change had the effect of decreasing the fair value of non-trading contracts by $52.7 million, offset by an increase in regulatory net assets by the same amount.

(b) Other changes in fair values include the effects of changes in market prices, inflation rates and interest rates, including those based on models, on new and existing contracts for the year ended March 31, 2005.

(c) Contracts that have received commission approval for regulatory recovery are included as a Regulatory Net Asset (Liability).

Short-term contracts, without explicit or embedded optionality, are valued based upon the relevant portion of the forward price curve. Contracts with explicit or embedded optionality are valued by separating each contract into its physical and financial forward, swap and option components. Forward and swap components are valued against the appropriate forward price curve. The optionality is valued using a modified Black-Scholes model approach or a stochastic simulation (Monte Carlo) approach. Each option component is modeled and valued separately using the appropriate forward price curve.

PacifiCorp bases its forward price curves upon market price quotations when available and bases them on internally developed and commercial models, with internal and external fundamental data inputs, when market quotations are unavailable. Market quotes are obtained from independent energy brokers, as well as direct information received from third-party offers and actual transactions executed by PacifiCorp. As noted above, price quotations for certain major electricity trading hubs are generally readily obtainable for the first six years and therefore PacifiCorp's forward price curves for those locations and periods reflect observable market quotes. However, in the later years or for locations that are not actively traded, forward price curves must be developed. For short-term contracts at less actively traded locations, prices are modeled based on observed historical price relationships with actively traded locations. For long-term contracts extending beyond six years, the forward price curve (beyond the first six years) is based upon the use of a fundamentals model (cost-to-build approach) due to the limited information available. The fundamentals model is updated as warranted, at least quarterly, to reflect changes in the market such as long-term natural gas prices and expected inflation rates.

Standardized derivative contracts that are valued using market quotations, as described above, are classified in the table below as "values based on quoted market prices from third-party sources." All remaining contracts, which include non-standard contracts and contracts for which market prices are not routinely quoted, are classified as "values based on models and other valuation methods."

(Millions of dollars)	Fair Value of Contracts at Period-End: Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Trading:					
Values based on quoted market prices from third-party sources	$ 0.2	$ —	$ —	$ —	$ 0.2
Values based on models and other valuation methods	—	—	—	—	—
Total trading	$ 0.2	$ —	$ —	$ —	$ 0.2
Non-trading:					
Values based on quoted market prices from third-party sources	$ (213.0)	$ (262.5)	$ (38.9)	$ (16.8)	$ (531.2)
Values based on models and other valuation methods	328.8	379.3	(7.3)	(324.0)	376.8
Total non-trading	$ 115.8	$ 116.8	$ (46.2)	$ (340.8)	$ (154.4)

Note 4 – Related-Party Transactions

There are no loans or advances between PacifiCorp and ScottishPower or between PacifiCorp and PHI. Loans from PacifiCorp to ScottishPower or PHI are prohibited under the Public Utility Holding Company Act of 1935 ("PUHCA"). Loans from ScottishPower or PHI to PacifiCorp generally require state regulatory and SEC approval. There are intercompany loan agreements that allow funds to be lent to PacifiCorp from PacifiCorp Group Holdings Company ("PGHC"), but loans from PacifiCorp to PGHC are prohibited. There are intercompany loan agreements that allow funds to be lent between PacifiCorp and Pacific Minerals, Inc., a wholly owned subsidiary of PacifiCorp. PacifiCorp does not maintain a centralized cash or money pool. Therefore, funds of each company are not commingled with funds of any other company. Other affiliate transactions that PacifiCorp enters into are subject to certain approval and reporting requirements of the regulatory authorities.

The tables below detail PacifiCorp's transactions and balances with unconsolidated related parties.

(Millions of dollars)	March 31, 2005	March 31, 2004
Amounts due from affiliated entities:		
SPUK (a)	$ 0.3	$ 0.2
PHI and its subsidiaries (b)	36.2	2.2
	$ 36.5	$ 2.4
Prepayments to affiliated entities:		
PHI and its subsidiaries (c)	$ 1.5	$ 1.5
Amounts due to affiliated entities:		
SPUK (d)	$ 3.9	$ 2.6
Deposits received from affiliated entities:		
PHI and its subsidiaries (e)	$ 0.3	$ 0.6

(Millions of dollars)	Years Ended March 31, 2005	2004	2003
Revenues from affiliated entities:			
PHI and its subsidiaries (e)	$ 5.9	$ 4.4	$ 4.4
Expenses incurred from affiliated entities:			
SPUK (d)	$ 18.3	$ 7.8	$ 10.0
PHI and its subsidiaries (c)	17.3	17.0	13.0
	$ 35.6	$ 24.8	$ 23.0
Expenses recharged to affiliated entities:			
SPUK (a)	$ 3.0	$ 0.7	$ 0.5
PHI and its subsidiaries (b)	9.4	8.0	7.1
	$ 12.4	$ 8.7	$ 7.6
Interest expense to affiliated entities:			
PHI and its subsidiaries (f)	$ 0.1	$ 0.2	$ 0.1

(a) For the year ended March 31, 2005, expenses and liabilities primarily represent amounts allocated to Scottish Power UK ("SPUK") by PacifiCorp for services provided under the cross-charge policy described below. PacifiCorp also recharged to SPUK payroll costs and related benefits of PacifiCorp employees working on international assignment in the United Kingdom during the years ended March 31, 2005, 2004 and 2003.

(b) Amounts shown pertain to activities of PacifiCorp with PHI and its subsidiaries. Expenses recharged reflect costs for support services to PHI and its subsidiaries and include the portion of taxes currently receivable from PHI of $33.8 million at March 31, 2005, and $0.1 million at March 31, 2004, which are applied to PacifiCorp's tax liability in the first quarter of the following fiscal year. PHI is the tax-paying entity for PacifiCorp.

(c) These expenses primarily relate to operating lease payments for the West Valley facility, located in Utah and owned by West Valley Leasing Company, LLC ("West Valley"), which was operational only during part of the year ended March 31, 2003. West Valley is a subsidiary of PPM Energy, Inc. ("PPM"), which is a direct subsidiary of PHI. Certain costs associated with the West Valley lease are prepaid on an annual basis.

(d) For the year ended March 31, 2005, expenses and liabilities primarily represent amounts allocated to PacifiCorp for services received under the cross-charge policy described below. SPUK also recharged PacifiCorp for payroll costs and related benefits of SPUK employees working on international assignment in the United States for the years ended March 31, 2005, 2004 and 2003.

(e) These revenues and the associated deposit relate to wheeling services billed to PPM. PacifiCorp provides these services to PPM pursuant to PacifiCorp's FERC-approved open access transmission tariff, which requires PacifiCorp to make transmission services available on a non-discriminatory basis to all interested parties.

(f) Includes interest on short-term demand loans made to PacifiCorp by PGHC, in accordance with regulatory authorization.

In May 2002, PacifiCorp entered into a 15-year operating lease on an electric generation facility with West Valley. The facility consists of five generation units each rated at 40 megawatts ("MW") and is located in Utah. The lease terms granted PacifiCorp two independent early termination options that provide PacifiCorp the right to terminate the lease and, at PacifiCorp's further option, to purchase the facility for predetermined amounts. On May 28, 2004, PacifiCorp exercised its first option to terminate the West Valley lease. PacifiCorp subsequently exercised its right to rescind the termination on September 28, 2004, after determining, through a public request for proposals process, that the resource could not be replaced on a more economic basis and without increasing risks to system reliability. PacifiCorp has a second option to terminate the West Valley lease if written notice is provided to West Valley on or before December 1, 2006. Until the second option to terminate, PacifiCorp is committed to future minimum lease payments of $15.0 million annually for the years ending March 31, 2006 through 2008, and $2.5 million for the year ending March 31, 2009.

Commencing on April 1, 2004, PacifiCorp and SPUK implemented a cross-charge policy governing the allocation of costs incurred by PacifiCorp and SPUK, on behalf of each other. This policy, approved by the SEC in its administration of the PUHCA, permits PacifiCorp to receive certain administrative services, priced at cost, from SPUK. These include shareholder services, investor relations, management and human resource services. PacifiCorp also provides administrative services to SPUK and other ScottishPower affiliates under the cross-charge policy. Cross-charges from SPUK to PacifiCorp amounted to $14.9 million for the year ended March 31, 2005, and were recorded in Operations and maintenance expense.

Note 5 – Marketable Securities

PacifiCorp, by contract with Idaho Power, maintains a trust relating to final reclamation of a leased coal mining property. Amounts funded are based on estimated future reclamation costs and estimated future coal deliveries. In the years ended March 31, 2005, 2004 and 2003, PacifiCorp reviewed funding requirements based on estimated future gains and interest earnings on trust assets and the projected future reclamation liability. PacifiCorp, under contract, reviews funding on a periodic basis.

The amortized cost and fair value of reclamation trust securities and other investments included in Deferred charges and other assets on PacifiCorp's Consolidated Balance Sheets, which are classified as available-for-sale, were as follows:

Available-for-sale securities

(Millions of dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2005				
Money market account	$ 2.7	$ —	$ —	$ 2.7
Mutual fund account	27.0	—	(1.0)	26.0
Debt securities	25.6	0.4	(0.4)	25.6
Equity securities	60.6	13.2	(1.2)	72.6
Total	$ 115.9	$ 13.6	$ (2.6)	$ 126.9
March 31, 2004				
Money market account	$ 3.3	$ —	$ —	$ 3.3
Mutual fund account	26.1	—	(0.3)	25.8
Debt securities	22.9	0.9	—	23.8
Equity securities	56.7	12.0	(1.3)	67.4
Total	$ 109.0	$ 12.9	$ (1.6)	$ 120.3

The quoted market price of securities is used to estimate their fair value.

The amortized cost and estimated fair value of debt securities at March 31, 2005 and 2004, by contractual maturities and of equity securities for the same dates are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31,			
	2005		2004	
(Millions of dollars)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Due in one year or less	$ 0.7	$ 0.7	$ —	$ —
Due after one year through five years	5.6	5.6	4.3	4.5
Due after five years through ten years	9.8	9.9	11.1	11.6
Due after ten years	9.5	9.4	7.5	7.7
Money market account	2.7	2.7	3.3	3.3
Mutual fund account	27.0	26.0	26.1	25.8
Equity securities	60.6	72.6	56.7	67.4
Total	$ 115.9	$ 126.9	$ 109.0	$ 120.3

Proceeds, gross gains and gross losses from realized sales of available-for-sale securities using the specific identification method were as follows for the years ended March 31, 2005, 2004 and 2003:

	Years Ended March 31,		
(Millions of dollars)	2005	2004	2003
Proceeds	$ 49.1	$ 95.8	$ 132.9
Gross gains	$ 6.3	$ 6.5	$ 2.6
Gross losses	(2.2)	(3.4)	(8.7)
Net gains (losses)	$ 4.1	$ 3.1	$ (6.1)

Note 6 – Asset Retirement Obligations and Accrued Environmental Costs

Asset Retirement Obligations - PacifiCorp records asset retirement obligations for long-lived physical assets that qualify as legal obligations under SFAS No. 143. PacifiCorp estimates its asset retirement obligation liabilities based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at a credit-adjusted, risk-free rate. PacifiCorp then records an asset retirement obligation asset associated with the liability. The asset retirement obligations asset is depreciated over its expected life and the asset retirement obligations liability is accreted to the projected spending date. Changes in estimates could occur due to plan revisions, changes in estimated costs and changes in timing of the performance of reclamation activities. In addition, PacifiCorp records removal costs as a part of depreciation expense in accordance with regulatory accounting requirements described in Note 2. Since asset retirement costs are recovered through the ratemaking process, PacifiCorp records a Regulatory asset or Regulatory liability on the Consolidated Balance Sheets to account for the difference between asset retirement costs as currently approved in rates and costs under SFAS No. 143.

Upon adoption of SFAS No. 143 at April 1, 2003, PacifiCorp recorded an asset retirement obligation liability at its net present value of $196.4 million. PacifiCorp also increased net depreciable assets by $37.6 million, removed $146.8 million of costs accrued for retirement from decommissioning liabilities and reclamation liabilities, decreased regulatory liabilities by $7.7 million and increased

regulatory assets by $2.8 million for the difference between retirement costs approved by regulators and obligations under SFAS No. 143, and recorded a cumulative pretax effect of a change in accounting principle of $1.5 million, which is reflected in PacifiCorp's Consolidated Statements of Income for the year ended March 31, 2004.

The following table describes the changes to PacifiCorp's asset retirement obligation liability for the years ended March 31, 2005 and 2004:

(Millions of dollars)	March 31, 2005	March 31, 2004
Liability recognized at beginning of period	$ 193.5	$ 196.4
Liabilities incurred	1.4	4.9
Liabilities settled (a)	(13.0)	(14.5)
Revisions in cash flow (b)	8.9	(1.5)
Accretion expense	8.8	8.2
Asset retirement obligation	199.6	193.5
Less amount in Current liabilities - other	17.8	13.7
Long-term asset retirement obligation at end of period (c)	$ 181.8	$ 179.8

(a) Relates primarily to ongoing reclamation work at the Glenrock coal mine.

(b) Results from changes in the timing and amounts of estimated cash flows for certain plant reclamation.

(c) Amount included in Deferred credits – other.

PacifiCorp had trust fund assets recorded at fair value included in Deferred charges and other of $92.4 million at March 31, 2005, and $87.4 million at March 31, 2004, relating to mine and plant reclamation, including the minority interest joint owner portions.

Accrued Environmental Costs – PacifiCorp's policy is to accrue environmental cleanup-related costs of a non-capital nature when those costs are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on assessments of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. PacifiCorp hires external consultants from time to time to conduct studies in order to establish reserves for various site environmental remediation costs. PacifiCorp is subject to cost-sharing agreements with other potentially responsible parties based on decrees, orders and other legal agreements. In these circumstances, PacifiCorp assesses the financial capability of other potentially responsible parties and the reasonableness of PacifiCorp's apportionment. These agreements may affect the range of potential loss. Additionally, PacifiCorp may benefit from excess insurance policies that may cover some of the cleanup costs if costs incurred exceed certain amounts.

PacifiCorp assesses its potential obligations to perform environmental remediation on an ongoing basis. As a result of studies performed during the year ended March 31, 2005, PacifiCorp adjusted its reserve by $2.0 million to reflect its most likely estimate for probable liabilities. Remediation costs that are fixed and determinable have been discounted to their present value using credit-adjusted, risk-free discount rates based on the expected future annual borrowing rates of PacifiCorp. The liability recorded was $33.3 million at March 31, 2005, and $37.9 million at March 31, 2004, and is included as part of Deferred credits - other. The March 31, 2005 recorded liability included $23.2 million of discounted liabilities. Had none of the liabilities included in the $33.3 million balance recorded at March 31, 2005 been discounted, the total would have been $35.6 million. The expected payments for each of the five succeeding fiscal years and thereafter are as follows: $6.8 in 2006, $4.3 in 2007, $4.3 in 2008, $1.4 in 2009, $1.2 in 2010 and $15.3 thereafter.

PacifiCorp expects to spend a considerable portion of the environmental reserves over the next six years. It is possible that future findings or changes in estimates could require that additional amounts be accrued. Should current circumstances change, it is possible that PacifiCorp could incur an additional undiscounted obligation of up to approximately $77.3 million relating to existing sites. However, management believes that completion or resolution of these matters will have no material adverse effect on PacifiCorp's consolidated financial position or results of operations.

Note 7 - Notes Payable and Commercial Paper

PacifiCorp's short-term debt and borrowing arrangements were as follows:

(Millions of dollars)	Balance	Average Interest Rate
March 31, 2005	$ 468.8	2.9%
March 31, 2004	$ 124.9	1.1%

In addition to the above, at March 31, 2005, PacifiCorp had an $800.0 million committed bank revolving credit agreement, which was fully available and which had no borrowings outstanding. This facility, which has a three-year term, became effective in May 2004 and was used to replace an expiring $500.0 million facility and a $300.0 million facility that was terminated by PacifiCorp prior to its maturity. The interest on advances under this facility is based on the London Interbank Offered Rate (LIBOR) plus a margin that varies based on PacifiCorp's credit ratings.

Note 8 - Long-Term Debt and Capital Lease Obligations

PacifiCorp's long-term debt and capital lease obligations were as follows:

	March 31,			
	2005		2004	
(Millions of dollars)	Amount	Average Interest Rate	Amount	Average Interest Rate
First mortgage bonds				
4.3% to 8.8%, due through 2010	$ 1,156.8	6.1%	$ 1,392.9	6.3%
5.0% to 9.2%, due 2011 to 2015	1,047.8	6.5	847.8	6.9
8.3% to 8.6%, due 2016 to 2020	12.2	8.5	12.1	8.5
6.7% to 8.6%, due 2021 to 2025	324.0	7.7	344.0	7.7
6.7% due 2026	100.0	6.7	100.0	6.7
5.9 % to 7.7%, due 2031 to 2035	500.0	7.0	300.0	7.7
Unamortized premium (discount)	(4.3)		(3.7)	
Guaranty of pollution-control revenue bonds				
Variable rates, due 2006 to 2007 (a)	—	—	38.1	2.9
Variable rates, due 2014 to 2026 (a)	325.2	2.2	287.1	1.5
Variable rate, due 2014 (a) (b)	40.7	2.3	40.7	1.1
3.4% to 5.7%, due 2015 to 2026 (b)	184.0	4.5	184.0	4.5
Variable rates, due 2025 (a) (b)	175.8	2.3	175.8	1.1
6.2%, due 2031	12.7	6.2	12.7	6.2
Unamortized premium (discount)	(0.5)		(0.6)	
Funds held by trustees	(2.1)		(2.1)	
Note obligations of subsidiaries				
8.6%, due 2005	—	—	3.8	8.6
Capitalized lease obligations				
10.4% to 14.8%, due through 2022	26.6	11.9	27.6	11.9
Total	3,898.9		3,760.2	
Less current maturities	(269.9)		(240.0)	

Total	$ 3,629.0	$ 3,520.2

(a) Interest rates fluctuate based on various rates, primarily on certificate of deposit rates, interbank borrowing rates, prime rates or other short-term market rates.

(b) Secured by pledged first mortgage bonds generally at the same interest rates, maturity dates and redemption provisions as the pollution-control revenue bonds.

First mortgage bonds of PacifiCorp may be issued in amounts limited by PacifiCorp's property, earnings and other provisions of the mortgage indenture. Approximately $13.1 billion of the eligible assets (based on original cost) of PacifiCorp are subject to the lien of the mortgage. PacifiCorp has an effective shelf registration statement with the SEC for up to $250.0 million of certain securities including long-term debt.

Approximately $2.1 billion of first mortgage bonds were redeemable at PacifiCorp's option at March 31, 2005, at redemption prices dependent upon United States Treasury yields. Approximately $541.7 million of variable-rate pollution-control revenue bonds were redeemable at PacifiCorp's option at par at March 31, 2005. Approximately $71.2 million of fixed-rate pollution-control revenue bonds were redeemable at PacifiCorp's option at 101.0% of par at March 31, 2005. The remaining long-term debt was not redeemable at March 31, 2005.

During March 2005, the maturity dates were extended to December 1, 2020, for three series of variable-rate pollution-control revenue bonds totaling $38.1 million.

During December 2004, PacifiCorp redeemed, prior to maturity, all of the 8.625% First Mortgage Bonds due in December 2024, which totaled $20.0 million. Upon redemption, $1.3 million of deferred charges were reclassified to a regulatory asset. This retirement was initially funded through short-term debt with the expectation that it will be funded through long-term financing in the next 12 months, subject to regulatory authorization.

On August 24, 2004, PacifiCorp issued $200.0 million of its 4.95% Series of First Mortgage Bonds due August 15, 2014, and $200.0 million of its 5.90% Series of First Mortgage Bonds due August 15, 2034. PacifiCorp used the proceeds for general corporate purposes, including the reduction of short-term debt.

PacifiCorp leases real estate in various states in which it does business under long-term agreements, extending through fiscal 2022, which are classified as capital leases. These capital leases are payable in monthly installments allocated between principal and interest at discount rates ranging from 10.4% to 14.8%.

The annual maturities of long-term debt and capitalized lease obligations for the years ending March 31 are:

(Millions of dollars)	Long-term Debt	Capital Lease Obligations	Total
2006	$ 269.7	$ 3.3	$ 273.0
2007	216.1	3.5	219.6
2008	119.8	3.5	123.3
2009	412.0	3.5	415.5
2010	138.3	3.8	142.1
Thereafter	2,723.3	43.1	2,766.4
	3,879.2	60.7	3,939.9
Unamortized premium (discount)	(4.8)	—	(4.8)
Funds held by trustee	(2.1)	—	(2.1)
Amounts representing interest	—	(34.1)	(34.1)
	$ 3,872.3	$ 26.6	$3,898.9

PacifiCorp made interest payments, net of capitalized interest, of $220.4 million for the year ended March 31, 2005; $236.7 million for the year ended March 31, 2004; and $287.9 million for the year ended March 31, 2003.

At March 31, 2005, PacifiCorp had $517.8 million of standby letters of credit and standby bond purchase agreements available to provide credit enhancement and liquidity support for variable-rate pollution-control revenue bond obligations. In addition, PacifiCorp had approximately $29.0 million of standby letters of credit to provide credit support for certain transactions as requested by third-parties. These committed bank arrangements were all fully available as of March 31, 2005 and expire periodically through the year ending March 31, 2010.

PacifiCorp's revolving credit agreement contains customary covenants and default provisions, including a covenant not to exceed a specified debt-to-capitalization ratio of 60.0%. PacifiCorp monitors these covenants on a regular basis in order to ensure that events of default will not occur. As of March 31, 2005, PacifiCorp was in compliance with the covenants of its revolving credit agreement.

Note 9 – Preferred Stock Subject to Mandatory Redemption

PacifiCorp's Preferred stock subject to mandatory redemption was as follows:

(Thousands of shares, millions of dollars)	March 31, 2005		March 31, 2004	
Series	Shares	Amount	Shares	Amount
Preferred stock subject to mandatory redemption $7.48 No Par Serial Preferred, $100 stated value, 16,000 shares authorized	525	$ 52.5	600	$ 60.0

PacifiCorp has mandatory redemption requirements on 37,500 shares of the $7.48 series Preferred stock on each June 15th through 2006, with a non-cumulative option to redeem an additional 37,500 shares on each June 15th through 2006, in each case at $100 per share, plus accrued and unpaid dividends to the date of such redemption. All outstanding shares on June 15, 2007, are subject to mandatory redemption. Holders of Preferred stock subject to mandatory redemption are entitled to certain voting rights. PacifiCorp redeemed $7.5 million of Preferred stock subject to mandatory and optional redemption during each of the years ended March 31, 2005, 2004 and 2003.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement affects the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities. Most of this statement was effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 30, 2003. PacifiCorp reclassified 600,000 shares, $100 stated value, of the $7.48 series Preferred stock subject to mandatory redemption of $3.7 million to short-term liabilities and $56.3 million to long-term liabilities on PacifiCorp's Consolidated Balance Sheet at March 31, 2004. Associated dividends declared for the nine months ended March 31, 2004, of $3.4 million were recorded as interest expense.

PacifiCorp had $1.0 million at March 31, 2005, and $1.1 million at March 31, 2004, in dividends declared but unpaid on Preferred stock subject to mandatory redemption.

Note 10 - Commitments and Contingencies

PacifiCorp follows SFAS No. 5, *Accounting for Contingencies* ("SFAS No. 5"), to determine accounting and disclosure requirements for contingencies. PacifiCorp operates in a highly regulated environment. Governmental bodies such as the FERC, state regulatory commissions, the SEC, the Internal Revenue Service, the Department of Labor, the United States Environmental Protection Agency (the "EPA") and others have authority over various aspects of PacifiCorp's business operations and public reporting. Reserves are established when required in management's judgment, and disclosures regarding litigation, assessments and creditworthiness of customers or counterparties, among others, are made when appropriate. The evaluation of these contingencies is performed by various specialists inside and outside of PacifiCorp.

Litigation - In May 2004, PacifiCorp was served with a complaint filed in the United States District Court for the District of Oregon by the Klamath Tribes of Oregon, individual Klamath Tribal members and the Klamath Claims Committee. The complaint generally alleges that PacifiCorp and its predecessors affected the Klamath Tribes' federal treaty rights to fish for salmon in the headwaters of the Klamath River in southern Oregon by building dams that blocked the passage of salmon upstream to the headwaters beginning in 1911. In September 2004, the Klamath Tribes filed their first amended complaint adding claims of damage to their treaty rights to fish for sucker and

steelhead in the headwaters of the Klamath River. The complaint seeks in excess of $1.0 billion in compensatory and punitive damages. In February 2005, PacifiCorp filed a motion for summary judgment seeking dismissal of the Klamath Tribes' claims as untimely under the applicable statute of limitations. In April 2005, the magistrate judge issued an opinion recommending that PacifiCorp's motion for summary judgment be granted and the case be dismissed as untimely. In May 2005, the Klamath Tribes filed objections to the recommendation and PacifiCorp filed its response to the Klamath Tribes' objections. Any final order will be subject to appeal. PacifiCorp believes the outcome of this proceeding will not have a material impact on its consolidated financial position, results of operations or liquidity.

From time to time, PacifiCorp is also a party to various other legal actions, complaints and disputes, certain of which involve material amounts. PacifiCorp has recorded $12.6 million in reserves related to various outstanding legal actions and disputes, excluding those discussed below. This amount represents PacifiCorp's best estimate of probable losses related to these matters. PacifiCorp currently believes that disposition of these matters will not have a material adverse effect on PacifiCorp's consolidated financial position, results of operations or liquidity.

Environmental Issues - PacifiCorp is subject to numerous environmental laws, including the federal Clean Air Act and various state air quality laws; the Endangered Species Act, particularly as it relates to certain endangered species of fish; the Comprehensive Environmental Response, Compensation and Liability Act, and similar state laws relating to environmental cleanups; the Resource Conservation and Recovery Act and similar state laws relating to the storage and handling of hazardous materials; and the Clean Water Act, and similar state laws relating to water quality. These laws could potentially impact future operations. Contingencies identified at March 31, 2005, principally consist of air quality matters. Pending or proposed air regulations will require PacifiCorp to reduce its electricity plant emissions of sulfur dioxide, nitrogen oxides and other pollutants below current levels. These reductions will be required to address regional haze programs, mercury emissions regulations and possible re-interpretations and changes to the federal Clean Air Act. Also, similar to many other coal-burning utilities, PacifiCorp has received information requests from the EPA related to PacifiCorp's compliance with the New Source Review provisions of the Clean Air Act, which has resulted in some discussions with the EPA and state regulatory authorities. In the future, PacifiCorp may incur significant costs to comply with various stricter air emissions requirements. These potential costs are expected to consist primarily of capital expenditures. PacifiCorp expects these costs would be included in rates and, as such, would not have a material adverse impact on PacifiCorp's consolidated results of operations. See also Note 6.

Hydroelectric relicensing - PacifiCorp's hydroelectric portfolio consists of 51 plants with an aggregate plant net capability of 1,155.4 MW. The FERC regulates 99.0% of the installed capacity through 18 individual licenses. Several of PacifiCorp's hydroelectric projects are in some stage of relicensing under the Federal Power Act. Hydroelectric relicensing and the related environmental compliance requirements are subject to uncertainties. PacifiCorp expects that future costs relating to these matters may be significant and consist primarily of additional relicensing costs, operations and maintenance expense, and capital expenditures. Electricity generation reductions may result from the additional environmental requirements. PacifiCorp has accumulated approximately $60.0 million in costs as of March 31, 2005, for ongoing hydroelectric relicensing that are reflected in assets on the Consolidated Balance Sheet. PacifiCorp expects that these and future costs will be included in rates and, as such, will not have a material adverse impact on PacifiCorp's consolidated results of operations.

In May 2004, PacifiCorp accepted the new license for the Bear River hydroelectric project. PacifiCorp is committed, over the 30-year life of the license, to fund approximately $25.9 million for environmental mitigation and enhancement projects. The present value of the portion of these obligations for which PacifiCorp is currently committed, net of costs incurred to date of $0.1 million, was $12.5 million at March 31, 2005.

The new FERC license for the North Umpqua hydroelectric project is effective but not final. When the license for this project becomes final, PacifiCorp will be committed, over the 35-year life of the license, to fund approximately $48.9 million for environmental mitigation and enhancement projects. The present value of the portion of these obligations for which PacifiCorp is currently committed, net of costs incurred to date of $0.3 million, was $13.1 million at March 31, 2005. Additional liabilities amounting to $21.2 million, undiscounted, will be recognized when the license becomes final.

Enron Corp. Reserves - In December 2001, Enron Corp. declared bankruptcy and defaulted on certain wholesale contracts. PacifiCorp had fully reserved for its $8.0 million Enron Corp. receivable. PacifiCorp sold its bankruptcy claim to a third party during the fourth quarter of fiscal 2005 for proceeds of $1.7 million.

FERC Issues

California Refund Case - PacifiCorp is a party to a FERC proceeding that is investigating potential refunds for energy transactions in the California Independent System Operator and the California Power Exchange markets during past periods of high energy prices. PacifiCorp has a reserve of $17.7 million for these potential refunds. PacifiCorp's ultimate exposure to refunds is dependent upon any final order issued by the FERC in this proceeding. In addition, beginning in summer 2000, California market conditions resulted in defaults of amounts due to PacifiCorp from certain counterparties resulting from transactions with the California Independent System Operator and California Power Exchange. PacifiCorp has reserved $5.0 million for these receivables.

Northwest Refund Case - In June 2003, the FERC terminated its proceeding relating to the possibility of requiring refunds for wholesale spot-market bilateral sales in the Pacific Northwest between December 2000 and June 2001. The FERC concluded that ordering refunds would not be an appropriate resolution of the matter. In November 2003, the FERC issued its final order denying rehearing. Several market participants have filed petitions in the court of appeals for review of the FERC's final order. Court briefs from interested parties were filed between January 14, 2005 and April 15, 2005. A decision from the court of appeals is not expected to have a significant impact on PacifiCorp's consolidated financial position or results of operations.

Federal Power Act Section 206 Case - In June 2003, the FERC issued a final order denying PacifiCorp's request for recovery of excessive prices charged under certain wholesale electricity purchases scheduled for delivery during summer 2002 and dismissing PacifiCorp's complaints, under section 206 of the Federal Power Act, against five wholesale electricity suppliers. In July 2003, PacifiCorp filed its request for rehearing of the FERC's order, which request was granted in August 2003. The FERC issued its final order denying rehearing in November 2003. Also in November 2003, PacifiCorp filed a petition in the Ninth Circuit Court of Appeals for review of the FERC's final order denying recovery. Court briefs from interested parties were filed by March 2005. Oral argument has been scheduled for July 2005.

FERC Show-Cause Orders - In May 2002, PacifiCorp, together with other California electricity market participants, responded to data requests from the FERC regarding trading practices connected with the electricity crisis during 2000 and 2001. PacifiCorp confirmed that it did not engage in any trading practices intended to manipulate the market as described in the FERC's data requests issued in May 2002. In June 2003, the FERC ordered 60 companies (including PacifiCorp) to show cause why their behavior during the California energy crisis did not constitute manipulation of the wholesale electricity market, as defined in the California Independent System Operator and the California Power Exchange tariffs. In setting the cases for hearing, the FERC directed the administrative law judge to hear evidence and render findings and conclusions quantifying the extent of any unjust enrichment that resulted and to recommend monetary or other appropriate remedies. In August 2003, PacifiCorp and the FERC staff reached a resolution on the show-cause order. Under the terms of the settlement agreement, PacifiCorp denied liability and agreed to pay a nominal amount of $67,745 in exchange for complete and total resolution of the issues raised in the FERC's show-cause order relating to PacifiCorp. In March 2004, the FERC issued its final order approving the settlement and terminating the docket. In April 2004, certain market participants filed requests for rehearing of the FERC's final order. A decision from the FERC on the rehearing requests is pending.

FERC Market Power Analysis - Pursuant to the FERC's orders granting PacifiCorp authority to sell capacity and energy at market-based rates, PacifiCorp and certain of its affiliates are required to submit a joint market power analysis every three years. Under the FERC's current policy, applicants must demonstrate that they do not possess market power in order to charge market-based rates for sales of wholesale energy and capacity. An analysis demonstrating an applicant's passage of certain threshold screens for assessing generation market power establishes a rebuttable presumption that the applicant does not possess generation market power, while failure to pass any screen creates a rebuttable presumption that the applicant has generation market power. In February 2005, PacifiCorp submitted a joint triennial market power analysis in compliance with the FERC's requirements. The analysis indicated that PacifiCorp failed to pass one of the generation market power screens in PacifiCorp's eastern control area and in Idaho Power Company's control area. On May 9, 2005, the FERC issued an order instituting a proceeding pursuant to section 206 of the Federal Power Act to determine whether PacifiCorp may continue to charge market-based rates for sales of wholesale energy and capacity. Under the terms of the order, PacifiCorp and its affiliated co-applicants are required to submit additional information and analysis to the FERC within 60 days to rebut the presumption that PacifiCorp has generation market power. PacifiCorp is in the process of responding to the FERC's May 9, 2005 order. If the FERC ultimately finds that PacifiCorp has market power, PacifiCorp will be required to implement measures to mitigate any exercise of market power.

Note 11 – Guarantees and Other Commitments

Guarantees

PacifiCorp is generally required to obtain state regulatory commission approval prior to guaranteeing debt or obligations of other parties. In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 requires disclosure of certain direct and indirect guarantees. Also, FIN 45 requires recognition of a liability at inception for certain new or modified guarantees issued after December 31, 2002. The adoption of FIN 45 in January 2003 did not have a material impact on the Consolidated Financial Statements.

The following represent the indemnification obligations of PacifiCorp as of March 31, 2005 and 2004.

PacifiCorp has made certain commitments related to the decommissioning or reclamation of certain jointly owned facilities and mine sites. The decommissioning guarantees require PacifiCorp to pay a proportionate share of the decommissioning costs based upon percentage of ownership. The mine reclamation obligations require PacifiCorp to pay the mining entity a proportionate share of the mine's reclamation costs based on the amount of coal purchased by PacifiCorp. In the event of default by any of the other joint participants, PacifiCorp may potentially be obligated to absorb, directly or by paying additional sums to the entity, a proportionate share of the defaulting party's liability. PacifiCorp has recorded its estimated share of the decommissioning and reclamation obligations as either an asset retirement obligation, regulatory liability or other liability.

In connection with the sale of PacifiCorp's Montana service territory, PacifiCorp entered into a purchase and sale agreement with Flathead Electric Cooperative dated October 9, 1998. Under the agreement, PacifiCorp indemnified Flathead Electric Cooperative for losses, if any, occurring after the closing date and arising as a result of certain breaches of warranty or covenants. The indemnification has a cap of $10.1 million until October 2008 and a cap of $5.1 million thereafter (less expended costs to date). Two indemnity claims relating to environmental issues have been tendered, but remediation costs for these claims, if any, are not expected to be material.

From time to time, PacifiCorp executes contracts that include indemnifications typical for similar transactions, which are related to sales of businesses, property, plant and equipment, and service territories. These indemnifications might include any of the following matters: privacy rights; governmental regulations and employment-related issues; commercial contractual relationships; financial reports; tax-related issues; securities laws; and environmental-related issues. Performance under these indemnities would generally be triggered by breach of representations and warranties in such a contract. PacifiCorp regularly evaluates the probability of having to incur costs under the indemnities and appropriately accrues for expected losses that are probable and estimable. Some of these indemnities may not limit potential liability; therefore, PacifiCorp is unable to estimate a maximum potential amount of future payments that could result from claims made under these indemnities. PacifiCorp believes that the likelihood that it would be required to perform or otherwise incur any significant losses associated with any of these obligations is remote.

Unconditional Purchase Obligations

(Millions of dollars)	2006	2007	2008	2009	2010	Thereafter	Total
	Payments due during the years ending March 31,						
Construction	$ 248.2	$ 56.6	$ 23.0	$ —	$ —	$ —	$ 327.8
Operating leases	21.3	19.7	18.3	5.3	2.1	9.4	76.1
Purchased electricity	694.3	452.4	260.1	192.3	197.4	1,577.2	3,373.7
Transmission	64.2	54.7	49.3	47.5	45.3	551.2	812.2
Fuel	318.6	337.8	339.6	183.2	170.7	748.7	2,098.6
Other	59.4	42.2	33.1	27.5	25.7	684.0	871.9
Total commitments	$ 1,406.0	$ 963.4	$ 723.4	$ 455.8	$ 441.2	$ 3,570.5	$ 7,560.3

Construction - PacifiCorp has an ongoing construction program to meet increased electricity usage and customer growth. At March 31, 2005, PacifiCorp had estimated long-term unconditional purchase obligations for construction of the new Currant Creek and Lake Side Power Plants.

Operating leases - PacifiCorp leases offices, certain operating facilities, land and equipment under operating leases that expire at various dates through fiscal 2093. Certain leases contain renewal options for varying periods and escalation clauses for adjusting rental to reflect changes in price indices. These leases generally require PacifiCorp to pay for insurance, taxes and maintenance applicable to the leased property.

Net rent expense was $26.1 million for the year ended March 31, 2005; $29.4 million for the year ended March 31, 2004; and $21.0 million for the year ended March 31, 2003.

Minimum non-cancelable sublease rentals expected to be received through fiscal 2013 total $4.2 million.

Purchased electricity - As part of its energy resource portfolio, PacifiCorp acquires a portion of its electricity through long-term purchases and/or exchange agreements.

Included in the minimum fixed annual payments for purchased electricity above are commitments to purchase electricity from several hydroelectric projects under long-term arrangements with public utility districts. These purchases are made on a "cost of service" basis for a stated percentage of project output and for a like percentage of project operating expenses and debt service. These costs are included in Purchased electricity. PacifiCorp is required to pay its portion of operating costs and its portion of the debt service, whether or not any electricity is produced.

At March 31, 2005, PacifiCorp's share of long-term arrangements with public utility districts was as follows:

(Millions of dollars)

Generating Facility	Year Contract Expires	Capacity (kW)	Percentage of Output	Annual Costs (a)
Wanapum	2009	194,106	18.7%	$ 5.7
Priest Rapids	2005	132,844	13.9	4.2
Rocky Reach	2011	68,211	5.3	3.4
Wells	2018	57,960	6.6	2.1
Total		453,121		$ 15.4

(a) Includes debt service totaling $7.9 million.

PacifiCorp's minimum debt service and estimated operating obligations included in purchased electricity above for the years ending March 31, are as follows:

(Millions of dollars)	Minimum Debt Service	Operating Obligations
2006	$ 8.8	$ 8.8
2007	9.4	6.9
2008	9.8	7.2
2009	11.0	7.3
2010	8.0	5.6
Thereafter	17.2	13.4
	$ 64.2	$ 49.2

PacifiCorp has a 4.0% entitlement to the generation of the Intermountain Power Project, located in central Utah through a power purchase agreement. PacifiCorp and the City of Los Angeles have agreed that the City of Los Angeles will purchase capacity and energy from PacifiCorp's 4.0% entitlement of the Intermountain Power Project at a price equivalent to 4.0% of the expenses and debt service of the Intermountain Power Project.

Fuel - PacifiCorp has "take or pay" coal and natural gas contracts that require minimum payments.

Other - Unconditional purchase obligations, as defined by accounting standards, are those long-term commitments that are non-cancelable or cancelable only under certain conditions. PacifiCorp has such commitments related to legal or contractual asset retirement obligations, environmental obligations, hydroelectric obligations, equipment maintenance and various other service and maintenance agreements.

Resource Management

PacifiCorp, as a public utility and a franchise supplier, has an obligation to manage resources to supply its customers. Rates charged to most customers are tariff rates authorized by regulatory agencies as discussed in Note 2.

Note 12 - Jointly Owned Facilities

At March 31, 2005, PacifiCorp's share in jointly owned facilities was as follows:

(Millions of dollars)	PacifiCorp Share	Plant in Service	Accumulated Depreciation/ Amortization	Construction Work-in-Progress
Colstrip Nos. 3 and 4 a (a)	10.0%	$ 238.9	$ 112.0	$ 0.5
Craig Station Nos. 1 and 2	19.3	163.7	67.0	0.8
Foote Creek	78.8	37.0	9.0	—
Hayden Station No. 1	24.5	41.0	17.4	0.1
Hayden Station No. 2	12.6	26.3	12.0	0.1
Hermiston (b)	50.0	163.4	37.1	5.1
Hunter No. 1	93.8	296.5	139.9	9.1
Hunter No. 2	60.3	207.4	96.3	2.6
Jim Bridger Nos. 1 - 4 (a)	66.7	892.3	450.6	22.2
Trojan (c)	2.5	—	—	—
Wyodak	80.0	307.6	156.6	5.3
Other transmission and distribution plants	Various	78.5	19.8	0.1
Unallocated acquisition adjustments (d)		157.2	75.8	—
Total		$ 2,609.8	$ 1,193.5	$ 45.9

(a) Includes kilovolt lines and substations.

(b) Additionally, PacifiCorp has contracted to purchase the remaining 50.0% of the output of the plant. See Note 13.

(c) Plant, inventory, fuel and decommissioning costs totaling $9.8 million relating to the Trojan Plant were included in regulatory assets at March 31, 2005.

(d) Represents the excess of the cost of the acquired interest in purchased facilities over their original net book value.

Under the joint agreements, each participating utility is responsible for financing its share of construction, operating and leasing costs. PacifiCorp's portion is recorded in its applicable operations, maintenance and tax accounts, which is consistent with wholly owned plants.

Note 13 – Consolidation of Variable-Interest Entities

In December 2003, the FASB issued revised FIN 46, *Consolidation of Variable-Interest Entities, an interpretation of Accounting Research Bulletin No. 51* ("FIN 46R"), which requires existing unconsolidated variable-interest entities ("VIEs") to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN 46R was adopted as of January 1, 2004, and resulted in certain disclosures describing variable interests that were identified. The adoption of FIN 46R did not have a material impact on PacifiCorp's consolidated financial position or results of operations. PacifiCorp continues to evaluate the impact of FIN 46R as implementation guidance evolves. If subsequent guidance or interpretation is different from management's current understanding, it is possible that PacifiCorp's identification of VIEs and primary beneficiaries could change.

In general, a VIE is a corporation, partnership, trust or any other legal structure used for business purposes whose equity investors lack the characteristics of a controlling financial interest or whose equity investment at risk is not sufficient to support the entity's activities without additional subordinated financial support. FIN 46R requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or is entitled to receive a majority of the VIE's residual returns. The company that is required to consolidate the VIE is called the primary beneficiary. FIN 46R requires deconsolidation of a VIE if a company is not the primary beneficiary of the VIE.

VIEs Required to be Consolidated

PacifiCorp holds an undivided interest in 50.0% of the 474 MW Hermiston plant (see Note 12), procures 100.0% of the fuel input into the plant and subsequently acquires 100.0% of the generated electricity. Since PacifiCorp owns only 50.0% of the plant, it is required to purchase 50.0% of the generated electricity from the joint owner (in which PacifiCorp holds no equity interest) through a long-term purchase power agreement (proportionate to the joint owner's share of the plant). As a result, PacifiCorp holds a variable-interest in the joint owner of the remaining 50.0% of the plant and is the primary beneficiary. However, upon adoption of FIN 46R, PacifiCorp was unable to obtain the information necessary to consolidate the entity, because the entity did not agree to supply the information due to the lack of a contractual obligation to do so. PacifiCorp continues to request from the entity the information necessary to perform the consolidation; however, no information has yet been provided by the entity. Electricity purchased from the joint owner was $34.8 million during the year ended March 31, 2005, $33.7 million during the year ended March 31, 2004, and $34.0 million during the year ended March 31, 2003. The entity is operated by the equity owners, and PacifiCorp has no risk of loss in relation to the entity in the event of a disaster.

Significant Variable-Interests in VIEs not Required to be Consolidated

As discussed in Note 4, PacifiCorp leases the West Valley facility from PPM under an operating lease that contains purchase options at specified prices. Although the purchase options are variable-interests in West Valley, PacifiCorp is not the primary beneficiary of the entity. PacifiCorp's exposure to loss under the operating lease is negligible.

PacifiCorp is a party to certain operating and coal purchase agreements with Trapper Mining, Inc. that create a variable-interest under the provisions of FIN 46R. Trapper Mining, Inc. owns and operates the Trapper Mine near Craig, Colorado, and produces 100.0% of its output for the benefit of the Craig Power Plant. PacifiCorp has a 21.4% equity interest in Trapper Mining, Inc. and also holds a 19.3% undivided interest in the Craig Power Plant as disclosed in Note 12. Since each equity investor in Trapper Mining, Inc. also holds a similar interest in the Craig Power Plant, and since none of the joint owners have more than a 50.0% interest in the Craig Power Plant or Trapper Mining, Inc., none of the joint owners are required to consolidate Trapper Mining, Inc. As such, PacifiCorp will continue to account for its interest in Trapper Mining, Inc. via the equity method under APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*, as in prior periods.

Note 14 – Preferred Stock

PacifiCorp's Preferred stock was as follows:

(Thousands of shares, millions of dollars, except per share amounts) Series	Redemption Price Per Share	March 31, 2005		March 31, 2004	
		Shares	Amount	Shares	Amount
Preferred stock not subject to mandatory redemption Serial Preferred, $100 stated value, 3,500 shares authorized					
4.52%	$ 103.5	2	$ 0.2	2	$ 0.2
4.56	102.3	85	8.4	85	8.4
4.72	103.5	70	6.9	70	6.9
5.00	100.0	42	4.2	42	4.2
5.40	101.0	66	6.6	66	6.6
6.00	Non-redeemable	6	0.6	6	0.6
7.00	Non-redeemable	18	1.8	18	1.8
5.00% Preferred, $100 stated value, 127 shares authorized	110.0	126	12.6	126	12.6
		415	$ 41.3	415	$ 41.3

Generally, Preferred stock is redeemable at stipulated prices plus accrued dividends, subject to certain restrictions. Upon voluntary liquidation, all Preferred stock is entitled to stated value or a specified preference amount per share plus accrued dividends. Upon involuntary liquidation, all Preferred stock is entitled to stated value plus accrued dividends. Any premium paid on redemptions of Preferred stock is capitalized, and recovery is sought through future rates. Dividends on all Preferred stock are cumulative.

PacifiCorp had $0.5 million at March 31, 2005, and at March 31, 2004, in dividends declared but unpaid on Preferred stock. The shares and amounts outstanding for each series of Preferred stock not subject to mandatory redemption were unchanged from March 31, 2003, through March 31, 2005.

Note 15 - Common Shareholder's Equity

Common Shareholder's Equity - PacifiCorp has one class of common stock with no par value. A total of 750,000,000 shares were authorized and 312,176,089 shares were issued and outstanding at March 31, 2005 and 2004. To the extent PacifiCorp does not reimburse ScottishPower for stock-based compensation awarded under ScottishPower plans, such amounts increase the value of PacifiCorp's common shareholder's capital.

Common Dividend Restrictions - ScottishPower is the sole indirect shareholder of PacifiCorp's common stock. PacifiCorp is restricted from making any distributions without prior state regulatory approval to the extent that it would reduce PacifiCorp's common stock equity below 40.0% of its total capitalization, excluding short-term debt and current maturities of long-term debt. As of March 31, 2005, under this measure, PacifiCorp's actual common stock equity percentage was 47.3%. PacifiCorp is also subject to maximum debt-to-total capitalization levels under various debt agreements.

Under the PUHCA, PacifiCorp may pay dividends out of capital or unearned surplus only with SEC approval. Dividends from earned surplus are permitted without approval. PacifiCorp has previously received approval to pay dividends out of unearned surplus of the lesser of (a) $900.0 million or (b) the proceeds received from sales of non-utility assets. At March 31, 2005, PacifiCorp's unearned surplus available for distribution pursuant to SEC authorization was approximately $220.0 million. In addition, PacifiCorp must give the Oregon Public Utility Commission 30 days' prior notice of any special cash dividend or any transfer involving more than 5.0% of PacifiCorp's retained earnings in a six-month period.

Note 16 - Fair Value of Financial Instruments

(Millions of dollars)	March 31, 2005 Carrying Amount	March 31, 2005 Fair Value	March 31, 2004 Carrying Amount	March 31, 2004 Fair Value
Long-term debt (a)	$ 3,872.3	$ 4,209.5	$ 3,732.6	$ 4,181.3
Preferred stock subject to mandatory redemption	52.5	56.0	60.0	67.9
Weather derivative asset (liability)	20.3	20.3	(5.3)	(5.3)

(a) Includes long-term debt classified as currently maturing, less capitalized lease obligations.

The carrying value of cash and cash equivalents, receivables, payables, accrued liabilities and short-term borrowings approximates fair value because of the short-term maturity of these instruments. The fair value of derivative instruments subject to SFAS No. 133 are disclosed in Note 3.

The fair value of PacifiCorp's long-term debt, current maturities of long-term debt and redeemable preferred stock has been estimated by discounting projected future cash flows, using the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same maturities.

The fair value of weather derivatives reflects the net present value of future premiums owed by PacifiCorp, offset by estimated settlements owed to (or by PacifiCorp, for the remainder of the contract term. PacifiCorp estimates future settlements based upon actual hydrology conditions incurred for the current contract year and hydrology forecasts for the remaining contract term. Those hydrology forecasts generally reflect normal water conditions.

Note 17 - Retirement Benefit Plans

Retirement Plans

PacifiCorp sponsors defined benefit pension plans that cover the majority of its employees. In addition, certain bargaining unit employees participate in a joint trust plan to which PacifiCorp contributes. Benefits under the main plan in the United States are based on the employee's years of service and average monthly pay in the 60 consecutive months of highest pay out of the last 120 months, with adjustments to reflect benefits estimated to be received from social security. Pension costs are funded annually by no more than the maximum amount that can be deducted for federal income tax purposes.

At March 31, 2005, plan assets were primarily invested in common stocks, bonds and United States government obligations. The measurement date for plan assets and obligations is December 31 of each year.

Components of the net periodic pension benefit cost (income) are summarized as follows:

(Millions of dollars)	Years Ended March 31, 2005	2004	2003
Service cost	$ 25.9	$ 25.8(a)	$ 21.6(a)
Interest cost	73.8	73.9	76.8
Expected return on plan assets	(77.7)	(80.7)	(92.8)
Amortization of unrecognized net obligation	8.4	8.4	8.4
Amortization of unrecognized prior service cost	1.4	1.5	2.1
Amortization of unrecognized loss (gain)	8.5	—	(4.2)
Net periodic pension benefit cost	$ 40.3	$ 28.9	$ 11.9

(a) Includes no contributions for the year ended March 31, 2005, contributions of $5.6 million for the year ended March 31, 2004, and contributions of $5.0 million for the year ended March 31, 2003, to the PacifiCorp/IBEW Local 57 Retirement Trust Fund.

The weighted average rates assumed in the actuarial calculations used to determine the net periodic benefit costs for the pension and postretirement benefit plans were as follows:

	Years Ended March 31, 2005	2004	2003
Discount rate	6.25%	6.75%	7.50%
Expected long-term rate of return on assets	8.75	8.75	9.25
Rate of increase in compensation levels	4.00	4.00	4.00

The weighted average rates assumed in the actuarial calculations used to determine benefit obligations for the pension and postretirement benefit plans were as follows:

	March 31, 2005	2004	2003
Discount rate	5.75%	6.25%	6.75%
Rate of increase in compensation levels	4.00	4.00	4.00

PacifiCorp determined the long-term rate of return based on historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

The change in the projected benefit obligation, change in plan assets and funded status are as follows:

(Millions of dollars)	March 31, 2005	March 31, 2004
Change in projected benefit obligation		
Projected benefit obligation - beginning of year	$ 1,229.8	$ 1,151.6
Service cost	25.9	20.1
Interest cost	73.8	73.9
Plan amendments	1.0	—
Actuarial loss	86.8	97.1
Benefits paid	(79.2)	(112.9)
Projected benefit obligation - end of year	$ 1,338.1	$ 1,229.8
Change in plan assets		
Plan assets at fair value - beginning of year	$ 733.2	$ 681.2
Actual return on plan assets	87.5	128.3
Company contributions	65.0	36.6
Benefits paid	(79.2)	(112.9)
Plan assets at fair value - end of year	$ 806.5	$ 733.2
Reconciliation of accrued pension cost and total amount recognized		
Funded status of the plan	$ (531.6)	$ (496.6)
Unrecognized net loss	443.6	375.2
Unrecognized prior service cost	9.1	9.4
Unrecognized net transition obligation	15.9	24.4
Accrued pension cost	$ (63.0)	$ (87.6)
Accrued benefit liability	$ (383.2)	$ (360.5)
Intangible asset	25.0	33.8
Accumulated other comprehensive income	14.5	12.9
Regulatory assets	280.7	226.2
Accrued pension cost	$ (63.0)	$ (87.6)

The aggregated accumulated benefit obligation was $1,189.7 million and the fair value of assets was $806.5 million as of March 31, 2005.

The PacifiCorp Retirement Plan (the "Retirement Plan") and the Supplemental Executive Retirement Plan (the "SERP") currently have assets with a fair value that is less than the accumulated benefit obligation under the Retirement Plan and the SERP, primarily due to declines in the equity markets and historically low interest rate levels. As a result, PacifiCorp recognized minimum pension liabilities in the fourth quarters of the years ended March 31, 2005, and at March 31, 2004. The minimum pension liability adjustment impacted Regulatory assets, Intangible assets and Accumulated other comprehensive income. These adjustments are reflected in the table above and did not materially affect the consolidated results of operations. PacifiCorp requested and received accounting orders from the regulatory commissions in Utah, Oregon, Wyoming and Washington to classify most of this charge as a Regulatory asset instead of a charge to Other comprehensive income. PacifiCorp has determined that according to SFAS No. 87, *Employers' Accounting for Pensions* ("SFAS No. 87"), costs for the Retirement Plan are currently recoverable in rates. This increase to Regulatory assets will be adjusted in future periods as the difference between the fair value of the trust assets and the accumulated benefit obligation changes.

Retirement Plan assets are managed and invested in accordance with all applicable requirements, including the Employee Retirement Income Security Act and the Internal Revenue Service revenue code. PacifiCorp employs an investment approach whereby a mix of equities and fixed-income investments is used to maximize the long-term

return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments as shown in the table below. Equity investments are diversified across United States and non-United States stocks, as well as growth, value, and small and large capitalizations. Fixed-income investments are diversified across United States and non-United States bonds. Other assets, such as private equity, are used to enhance long-term returns while improving portfolio diversification. PacifiCorp primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies.

The following table shows a breakdown of the pension plan assets by investment category based on market values.

		March 31,	
	Target	2005	2004
Equity securities	55.0%	56.1%	55.3%
Debt securities	35.0	33.9	34.4
Private equity	10.0	10.0	10.3

Other Postretirement Benefits

PacifiCorp provides health care and life insurance benefits through various plans for eligible retirees. The cost of other postretirement benefits is accrued over the active service period of employees. The transition obligation represents the unrecognized prior service cost and is being amortized over a period of 20 years. PacifiCorp funds other postretirement benefits through a combination of funding vehicles. PacifiCorp contributed $24.9 million for the year ended March 31, 2005, $25.3 million for the year ended March 31, 2004, and $22.6 million for the year ended March 31, 2003. The measurement date for plan assets and obligations is December 31 of each year.

For the other postretirement benefit plan assets, PacifiCorp employs an investment approach whereby a mix of equities and fixed-income investments is used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Equity investments are diversified across United States and non-United States stocks, as well as growth, value, and small and large capitalizations. Fixed-income investments are diversified across United States and non-United States bonds. Other assets, such as private equity, are used to enhance long-term returns while improving portfolio diversification. PacifiCorp primarily minimizes the risk of large losses through diversification, but also monitors and manages other aspects of risk through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies.

The assets for other postretirement benefits are composed of three different trust accounts. The 401(h) account is invested in the same manner as the pension account. Each of the two Voluntary Employees' Beneficiaries Association Trusts has its own investment allocation strategies.

Components of the net periodic postretirement benefit cost are summarized as follows:

	Years Ended March 31,		
(Millions of dollars)	2005	2004	2003
Service cost	$ 8.5	$ 7.4	$ 5.6
Interest cost	31.0	34.3	34.2
Expected return on plan assets	(26.4)	(26.6)	(28.5)
Amortization of unrecognized net obligation	12.2	12.2	12.2
Amortization of unrecognized loss	0.6	0.6	—
Amortization of prior service cost	0.1	—	—
Regulatory deferral	—	—	1.1
Net periodic postretirement benefit cost	$ 26.0	$ 27.9	$ 24.6

The change in the accumulated postretirement benefit obligation, change in plan assets and funded status are as follows:

(Millions of dollars)	March 31, 2005	March 31, 2004
Change in accumulated postretirement benefit obligation		
Accumulated postretirement benefit obligation - beginning of year	$ 555.3	$ 522.4
Service cost	8.5	7.4
Interest cost	31.0	34.3
Plan participant contributions	7.2	6.8
Plan amendments	0.8	0.6
Actuarial (gain) loss	(34.4)	21.5
Benefits paid	(40.1)	(37.7)
Accumulated postretirement benefit obligation - end of year	$ 528.3	$ 555.3
Change in plan assets		
Plan assets at fair value - beginning of year	$ 261.6	$ 218.0
Actual return on plan assets	28.6	50.8
Company contributions	29.3	23.7
Plan participant contributions	7.2	6.8
Net benefits paid	(40.1)	(37.7)
Plan assets at fair value - end of year	$ 286.6	$ 261.6
Reconciliation of accrued postretirement costs and total amount recognized		
Funded status of the plan	$ (241.7)	$ (293.7)
Unrecognized net transition obligation	94.6	106.8
Unrecognized prior service cost	1.4	0.6
Unrecognized loss	100.1	140.1
Accrued postretirement benefit cost, before final contribution	(45.6)	(46.2)
Final contribution made after measurement date but before March 31	24.9	25.3
Accrued postretirement cost	$ (20.7)	$ (20.9)

The assumed health care cost trend rates are as follows:

	March 31, 2005	March 31, 2004	March 31, 2003
Initial health care cost trend - under 65	7.5%	8.5%	9.5%
Initial health care cost trend - over 65	9.5	10.5	11.5
Ultimate health care cost trend rate	5.0	5.0	5.0
Year that rate reaches ultimate - under 65	2007	2007	2007
Year that rate reaches ultimate - over 65	2009	2009	2009

The health care cost trend rate assumption has a significant effect on the amounts reported. An annual increase or decrease in the assumed medical care cost trend rate of one percent would affect the accumulated postretirement benefit obligation and the service and interest cost components as follows:

	One Percent	
(Millions of dollars)	Increase	Decrease
Accumulated postretirement benefit obligation	$ 31.6	$ (27.2)
Service and interest cost components	2.7	(2.3)

In April 2005, PacifiCorp contributed $60.0 million to its Retirement Plan. In addition, PacifiCorp expects to contribute another $10.1 million to its pension plans, as well as $29.9 million to its other postretirement benefit plans in fiscal 2006. The benefit payments expected to be paid, which reflect expected future service and the Medicare Part D subsidy expected to be received, are as follows:

(Millions of dollars) Fiscal years ending March 31,	Retirement Plans	Other Postretirement Benefits	Medicare Part D Subsidy Receipts
2006	$ 90.7	$ 34.5	$ —
2007	90.3	35.3	(2.6)
2008	90.1	35.9	(2.8)
2009	91.2	36.2	(3.1)
2010	93.9	36.8	(3.4)
2011 to 2015 (inclusive)	518.7	200.1	(21.6)

Employee Savings and Stock Ownership Plan

PacifiCorp has an Employee Savings and Stock Ownership Plan (the "Savings Plan") that qualifies as a tax-deferred arrangement under the Internal Revenue Code. Eligible employees of adopting affiliates are those who are not temporary, casual, leased or covered by a collective bargaining agreement that does not provide for participation. Employees of any company within the PacifiCorp controlled group of companies that has not adopted the Savings Plan are not eligible. Participating United States employees may defer up to 50.0% of their compensation, subject to certain statutory limitations. Compensation includes base pay, overtime and annual incentive, but is limited to the maximum allowable under the Internal Revenue Code. Employees can select a variety of investment options, including ScottishPower American Depository Shares (formerly PacifiCorp shares). PacifiCorp matches 50.0% of employee contributions on amounts deferred up to 6.0% of total compensation, with that portion vesting over the initial five years of an employee's qualifying service. Thereafter, PacifiCorp's contributions vest immediately. PacifiCorp's matching contribution is allocated based on the employee's investment selections. PacifiCorp makes an additional contribution equal to a percentage of the employee's eligible earnings. This additional contribution is allocated based on the employee's investment selections or to the money market fund if the employee has made no selections. These contributions are immediately vested. PacifiCorp's contributions to the Savings Plan were $20.2 million for the year ended March 31, 2005; $19.3 million for the year ended March 31, 2004; and $17.4 million for the year ended March 31, 2003; and represent amounts expensed for such periods.

Note 18 – Stock-Based Compensation

PacifiCorp Stock Incentive Plan - During 1997, PacifiCorp adopted the PSIP. The exercise price of options granted under the PSIP was equal to the market value of the common stock on the date of the grant. Stock options generally became exercisable in two or three equal installments on each of the first through third anniversaries of the grant date. The maximum exercise period under the PSIP was 10 years. The PSIP expired on November 29, 2001.

Upon completion of the merger with ScottishPower (the "Merger"), all stock options granted prior to January 1999 became 100.0% vested. All outstanding stock options were converted into options to purchase ScottishPower American Depository Shares. Stock options to purchase ScottishPower American Depository Shares granted in connection with the Merger vest over the same number of years as stock options granted prior to the Merger.

The table below summarizes the stock option activity under the PSIP.

ScottishPower American Depository Shares	Number of Shares	Weighted Average Price
Outstanding options at March 31, 2002	3,966,996	$ 32.01
Forfeited	(563,745)	34.06
Outstanding options at March 31, 2003	3,403,251	31.67
Exercised	(147,496)	25.55
Forfeited	(331,706)	34.65
Outstanding options at March 31, 2004	2,924,049	31.64
Exercised	(750,126)	26.10
Forfeited	(40,310)	35.36
Outstanding options at March 31, 2005	2,133,613	33.52

Information with respect to options outstanding and options exercisable under the PSIP as of March 31, 2005 and 2004, was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Number of Shares	Weighted Average Exercise Price
Year ended March 31, 2005					
$25.70 - $36.64	1,589,323	$ 31.05	4.2	1,589,323	$ 31.05
$39.99 - $43.83	544,290	40.72	3.0	544,290	40.72
Total	2,133,613	33.52	3.9	2,133,613	33.52
Year ended March 31, 2004					
$25.06 - $36.64	2,367,392	$ 29.51	5.5	2,156,368	$ 29.88
$39.99 - $43.83	556,657	40.72	3.9	556,657	40.72
Total	2,924,049	31.64	5.2	2,713,025	32.10

Executive Share Option Plan - During April 2004, ScottishPower approved grants of stock options under the ExSOP for a select group of PacifiCorp employees. The options vest over three years and expire 10 years from the date of grant. In May 2001, ScottishPower granted enhanced awards under the ExSOP that were contingent on meeting certain performance conditions and that vested at the end of three years. On March 31, 2005, the performance conditions were met. As a result, $2.0 million of compensation expense was included in Operations and maintenance expense for the year ended March 31, 2005. No further awards will be granted under the ExSOP.

The table below summarized the stock option activity under the ExSOP.

ScottishPower American Depository Shares	Number of Shares	Weighted Average Price
Outstanding options at March 31, 2002	—	$ —
Granted	979,204	23.55
Forfeited	(44,150)	23.55
Outstanding options at March 31, 2003	935,054	23.55
Granted	780,901	24.40
Exercised	(25,508)	23.55
Forfeited	(41,991)	23.93
Outstanding options at March 31, 2004	1,648,456	23.94
Granted	763,843	28.72
Exercised	(483,667)	23.84
Forfeited	(30,136)	26.37
Outstanding options at March 31, 2005	1,898,496	25.85

Information with respect to options outstanding and options exercisable under the ExSOP as of March 31, 2005 and 2004, was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Number of Shares	Weighted Average Exercise Price
Year ended March 31, 2005					
$23.55 - $28.72	1,898,496	$ 25.85	8.2	182,134	$ 23.97
Year ended March 31, 2004					
$23.55 - $24.40	1,648,456	23.94	8.6	195,118	23.55

Long-Term Incentive Plan - During April 2004, ScottishPower approved grants of performance share awards under its Long-Term Incentive Plan for a select group of PacifiCorp employees. The number of shares that actually vest is dependent upon the outcome of certain performance measures over a three-year period. During the year ended March 31, 2005, $0.8 million of compensation expense was included in Operations and maintenance expense.

Deferred Share Program - In May 2004, ScottishPower implemented a deferred share program under which certain PacifiCorp employees are granted an annual stock bonus award based on a fixed dollar amount but distributable in ScottishPower American Depository Shares with the number of shares to be determined by the quoted market price of the shares at the date of issuance. Compensation expense is accrued throughout the fiscal year in which the employee services are rendered and awards earned. During the year ended March 31, 2005, $3.1 million of compensation costs were accrued.

Note 19 - Income Taxes

The difference between the United States federal statutory tax rate and the effective income tax rate attributed to income from continuing operations is as follows:

	Years Ended March 31,		
	2005	2004	2003
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit (a)	0.9	1.9	3.4
Effect of regulatory treatment of depreciation differences	4.1	4.5	6.5
Tax reserves (b)	2.0	(1.4)	1.9
Tax credits	(2.3)	(2.5)	(5.6)
Other	0.4	(0.8)	(0.6)
Effective income tax rate	40.1%	36.7%	40.6%

(a) State taxes, net of federal benefit, include changes in state tax contingency reserve.

(b) PacifiCorp has established, and periodically reviews, an estimated contingent tax reserve on its Consolidated Balance Sheets to provide for the possibility of adverse outcomes in tax proceedings.

The provision for income taxes is summarized as follows:

	Years Ended March 31,		
(Millions of dollars)	2005	2004	2003
Current			
Federal	$ 58.6	$ 63.0	$ 54.2
State	(10.1)	1.0	11.2
Total	48.5	64.0	65.4
Deferred			
Federal	112.6	77.8	38.6
State	15.3	10.6	1.1
Total	127.9	88.4	39.7
Investment tax credits	(7.9)	(7.9)	(7.9)
Total income tax expense	$ 168.5	$ 144.5	$ 97.2

The tax effect of temporary differences giving rise to significant portions of PacifiCorp's deferred tax liabilities and deferred tax assets were as follows:

(Millions of dollars)	March 31, 2005	March 31, 2004
Deferred tax liabilities		
Property, plant and equipment	$ 1,512.3	$ 1,413.2
Regulatory assets	667.9	700.0
Derivative contract regulatory assets	64.5	160.2
Other deferred tax liabilities	105.5	76.2
	2,350.2	2,349.6
Deferred tax assets		
Regulatory liabilities	(325.2)	(329.7)
Employee benefits	(185.4)	(164.8)
Derivative contracts	(102.6)	(173.4)
Other deferred tax assets	(106.0)	(148.6)
	(719.2)	(816.5)
Net deferred tax liability	$ 1,631.0	$ 1,533.1

PacifiCorp made net income tax payments of $92.0 million for the year ended March 31, 2005, $114.1 million for the year ended March 31, 2004, and $82.2 million for the year ended March 31, 2003. The income tax payments include payments for current federal and state income taxes, as well as amounts paid in settlement of prior years' liabilities as a result of income tax proceedings.

During the year ended March 31, 2005, PacifiCorp favorably settled outstanding income tax issues with the State of Oregon related to PacifiCorp's 1991 through 1998 Oregon income tax returns. The settlement resulted in a release of previously accrued tax liability of $8.5 million. The net state tax contingency release for the year ended March 31, 2005, is $12.1 million. The net federal tax contingency reserves increase for the year ended March 31, 2005, is $8.5 million, primarily to accrue interest on remaining tax contingencies provided for in prior periods.

The Internal Revenue Service has completed its examination of PacifiCorp's federal tax return filings for the 1999 and 2000 tax years. PacifiCorp has settled with the Internal Revenue Service on certain tax issues related to these returns. Settlement and payment on agreed-upon issues and other unresolved issues related to federal income tax returns through March 31, 2000, did not have a material adverse impact on PacifiCorp's consolidated financial position or results of operations.

The Internal Revenue Service started its examination of the 2001, 2002 and 2003 tax years in October 2004. No material Notices of Proposed Adjustments have been issued. PacifiCorp anticipates that final settlement and payment on settled issues and other unresolved issues related to the federal income tax returns through March 31, 2003, will not have a material adverse impact on its consolidated financial position or results of operations.

PacifiCorp calculates its deferred tax assets and liabilities under SFAS No. 109, which requires recording deferred tax balances, at the currently enacted tax rate, for all temporary differences between the book and tax bases of assets and liabilities, including temporary differences for which no deferred taxes had been previously provided because of use of flow-through tax accounting for ratemaking purposes. Because of prior and expected future ratemaking treatment for temporary differences for which flow-through tax accounting has been utilized, PacifiCorp has also established a regulatory asset for income taxes recoverable through future rates related to those differences. At March 31, 2005, the balance of this asset was $499.9 million. In addition, PacifiCorp has established regulatory liabilities in the amount of $44.4 million for non-recoverable income taxes.

At March 31, 2005 and 2004, PacifiCorp had total available federal net operating loss carryforwards of approximately $2.7 million and no state net operating loss carryforwards, for both years. These loss carryforwards expire between 2022 and 2026. PacifiCorp has Oregon business energy tax credits of approximately $1.9 million at March 31, 2005, available to reduce future income tax liabilities. These credits begin to expire in 2010. PacifiCorp anticipates utilizing the operating loss and tax credits prior to the expiration dates.

Note 20 - Concentration of Customers

During the year ended March 31, 2005, no single retail customer accounted for more than 2.0% of PacifiCorp's retail electric revenues, and the 20 largest retail customers accounted for 13.0% of total retail electric revenues. The geographical distribution of PacifiCorp's retail operating revenues for the year ended March 31, 2005, was Utah, 40.6%; Oregon, 29.3%; Wyoming, 13.6%; Washington, 8.0%; Idaho, 6.1%; and California, 2.4%.

Note 21 - Subsequent Events

On April 21, 2005, the PacifiCorp Board of Directors declared a dividend on common stock of $0.163 per share for a total of approximately $50.8 million, payable on May 27, 2005.

On May 23, 2005, ScottishPower and PHI executed a Stock Purchase Agreement providing for the sale of all PacifiCorp common stock held by PHI to MidAmerican for a value of approximately $9.4 billion, consisting of approximately $5.1 billion in cash plus approximately $4.3 billion in net debt and preferred stock, which will remain outstanding at PacifiCorp. MidAmerican is based in Des Moines, Iowa, and is a privately owned global provider of energy services.

The closing of the sale of PacifiCorp is subject to a number of conditions, including ScottishPower shareholder consent and regulatory approvals from the SEC, the FERC, the Department of Justice or the Federal Trade Commission, the Nuclear Regulatory Commission and the public utility commissions in the states of Utah, Oregon, Wyoming, Washington, Idaho and California, as well as approvals under existing third-party agreements. Pending satisfaction of the closing conditions, the Stock Purchase Agreement requires ScottishPower to cause PacifiCorp to operate its business in the ordinary course consistent with past business practice. The Stock Purchase Agreement also requires ScottishPower to obtain MidAmerican's prior approval to certain actions taken by PacifiCorp beyond limits specified in the Stock Purchase Agreement, including:

- borrowings or debt issuances;
- capital expenditures;
- construction or acquisition of new generation, transmission or delivery facilities or systems, other than as currently planned or necessary to fulfill regulatory commitments;
- unbudgeted significant acquisitions or dispositions;
- modifications to material agreements with regulators;
- issuance or sale of any capital stock to any person, other than PHI in certain circumstances;
- adoption or amendment of employee benefit plans or material increases to employee compensation; and
- payment of dividends to PHI.

While the sale of PacifiCorp is pending and the Stock Purchase Agreement is in effect, PHI has agreed to make common equity contributions to PacifiCorp of $125.0 million at the end of each quarter in fiscal 2006 and $131.25 million at the end of each quarter in fiscal 2007. If the sale is completed, MidAmerican will refund to PHI the amount of required fiscal 2007 common equity contributions as an increase to the purchase price.

Pursuant to the Stock Purchase Agreement for the sale of PacifiCorp, ScottishPower has agreed to cause PacifiCorp to not pay dividends to PHI in excess of $53.7 million per quarter during fiscal 2006 and $60.575 million per quarter during fiscal 2007. These restrictions will terminate upon either the close of the sale of PacifiCorp or the earlier termination of the Stock Purchase Agreement.

SUPPLEMENTAL INFORMATION

QUARTERLY FINANCIAL DATA (UNAUDITED)

(Millions of dollars, except per share amounts)	Quarters Ended June 30	September 30	December 31	March 31
2005				
Revenues	$ 747.8	$ 828.7	$ 849.5	$ 622.8
Income from operations	129.9	165.3	155.2	206.0
Income from continuing operations before cumulative effect of accounting change	50.9	61.9	51.3	87.6
Cumulative effect of accounting change	—	—	—	—
Net income	50.9	61.9	51.3	87.6
Earnings on common stock	50.4	61.4	50.7	87.1
Common dividends declared per share	15.5¢	15.5¢	15.5¢	15.5¢
Common dividends paid per share	15.5¢	15.5¢	15.5¢	15.5¢
2004				
Revenues	$ 783.9	$ 845.4	$ 788.4	$ 776.8
Income from operations	168.9	148.9	161.3	138.8
Income from continuing operations before cumulative effect of accounting change	63.5	59.1	60.5	65.9
Cumulative effect of accounting change	(0.9)	—	—	—
Net income	62.6	59.1	60.5	65.9
Earnings on common stock	60.8	58.6	60.0	65.4
Common dividends declared per share	12.8¢	12.8¢	12.8¢	12.8¢
Common dividends paid per share	12.8¢	12.8¢	12.8¢	12.8¢

On March 31, 2005, PHI was the only common shareholder of record.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No information is required to be reported pursuant to this item.

ITEM 9A. CONTROLS AND PROCEDURES

PacifiCorp maintains a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this annual report. PacifiCorp performed an evaluation, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of PacifiCorp's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2005, the disclosure controls and procedures were effective, in all material respects, in timely alerting management to material information relating to PacifiCorp and its consolidated subsidiaries required to be included in its periodic reports filed pursuant to the Securities Exchange Act of 1934.

ITEM 9B. OTHER INFORMATION

On May 22, the ScottishPower Remuneration Committee, in light of the expected timetable for obtaining regulatory approvals of PacifiCorp's sale to MidAmerican, approved a cash retention award for PacifiCorp's Chief Executive Officer, Judith Johansen, equal to one times base salary, which is contingent on the closing of PacifiCorp's sale to MidAmerican and also on Ms. Johansen's continued employment and her satisfactory performance of duties in the period through the sale's closing. Ms. Johansen will receive 80.0% of the retention award upon the closing of the sale and the remaining 20.0% of the award 365 days from the date of the closing, provided there have been no breach of warranty claims against ScottishPower or PHI under the Stock Purchase Agreement.

On May 23, 2005, PacifiCorp's Compensation Committee approved a $6.0 million pool to be used for retention incentives during the period prior to completion of the sale of PacifiCorp to MidAmerican. PacifiCorp's Chief Executive Officer will select participants, expected to be PacifiCorp senior management and other employees determined to be critical to PacifiCorp prior to completion of the sale, and determine the amounts and terms of retention awards, subject to Compensation Committee approval. Each participant will be required to sign a confidentiality and retention agreement.

On May 23, 2005, the PacifiCorp Board of Directors amended PacifiCorp's bylaws to provide that Sections 60.801 to 60.816 of the Oregon Business Corporation Act, known as the "Oregon Control Share Act," do not apply to acquisitions of PacifiCorp's voting shares (as defined in the Oregon Control Share Act).

On May 26, 2005, PacifiCorp's Compensation Committee modified participation in PacifiCorp's Executive Severance Plan to provide that certain members of PacifiCorp senior management, including executive officers Andrew Haller, Andrew MacRitchie, Richard Peach, Stan Watters and Matthew Wright, will be eligible for one times annual compensation general severance benefits and two times annual compensation change-of-control severance benefits. In addition, the Compensation Committee modified Michael Pittman's change-of-control severance benefits to equal two times annual compensation, which payment would be in lieu of any severance payment to which Mr. Pittman might otherwise be entitled under his employment agreement in such circumstances.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a list of directors of PacifiCorp.

Name and Age	Business Experience Past Five Years
Ian M. Russell (52)	Chairman of the Board of Directors. Director since November 1999.
	Mr. Russell was appointed Chief Executive of ScottishPower in April 2001 and Chairman of PacifiCorp in January 2002. Mr. Russell serves on the Board of Directors for Scottish Power plc. He previously served as Deputy Chief Executive of ScottishPower since November 1998, having previously been appointed Finance Director of ScottishPower in April 1994 and serving in both capacities from November 1998 to December 1999. In his present capacity, he is responsible for all ScottishPower operations.
Judith A. Johansen (46)	President and Chief Executive Officer. Director since December 2000.
	Ms. Johansen was elected President and Chief Executive Officer in June 2001 and prior to that served as Executive Vice President since December 2000. Ms. Johansen was appointed to the Board of Directors for Scottish Power plc in October 2003. She was Administrator and Chief Executive Officer of the Bonneville Power Administration in Portland, Oregon, from June 1998 to November 2000. From June 1996 to May 1998, Ms. Johansen was vice president of business development with Avista Energy.
Barry G. Cunningham (60)	Senior Vice President. Director since April 2002.
	Mr. Cunningham was named PacifiCorp's Senior Vice President of Generation in February 2002. Mr. Cunningham joined PacifiCorp in June 1977 and served as a Vice President from May 1999 to February 2002 and as an Assistant Vice President from September 1998 to May 1999.
Andrew P. Haller (53)	Senior Vice President, General Counsel and Corporate Secretary. Director since May 2003.
	Mr. Haller joined PacifiCorp in December 2000. Prior to joining PacifiCorp, he was chief executive for the United States operations of Kvaerner Process, a position he assumed in 1999. Mr. Haller began his career with Kvaerner in 1987, and held various senior counsel and management positions, including Senior Vice President and General Counsel-Americas. From 1998 to 1999, he served as the Associate General Counsel for the parent company, Kvaerner ASA, in its United States corporate headquarters.
Nolan E. Karras (60)	Director since February 1993.
	Mr. Karras is President of The Karras Company, Inc., an investment adviser, and has served in that capacity since 1983. He is Chief Executive Officer of Western Hay Company, Inc., a non-executive Director of Scottish Power plc and Beneficial Life Insurance Company and is a Registered Principal for Raymond James Financial Services.

Andrew N. MacRitchie (41)	Executive Vice President. Director since May 2000. Mr. MacRitchie was elected Executive Vice President in May 2000. Mr. MacRitchie has been with ScottishPower since 1986. He served as the Transition Director for the merger of PacifiCorp with ScottishPower from December 1999 to May 2000. He served as ScottishPower's United States Chief of Staff on the merger from December 1998 to December 1999, and, prior to that, he served as Manager, Business and Organizational Development.
Richard D. Peach (41)	Chief Financial Officer. Director since May 2003. Mr. Peach was named PacifiCorp's Chief Financial Officer effective January 2003. Mr. Peach had previously served as Senior Vice President of Finance since March 2002. Prior to his appointment as Chief Financial Officer, Mr. Peach also served as Group Controller for ScottishPower from March 2000 to December 2002, Head of Customer Services, Energy Supply for ScottishPower from April 1999 to March 2000 and in various other management positions with ScottishPower since 1995.
Michael J. Pittman (52)	Senior Vice President and ScottishPower Group Human Resources Director. Director since May 2000. Mr. Pittman was elected Senior Vice President of Human Resources in May 2000. Since October 2002, Mr. Pittman has also served as Group Director of Human Resources of ScottishPower. He formerly served as a Vice President of PacifiCorp since May 1993. Mr. Pittman is also Chairman of the PacifiCorp Foundation for Learning.
A. Richard Walje (53)	Executive Vice President. Director since July 2001. Mr. Walje has served as PacifiCorp's Executive Vice President since April 2004 and as Chief Information Officer since May 2000. Previously he served as PacifiCorp's Senior Vice President of Corporate Business Services from May 2001 to April 2004 and as PacifiCorp's Vice President for Transmission and Distribution Operations and Customer Service from 1998 to 2000. Mr. Walje serves on the PacifiCorp Foundation for Learning Board of Directors.
Matthew R. Wright (40)	Executive Vice President. Director since July 2001. Mr. Wright was appointed Executive Vice President of Power Delivery in January 2002. Mr. Wright served as Senior Vice President of Strategy and Planning from November 2000 to January 2002 and as Vice President of Regulation from 1999 to 2000. Prior to joining PacifiCorp, Mr. Wright served the ScottishPower group in various management positions since 1995.

The following is a list of the executive officers of PacifiCorp not named above. There are no family relationships among the executive officers of PacifiCorp. Officers of PacifiCorp are normally elected annually.

Name and Age	Business Experience Past Five Years
Donald N. Furman (48)	Senior Vice President. Mr. Furman was named PacifiCorp's Senior Vice President of Regulation and Government Affairs in July 2001. Mr. Furman served as Vice President of Transmission and Business Development from 1997 to 2001 and as President of PPM from 1995 to 1997.
Robert A. Klein (57)	Group Energy Risk Director, ScottishPower. In March 2003, Mr. Klein was named ScottishPower's Group Energy Risk Director, Previously, Mr. Klein served as PacifiCorp's Senior Vice President of Commercial and Trading since August 2001. Prior to joining PacifiCorp in December 2000, Mr. Klein served as Senior Vice President and General Manager of Equitable Resources' deregulated marketing business from 1998 to 1999 and as Vice President of Risk Management for Coral Equity from 1997 to 1998.
Stan Watters (46)	Senior Vice President. Mr. Watters was elected Senior Vice President of Commercial and Trading in June 2003. Mr. Watters served as Vice President of Trading and Origination from July 2001 to June 2003 and, prior to that, as Managing Director of Wholesale Energy Services since 1998. Mr. Watters has been with PacifiCorp since 1982.
Bruce N. Williams (46)	Treasurer. Mr. Williams was named Treasurer in February 2000. Prior to being elected Treasurer, he served as Assistant Treasurer of PacifiCorp and has been with PacifiCorp since 1985.

In addition to its Guide to Business Conduct, which provides a basis for employee ethical standards and conduct for all employees, the PacifiCorp Board of Directors has approved and implemented a "Code of Ethics for Principal Officers" designed to promote the integrity of PacifiCorp's financial reporting and legal compliance. The Code of Ethics for Principal Officers applies to PacifiCorp's Chief Executive Officer and its financial and accounting officers. The Guide to Business Conduct and Code of Ethics for Principal Officers are available in the "About Us - Company Overview" section of PacifiCorp's website at www.pacificorp.com. PacifiCorp intends to make available on its website any amendment to, or waiver from, the Code of Ethics for Principal Officers as the Code applies to PacifiCorp's Chief Executive Officer and its financial and accounting officers.

PacifiCorp also maintains a Business Conduct Hotline that permits employees or third parties to report unethical behavior anonymously and confidentially to either an external reporting service, which provides both a toll-free phone number and secure website, or to PacifiCorp's Office of General Counsel via an anonymous phone line.

Because PacifiCorp's common stock is indirectly, wholly owned by ScottishPower, its Board of Directors consists almost entirely of internal executives. Accordingly, the audit committee functions of PacifiCorp are carried out by the Audit Committee of ScottishPower (the "ScottishPower Audit Committee"), which consists entirely of non-executive directors of ScottishPower who are deemed "independent" in accordance with New York Stock Exchange listing standards.

Neither the PacifiCorp Board of Directors nor the ScottishPower Audit Committee currently has an independent, non-executive director who is an audit committee financial expert in respect of PacifiCorp. However, the ScottishPower Audit Committee does have significant financial experience and includes one member who has been determined by the ScottishPower Board of Directors to be an audit committee financial expert for ScottishPower, due in part to his understanding of generally accepted accounting principles as applied in the United Kingdom. There is limited availability of appropriately experienced individuals who are experts in both United Kingdom and United States generally accepted accounting principles and otherwise qualified as independent financial experts in accordance with the rules of the SEC. The PacifiCorp Board of Directors believes that the ScottishPower Audit Committee is able to provide appropriate oversight.

ITEM 11. EXECUTIVE COMPENSATION

PACIFICORP BOARD OF DIRECTORS REPORT ON EXECUTIVE COMPENSATION

Introduction

The PacifiCorp Board of Directors submits this report on executive compensation, which outlines the compensation provided to PacifiCorp's executive officers. The Remuneration Committee of the ScottishPower Board of Directors, assisted by its outside advisors, has the responsibility to approve compensation levels and executive compensation plans for the PacifiCorp Chief Executive Officer and the ScottishPower Human Resources Director, who also serves as a PacifiCorp executive officer, and to review compensation for other executive officers and senior management of PacifiCorp. The Remuneration Committee is composed entirely of independent, non-executive directors. With the exception of any compensation requiring review by the Remuneration Committee, the Compensation Committee of the PacifiCorp Board of Directors, consisting of the ScottishPower Chief Executive Officer, the PacifiCorp Chief Executive Officer and the ScottishPower Human Resources Director, has responsibility for approving compensation levels and executive compensation plans for executive officers of PacifiCorp. The Remuneration Committee must approve any stock-based compensation to PacifiCorp executive officers, all of which is in the form of ScottishPower equity. The following describes the components of PacifiCorp's executive compensation program and the basis upon which recommendations and determinations were made for the year ended March 31, 2005.

Compensation Philosophy

PacifiCorp's philosophy is that executive compensation, including that of its Chief Executive Officer, should be linked closely to corporate and operational performance, customer service and increases in shareholder value. PacifiCorp's executive compensation program has the following objectives:

(i) provide competitive total compensation that enables PacifiCorp to attract and retain key executives;

(ii) provide variable compensation opportunities that are linked to PacifiCorp, operational area, and individual performance; and

(iii) establish an appropriate balance between incentives focused on short-term objectives and those encouraging sustained performance improvements and increases in shareholder value.

Qualifying compensation for deductibility under Internal Revenue Code Section 162(m) is one of the factors the PacifiCorp Compensation Committee considers in designing PacifiCorp's incentive compensation arrangements for executive officers. Internal Revenue Code Section 162(m) limits to $1.0 million the annual deduction by a publicly held corporation of compensation paid to any executive officer, except with respect to certain forms of incentive compensation that qualify for exclusion. Although it is the intent to design and administer compensation programs that maximize deductibility, the Remuneration Committee and the Compensation Committee view the objectives outlined above as more important than compliance with the technical requirements necessary to exclude compensation from the deductibility limit of Internal Revenue Code Section 162(m). Nevertheless, the Remuneration Committee and the Compensation Committee believe that nearly all compensation paid to the executive officers for services rendered in the year ended March 31, 2005, is fully deductible.

Compensation Program Components

During the year ended March 31, 2005, the compensation programs were focused on market-based comparisons on the relevant industry for each executive officer. The electric utility industry was utilized as the exclusive basis for market comparison for positions with a principal focus on electric operations. For positions with a corporate-wide focus, the general industry and electric utility industry were used for market comparison. In all cases, compensation is targeted at market median levels, with an assumption that total compensation greater than market median, in any specific time period, anticipates that PacifiCorp and industry performance exceeds the median performance of peer companies.

PacifiCorp's executive compensation programs have three principal elements: base salaries, annual incentive compensation and long-term incentive compensation, as described below.

Base Salaries

Base salaries and target incentive amounts are reviewed for adjustment at least annually based upon competitive pay levels, individual performance and potential, and changes in duties and responsibilities. Base salary and the incentive target are set at a level such that total annual compensation for satisfactory performance would approximate the midpoint of pay levels in the comparison group used to develop competitive data. In the year ended March 31, 2005, the base salary of each executive officer was increased, based on market analysis, to reflect competitive market changes, individual performance and changes in the responsibilities of some officers.

Annual Incentive Compensation

All PacifiCorp executive officers, including those listed in the Summary Compensation Table, participated in PacifiCorp's Annual Incentive Plan (the "AIP"). Performance goals were based on PacifiCorp performance, operational performance and individual performance, and may include ScottishPower performance based on the level, influence and impact of the officer.

Long-Term Incentive Compensation

Historically, the PacifiCorp Board of Directors annually reviewed and approved grants of restricted stock and stock options under the PSIP until the PSIP was assumed by ScottishPower in connection with its acquisition of PacifiCorp in 1999. On November 29, 2001, the PSIP expired. Restricted stock and stock option awards made under the PSIP on or before April 24, 2001, relate to ScottishPower American Depository Shares or Ordinary Shares ("Ordinary Shares") and will continue to remain outstanding until such time as they vest, are exercised or expire.

Restricted stock awards under the PSIP are subject to terms, conditions and restrictions consistent with the PSIP and the best interests of the shareholders. In general, restricted stock awards vest over a four-year period from the date of grant, subject to compliance with the stock ownership and other terms of the grant. The restrictions include stock transfer restrictions and forfeiture provisions designed to facilitate the participants' achievement of specified stock ownership goals. Participants are also required to invest their own personal resources in ScottishPower American Depository Shares or Ordinary Shares in order to meet the vesting requirements associated with these grants.

In April 2004, the Remuneration Committee approved grants of stock options and performance share awards under ScottishPower's Executive Share Option Plan 2001 (the "ExSOP") and the Long-Term Incentive Plan (the "LTIP"), respectively, for a select group of executive officers and other senior managers. ExSOP and performance share grants were awarded to PacifiCorp senior managers in May 2004. See below for the LTIP awards. The May 2004 grants were the last stock options awarded under the ExSOP. Stock options granted under the ExSOP on or before May 27, 2004, will continue to remain outstanding until such time as they are exercised or expire.

All stock options awarded to executive officers and senior management of PacifiCorp in the years ended March 31, 2005, 2004 and 2003 are non-statutory, non-discounted options with a three-year vesting requirement and a 10-year term from the date of the grant. The stock options awarded during the year ended March 31, 2003, included two separate grants. The first was a standard grant of options, each of which has a three-year vesting schedule starting on the first anniversary of the grant date, and the second was a onetime enhanced grant of options, each of which vests three years after the grant date based on performance.

In May 2004, the Remuneration Committee approved a new program to replace the ExSOP, called the Deferred Share Program, which is part of the AIP for executive officers and senior management. Eligible employees will receive an increase to their AIP maximum target incentive payment, with the increase paid in ScottishPower American Depository Shares. The Deferred Share Program is effective beginning with the year ended March 31, 2006.

The LTIP provides for awards of performance shares that link the rewards closely between management and shareholders and focus on long-term corporate performance. The awards will vest only if the Remuneration Committee is satisfied that certain threshold customer service and financial performance measures are achieved. The number of shares that actually vest depends upon ScottishPower's comparative Total Shareholder Return performance over a three-year performance period. Vested shares are released to participants only after the conclusion of the performance period.

The PacifiCorp Board of Directors report on executive compensation detailed above has been submitted by all the members of the PacifiCorp Board of Directors, as listed below:

- Ian M. Russell, Chairman
- Judith A. Johansen
- Barry G. Cunningham
- Nolan E. Karras
- Andrew N. MacRitchie
- Michael J. Pittman
- A. Richard Walje
- Matthew R. Wright
- Richard D. Peach
- Andrew P. Haller

Executive Compensation

The following table sets forth information concerning compensation for services in all capacities to PacifiCorp for the years ended March 31, 2005, 2004, and 2003 of the Chief Executive Officer of PacifiCorp and the next four other most highly compensated executive officers of PacifiCorp who were serving as executive officers at the end of the last completed fiscal year.

Summary Compensation Table

		Annual Compensation (a)			Long-Term Compensation			
Name and Principal Position	Year	Salary	Bonus (c)	All Other Compensation (d)	Restricted Stock Awards (e)	Securities Underlying Options	LTIP Payout (f)	ScottishPower Performance Shares (g)
Judith A. Johansen	2005	$ 743,750	$ 437,500	$ 23,311	$ —	52,228	$ —	19,916
President and Chief	2004	589,394	337,500	22,883	—	61,475	—	12,458
Executive Officer	2003	492,444	149,767	21,170	—	61,825	—	9,199
Michael J. Pittman	2005	323,750	189,000	20,329	—	33,948	—	6,904
Senior Vice President	2004	313,125	187,500	20,097	—	38,729	—	7,849
	2003	300,000	47,057	18,860	—	50,954	—	7,581
Andrew P. Haller	2005	334,480	167,137	20,515	—	11,667	—	4,746
Senior Vice President,	2004	327,996	190,109	20,165	—	13,530	—	5,484
General Counsel and Corporate Secretary	2003	310,930	132,020	21,037	—	19,165	23,069	5,069
A. Richard Walje	2005	317,307	158,108	20,270	—	16,613	—	6,757
Executive Vice President	2004	299,544	127,557	83,173	—	17,751	—	7,195
	2003	277,604	95,550	19,278	—	24,840	—	6,570
Matthew R. Wright (b)	2005	292,481	141,945	151,425	—	15,331	—	6,236
Executive Vice President	2004	253,612	127,527	62,766	—	10,502	—	6,301
	2003	249,997	56,048	67,456	—	11,704	—	4,681

(a) May include amounts deferred pursuant to the Compensation Reduction Plan, under which key executives and directors may defer receipt of cash compensation until retirement or a preset future date. Amounts deferred are invested in ScottishPower American Depository Shares or a cash account on which interest is paid at a rate equal to the Moody's Intermediate Corporate Bond Yield for AA-rated Public Utility Bonds.

(b) Salary includes foreign housing benefits paid to Mr. Wright. These amounts were $39,380 for the year ended March 31, 2004, and $53,961 for the year ended March 31, 2003.

(c) Amounts in this column for the year ended March 31, 2003, include a promotion bonus in the amount of $41,556 for Ms. Johansen.

(d) Amounts shown for the year ended March 31, 2005, include:

(i) Company contributions to the PacifiCorp Employee Savings and Stock Ownership Plan (the "Savings Plan") of $12,073 for Ms. Johansen, $10,354 for Mr. Pittman, $10,508 for Mr. Haller, $10,315 for Mr. Walje and $12,197 for Mr. Wright.

(ii) Portions of premiums on term life insurance policies that PacifiCorp paid in the amounts of $2,238 for Ms. Johansen, $975 for Mr. Pittman, $1,007 for Mr. Haller, $955 for Mr. Walje and $880 for Mr. Wright. These benefits are available to all employees.

(iii) Annual vehicle allowances paid to Ms. Johansen and Messrs. Pittman, Haller, Walje and Wright in the amounts of $9,000 each. The amount of annual vehicle allowance for Mr. Wright was $10,350 for the year ended March 31, 2004, and $10,800 for the year ended March 31, 2003.

(iv) Relocation benefits paid to Mr. Walje of $62,849 for the year ended March 31, 2004.

(v) Additional international assignment payments to Mr. Wright of $27,739 for the year ended March 31, 2005, $45,299 for the year ended March 31, 2004, and $56,656 for the year ended March 31, 2003, for cost of living and foreign service premium. Also includes international assignee localization payments to Mr. Wright of $101,609 for the year ended March 31, 2005.

(e) On March 31, 2005, the aggregate value of all restricted stock holdings, based on the market value of ScottishPower American Depository Shares at March 31, 2005, without giving effect to the diminution of value attributed to the restrictions on such stock, was $38,220 for Ms. Johansen, $14,352 for Mr. Pittman, $30,420 for Mr. Haller and $14,352 for Mr. Walje. The aggregate number of restricted share holdings was 1,225 for Ms. Johansen, 460 for Mr. Pittman, 975 for Mr. Haller and 460 for Mr. Walje. Regular quarterly dividends are paid on the restricted stock. Participants may defer receipt of restricted stock awards to their stock accounts under the Compensation Reduction Plan.

(f) Represents the dollar value of restricted stock shares awarded under the PSIP prior to PacifiCorp's acquisition by ScottishPower that vested and were distributed to the named officer in the form of ScottishPower American Depository Shares.

(g) Represents the number of ScottishPower American Depository Shares contingently granted in 2005, 2004 and 2003 that can be earned under the terms of the LTIP.

Option Grants in Last Fiscal Year

The following table sets forth information regarding options to purchase ScottishPower American Depository Shares granted during the year ended March 31, 2005, to each named executive officer under the ExSOP. All options become exercisable for one-third of the shares covered by the option on each of the first three anniversaries of the grant date.

	Individual Grants					
					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	5%	10%
Judith A. Johansen	52,228	6.84%	$ 28.72	5/26/2014	$ 943,334	$ 2,390,595
Michael J. Pittman	33,948	4.44	28.72	5/26/2014	613,164	1,553,877
Andrew P. Haller	11,667	1.53	28.72	5/26/2014	210,728	534,025
A. Richard Walje	16,613	2.17	28.72	5/26/2014	300,062	760,415
Matthew R. Wright	15,331	2.01	28.72	5/26/2014	276,906	701,735

Aggregated Option Exercises at March 31, 2005, and Year-End Option Values

The following table sets forth information regarding the aggregate options exercised during the past fiscal year and the option values at the end of the fiscal year ended March 31, 2005, for each of the named executive officers. All options are for ScottishPower American Depository Shares and include options granted under the PSIP and the ExSOP.

			Number of Securities Underlying Unexercised Options at March 31, 2005		Value of Unexercised In-the-Money Options at March 31, 2005	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Judith A. Johansen	152,603	$ 711,077	—	124,125	$ —	$ 644,701
Michael J. Pittman	65,385	286,932	158,088	85,245	8	454,666
Andrew P. Haller	27,703	95,713	—	31,334	—	171,720
A. Richard Walje	44,957	207,618	126,069	42,247	—	227,241
Matthew R. Wright (a)	—	—	3,329	37,536	—	65,636

(a) Certain of Mr. Wright's options are for ScottishPower Ordinary Shares, but are presented as American Depository Shares.

Long-Term Incentive Plan Awards in the Last Fiscal Year

The following table sets forth information regarding awards made in the year ended March 31, 2005, to each named executive officer under the LTIP. Each LTIP award entitles the executive officer to acquire, at no cost, the number of ScottishPower American Depository Shares listed in the table, less any withholding for applicable taxes. An award will only vest if the Remuneration Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the ScottishPower group and improvements in customer service standards are achieved over a period of three years commencing with the fiscal year preceding the date an award is made. The number of shares that vest depend upon ScottishPower's comparative Total Shareholder Return performance over the three-year performance period. Total Shareholder Return performance is measured against a peer group of major international energy companies. No shares vest unless ScottishPower's Total Shareholder Return performance is at

least equal to the median performance of the peer group, at which point 40% of the initial award vests. If ScottishPower's performance is equal to or exceeds the top quartile, 100% of the shares vest. The number of shares that vest for performance between these two points is determined on a straightline basis. Participants may acquire the vested shares at any time after the third anniversary of grant.

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Exercise or Threshold Shares	Target Shares (a)	Maximum Shares
Judith A. Johansen	19,916	3 years	—	7,966	19,916
Michael J. Pittman	6,904	3 years	—	2,762	6,904
Andrew P. Haller	4,746	3 years	—	1,898	4,746
A. Richard Walje	6,757	3 years	—	2,703	6,757
Matthew R. Wright	6,236	3 years	—	2,494	6,236

(a) Amount to vest if threshold measures and median Total Shareholder Return performance are achieved.

Employment Agreements

On September 29, 2003, Ms. Johansen and PacifiCorp executed an employment agreement providing for a base salary of $700,000 and a maximum annual incentive award of 75.0% of base salary. Under the agreement, she is eligible for participation in the LTIP, the ExSOP and the Retirement Plan referred to below, in addition to other benefit plans available for senior-level executives of PacifiCorp. The employment agreement continues until March 31, 2021, unless terminated by either party. Ms. Johansen or PacifiCorp may terminate the employment agreement at any time for any reason. However, if Ms. Johansen resigns from PacifiCorp due to a material alteration in compensation or assignment or following a company-initiated relocation, or if PacifiCorp terminates Ms. Johansen without cause, then Ms. Johansen will be entitled to one year's base salary, car allowance and bonus (as modified pursuant to the terms of the employment agreement). Additionally, Ms. Johansen agreed to standard confidentiality, non-competition and non-solicitation terms.

On December 9, 2004, Mr. Pittman and PacifiCorp executed an employment agreement providing for a base salary of $325,000 and a maximum annual incentive award of 100.0% of base salary (unless otherwise modified by the Remuneration Committee). Under the agreement, he is eligible for participation in the LTIP, the ExSOP and the Retirement Plan, in addition to other benefit plans available for senior level executives of PacifiCorp. The employment agreement continues until Mr. Pittman reaches the age of 65, unless terminated by either party. Mr. Pittman or PacifiCorp may terminate the employment agreement at any time for any reason. However, if Mr. Pittman resigns from PacifiCorp due to a material alteration in compensation or assignment or following a company-initiated relocation, or if PacifiCorp terminates Mr. Pittman without cause, then Mr. Pittman will be entitled to one year's base salary, car allowance and bonus (as modified pursuant to the terms of the employment agreement). Additionally, Mr. Pittman agreed to standard confidentiality, non-competition and non-solicitation terms.

Severance Arrangements

PacifiCorp's Executive Severance Plan provides severance benefits to certain executive-level employees who are designated by the PacifiCorp Board of Directors, including the executive officers named in the Summary Compensation Table (other than Ms. Johansen).

Severance benefits are payable by PacifiCorp for voluntary terminations as a result of a certain material alterations in position or compensation that have a detrimental impact on the executive's employment or involuntary terminations (including a PacifiCorp-initiated resignation) for reasons other than cause. Severance payments generally equal one or two times the executive's annual cash compensation, three months of health insurance benefits and outplacement services.

The Executive Severance Plan also provides enhanced severance benefits in the event of certain terminations during the 24-month period following a qualifying change-in-control transaction. Executives designated by the PacifiCorp Board of Directors are eligible for change-in-control benefits resulting from either a PacifiCorp-initiated termination without cause or a resignation generally within two months after certain material alterations in position or compensation. If qualified for the enhanced severance benefits, an executive would receive severance pay in an amount equal to either two, two and one-half or three times the annual cash compensation of the executive, depending on the level set by the PacifiCorp Board of Directors. PacifiCorp is required to make an additional payment to compensate the executive for the effect of any excise tax. The executive would also receive continuation of subsidized health insurance from six to 24 months, depending on length of service, and outplacement services.

Retirement Plans

PacifiCorp has adopted non-contributory defined benefit retirement plans for its employees, other than employees subject to collective bargaining agreements that do not provide for coverage. Certain executive officers, including the executive officers named in the Summary Compensation Table, are also eligible to participate in PacifiCorp's non-qualified Supplemental Executive Retirement Plan (the "SERP"). The following description assumes participation in both the Retirement Plan and the SERP. Participants receive benefits at retirement payable for life based on length of service with PacifiCorp and average pay in the 60 consecutive months of highest pay out of the last 120 months, and pay for this purpose would include salary and AIP payments reflected in the Summary Compensation Table above. Benefits are based on 50.0% of final average pay plus 1.0% of final average pay for each year that PacifiCorp meets certain performance goals set for each fiscal year by the PacifiCorp Board of Directors. The maximum benefit is 65.0% of final average pay. Participants may also elect actuarially equivalent alternative forms of benefits. Retirement benefits are reduced to reflect social security benefits as well as certain prior employer retirement benefits. Participants are entitled to receive full benefits upon retirement after age 60 with at least 15 years of service. Participants are also entitled to receive reduced benefits upon early retirement after age 55 or after age 50 with at least 15 years of service and five years of participation in the SERP.

The following table shows the estimated annual retirement benefit payable upon retirement at age 60 as of March 31, 2005. Amounts in the table reflect payments from the Retirement Plan and the SERP combined, prior to any offset of projected social security benefits and benefits paid from any prior employer plan.

Estimated Annual Pension at Retirement (a)

	Years of Service (b)			
Final Average Pay at Retirement Date	5	15	25	30
$ 200,000	$ 43,333	$ 130,000	$ 130,000	$ 130,000
400,000	86,667	260,000	260,000	260,000
600,000	130,000	390,000	390,000	390,000
800,000	173,333	520,000	520,000	520,000
1,000,000	216,667	650,000	650,000	650,000

(a) The benefits shown in this table assume that the individual will remain in the employ of PacifiCorp until retirement at age 60, that the Retirement Plan and the SERP will continue in their present form and that PacifiCorp achieves its performance goals under the SERP in all years.

(b) The number of credited years of service used to compute aggregate benefits under the Retirement Plan and the SERP are four for Ms. Johansen, four for Mr. Haller, 25 for Mr. Pittman, 19 for Mr. Walje and 17 for Mr. Wright.

Retention Agreements

To retain executives who would otherwise have had the right to resign for any reason between 12 and 14 months following the merger with ScottishPower and qualify for the enhanced change-in-control supplemental retirement benefits, PacifiCorp entered into retention agreements with qualifying executives (Messrs. Pittman and Walje). Those retention agreements provided for the same enhanced supplemental retirement benefits if the qualifying executives satisfied the retention criteria. Qualifying executives were required to waive their rights to unilaterally resign and receive the enhanced supplemental retirement benefits, but they are now eligible to receive these same enhancements since they have continued employment through the established retention date of December 1, 2002.

These retention agreements also required qualifying executives to waive any rights to executive severance benefits, which they may have otherwise claimed due to material alterations in their positions as of the date of the retention agreement. Unless there was a subsequent "involuntarily termination" or "material alteration" in position as defined in the Severance Plan, this waiver of severance benefits applied to these executives through November 28, 2004. The executives' waiver of severance benefits was in exchange for the enhanced supplemental retirement benefits described above, retention bonuses determined individually in PacifiCorp's discretion for each executive and special stock option awards that vested over a three-year retention period at 25.0% for each of the first two years and 50.0% in the third year.

As noted above, the retention agreements for Messrs. Pittman and Walje expired on November 28, 2004. The executives have satisfied the requirements of, and have received the remuneration and benefits payable under, those agreements.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

All common shares of PacifiCorp are indirectly owned by Scottish Power plc, 1 Atlantic Quay, Glasgow, G2 8SP, Scotland. PacifiCorp has no compensation plans under which equity securities of PacifiCorp are authorized to be issued.

The following table sets forth certain information as of March 31, 2005, regarding the beneficial ownership of Ordinary Shares by (1) each of the executive officers named in the Summary Compensation Table under Item 11. Executive Compensation above, (2) each director of PacifiCorp as detailed under "Item 10. Directors and Executive Officers of the Registrant," and (3) all executive officers and directors of PacifiCorp as a group. As of March 31, 2005, each of the directors and executive officers identified above and all directors and executive officers of PacifiCorp as a group owned less than 1% of the outstanding Ordinary Shares.

	Amount and Nature of Beneficial Ownership		
Beneficial Owner	Direct and Indirect (a)	Options (b)	Total
Ian M. Russell	133,570	498,678	632,248
Judith A. Johansen	103,332	480,868	584,200
Michael J. Pittman	115,238	984,704	1,099,942
Andrew P. Haller	64,887	128,296	193,183
A. Richard Walje	102,719	673,120	775,839
Barry G. Cunningham	45,020	472,036	517,056
Nolan E. Karras	42,446	—	42,446
Andrew N. MacRitchie	14,949	99,468	114,417
Richard D. Peach	14,582	75,237	89,819
Matthew R. Wright	7,445	80,574	88,019
All executive officers and directors as a group (14 persons)	748,656	4,444,765	5,193,421

(a) Includes beneficial ownership of (i) shares held by family members even though beneficial ownership of such shares may be disclaimed and (ii) shares held for the account of such persons pursuant to PacifiCorp's Compensation Reduction Plan and the Savings Plan.

(b) Includes Ordinary Shares that each person has the right to acquire through options that become exercisable within 60 days after March 31, 2005. Options granted in ScottishPower American Depository Shares under the PSIP and ExSOP have been converted into options in Ordinary Shares. One American Depository Share equates to four Ordinary Shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

RELATED TRANSACTIONS

According to the terms of Andrew Haller's offer letter, PacifiCorp made a $200,000 loan to Mr. Haller on May 21, 2001, for the repayment of obligations to his former employer. Mr. Haller has repaid $121,253.09 of the loan amount. As of March 31, 2005, the outstanding loan balance was $81,548.92, including accrued interest, payable in two additional annual payments of $32,988.56 each and one of $19,741.67, including interest at the annual rate of 4.74%, on June 30 in each year from 2005 to 2007.

See "Item 8. Financial Statements and Supplementary Data - Note 4" for other information on related-party transactions.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The ScottishPower Audit Committee retained PricewaterhouseCoopers LLP, independent certified public accountants, as PacifiCorp's independent registered public accounting firm for the year ended March 31, 2005, and the year ending March 31, 2006.

Fees and Pre-Approval Policy

During the year ended March 31, 2004, the Audit Committee adopted a pre-approval policy for PricewaterhouseCoopers' services and fees. This policy details the services that can be provided by the independent auditors, and requires that where the initial fee value for any services permitted in accordance with the policy exceeds £100,000 (or its United States dollar equivalent), the assignment must be reviewed and authorized by both the Chairman of the ScottishPower Audit Committee with the concurrence of the ScottishPower Finance Director. Any services authorized by the Chairman are reported to the ScottishPower Audit Committee at its next scheduled meeting, and fees paid to the independent auditors are reported regularly to the ScottishPower Audit Committee. The PacifiCorp Board of Directors has not adopted any pre-approval policy that is in addition to or different than the ScottishPower Audit Committee's pre-approval policy.

The following table presents fees billed by PricewaterhouseCoopers for the fiscal years ended March 31, 2005 and 2004.

(Millions of dollars)	Year Ended March 31,			
	2005		2004	
Audit fees	$ 1.4	30.4%	$ 1.4	28.6%
Audit-related fees	1.1	23.9	0.1	2.0
Tax fees	2.0	43.5	3.3	67.4
Other fees	0.1	2.2	0.1	2.0
Total	$ 4.6	100.0%	$ 4.9	100.0%

Audit fees are for the audit and review of PacifiCorp's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States), including comfort letters, statutory and regulatory audits, consents and services related to SEC matters.

Audit-related fees are for assurance and related services that are related to the audit or review of PacifiCorp's financial statements, including employee benefit plan audits, due diligence services and financial accounting and reporting consultation.

Tax fees are fees for tax compliance services and related costs.

Other fees are mainly for services rendered in connection with requests from state regulatory commissions and for regulatory matters.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The list of all financial statements filed as a part of this report is included in Item 8. Financial Statements and Supplementary Data.

2. Schedules:*

* All schedules have been omitted because of the absence of the conditions under which they are required or because the required information is included elsewhere in the financial statements included under "Item 8. Financial Statements and Supplementary Data."

3. Exhibits:

Exhibit Number	Exhibit Title
2.1(a)*	Agreement and Plan of Merger, dated as of December 6, 1998, by and among Scottish Power plc, NA General Partnership, Scottish Power NA 1 Limited and Scottish Power NA 2 Limited. (Exhibit 1 to the Form 6-K, dated December 11, 1998, filed by Scottish Power plc, File No. 1-14676).
2.1(b)*	Amended and Restated Agreement and Plan of Merger, dated as of December 6, 1998, as amended as of January 29, 1999 and February 9, 1999, and amended and restated as of February 23, 1999, by and among New Scottish Power PLC, Scottish Power plc, NA General Partnership and PacifiCorp (Exhibit (2)b, Form 10-K for year ended December 31, 1998, File No. 1-5152).
3.1*	Third Restated Articles of Incorporation of PacifiCorp (Exhibit (3)b, Form 10-K for the year ended December 31, 1996, File No. 1-5152).
3.2	Bylaws of PacifiCorp, as amended May 23, 2005.
4.1*	Mortgage and Deed of Trust dated as of January 9, 1989, between PacifiCorp and JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), Trustee, Ex. 4-E, Form 8-B, File No. 1-5152, as supplemented and modified by 17 Supplemental Indentures as follows:

Exhibit Number	File Type	File Date	File Number
(4)(b)			33-31861
(4)(a)	8-K	January 9, 1990	1-5152
4(a)	8-K	September 11, 1991	1-5152
4(a)	8-K	January 7, 1992	1-5152
4(a)	10-Q	Quarter ended March 31, 1992	1-5152
4(a)	10-Q	Quarter ended September 30, 1992	1-5152
4(a)	8-K	April 1, 1993	1-5152
4(a)	10-Q	Quarter ended September 30, 1993	1-5152
(4)b	10-Q	Quarter ended June 30, 1994	1-5152
(4)b	10-K	Year ended December 31, 1994	1-5152
(4)b	10-K	Year ended December 31, 1995	1-5152
(4)b	10-K	Year ended December 31, 1996	1-5152
4(b)	10-K	Year ended December 31, 1998	1-5152
99(a)	8-K	November 21, 2001	1-5152
4.1	10-Q	Quarter ended June 30, 2003	1-5152
99	8-K	September 8, 2003	1-5152
4	8-K	August 24, 2004	1-5152

4.2*	Third Restated Articles of Incorporation and Bylaws. See 3.1 and 3.2 above.

In reliance upon item 601(4)(iii) of Regulation S-K, various instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries are not being filed because the total amount authorized under each such instrument does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant hereby agrees to furnish a copy of any such instrument to the Commission upon request.

10.1	Summary of Key Terms of Compensation Arrangements with PacifiCorp Named Executive Officers.
10.2*	Summary of PacifiCorp Annual Incentive Plan for Executive Officers (Exhibit 10.2, Current Report on Form 8-K, filed May 6, 2005, File No. 1-5152).
10.3	Judith Johansen Employment Agreement.
10.4	Michael Pittman Employment Agreement.
10.5	Compensation Reduction Plan.
10.6*	Executive Severance Plan (Exhibit 10.3, Current Report on Form 8-K, filed May 6, 2005, File No. 1-5152).
10.7	Supplemental Executive Retirement Plan.
10.8	Michael Pittman Retention Agreement.
10.9	A. Richard Walje Retention Agreement.
10.10*	Richard Peach Retention Agreement (Exhibit 10.4, Current Report on Form 8-K, filed May 6, 2005, File No. 1-5152).
10.11	Andrew Haller Promissory Note.
12.1	Statements of Computation of Ratio of Earnings to Fixed Charges.
12.2	Statements of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
23	Consent of PricewaterhouseCoopers LLP with respect to annual report on Form 10-K.
31.1	Section 302 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Section 302 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Section 906 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Section 906 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
99.1*	Stock Purchase Agreement among Scottish Power plc, PacifiCorp Holdings, Inc. and MidAmerican Energy Holdings Company (Exhibit 99.1, Current Report on Form 8-K, filed May 24, 2005, by MidAmerican Energy Holdings Company, File No. 001-14881).

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*Incorporated herein by reference.

(c) See (a) 3. above.

(d) See (a) 2. above.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

PacifiCorp

By: /s/ JUDITH A. JOHANSEN

Judith A. Johansen
(PRESIDENT AND
CHIEF EXECUTIVE OFFICER)

Date: May 27, 2005

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ IAN M. RUSSELL Ian M. Russell	Chairman of the Board of Directors	May 27, 2005
/s/ JUDITH A. JOHANSEN Judith A. Johansen	President, Chief Executive Officer and Director	May 27, 2005
/s/ RICHARD D. PEACH Richard D. Peach	Chief Financial Officer and Director	May 27, 2005
/s/ DAVID MENDEZ David Mendez	Chief Accounting Officer	May 27, 2005
/s/ NOLAN E. KARRAS Nolan E. Karras	)	
/s/ ANDREW N. MacRITCHIE Andrew N. MacRitchie	)	

Signature		Title	Date
/s/ MICHAEL J. PITTMAN Michael J. Pittman	)		
/s/ A. RICHARD WALJE A. Richard Walje	)	Director	May 27, 2005
s/ MATTHEW R. WRIGHT Matthew R. Wright	)		
/s/ BARRY G. CUNNINGHAM Barry G. Cunningham	)		
/s/ ANDREW P. HALLER Andrew P. Haller	)		

EXHIBIT D

MidAmerican Form 10-K filed March 1, 2005

FORM 10-K

MIDAMERICAN ENERGY HOLDINGS CO /NEW/ - N/A

Filed: March 01, 2005 (period: December 31, 2004)

Annual report which provides a comprehensive overview of the company for the past year

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<u>EX-24.1 (Power of attorney)</u>

<u>EX-31.1</u>

<u>EX-31.2</u>

<u>EX-32.1</u>

<u>EX-32.2</u>

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

Commission File No. 0-25551

MIDAMERICAN ENERGY HOLDINGS COMPANY
(Exact name of registrant as specified in its charter)

Iowa	94-2213782
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
666 Grand Avenue, Des Moines, IA	50309
(Address of principal executive offices)	(Zip Code)

(515) 242-4300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: N/A
Securities registered pursuant to Section 12(g) of the Act: N/A

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of each of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act).
Yes __ No X

All of the shares of common equity of MidAmerican Energy Holdings Company are privately held by a limited group of investors. As of January 31, 2005, 9,081,087 shares of common stock were outstanding.

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PART I

PART II

Disclosure Regarding Forward–Looking Statements

This report contains statements that do not directly or exclusively relate to historical facts. These statements are "forward–looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward–looking statements by the use of forward–looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast," and similar terms. These statements represent plans, expectations and beliefs and are subject to risks, uncertainties and other factors. Many of these factors are outside the Company's control and could cause actual results to differ materially from such forward–looking statements. These factors include, among others:

- general economic and business conditions in the jurisdictions in which its facilities are located;
- the financial condition and creditworthiness of our significant customers and suppliers;
- governmental, statutory, regulatory or administrative initiatives or ratemaking actions affecting the Company or the electric or gas utility, pipeline or power generation industries;
- weather effects on sales and revenue;
- general industry trends;
- increased competition in the power generation, electric and gas utility or pipeline industries;
- fuel and power costs and availability;
- continued availability of accessible gas reserves;
- changes in business strategy, development plans or customer or vendor relationships;
- availability, term and deployment of capital;
- availability of qualified personnel;
- unscheduled outages or repairs;
- risks relating to nuclear generation;
- financial or regulatory accounting principles or policies imposed by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board ("FASB"), the Securities and Exchange Commission ("SEC") and similar entities with regulatory oversight;
- other risks or unforeseen events, including wars, the effects of terrorism, embargos and other catastrophic events; and
- *other business or investment considerations that may be disclosed from time to time in SEC filings or in other publicly* disseminated written documents.

MidAmerican Energy Holdings Company undertakes no obligation to publicly update or revise any forward–looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors should not be construed as exclusive.

PART I

Item 1. Business.

General

MidAmerican Energy Holdings Company ("MEHC") and its subsidiaries (together with MEHC, the "Company") are organized and managed on seven distinct platforms: MidAmerican Energy Company ("MidAmerican Energy"), Kern River Gas Transmission Company ("Kern River"), Northern Natural Gas Company ("Northern Natural Gas"), CE Electric UK Funding ("CE Electric UK") (which includes Northern Electric Distribution Limited ("Northern Electric") and Yorkshire Electricity Distribution plc ("Yorkshire Electricity")), CalEnergy Generation–Foreign (the subsidiaries owning the Upper Mahiao, Malitbog and Mahanagdong projects (collectively, the "Leyte Projects") and the Casecnan project), CalEnergy Generation–Domestic (the subsidiaries owning interests in independent power projects in the United States), and HomeServices of America, Inc. (collectively with its subsidiaries, "HomeServices"). Refer to Note 23 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10–K for additional segment information regarding the Company's platforms. Through these platforms, the Company owns and operates a combined electric and natural gas utility company in the United States, two natural gas pipeline companies in the United States, two electricity distribution companies in the United Kingdom, a diversified portfolio of domestic and international independent power projects and the second largest residential real estate brokerage firm in the United States.

MEHC's energy subsidiaries generate, transmit, store, distribute and supply energy. MEHC's electric and natural gas utility subsidiaries currently serve approximately 4.4 million electricity customers and approximately 680,000 natural gas customers. Its natural gas pipeline subsidiaries operate interstate natural gas transmission systems with approximately 18,300 miles of pipeline in operation and peak delivery capacity of 6.4 billion cubic feet of natural gas per day. The Company has interests in 6,777 net owned megawatts of power generation facilities in operation and under construction, including 5,203 net owned megawatts in facilities that are part of the regulated return asset base of its electric utility business and 1,574 net owned megawatts in non–utility power generation facilities. Substantially all of the non–utility power generation facilities have long–term contracts for the sale of energy and/or capacity from the facilities.

On March 14, 2000, MEHC and an investor group comprising Berkshire Hathaway Inc. ("Berkshire Hathaway"), Walter Scott, Jr., a director of MEHC, David L. Sokol, Chairman and Chief Executive Officer of MEHC, and Gregory E. Abel, President and Chief Operating Officer of MEHC, closed on a definitive agreement and plan of merger whereby the investor group, together with certain of Mr. Scott's family members and family trusts and corporations, acquired all of the outstanding common stock of MEHC (the "Teton Transaction").

The principal executive offices of MEHC are located at 666 Grand Avenue, Des Moines, Iowa 50309 and its telephone number is (515) 242–4300. MEHC initially incorporated in 1971 under the laws of the State of Delaware and reincorporated in 1999 in Iowa, at which time it changed its name from CalEnergy Company, Inc. to MidAmerican Energy Holdings Company.

In this Annual Report, references to "U.S. dollars," "dollars," "$" or "cents" are to the currency of the United States, references to "pounds sterling," "£," "sterling," "pence" or "p" are to the currency of the United Kingdom and references to "pesos" are to the currency of the Philippines. References to kW means kilowatts, MW means megawatts, GW means gigawatts, kWh means kilowatt hours, MWh means megawatt hours, GWh means gigawatt hours, kV means kilovolts, mmcf means million cubic feet, Bcf means billion cubic feet, Tcf means trillion cubic feet and Dth means decatherms or one million British thermal units.

MidAmerican Energy

Business

MidAmerican Energy, an indirect wholly-owned subsidiary of MEHC, owns a public utility headquartered in Iowa with $5.1 billion of assets as of December 31, 2004, and operating revenues for 2004 totaling $2.7 billion. MidAmerican Energy is principally engaged in the business of generating, transmitting, distributing and selling electric energy and in distributing, selling and transporting natural gas. MidAmerican Energy distributes electricity at retail in Council Bluffs, Des Moines, Fort Dodge, Iowa City, Sioux City and Waterloo, Iowa; the Quad Cities (Davenport and Bettendorf, Iowa and Rock Island, Moline and East Moline, Illinois); and a number of adjacent communities and areas. It also distributes natural gas at retail in Cedar Rapids, Des Moines, Fort Dodge, Iowa City, Sioux City and Waterloo, Iowa; the Quad Cities; Sioux Falls, South Dakota; and a number of adjacent communities and areas. Additionally, MidAmerican Energy transports natural gas through its distribution system for a number of end-use customers who have independently secured their supply of natural gas. As of December 31, 2004, MidAmerican Energy had approximately 698,000 regulated retail electric customers and 680,000 regulated retail and transportation natural gas customers.

In addition to retail sales and natural gas transportation, MidAmerican Energy sells electric energy and natural gas to other utilities, marketers and municipalities. These sales are referred to as wholesale sales.

MidAmerican Energy's regulated electric and gas operations are conducted under franchises, certificates, permits and licenses obtained from state and local authorities. The franchises, with various expiration dates, are typically for 25-year terms.

MidAmerican Energy has a diverse customer base consisting of residential, agricultural, and a variety of commercial and industrial customer groups. Among the primary industries served by MidAmerican Energy are those that are concerned with food products, the manufacturing, processing and fabrication of primary metals, real estate, farm and other non-electrical machinery, and cement and gypsum products.

MidAmerican Energy also conducts a number of nonregulated business activities.

For the year ended December 31, 2004, MidAmerican Energy derived 53% of its gross operating revenues from its regulated electric business, 37% from its regulated gas business and 10% from its nonregulated business activities. For 2003 and 2002, the corresponding percentages were 54% electric, 36% gas and 10% nonregulated; and 61% electric, 31% gas and 8% nonregulated, respectively.

Electric Operations

For the year ended December 31, 2004, regulated electric sales by MidAmerican Energy by customer class were as follows: 20% were to residential customers, 14% were to small general service customers, 27% were to large general service customers, 5% were to other customers, and 34% were wholesale sales. For the year ended December 31, 2004, regulated electric sales by MidAmerican Energy by jurisdiction were as follows: 89% to Iowa, 10% to Illinois and 1% to South Dakota.

The annual hourly peak demand on MidAmerican Energy's electric system usually occurs as a result of air conditioning use during the cooling season. In August 2003, MidAmerican Energy reached a record hourly peak demand of 3,935 MW. For 2004, MidAmerican Energy recorded an hourly peak demand of 3,894 MW on July 20.

The following table sets out certain information concerning MidAmerican Energy's power generation facilities based upon summer 2004 accreditation and expected accredited generating capacity of projects recently completed or under construction:

Operating Project[1]	Facility Net Capacity (MW)[2]	Net MW Owned[2]	Fuel	Location	Operation
Steam Electric Generating Facilities:					
Council Bluffs Energy Center Units 1 & 2	133	133	Coal	Iowa	1954, 1958
Council Bluffs Energy Center Unit 3	690	546	Coal	Iowa	1978
Louisa Generation Station	700	616	Coal	Iowa	1983
Neal Generation Station Units 1 & 2	435	435	Coal	Iowa	1964, 1972
Neal Generation Station Unit 3	515	371	Coal	Iowa	1975
Neal Generation Station Unit 4	644	261	Coal	Iowa	1979
Ottumwa Generation Station	715	372	Coal	Iowa	1981
Riverside Generation Station	135	135	Coal	Iowa	1925–61
Total steam electric generating facilities	3,967	2,869			
Other Facilities:					
Combustion Turbines[3]	1,116	1,116	Gas/Oil	Iowa	1969–2003
Quad Cities Generating Station	1,748	437	Nuclear	Illinois	1974
Portable Power Modules	56	56	Oil	Iowa	2000
Moline Water Power	3	3	Hydro	Illinois	1970
Total other facilities	2,923	1,612			
Total accredited generating capacity	6,890	4,481			
Projects Recently Completed or Under Construction:					
Greater Des Moines Energy Center[3]	190	190	Gas	Iowa	2004
Council Bluffs Energy Center Unit 4	790	479	Coal	Iowa	2007
Northern Iowa Wind Power	53	53	Wind	Iowa	2005
Total projects recently completed or under construction	1,033	722			
	7,923	5,203			

(1) MidAmerican Energy operates all such power generation facilities other than Quad Cities Generating Station and Ottumwa Generation Station.

(2) Represents accredited net generating capability from the summer of 2004 and the expected accredited generating capacity of projects recently completed or under construction. Actual MW may vary depending on operating conditions and plant design for operating projects. Net MW Owned indicates ownership of accredited capacity for the summer of 2004 as approved by the Mid-Continent Area Power Pool ("MAPP").

(3) The Greater Des Moines Energy Center project was completed in two phases. Commercial operation in the simple cycle mode began in May 2003, resulting in 327 MW (included in "Other Facilities — Combustion Turbines" above) of accredited capacity throughout 2004. Commercial operation of the combined cycle mode began in December 2004 and additional accredited capacity is expected to be 190 MW.

MidAmerican Energy's total accredited net generating capability in the summer of 2004 was 4,897 MW. Accredited net generating capability represents the amount of generation available to meet the requirements on MidAmerican Energy's system and consists of MidAmerican Energy-owned generation of 4,481 MW and the net amount of capacity purchases and sales of 416 MW. The actual amount of generation capacity available at any time may be less than the accredited capability due to regulatory restrictions, transmission constraints, fuel restrictions and generating units being temporarily out of service for inspection, maintenance, refueling, modifications or other reasons.

MidAmerican Energy anticipates a continuing increase in demand for electricity from its regulated customers. To meet anticipated demand and ensure adequate electric generation in its service territory, MidAmerican Energy recently completed its combined cycle combustion turbine project and is currently constructing the 790 MW (expected accreditation) super-critical-temperature, coal-fired Council Bluffs Energy Center Unit No. 4 ("CBEC Unit 4") and a 310 MW (nameplate rating) wind power project in Iowa. The projects will provide service to regulated retail electricity customers. MidAmerican Energy has obtained regulatory approval to include the Iowa portion of the actual costs of the generation projects in its Iowa rate base as long as actual costs do not exceed the agreed caps that MidAmerican Energy has deemed to be reasonable. If the caps are exceeded, MidAmerican Energy has the right to demonstrate the prudence of the expenditures above the caps, subject to regulatory review. Wholesale sales may also be made from the projects to the extent the power is not immediately needed for regulated retail service. MidAmerican Energy expects to invest approximately $1.1 billion in the CBEC Unit 4 and wind generation projects, of which $350.4 million has been invested through December 31, 2004.

MidAmerican Energy recently completed work on its Greater Des Moines Energy Center, a natural gas-fired, combined cycle plant located near Pleasant Hill, Iowa. Construction of the plant was completed in two phases. Commercial operation of the simple cycle mode began on May 5, 2003, and continued through most of 2004, providing 327 MW of accredited capacity in the summer of 2004. Commercial operation of the combined cycle mode began on December 16, 2004. The additional accredited capacity from the completion of the second phase is expected to be 190 MW. MidAmerican Energy expects the total cost of the Greater Des Moines Energy Center to be under the $357.0 million cost cap established by the Iowa Utilities Board ("IUB").

MidAmerican Energy is currently constructing the CBEC Unit 4, a 790 MW (based on expected accreditation) super-critical-temperature, low-sulfur coal-fired plant. MidAmerican Energy will operate the plant and hold an undivided ownership interest as a tenant in common with the other owners of the plant. MidAmerican Energy's ownership interest is 60.67%, equating to 479 MW of output. MidAmerican Energy expects its share of the estimated cost of the project, including transmission facilities, to be approximately $737.0 million, excluding allowance for funds used during construction. Municipal, cooperative and public power utilities will own the remainder, which is a typical ownership arrangement for large base-load plants in Iowa. On February 12, 2003, MidAmerican Energy executed a contract with Mitsui & Co. Energy Development, Inc. ("Mitsui") for the engineering, procurement and construction of the plant. On September 9, 2003, MidAmerican Energy began construction of the plant, which it expects to be completed in the summer of 2007. On December 29, 2004, MidAmerican Energy received an order from the IUB approving construction of the associated transmission facilities and is proceeding with construction.

The second electric generating project currently under construction consists of wind power facilities located at two sites in north central Iowa totaling 310 MW based on the nameplate rating. Generally speaking, accredited capacity ratings for wind power facilities are considerably less than the nameplate ratings due to the varying nature of wind. The current projected accredited capacity for these wind power facilities is approximately 53 MW. MidAmerican Energy will own and operate these facilities, which are expected to cost approximately $323.0 million, including transmission facilities and excluding the allowance for funds used during construction. As of December 31, 2004, wind turbines totaling 160.5 MW at one of the sites were completed and in service. Completion of the remaining turbines is expected by the middle of 2005. On January 31, 2005, the IUB approved ratemaking principles related to expanding the wind power project. An additional 50 MW of capacity, based on the nameplate rating, is expected to be constructed at the sites in 2005 at an estimated cost of $63.0 million.

MidAmerican Energy is interconnected with Iowa utilities and utilities in neighboring states and is party to an electric generation and transmission pooling agreement administered by the MAPP. The MAPP is a voluntary association of electric utilities doing business in Minnesota, Nebraska, North Dakota and the Canadian provinces of Saskatchewan and Manitoba and portions of Iowa, Montana, South Dakota and Wisconsin. Its membership also includes power marketers, regulatory agencies and independent power producers. The MAPP facilitates operation of the transmission system, is responsible for the safety and reliability of the bulk electric system, and has responsibility for administration of the MAPP's Open-Access Transmission Tariff.

Each MAPP participant is required to maintain for emergency purposes a net generating capability reserve of at least 15% above its system peak demand. MidAmerican Energy's reserve margin at peak demand for 2004 was approximately 26%. MidAmerican Energy believes it has adequate electric capacity reserve through 2010, including capacity provided by the generating projects discussed above. However, significantly higher-than-normal temperatures during the cooling season could cause MidAmerican Energy's reserve to fall below the 15% minimum. If MidAmerican Energy fails to maintain the appropriate reserve, significant penalties could be contractually imposed by the MAPP.

MidAmerican Energy's transmission system connects its generating facilities with distribution substations and interconnects with 14 other transmission providers in Iowa and five adjacent states. Under normal operating conditions, MidAmerican Energy's transmission system has adequate capacity to deliver energy to MidAmerican Energy's distribution system and to export and import energy with other interconnected systems.

Gas Operations

MidAmerican Energy is engaged in the procurement, transportation, storage and distribution of natural gas for customers in the midwest region of the United States. MidAmerican Energy purchases natural gas from various suppliers, transports it from the production area to MidAmerican Energy's service territory under contracts with interstate pipelines, stores it in various storage facilities to manage fluctuations in system demand and seasonal pricing, and distributes it to customers through MidAmerican Energy's distribution system.

MidAmerican Energy sells natural gas and transportation services to end-use, or retail, customers and natural gas to other utilities, marketers and municipalities. MidAmerican Energy also transports through its distribution system natural gas purchased independently by a number of end-use customers. During 2004, 45% of total gas delivered through MidAmerican Energy's system for end-use customers was under gas transportation services.

For the year ended December 31, 2004, regulated gas sales, excluding transportation throughput, by MidAmerican Energy by customer class were as follows: 40% were to residential customers, 20% were to small general service customers, 2% were to large general service customers and 38% were wholesale sales. For the year ended December 31, 2004, regulated gas sales, excluding transportation throughput, by MidAmerican Energy by jurisdiction were as follows: 78% to Iowa, 11% to South Dakota, 10% to Illinois and 1% to Nebraska.

There are seasonal variations in MidAmerican Energy's gas business that are principally due to the use of natural gas for heating. In general, 45-55% of MidAmerican Energy's regulated gas revenue is reported in the months of January, February, March and December.

MidAmerican Energy purchases gas supplies from producers and third party marketers. To ensure system reliability, a geographically diverse supply portfolio with varying terms and contract conditions is utilized for the gas supplies. MidAmerican Energy attempts to optimize the value of its regulated assets by engaging in wholesale sales transactions. IUB and South Dakota Public Utilities Commission ("SDPUC") rulings have allowed MidAmerican Energy to retain 50% of the respective jurisdictional margins earned on wholesale sales of natural gas, with the remaining 50% being returned to customers through the purchased gas adjustment clause discussed below.

MidAmerican Energy has rights to firm pipeline capacity to transport gas to its service territory through direct interconnects to the pipeline systems of Northern Natural Gas (an affiliate company), Natural Gas Pipeline Company of America ("NGPL"), Northern Border Pipeline Company ("Northern Border") and ANR Pipeline Company ("ANR"). At times, the capacity available through MidAmerican Energy's firm capacity portfolio may exceed the demand on MidAmerican Energy's distribution system. Firm capacity in excess of MidAmerican Energy's system needs can be resold to other companies to achieve optimum use of the available capacity. Past IUB and SDPUC rulings have allowed MidAmerican Energy to retain 30% of the respective jurisdictional margins earned on the resold capacity, with the remaining 70% being returned to customers through the purchased gas adjustment clause.

MidAmerican Energy is allowed to recover its cost of gas from all of its regulated gas customers through purchased gas adjustment clauses. Accordingly, MidAmerican Energy's regulated gas customers retain the risk associated with the market price of gas. MidAmerican Energy uses several strategies to reduce the market price risk for its gas customers, including the use of storage gas and peak shaving facilities, sharing arrangements to share savings and costs with customers and short-term and long-term financial and physical gas purchase agreements.

MidAmerican Energy utilizes leased gas storage to meet peak day requirements and to manage the daily changes in demand due to changes in weather. The storage gas is typically replaced during the summer months when the demand for gas has historically been lower than during the heating season. In addition, MidAmerican Energy also utilizes three liquefied natural gas ("LNG") plants and two propane-air plants to meet peak day demands in the winter. The storage and peak shaving facilities reduce MidAmerican Energy's dependence on gas purchases during the volatile winter heating season.

In 1995, the IUB gave initial approval of MidAmerican Energy's Incentive Gas Supply Procurement Program. In November 2004, the IUB extended the program through October 31, 2006. Under the program, as amended, MidAmerican Energy is required to file with the IUB every six months a comparison of its gas procurement costs to an index-based reference price. If MidAmerican Energy's cost of gas for the period is less or greater than an established tolerance band around the reference price, then MidAmerican Energy shares a portion of the savings or costs with customers. A similar program is currently in effect in South Dakota through October 31, 2005. Since the implementation of the program, MidAmerican Energy has successfully achieved and shared savings with its natural gas customers.

On February 2, 1996, MidAmerican Energy had its highest peak-day delivery of 1,143,026 Dth. This peak-day delivery consisted of 88% traditional sales service and 12% transportation service of customer-owned gas. As of January 31, 2005, MidAmerican Energy's 2004/2005 winter heating season peak-day delivery of 997,058 Dth was reached on January 14, 2005. This peak-day delivery included 76% traditional sales service and 24% transportation service.

Kern River

Business

Kern River, an indirect wholly-owned subsidiary of MEHC, owns an interstate natural gas transportation pipeline system comprising 1,679 miles of pipeline, with an approximate design capacity of 1,755,575 Dth per day, extending from supply areas in the Rocky Mountains to consuming markets in Utah, Nevada and California. In 2003, a 717 mile expansion project ("2003 Expansion Project"), which was placed in service on May 1, 2003, increased the design capacity of Kern River's pipeline system by 885,575 Dth per day to its current 1,755,575 Dth per day.

Kern River's pipeline consists of two sections: the mainline section and the common facilities. Kern River owns the entire mainline section, which extends from the pipeline's point of origination near Opal, Wyoming through the Central Rocky Mountains area into Daggett, California. The mainline section consists of the original 682 miles of 36-inch pipeline, 628 miles of 36-inch loop pipeline related to the 2003 Expansion Project and 68 miles of various laterals that connect to the mainline.

The common facilities consist of a 219-mile section of original pipeline that extends from the point of interconnection with the mainline in Daggett to Bakersfield, California and an additional 82 miles related to the 2003 Expansion Project. The common facilities are jointly owned by Kern River (approximately 76.8% as of December 31, 2004) and Mojave Pipeline Company ("Mojave"), a wholly owned subsidiary of El Paso Corporation ("El Paso") (approximately 23.2% as of December 31, 2004), as tenants-in-common. Kern River's ownership percentage in the common facilities will increase or decrease pursuant to subsequently completed expansions by the respective joint owners. Kern River has exclusive rights to approximately 1,570,500 Dth per day of the common facilities' capacity, and Mojave has exclusive rights to 400,000 Dth per day of capacity. Operation and maintenance of the common facilities are the responsibility of Mojave Pipeline Operating Company, an affiliate of Mojave.

Transportation Service Agreements

As of December 31, 2004, Kern River had under contract 1,661,575 Dth per day of capacity under long-term firm gas transportation service agreements under which the pipeline receives natural gas on behalf of shippers at designated receipt points, transports the gas on a firm basis up to each shipper's maximum daily quantity and delivers thermally equivalent quantities of gas at designated delivery points. Each shipper pays Kern River the aggregate amount specified in its long-term firm gas transportation service agreement and Kern River's tariff, with such amount consisting primarily of a fixed monthly reservation fee based on each shipper's maximum daily quantity and a commodity charge based on the actual amount of gas transported.

With respect to Kern River's mainline facilities in existence prior to the 2003 Expansion Project, at December 31, 2004, Kern River had 27 long-term firm gas transportation service agreements with 16 shippers, for a total of 848,949 Dth per day of capacity. All but one of these long-term firm gas transportation service agreements expires on or before April 30, 2017. Several of these shippers are major oil and gas companies, or affiliates of such companies. These shippers also include electric generating companies, energy marketing and trading companies, and a gas distribution utility which provides services in Nevada and California.

With respect to Kern River's 2003 Expansion Project, at December 31, 2004, Kern River had 19 long-term firm gas transportation service agreements with 16 shippers, for a total of 812,626 Dth per day of capacity from the pipeline's point of origination near Opal, Wyoming to delivery points primarily in California. Approximately 83% of the 2003 Expansion Project's capacity is contracted for 15 years, with 14 of the long-term firm gas transportation service agreements expiring on April 30, 2018. The remaining 17% of capacity is contracted for 10 years, with five long-term firm gas transportation service agreements expiring on April 30, 2013. Over 95% of the 2003 Expansion Project's capacity has primary delivery points in California, with the flexibility to access secondary delivery points in Nevada and Utah.

Northern Natural Gas

Business

Northern Natural Gas, an indirect wholly–owned subsidiary of MEHC, owns one of the largest interstate natural gas pipeline systems in the United States. It reaches from Texas to Michigan's Upper Peninsula and is engaged in the transmission and storage of natural gas for utilities, municipalities, other pipeline companies, gas marketers, industrial and commercial users and other end users. Northern Natural Gas operates approximately 16,500 miles of natural gas pipelines with a design capacity of 4.4 Bcf per day. Based on a review of relevant industry data, the Northern Natural Gas system is believed to be the largest single pipeline in the United States as measured by pipeline miles and the ninth largest as measured by throughput. Northern Natural Gas' revenue is derived from the interstate transportation and storage of natural gas for third parties. Except for small quantities of natural gas owned for system operations, Northern Natural Gas does not own the natural gas that is transported through its system. Northern Natural Gas' transportation and storage operations are subject to a Federal Energy Regulatory Commission ("FERC") regulated tariff that is designed to allow it an opportunity to recover its costs together with a regulated return on equity.

Northern Natural Gas' system consists of two distinct but operationally integrated markets. Its traditional end–use and distribution market area is at the northern end of the system, including delivery points in Michigan, Illinois, Iowa, Minnesota, Nebraska, Wisconsin and South Dakota, which Northern Natural Gas refers to as the Market Area, and the natural gas supply and service area is at the southern end of the system, including Kansas, Oklahoma, Texas and New Mexico, which Northern Natural Gas refers to as the Field Area. Northern Natural Gas' Field Area is interconnected with many interstate and intrastate pipelines in the national grid system. A majority of Northern Natural Gas' capacity in both the Market Area and the Field Area is dedicated to Market Area customers under long–term firm transportation contracts. Approximately 70% of Northern Natural Gas' firm transportation contracts extend beyond 2007.

Northern Natural Gas' pipeline system transports natural gas primarily to end–user and local distribution markets in the Market Area. Customers consist of local distribution companies ("LDCs"), municipalities, other pipeline companies, gas marketers and end–users. While eight large LDCs account for the majority of Market Area volumes, Northern Natural Gas also serves numerous small communities through these large LDCs as well as municipalities or smaller LDCs and directly serves several large end–users. In 2004, approximately 85% of Northern Natural Gas' revenue was from capacity charges under firm transportation and storage contracts and approximately 80% of that revenue was from LDCs. In 2004, approximately 71% of Northern Natural Gas' revenue was generated from Market Area customer contracts.

The Field Area of Northern Natural Gas' system provides access to natural gas supply from key production areas including the Hugoton, Permian and Anadarko Basins. In each of these areas, Northern Natural Gas has numerous interconnecting receipt and delivery points, with volumes received in the Field Area consisting of both directly connected supply and volumes from interconnections with other pipeline systems. In addition, Northern Natural Gas has the ability to aggregate processable natural gas for deliveries to various gas processing facilities.

In the Field Area, customers holding transportation capacity consist of LDCs, marketers, producers, and end–users. The majority of Northern Natural Gas' Field Area firm transportation is provided to Northern Natural Gas' Market Area firm customers under long–term firm transportation contracts with such volumes supplemented by volumes transported on an interruptible basis or pursuant to short–term firm contracts. In 2004, approximately 19% of Northern Natural Gas' revenue was generated from Field Area customer transportation contracts.

Northern Natural Gas' storage services are provided through the operation of one underground storage field in Iowa, two underground storage facilities in Kansas and one LNG storage peaking unit each at Garner, Iowa and Wrenshall, Minnesota. The three underground natural gas storage facilities and Northern Natural Gas' two LNG storage peaking units have a total working storage capacity of approximately 59 Bcf and over 1.3 Bcf per day of peak day deliverability. These storage facilities provide Northern Natural Gas with operational flexibility for the daily balancing of its system and providing services to customers for meeting their year–round loadswing requirements. In 2004, approximately 10% of Northern Natural Gas' revenue was generated from storage services.

Northern Natural Gas' system is characterized by significant seasonal swings in demand, which provide opportunities to deliver high value–added services. Because of its location and multiple interconnections with other interstate and intrastate pipelines, Northern Natural Gas is able to access natural gas from both traditional production areas, such as the Hugoton, Permian and Anadarko Basins, as well as growing supply areas such as the Rocky Mountains through Trailblazer Pipeline Company, Pony Express Pipeline and Colorado Interstate Gas Pipeline Company ("Colorado Interstate"), and from Canadian production areas through Northern Border, Great Lakes Gas Transmission Limited Partnership ("Great Lakes") and Viking Gas Transmission Company ("Viking"). As a result of Northern Natural Gas' geographic location in the middle of the United States and its many interconnections with other pipelines, Northern Natural Gas augments its steady end–user and LDC revenue by taking advantage of opportunities to provide intermediate transportation through pipeline interconnections for customers in other markets including Chicago, Illinois, other parts of the Midwest and Texas.

Kern River and Northern Natural Gas Competition

Each of Kern River and Northern Natural Gas has several customers who account for greater than 10% of its revenue. The loss of any one or more of these, if not replaced, could have a material adverse effect on Kern River's and Northern Natural Gas' respective businesses.

Pipelines compete on the basis of cost (including both transportation costs and the relative costs of the natural gas they transport), flexibility, reliability of service and overall customer service. Industrial end–users often have the ability to choose from alternative fuel sources in addition to natural gas, such as fuel oil and coal. Natural gas competes with other forms of energy, including electricity, coal and fuel oil, primarily on the basis of price. Legislation and governmental regulations, the weather, the futures market, production costs, and other factors beyond the control of Kern River and Northern Natural Gas influence the price of natural gas.

Kern River competes with various interstate pipelines and its shippers in serving the southern California, Las Vegas, Nevada and Salt Lake City, Utah market areas, in order to market any unutilized or unsubscribed capacity. Kern River provides its customers with supply diversity through pipeline interconnections with Northwest Pipeline, Colorado Interstate, Overland Trail Pipeline, and Questar Pipeline. These interconnections, in addition to the direct interconnections to natural gas processing facilities, allow Kern River to access natural gas reserves in Colorado, northwestern New Mexico, Wyoming, Utah and the Western Canadian Sedimentary Basin.

Kern River is the only interstate pipeline that presently delivers natural gas directly from a gas supply basin into the intrastate California market, which enables its customers to avoid paying a "rate stack" (i.e., additional transportation costs attributable to the movement from one or more interstate pipeline systems to an intrastate system within California). Kern River believes that its rate structure and access to upstream pipelines/storage facilities and to economic Rocky Mountain gas reserves increases its competitiveness and attractiveness to end–users. Kern River believes it is advantaged relative to other competing interstate pipelines because its relatively new pipeline can be expanded at comparatively lower costs and will require significantly less capital expenditure to comply with the Pipeline Safety Improvement Act of 2002 ("PSIA") than other systems. Kern River's levelized rate structures under expansion rates and settlement rates also provide customers with greater rate certainty. Kern River's market position depends to a significant degree, however, on the availability and favorable price of gas produced in the Rocky Mountain area, an area that in recent years has attracted considerable expansion of pipeline capacity serving markets other than California and Nevada. In addition, Kern River's 2003 Expansion Project relies substantially on long–term transportation service agreements with several electric generation companies, who face significant competitive and financial pressures due to, among other things, the financial stress of energy markets and apparent over–building of electric generation capacity in California and other markets.

Northern Natural Gas has been able to provide cost competitive service because of its access to a variety of relatively low cost gas supply basins, its cost control measures and its relatively high load factor throughput, which lowers the cost per unit of transportation. Although Northern Natural Gas has experienced pipeline system bypass affecting a small percentage of its market, to date Northern Natural Gas has been able to more than offset any load lost to bypass in the Northern Natural Gas Market Area through expansion projects.

Major competitors in the Northern Natural Gas Market Area include ANR, Northern Border and NGPL. Other competitors include Great Lakes and Viking. In the Field Area, Northern Natural Gas competes with a large number of other competitors. Particularly in the Field Area, a significant amount of Northern Natural Gas' capacity is used on an interruptible or short–term basis. In summer months, Northern Natural Gas' Market Area customers often release significant amounts of their unused firm capacity to other shippers, which released capacity competes with Northern Natural Gas' short–term or interruptible services.

Although Northern Natural Gas will need to aggressively compete to retain and build load, Northern Natural Gas believes that current and anticipated changes in its competitive environment have created opportunities to serve existing customers more efficiently and to meet certain growing supply needs. While LDCs' peak day growth is driven by population growth and alternative fuel replacement, new off–peak demand growth is being driven primarily by power and ethanol plant expansion. Off–peak demand growth is important to Northern Natural Gas as this demand can generally be satisfied with little or no requirement for the construction of new facilities. Northern Natural Gas has been successful in competing for a significant amount of the increased demand related to the construction of new power and ethanol plants. Over the last five years, Northern Natural Gas has contracted approximately 281 mmcf per day of firm volume on its system from such new facilities, of which approximately 262 mmcf per day is currently in service and approximately 19 mmcf per day is scheduled to begin service in 2005.

Pipeline Development Project

MEHC and a subsidiary, Alaska Gas Transmission Company, LLC ("Alaska Gas"), are two of several other parties, including existing producers of oil from Alaska's North Slope, involved in a competitive selection process to develop and construct a proposed 745–mile natural gas pipeline which would be subject to FERC regulation and would extend from the North Slope area near Prudhoe Bay, Alaska south to the Alaska–Yukon border near Beaver Creek, Alaska. The State of Alaska is expected to select a preferred party for the project by the end of the second quarter of 2005. If either MEHC or Alaska Gas are selected, further approvals, including from FERC, would be required and significant development and construction risk would remain with respect to the pipeline project.

CE Electric UK

Business

CE Electric UK, an indirect wholly–owned subsidiary of MEHC, owns, primarily, two companies that distribute electricity in the United Kingdom, Northern Electric and Yorkshire Electricity. Northern Electric and Yorkshire Electricity, collectively, are the third largest electricity distribution business in the United Kingdom, serving more than 3.7 million customers in an area of approximately 10,000 square miles.

Electricity Distribution

Northern Electric's and Yorkshire Electricity's operations consist primarily of the distribution of electricity in the United Kingdom. Northern Electric and Yorkshire Electricity receive electricity from the national grid transmission system and distribute it to their customers' premises using their network of transformers, switchgear and cables. Substantially all of the end users in Northern Electric's and Yorkshire Electricity's distribution service areas are connected to the Northern Electric and Yorkshire Electricity networks and electricity can only be delivered through their distribution system, thus providing Northern Electric and Yorkshire Electricity with distribution volume that is relatively stable from year to year. Northern Electric and Yorkshire Electricity charge fees for the use of the distribution system to the suppliers of electricity. The suppliers, which purchase electricity from generators and sell the electricity to end–user customers, use Northern Electric's and Yorkshire Electricity's distribution networks pursuant to an industry standard "Use of System Agreement", which Northern Electric and Yorkshire Electricity separately entered into with the various suppliers of electricity in their respective distribution areas. One such supplier, Innogy Holdings plc ("Innogy") and certain of its affiliates, represented approximately 47% of the total revenues of Northern Electric and Yorkshire Electricity in 2004. The fees that may be charged by Northern Electric and Yorkshire Electricity for use of their distribution systems are controlled by a formula prescribed by the United Kingdom's electricity regulatory body that limits increases (and may require decreases) based upon the rate of inflation in the United Kingdom and other regulatory action.

At December 31, 2004, Northern Electric's and Yorkshire Electricity's electricity distribution network (excluding service connections to consumers) on a combined basis included approximately 33,000 kilometers of overhead lines and approximately 64,000 kilometers of underground cables. In addition to the circuits referred to above, at December 31, 2004, Northern Electric's and Yorkshire Electricity's distribution facilities also included approximately 58,000 transformers and approximately 750 primary substations. Substantially all substations are owned, with the balance being leased from third parties, most of which have remaining terms of at least 10 years.

Utility Services

Integrated Utility Services Limited, CE Electric UK's indirect wholly–owned subsidiary, is an engineering contracting company whose main business is providing electrical connection services on behalf of Northern Electric's and Yorkshire Electricity's distribution businesses and providing electrical infrastructure contracting services to third parties.

Gas Exploration and Production

CalEnergy Gas (Holdings) Limited ("CE Gas"), CE Electric UK's indirect wholly–owned subsidiary, is a gas exploration and production company that is focused on developing integrated upstream gas projects in Australia, the United Kingdom and Poland. Its upstream gas business consists of exploration, development and production projects, resulting in the sale of gas to third parties.

In Australia, CE Gas has construction and development projects in the Bass, Otway and Perth Basins. The Yolla construction project in the Bass Basin is a gas and gas liquids project in which CE Gas holds a 20% interest. The project, operated by Origin Energy of Australia, is nearing completion and includes an approximately 145 kilometer subsea pipeline across the Bass Strait off southern Victoria. The Bass Project is expected to be fully operational in 2005. The gas from the project will be sold to Origin Energy's retail affiliate, the liquefied petroleum gas will be sold to Elgas Limited, the largest marketer of liquefied petroleum gas in Australia, and the condensate will be sold to The Shell Company of Australia Limited. Also in the Bass Basin, CE Gas holds a 23.5% interest in the Trefoil discovery. This gas and gas liquids discovery was drilled in late 2004 and the commercial development potential is currently under evaluation. The Otway project, in which CE Gas holds a 6% interest, is operated by Woodside of Australia. This project received construction approval during 2004. Construction has now commenced with first production expected in 2006. Further prospecting in the three Otway Basin exploration permits in which CE Gas holds a 6% interest continues to be investigated. CE Gas also has a one–third interest in permit EP 437 in the onshore northern Perth Basin. The permitting process for this project was successfully completed in 2004.

In the United Kingdom, CE Gas continues to retain its 5% interest in the Victor Field, which is a gas field located in the North Sea, and during 2004, successfully applied for, and was granted, a new exploration permit in which CE Gas has a 100% interest.

In Poland, CE Gas retains its development interest in the Polish Trough. CE Gas, together with its joint venture partners FX Energy and the Polish Oil and Gas Company, has drilled the Zaniemysl #3 well in the Fences I Concession. This resulted in a commercial gas discovery early in 2004 in which CE Gas holds a 24.5% interest. This discovery is currently being developed and it is anticipated that the field will be on production in early 2006.

CalEnergy Generation–Foreign

Business

The CalEnergy Generation–Foreign platform consists of MEHC's indirect ownership of the Upper Mahiao, Mahanagdong and Malitbog projects, which are geothermal power plants located on the island of Leyte in the Philippines, and the Casecnan project, a combined irrigation and hydroelectric power generation project located in the central part of the island of Luzon in the Philippines. Each plant possesses an operating margin that allows for production in excess of the amount listed below. Utilization of this operating margin is based upon a variety of factors and can be expected to vary between calendar quarters under normal operating conditions.

The following table sets out certain information concerning CalEnergy Generation–Foreign's non–utility power projects in operation as of December 31, 2004:

Project[1]	Facility Net Capacity (MW)[2]	Net MW Owned[2]	Fuel	Contract Expiration	Power Purchaser/ Guarantor[3]
Upper Mahiao	119	119	Geo	2006	PNOC–EDC/ROP
Mahanagdong	155	150	Geo	2007	PNOC–EDC/ROP
Malitbog	216	216	Geo	2007	PNOC–EDC/ROP
Casecnan [4]	150	150	Hydro	2021	NIA/ROP
Total International Projects	640	635			

(1) All projects are located in the Philippines, are governed by contracts which are mainly payable in U.S. dollars and carry political risk insurance.

(2) Actual MW may vary depending on operating, geothermal reservoir and water flow conditions, as well as plant design. Facility Net Capacity (MW) represents the contract capacity for the facility. Net MW Owned indicates current legal ownership, but, in some cases, does not reflect the current allocation of distributions.

(3) Philippine National Oil Company–Energy Development Corporation ("PNOC–EDC"), Republic of the Philippines ("ROP"), and National Irrigation Administration ("NIA"). NIA also pays CE Casecnan Water and Energy Company, Inc. ("CE Casecnan"), an indirect subsidiary of MEHC, for the delivery of water and electricity by CE Casecnan. Separate sovereign undertakings of the ROP support PNOC–EDC's and NIA's respective obligations for each project.

(4) Net MW Owned of approximately 150 MW is subject to repurchase rights of up to 15% of the project by an initial minority shareholder and a dispute with the other initial minority shareholder regarding an additional 15% of the project. Refer to "Item 3. Legal Proceedings" of this Form 10–K for additional information.

The Upper Mahiao project is a 119 net MW geothermal power project owned and operated by CE Cebu Geothermal Power Company, Inc. ("CE Cebu"), a Philippine corporation that is 100% indirectly owned by MEHC. On June 18, 2006, the end of the ten–year cooperation period, the Upper Mahiao facility will be transferred to PNOC–EDC at no cost on an "as–is" basis.

The Upper Mahiao project takes geothermal steam and fluid, provided by PNOC–EDC at no cost, and converts its thermal energy into electrical energy which is sold to PNOC–EDC on a "take–or–pay" basis, which in turn sells the power to the National Power Corporation ("NPC"), the government–owned and controlled corporation that is the primary supplier of electricity in the Philippines, for distribution on the island of Cebu. PNOC–EDC pays CE Cebu a fee based on the plant capacity. Pursuant to an amendment to the Upper Mahiao energy conversion agreement entered into on August 31, 2003, CE Cebu and PNOC–EDC agreed that the plant capacity for purposes of the fee would equal the contractually specified level of 118.5 MW. PNOC–EDC also pays CE Cebu a fee based on the electricity actually delivered to PNOC–EDC (approximately 5% of total contract revenue). Payments under the Upper Mahiao agreement are denominated in U.S. dollars, or computed in U.S. dollars and paid in pesos at the then–current exchange rate, except for the energy fee. PNOC–EDC's payment requirements, and its other obligations under the Upper Mahiao agreement, are supported by the ROP through a performance undertaking.

The Mahanagdong project is a 155 net MW geothermal power project owned and operated by CE Luzon Geothermal Power Company, Inc. ("CE Luzon"), a Philippine corporation of which MEHC indirectly owns 100% of the common stock. Another industrial company owns an approximate 3% preferred equity interest in the Mahanagdong project. The Mahanagdong project sells 100% of its capacity to PNOC–EDC, which in turn sells the power to the NPC for distribution on the island of Luzon.

The terms of the Mahanagdong energy conversion agreement are substantially similar to those of the Upper Mahiao agreement. On July 25, 2007, the end of the ten year cooperation period, the Mahanagdong facility will be transferred to PNOC–EDC at no cost on an "as–is" basis. PNOC–EDC pays CE Luzon a fee based on the plant capacity. Pursuant to an amendment to the Mahanagdong energy conversion agreement entered into on August 31, 2003, CE Luzon and PNOC–EDC agreed that the plant capacity would equal the contractually specified level, which declines from approximately 155 MW in 2004 to approximately 153 MW in the last year of the cooperation period. The capacity fees are approximately 97% of total revenue at the contractually agreed capacity levels and the energy fees are approximately 3% of such total revenue. PNOC–EDC's payment requirements, and its other obligations under the Mahanagdong agreement, are supported by the ROP through a performance undertaking.

The Malitbog project is a 216 net MW geothermal project owned and operated by Visayas Geothermal Power Company ("VGPC"), a Philippine general partnership that is indirectly wholly owned by MEHC. VGPC sells 100% of its capacity on substantially the same basis as described above for the Upper Mahiao project to PNOC–EDC, which sells the power to the NPC for distribution on the islands of Cebu and Luzon.

The electrical energy produced by the facility is sold to PNOC–EDC on a "take–or–pay" basis. These capacity payments equal 100% of total revenue. Pursuant to an amendment to the Malitbog energy conversion agreement entered into on August 31, 2003, VGPC and PNOC–EDC agreed that the plant capacity would equal the contractually specified level of 216 MW. A substantial majority of the capacity payments are required to be made by PNOC–EDC in U.S. dollars. The portion of capacity payments payable to PNOC–EDC in pesos is expected to vary over the term of the Malitbog project energy conversion agreement from 10% of VGPC's revenue in the early years of the cooperation period to 23% of VGPC's revenue at the end of the cooperation period. Payments made in pesos will generally be made to a peso–denominated account and will be used to pay peso–denominated operation and maintenance expenses with respect to the Malitbog project and Philippine withholding taxes, if any, on the Malitbog project's debt service. The ROP has entered into a performance undertaking, which provides that all of PNOC–EDC's obligations pursuant to the Malitbog energy conversion agreement carry the full faith and credit of, and are affirmed and guaranteed by, the ROP. The Malitbog energy conversion agreement ten year cooperation period expires on July 25, 2007, at which time the facility will be transferred to PNOC–EDC at no cost on an "as is" basis.

The Casecnan project is a combined irrigation and hydroelectric power generation project. The Casecnan project consists generally of diversion structures in the Casecnan and Taan rivers that capture and divert excess water in the Casecnan watershed by means of concrete, in–stream diversion weirs and transfer that water through a transbasin tunnel of approximately 23 kilometers. During the water transfer, the elevation differences between the two watersheds allows electrical energy to be generated at an approximately 150 MW rated capacity power plant, which is located in an underground powerhouse cavern at the end of the transbasin water tunnel. A tailrace discharge tunnel then delivers water to the existing underutilized water storage reservoir at Pantabangan, providing additional water for irrigation and increasing the potential electrical generation at two existing downstream hydroelectric facilities of NPC. Once in the reservoir at Pantabangan, the water is under the control of NIA.

CE Casecnan owns and operates the Casecnan project under the terms of the Project Agreement between CE Casecnan and NIA, which was modified by a Supplemental Agreement between CE Casecnan and NIA effective on October 15, 2003 (the "Supplemental Agreement"). CE Casecnan will own and operate the project for a 20–year cooperation period which commenced on December 11, 2001, the start of the project's commercial operations, after which ownership and operation of the project will be transferred to NIA at no cost on an "as–is" basis. The Casecnan project is dependant upon sufficient rainfall to generate electricity and deliver water. The seasonality of rainfall patterns and the variability of rainfall from year to year, all of which are outside the control of CE Casecnan, have a material impact on the amounts of electricity generated and water delivered by the Casecnan project. Rainfall has historically been highest from June through December and lowest from January through May. The contractual terms for water delivery fees and variable energy fees (described below) can produce significant variability in revenue between reporting periods. Summarized below are significant provisions of the Project Agreement as modified by the Supplemental Agreement.

Under the Supplemental Agreement, CE Casecnan is paid a fee for the delivery of water and a fee for the generation of electricity. With respect to water deliveries, the water delivery fee is payable in a fixed monthly payment based upon an average annual water delivery of 801.9 million cubic meters, pro-rated to approximately 66.8 million cubic meters per month, multiplied by the applicable per cubic meter rate through December 25, 2008. For each contract year starting from December 25, 2003 and ending on December 25, 2008, a water delivery credit (deferred revenue) is computed equal to 801.9 million cubic meters minus the greater of actual water deliveries or 700.0 million cubic meters – the minimum threshold. The water delivery credit at the end of the contract year is available to be earned in the succeeding contract years ending December 25, 2008. The cumulative water delivery credit at December 25, 2008, if any, shall be amortized from December 25, 2008 through December 25, 2013. Accordingly, in recognizing revenue, the water delivery fees are recorded each month pro-rated to approximately 58.3 million cubic meters per month until the minimum threshold has been reached for the contract year. Subsequent water delivery fees within the contract year are based on actual water delivered.

With respect to electricity, CE Casecnan is paid a guaranteed energy delivery fee each month equal to the product obtained by multiplying 19 GWh times $0.1596 per kWh. The guaranteed energy delivery fee is payable regardless of the amount of energy actually generated and delivered by CE Casecnan in any month. NIA also pays CE Casecnan an excess energy delivery fee, which is a variable amount based on actual electrical energy, if any, delivered in each month in excess of 19 GWh multiplied by (i) $0.1509 per kWh through the end of 2008 and (ii) commencing in 2009, $0.1132 (escalating at 1% per annum thereafter) per kWh, provided that any deliveries of energy in excess of 490 GWh but less than 550 GWh per year are paid for at a rate of 1.3 pesos per kWh and deliveries in excess of 550 GWh per year are at no cost to NIA. Within each contract year, no variable energy fees are payable until energy in excess of the cumulative 19 GWh per month for the contract year to date has been delivered. If the Casecnan project is not dispatched up to 150 MW whenever water is available, NIA will pay for energy that could have been generated but was not as a result of such dispatch constraint.

The ROP has provided a Performance Undertaking under which NIA's obligations under the Project Agreement, as supplemented by the Supplemental Agreement, are guaranteed by the full faith and credit of the ROP. The Project Agreement and the Performance Undertaking provide for the resolution of disputes by binding arbitration in Singapore under international arbitration rules.

In connection with the signing of the Supplemental Agreement, CE Casecnan received written confirmation from the Private Sector Assets and Liabilities Management Corporation that the issues with respect to the Casecnan project that had been raised by the interagency review of independent power producers in the Philippines or that may have existed with respect to the project under certain provisions of the Electric Power Industry Reform Act of 2001 ("EPIRA"), which authorized the ROP to seek to renegotiate certain contracts such as the Project Agreement, have been satisfactorily addressed by the Supplemental Agreement.

CalEnergy Generation–Domestic

Business

The subsidiaries comprising the Company's CalEnergy Generation–Domestic platform own interests in 15 operating non–utility power projects in the United States. The following table sets out certain information concerning CalEnergy Generation–Domestic's non–utility power projects in operation as of December 31, 2004:

Operating Project	Facility Net Capacity (MW)[1]	Net MW Owned[1]	Fuel	Location	Power Purchase Agreement Expiration	Power Purchaser[2]
Cordova	537	537	Gas	Illinois	2017	El Paso
Salton Sea I	10	5	Geo	California	2017	Edison
Salton Sea II	20	10	Geo	California	2020	Edison
Salton Sea III	50	25	Geo	California	2019	Edison
Salton Sea IV	40	20	Geo	California	2026	Edison
Salton Sea V	49	25	Geo	California	Varies	Various
Vulcan	34	17	Geo	California	2016	Edison
Elmore	38	19	Geo	California	2018	Edison
Leathers	38	19	Geo	California	2019	Edison
Del Ranch	38	19	Geo	California	2019	Edison
CE Turbo	10	5	Geo	California	Varies	Various
Saranac	240	90	Gas	NewYork	2009	NYSE&G
Power Resources	212	106	Gas	Texas	2005	ONEOK
Yuma	50	25	Gas	Arizona	2024	SDG&E
Roosevelt Hot Springs	23	17	Geo	Utah	2020	UP&L
Total Domestic Operating Projects	1,389	939				

(1) Represents nominal net generating capability (accredited for Cordova and contract capacity for most others). Actual MW may vary depending on operating and reservoir conditions and plant design. Net MW Owned indicates current legal ownership, but, in some cases, does not reflect the current allocation of partnership distributions.

(2) El Paso; Southern California Edison Company ("Edison"); New York State Electric & Gas Corporation ("NYSE&G"); ONEOK Energy, Marketing and Trading Company, L.P. ("ONEOK"); San Diego Gas & Electric Company ("SDG&E"); and Utah Power & Light Company ("UP&L").

Cordova Energy owns a 537 MW gas–fired power plant in the Quad Cities, Illinois area (the "Cordova Project"). CalEnergy Generation Operating Company, an indirect wholly owned subsidiary of MEHC, operates the Cordova Project which commenced commercial operations in June 2001. Cordova Energy entered into a power purchase agreement with a unit of El Paso, under which El Paso will purchase all of the capacity and energy from the project until December 31, 2019. The contract year under the power purchase agreement extends from May 15th in a year to May 14th in the subsequent year. For each contract year, Cordova Energy has an option to recall from El Paso 50% of the output of the Cordova Project, reducing El Paso's purchase obligation to 50% of the output during such contract year. Cordova Energy exercised such option for the contract year ended May 14, 2004, and the recalled output was sold to MidAmerican Energy. Cordova Energy did not exercise the recall option for the contract year which commenced on May 15, 2004, and El Paso is required to purchase 100% of the capacity and energy from the project for the current contract year and, subject to future exercises of the recall option, for the remainder of the term of the power purchase agreement. The Company is aware there have been public announcements that El Paso's financial condition has deteriorated as a result of, among other things, reduced liquidity and will continue to monitor the situation.

MEHC has a 50% ownership interest in CE Generation, LLC ("CE Generation") whose affiliates currently operate ten geothermal plants in the Imperial Valley in California (the "Imperial Valley Projects"). The Imperial Valley Projects include the "Salton Sea Projects" consisting of the Salton Sea I, Salton Sea II, Salton Sea III, Salton Sea IV and Salton Sea V projects and the "Partnership Projects" consisting of the Vulcan, Elmore, Leathers, Del Ranch and CE Turbo projects.

Each of the Imperial Valley Projects, excluding the Salton Sea V and CE Turbo projects, sells electricity to Edison pursuant to a separate Standard Offer No. 4 Agreement ("SO4 Agreement") or a negotiated power purchase agreement. Each power purchase agreement is independent of the others, and the performance requirements specified within one such agreement apply only to the project subject to the agreement. The power purchase agreements provide for capacity payments, capacity bonus payments and energy payments. Edison makes fixed annual capacity payments and capacity bonus payments to the applicable projects to the extent that capacity factors exceed certain benchmarks. The price for capacity is fixed for the life of the SO4 Agreements and is significantly higher in the months of June through September.

Energy payments under the original SO4 Agreements were based on the cost that Edison avoids by purchasing energy from the project instead of obtaining the energy from other sources ("Avoided Cost of Energy"). In June and November 2001, the Imperial Valley Projects (except the Salton Sea IV, Salton Sea V and CE Turbo projects), which receive Edison's Avoided Cost of Energy, entered into agreements that provide for amended energy payments under the SO4 Agreements. The amendments provide for fixed energy payments per kWh in lieu of Edison's Avoided Cost of Energy. The fixed energy payment was 3.25 cents per kWh from December 1, 2001 through April 30, 2002 and is 5.37 cents per kWh commencing May 1, 2002 for a five–year period. Following the five–year period, the energy payments revert back to Edison's Avoided Cost of Energy.

For the years ended December 31, 2004, 2003 and 2002, Edison's average Avoided Cost of Energy was 5.9 cents per kWh, 5.4 cents per kWh and 3.5 cents per kWh, respectively. Estimates of Edison's future Avoided Cost of Energy vary substantially from year to year primarily based on the future cost of natural gas.

On May 20, 2003, Salton Sea Power LLC ("Salton Sea Power") entered into a power sales agreement with Riverside. Under the terms of the agreement, Salton Sea Power sells up to 20 MW of energy generated from the Salton Sea V project to Riverside. Sales under the agreement commenced June 1, 2003 and will terminate May 31, 2013.

Pursuant to 33–year power sales agreements, the Salton Sea V and CE Turbo projects had sold a portion of their net output to CalEnergy Minerals LLC ("Minerals") for the Zinc Recovery Project's full electrical energy requirements. The agreements provide for energy payments based on the market rates available to the Salton Sea V and CE Turbo projects, adjusted for wheeling costs. On September 10, 2004, Minerals ceased operations of the Zinc Recovery Project. Accordingly, except for sales during the dismantling and decommissioning phases of the Zinc Recovery Project, no further sales to Minerals are expected. The Salton Sea V project sells its remaining output and the CE Turbo project sells its available power under the transaction agreement as described in the next paragraph.

Pursuant to a transaction agreement dated January 29, 2003, the Salton Sea V project and the CE Turbo project began selling available power to TransAlta USA Inc. ("TransAlta") on February 12, 2003 based on percentages of the Dow Jones SP–15 Index. The transaction agreement shall continue until the earlier of (a) 30 days following a written notice of termination and (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party.

The Saranac project is a 240 net MW natural gas–fired cogeneration facility located in Plattsburgh, New York owned by the Saranac Partnership, which is indirectly owned by subsidiaries of CE Generation, ArcLight Capital Holdings and General Electric Capital Corporation. The Saranac project has entered into a 15–year power purchase agreement with NYSE&G, 15–year steam purchase agreements with Georgia–Pacific Corporation and Pactiv Corporation and a 15–year natural gas supply contract with Coral Energy to supply 100% of the Saranac project's fuel requirements. Each of the power purchase agreement, the steam purchase agreements and the natural gas supply contract contains rates that are fixed for the respective contract terms and expire in 2009.

The Power Resources project is a 212 net MW natural gas–fired cogeneration project owned by Power Resources Ltd. ("Power Resources"), an indirect wholly–owned subsidiary of CE Generation. On August 5, 2003, Power Resources entered into a Tolling Agreement with ONEOK. The agreement commenced October 1, 2003 and expires December 31, 2005. Under the terms of the agreement, Power Resources, as an exempt wholesale generator ("EWG"), sells its electricity and capacity to ONEOK for a fixed amount per kW–month plus a variable operating and maintenance fee per MWh. In addition, ONEOK pays annual turbine start–up costs.

The Yuma project is a 50 net MW natural gas–fired cogeneration project in Yuma, Arizona owned by Yuma Cogeneration Associates ("YCA"), providing its electricity to SDG&E under an existing 30–year power purchase contract which commenced in May 1994 the ("Yuma PPA"). MEHC has guaranteed all of the obligations of YCA under the Yuma PPA or any other agreement with SDG&E relating to or arising out of the Yuma PPA. YCA also has executed steam sales contracts with Queen Carpet, Inc. to act as its thermal host.

The Roosevelt Hot Springs project is a geothermal steam field which supplies geothermal steam to a 23 net MW power plant owned by UP&L located on the Roosevelt Hot Springs property under a 30-year steam sales contract expiring in 2020. The Company obtained a cash prepayment under a pre-sale agreement with UP&L whereby UP&L paid in advance for the steam produced by the steam field. MEHC guarantees the performance of this subsidiary and must make certain penalty payments to UP&L if the steam produced does not meet certain quantity and quality requirements.

Zinc Recovery Project

Indirect wholly-owned subsidiaries of MEHC, own the rights to commercial quantities of extractable minerals from elements in solution in the geothermal brine and fluids utilized at the Imperial Valley Projects and a zinc recovery plant constructed near the Imperial Valley Projects designed to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the "Zinc Recovery Project").

The Zinc Recovery Project began limited production during December 2002 and continued limited production until September 10, 2004. Efforts to increase production had continued since the Zinc Recovery Project was placed in service with an emphasis on process modification. Management had been assessing the long-term economic viability of the Zinc Recovery Project in light of continuing cash flow deficits and operating losses and the efforts to increase production, and had continued to evaluate the expected impact of the planned improvements to the extraction process during the third quarter of 2004. Furthermore, management had been exploring other operating alternatives, such as establishing strategic partnerships and consideration of ceasing operations of the Zinc Recovery Project.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. In connection with ceasing operations, the Zinc Recovery Project's assets are being dismantled and sold and certain employees of the operator of the Zinc Recovery Project have been paid one-time termination benefits. Implementation of a disposal plan began in September 2004 and will continue in 2005. Refer to Note 3 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional discussion regarding the Company's discontinued operations.

Development Projects

MEHC's indirect wholly-owned subsidiary, CE Obsidian Energy LLC ("Obsidian"), is evaluating the development of a 185 net MW geothermal facility in the Imperial Valley in California. Substantially all of the output of the facility would be sold to the Imperial Irrigation District ("IID") pursuant to a power purchase agreement. TransAlta is currently funding 50% of the development costs of this project. Significant development and construction risk remains with this project.

HomeServices

Business

HomeServices is the second largest full-service residential real estate brokerage firm in the United States. In addition to providing traditional residential real estate brokerage services, HomeServices offers other integrated real estate services, including mortgage originations, mortgage banking, title and closing services and other related services. HomeServices currently operates in 18 states under the following brand names: Carol Jones REALTORS, CBSHOME Real Estate, Champion Realty, Edina Realty Home Services, Esslinger-Wooten-Maxwell REALTORS, First Realty/GMAC, HOME Real Estate, Iowa Realty, Jenny Pruitt and Associates REALTORS, Long Realty, Prudential California Realty, Prudential Carolinas Realty, RealtySouth, Rector-Hayden REALTORS, Reece & Nichols, Semonin REALTORS and Woods Bros. Realty. HomeServices generally occupies the number one or number two market share position in each of its major markets based on aggregate closed transaction sides. HomeServices' major markets consist of the following metropolitan areas: Minneapolis and St. Paul, Minnesota; Los Angeles and San Diego, California; Kansas City, Kansas; Kansas City, Missouri; Des Moines, Iowa; Omaha and Lincoln, Nebraska; Birmingham and Auburn, Alabama; Tucson, Arizona; Winston-Salem and Charlotte, North Carolina; Louisville and Lexington, Kentucky; Annapolis, Maryland; Atlanta, Georgia; Miami, Florida and Springfield, Missouri.

Acquisitions

In 2004, HomeServices separately acquired six real estate companies for an aggregate purchase price of $30.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2003, these real estate companies had combined revenue of $95.7 million on approximately 15,000 closed sides representing $3.2 billion of sales volume. In 2003, HomeServices separately acquired four real estate companies for an aggregate purchase price of $36.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2002, these real estate companies had combined revenue of $102.9 million on approximately 16,000 closed sides representing $3.6 billion of sales volume.

Regulatory Matters

General Regulation

The Company's operating platforms are subject to a number of federal, state, local and international regulations.

MidAmerican Energy

MidAmerican Energy is subject to comprehensive regulation by the FERC as well as utility regulatory agencies in Iowa, Illinois and South Dakota that significantly influences the operating environment and the recoverability of costs from utility customers. Except for Illinois, that regulatory environment has to date, in general, given MidAmerican Energy an exclusive right to serve electricity customers within its service territory and, in turn, the obligation to provide electric service to those customers. In Illinois, all customers are free to choose their electricity provider and MidAmerican Energy has an obligation to serve customers at regulated rates that leave MidAmerican Energy's system, but later choose to return. To date, there has been no significant loss of customers from MidAmerican Energy's existing regulated Illinois rates.

In conjunction with the March 1999 approval by the IUB of the MidAmerican Energy acquisition and March 2000 affirmation as part of the Company's acquisition by a private investor group, MidAmerican Energy committed to the IUB to use commercially reasonable efforts to maintain an investment grade rating on its long-term debt and to maintain its common equity level above 42% of total capitalization unless circumstances beyond its control result in the common equity level decreasing to below 39% of total capitalization. MidAmerican Energy must seek the approval of the IUB of a reasonable utility capital structure if MidAmerican Energy's common equity level decreases below 42% of total capitalization, unless the decrease is beyond the control of MidAmerican Energy. MidAmerican Energy is also required to seek the approval of the IUB if MidAmerican Energy's equity level decreases to below 39%, even if the decrease is due to circumstances beyond the control of MidAmerican Energy. If MidAmerican Energy's common equity level were to drop below the required thresholds, MidAmerican Energy's ability to issue debt could be restricted.

With the elimination of its energy adjustment clause in Iowa in 1997, MidAmerican Energy is financially exposed to movements in energy prices. Although MidAmerican Energy believes it has sufficient generation under typical operating conditions for its retail electric needs, a loss of adequate generation by MidAmerican Energy requiring the purchase of replacement power at a time of high market prices could subject MidAmerican Energy to losses on its energy sales.

Under three settlement agreements between MidAmerican Energy, the Iowa Office of Consumer Advocate ("OCA") and other intervenors, approved by the IUB, MidAmerican Energy has agreed not to seek a general increase in electric rates prior to 2012 unless its Iowa jurisdictional electric return on equity for any year falls below 10%. Prior to filing for a general increase in electric rates, MidAmerican Energy is required to conduct 30 days of good faith negotiations with the signatories to the settlement agreements to attempt to avoid a general increase in such rates. As a party to the settlement agreements, the OCA has agreed not to request or support any decrease in MidAmerican Energy's Iowa electric rates prior to January 1, 2012. The settlement agreements specifically allow the IUB to approve or order electric rate design or cost of service rate changes that could result in changes to rates for specific customers as long as such changes do not result in an overall increase in revenues for MidAmerican Energy. The settlement agreements also each provide that portions of revenues associated with Iowa retail electric returns on equity within specified ranges will be recorded as a regulatory liability.

Under the first settlement agreement, which was approved by the IUB on December 21, 2001, and is effective through December 31, 2005, an amount equal to 50% of revenues associated with returns on equity between 12% and 14%, and 83.33% of revenues associated with returns on equity above 14%, in each year is recorded as a regulatory liability. The second settlement agreement, which was filed in conjunction with MidAmerican Energy's application for ratemaking principles on its wind power project and was approved by the IUB on October 17, 2003, provides that during the period January 1, 2006 through December 31, 2010, an amount equal to 40% of revenues associated with returns on equity between 11.75% and 13%, 50% of revenues associated with returns on equity between 13% and 14%, and 83.3% of revenues associated with returns on equity above 14%, in each year will be recorded as a regulatory liability.

The third settlement agreement was approved by the IUB on January 31, 2005, in conjunction with MidAmerican Energy's proposed expansion of its wind power project by up to 90 MW. This settlement extended through 2011 MidAmerican Energy's commitment not to seek a general increase in electric rates unless its Iowa jurisdictional electric return on equity falls below 10%. It also extended the revenue sharing mechanism through 2011. In addition, the OCA agreed to commit not to seek any decrease in Iowa electric base rates to become effective before January 1, 2012. The total capacity added as the result of the wind expansion project is currently projected to be 50 MW.

The regulatory liabilities created by the three settlements are recorded as a regulatory charge in depreciation and amortization expense when the liability is accrued. Additionally, interest expense is accrued on the portion of the regulatory liability balance recorded in prior years. The regulatory liabilities created for the years through 2010 are expected to be reduced as they are credited against plant in service in amounts equal to the allowance for funds used during construction associated with generating plant additions. As a result of the credit applied to generating plant balances from the reduction of the regulatory liabilities, future depreciation will be reduced.

Illinois bundled electric rates are frozen until 2007, subject to certain exceptions allowing for increases, at which time bundled rates may be increased or decreased by the Illinois Commerce Commission. Illinois law provides that, through 2006, Illinois earnings above a computed level of return on common equity are to be shared equally between regulated retail electric customers and MidAmerican Energy. MidAmerican Energy's computed level of return on common equity is based on a rolling two–year average of the Monthly Treasury Long–Term Average Rate, as published by the Federal Reserve System, plus a premium of 8.5% for 2000 through 2004 and a premium of 12.5% for 2005 and 2006. The two–year average above which sharing must occur for 2004 is 13.57%. The law allows MidAmerican Energy to mitigate the sharing of earnings above the threshold return on common equity through accelerated recovery of electric assets.

The FERC has undertaken several measures to increase competition in the markets for wholesale electric energy, including efforts to foster the development of regional transmission organizations ("RTO") in its Order No. 2000 issued December 1999 and its July 2002 proposed rulemaking that would implement a standard market design ("SMD") for wholesale electric markets.

If implemented, the FERC's July 2002 proposed rule for SMD would require sweeping changes to the use and expansion of the interstate transmission and wholesale bulk power systems in the United States. However, it is unclear when or even whether the FERC will issue a final rule and what form the final rule would ultimately take. In response to significant criticism of its proposed rule, the FERC subsequently indicated that it had changed its proposal and would adopt a flexible approach to SMD that would accommodate regional differences. Any final rule on SMD or similar FERC action could impact the costs of MidAmerican Energy's electricity and transmission products. Such FERC action could directly or indirectly influence how transmission services are priced, the availability of transmission services, how transmission services are obtained and market prices for electricity in markets in which MidAmerican Energy buys and sells electricity. Although MidAmerican Energy is not presently a member of an RTO, two RTOs – Midwest Independent System Operator and PJM Interconnection – are directly interconnected with MidAmerican Energy's transmission facilities. MidAmerican Energy cannot predict what impact, if any, the evolution of these RTOs, or others, may have on how wholesale electricity is bought and sold, as well as the geographic scope of the wholesale marketplace in which MidAmerican Energy buys or sells electricity.

On June 3, 2004, the FERC's Division of Operational Investigations of the Office of Market Oversight and Investigations informed MidAmerican Energy that it was commencing an audit to determine whether and how MidAmerican Energy and its subsidiaries and affiliates are complying with (1) requirements of the standards of conduct and open access same–time information system of the FERC's regulations, (2) codes of conduct, and (3) transmission practices. The FERC has commenced several such audits of utilities in 2003 and 2004. The audit is on–going, and MidAmerican Energy expects it to be completed within the first half of 2005. MidAmerican Energy does not expect the outcome of this issue to have a material effect on its results of operations, financial position or cash flows.

On July 13, 2004, the FERC issued an order requiring MidAmerican Energy to conduct a study to determine whether MidAmerican Energy or its affiliates possess generation market power. MidAmerican Energy is being required to show the absence of generation market power in order to be allowed to continue to sell wholesale electric power at market–based rates. The FERC order is intended to have MidAmerican Energy conform to what has become the FERC's general practice for utilities given authorization to make wholesale market–based sales. Under this general practice, utilities authorized to make market–based electric sales must submit a new market power study to the FERC every three years. In accordance with the FERC order, MidAmerican Energy's market–based sales became subject to refund beginning November 1, 2004, and will remain so until the matter is resolved. MidAmerican Energy does not expect the outcome of this issue to have a material effect on its results of operations, financial position or cash flows.

Kern River and Northern Natural Gas

Kern River and Northern Natural Gas are subject to regulation by various federal and state agencies. As owners of interstate natural gas pipelines, Northern Natural Gas' and Kern River's rates, services and operations are subject to regulation by the FERC. The FERC administers, among other things, the Natural Gas Act and the Natural Gas Policy Act of 1978. Additionally, interstate pipeline companies are subject to regulation by the United States Department of Transportation ("DOT") pursuant to the Natural Gas Pipeline Safety Act of 1968 ("NGPSA"), which establishes safety requirements in the design, construction, operations and maintenance of interstate natural gas transmission facilities.

The FERC has jurisdiction over, among other things, the construction and operation of pipelines and related facilities used in the transportation, storage and sale of natural gas in interstate commerce, including the modification or abandonment of such facilities. The FERC also has jurisdiction over the rates and charges and terms and conditions of service for the transportation of natural gas in interstate commerce.

Kern River's tariff rates were designed to give it an opportunity to recover all actually and prudently incurred operations and maintenance costs of its pipeline system, taxes, interest, depreciation and amortization and a regulated equity return. Kern River's rates are set using a "levelized cost-of-service" methodology so that the rate is constant over the contract period. This is achieved by using a FERC-approved depreciation schedule in which depreciation increases as interest expense decreases.

Kern River was required to file a general rate case no later than May 1, 2004 pursuant to the terms of its 1998 FERC Docket No. RP99-274 rate case settlement. Kern River filed its rate case on April 30, 2004, which supports a revenue increase of $40.1 million representing a 13% increase from its existing cost of service and a proposed overall cost of service of $347.4 million. Since its last rate case, Kern River has increased the capacity of its system from 724,500 Dth per day to 1,755,575 Dth per day at a cost of approximately $1.3 billion resulting in a total rate base of approximately $1.8 billion. The rate increase became effective on November 1, 2004, subject to refund, and the FERC set a procedural order with a hearing scheduled for March 2005.

On February 10, 2005, Kern River received notice from the Office of Market Oversight and Investigations of the FERC that it is instituting a non-public audit to determine Kern River's compliance with the FERC's standards of conduct in regards to communications with any of Kern River's marketing and energy affiliates. The time period of the audit generally covers September 22, 2004, to the present although some questions cover time periods from November 25, 2003. Kern River understands that virtually all interstate pipelines are expected to be audited by the FERC in 2005. Kern River believes it is in compliance with the standards of conduct in all material respects and the outcome of this audit is not expected to have a material effect on Kern River's results of operations, financial position or cash flows.

Northern Natural Gas has implemented a straight fixed variable rate design which provides that all fixed costs assignable to firm capacity customers, including a return on equity, are to be recovered through fixed monthly demand or capacity reservation charges which are not a function of throughput volumes.

On May 1, 2003, Northern Natural Gas filed a request for increased rates with the FERC. The rate increase is primarily attributable to four main cost areas: the capital investment made by Northern Natural Gas in the five years since its last rate case, an increase in Northern Natural Gas' depreciation rates, increased return on equity, and changes in the level of contract entitlement. The rate filing provides evidence in support of a $71 million increase to Northern Natural Gas' annual revenue requirement. However, Northern Natural Gas chose to effectuate only $55 million of the increase. Northern Natural Gas' new rates went into effect November 1, 2003, subject to refund.

Additionally, on January 30, 2004, Northern Natural Gas filed with the FERC to increase its revenue requirement by an incremental $30 million to that requested in the May 1, 2003 filing. The increased revenue requirement is primarily attributable to ongoing pipeline integrity initiative costs that Northern Natural Gas has undertaken since the May 1, 2003 rate filing. The FERC suspended the rate increase until August 1, 2004 and consolidated the 2003 and 2004 rate cases due to the similarity of issues in both cases and the updated costs. On July 29, 2004, Northern Natural Gas notified the FERC that, in furtherance of settlement negotiations, Northern Natural Gas was not putting the rate increase into effect on August 1, 2004, but reserved its statutory right to put the suspended rates into effect at a later date. Northern Natural Gas' implemented the new rates on November 1, 2004, subject to refund.

On February 16, 2005, Northern Natural Gas reached a tentative agreement with the majority of its customers to settle the consolidated rate cases. Definitive terms of the settlement must be agreed by all settling parties and must then be documented in a settlement agreement which must be agreed to by all settling parties. Thereafter, the settlement must be certified by the presiding administrative law judge and approved by the FERC. The terms of the agreement in principle provide for an annual revenue increase of $48 million for the period November 1, 2003 through October 31, 2004, $53 million for the period November 1, 2004 through October 31, 2005, $58 million for the period November 1, 2005 through October 31, 2006, and $62 million beginning November 1, 2006. As a result of the settlement, Northern Natural Gas will be required to refund an amount generally reflecting the difference between the rate increases implemented on November 1, 2003 and November 1, 2004 and the final settled revenue amounts.

Additional proposals and proceedings that might affect the interstate pipeline industry are considered from time to time by Congress, the FERC, state regulatory bodies and the courts. We cannot predict when or if any new proposals might be implemented or, if so, how Kern River and Northern Natural Gas might be affected.

Other United States Regulation

The Public Utility Regulatory Policies Act of 1978, as amended ("PURPA") and the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), are two of the laws (including the regulations thereunder) that affect MEHC and certain of its subsidiaries' operations. PURPA provides to qualified facilities ("QF") certain exemptions from federal and state laws and regulations, including organizational, rate and financial regulation. PUHCA extensively regulates and restricts the activities of registered public utility holding companies and their subsidiaries. Any legislation altering PUHCA or PURPA, if adopted, could adversely impact the Company's existing domestic projects.

The Company is currently exempt from regulation under all provisions of PUHCA, except the provisions that regulate the acquisition of securities of public utility companies, based on the intrastate exemption in Section 3(a)(1) of PUHCA. In order to maintain this exemption, MEHC and each of its public utility subsidiaries from which it derives a material part of its income (currently only MidAmerican Energy) must be predominantly intrastate in character and organized in and carry on MEHC's and MidAmerican Energy's respective utility operations substantially in MidAmerican Energy's state of organization (currently Iowa). Except for MidAmerican Energy's generating plant assets, the majority of the Company's domestic power plant operations and all of its foreign utility operations are not public utilities within the meaning of PUHCA as a result of their status as QFs under PURPA (with the Company's ownership interest therein limited to 50%), EWGs or foreign utility companies, or are otherwise exempted from the definition of "public utility" under PUHCA. Although the Company believes that it will continue to qualify for exemption from additional regulation under PUHCA, it is possible that as a result of the expansion of its public utility operations, loss of exempt status by one or more of its domestic power plants or foreign utilities, or amendments to PUHCA or the interpretation of PUHCA, the Company could become subject to additional regulation under PUHCA in the future. There can be no assurances that such regulation would not have a material adverse effect on the Company.

In the event the Company was unable to avoid the loss of QF status for one or more of its affiliate's facilities, such an event could result in termination of a given project's power sales agreement and a default under the project subsidiary's project financing agreements, which, in the event of the loss of QF status for one or more facilities, could have a material adverse effect on the Company.

Regulatory requirements applicable in the future to nuclear generating facilities could adversely affect the results of operations of MEHC and MidAmerican Energy, in particular. The Company is subject to certain generic risks associated with utility nuclear generation, including risks arising from the operation of nuclear facilities and the storage, handling and disposal of high–level and low–level radioactive materials; risks of a serious nuclear incident; limitations on the amounts and types of insurance commercially available in respect of losses that might arise in connection with nuclear operations; and uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. The Nuclear Regulatory Commission ("NRC") has broad authority under federal law to impose licensing and safety–related requirements for the operation of nuclear generating facilities. Revised safety requirements promulgated by the NRC have, in the past, necessitated substantial capital expenditures at nuclear plants, including the Quad Cities units, in which MidAmerican Energy has an ownership interest, and additional such expenditures could be required in the future.

Pipeline Safety Regulation

The Company's pipeline operations are subject to regulation by the DOT under the NGPSA relating to design, installation, testing, construction, operation and management of its pipeline system. The NGPSA requires any entity that owns or operates pipeline facilities to comply with applicable safety standards, to establish and maintain inspection and maintenance plans and to comply with such plans. The Company's pipeline operations conduct internal audits of their facilities every four years, with more frequent reviews of those it deems of higher risk. The DOT also routinely audits these pipeline facilities. Compliance issues that arise during these audits or during the normal course of business are addressed on a timely basis.

The aging pipeline infrastructure in the United States has led to heightened regulatory and legislative scrutiny of pipeline safety and integrity practices. The NGPSA was amended by the Pipeline Safety Act of 1992 to require the DOT's Office of Pipeline Safety to consider protection of the environment when developing minimum pipeline safety regulations. In addition, the amendments require that the DOT issue pipeline regulations concerning, among other things, the circumstances under which emergency flow restriction devices should be required, training and qualification standards for personnel involved in maintenance and operation, and requirements for periodic integrity inspections, as well as periodic inspection of facilities in navigable waters which could pose a hazard to navigation or public safety. In addition, the amendments narrowed the scope of its gas pipeline exemption pertaining to underground storage tanks under the Resource Conservation and Recovery Act. The Company believes its pipeline operations comply in all material respects with the NGPSA.

The PSIA requires major new programs in the areas of operator qualification, risk analysis and integrity management. The PSIA requires the periodic inspection or testing of pipelines in areas where the potential consequences of a gas pipeline accident may be significant or may do considerable harm to people and their property, which are referred to as High Consequence Areas. Pursuant to the PSIA, the DOT promulgated a major new final rule, effective February 14, 2004, that requires interstate pipeline operators to: develop comprehensive integrity management programs, identify applicable threats to pipeline segments that could impact High Consequence Areas, assess these segments, and provide ongoing mitigation and monitoring. The Company believes its pipeline operations comply in all material respects with the PSIA.

CE Electric UK

Since 1990, the electricity generation, supply and distribution industries in Great Britain have been privatized, and competition has been introduced in generation and supply. Electricity is produced by generators, transmitted through the national grid transmission system and distributed to customers by the fourteen Distribution License Holders ("DLHs") in their respective distribution service areas.

Under the Utilities Act 2000, the public electricity supply license created pursuant to the Electricity Act 1989 was replaced by two separate licenses–the electricity distribution license and the electricity supply license. When the relevant provision of the Utilities Act 2000 became effective on October 1, 2001, the public electricity supply licenses formerly held by Northern Electric plc ("NE") and Yorkshire Electricity Group plc ("YE") were split so that separate subsidiaries held licenses for electricity distribution and electricity supply. In order to comply with the Utilities Act 2000 and to facilitate this license splitting, NE and YE (and each of the other holders of the former public electricity supply licenses) each made a statutory transfer scheme that was approved by the Secretary of State for Trade and Industry. These schemes provided for the transfer of certain assets and liabilities to the licensed subsidiaries. This occurred on October 1, 2001, a date set by the Secretary of State for Trade and Industry. As a consequence of these schemes, the electricity distribution businesses of NE and YE were transferred to Northern Electric and Yorkshire Electricity, respectively. Northern Electric and Yorkshire Electricity are each holders of an electricity distribution license. The residual elements of the electricity supply licenses were transferred to Innogy in connection with the sale of NE's electricity and gas supply business to Innogy and the purchase by NE of YE's electricity distribution business from Innogy on September 21, 2001 (the "Yorkshire Swap").

Each of the DLHs is required to offer terms for connection to its distribution system and for use of its distribution system to any person. In providing the use of its distribution system, a DLH must not discriminate between users, nor may its charges differ except where justified by differences in cost.

Most of the revenue of the DLHs in the United Kingdom is controlled by a distribution price control formula which is set out in the license of each DLH. It has been the practice of the Office of Gas and Electricity Markets ("Ofgem") (and its predecessor body, the Office of Electricity Regulation), to review and reset the formula at five year intervals, although the formula may be further reviewed at other times at the discretion of the regulator. Any such resetting of the formula requires the consent of the DLH. If the DLH does not consent to the formula reset, it is reviewed by the United Kingdom's competition authority, whose recommendations can then be given effect by license modifications made by Ofgem.

The current formula requires that regulated distribution income per unit is increased or decreased each year by RPI−Xd where RPI means the Retail Price Index, reflecting the average of the 12−month inflation rates recorded for each month in the previous July to December period. The Xd factor in the formula was established by Ofgem at the price control review effective in April 2000 (and through March 31, 2005, will continue to be set) at 3%. The formula also takes account of a variety of other factors including the changes in system electrical losses, the number of customers connected and the voltage at which customers receive the units of electricity distributed. The distribution price control formula determines the maximum average price per unit of electricity distributed (in pence per kWh) which a DLH is entitled to charge. The distribution price control formula permits DLHs to receive additional revenue due to increased distribution of units and the increase in the number of end users. The price control does not seek to constrain the profits of a DLH from year to year. It is a control on revenue that operates independently of most of the DLH's costs. During the term of the price control, cost savings or additional costs have a direct impact on income and cash flow.

The procedure and methodology adopted at a price control review is at the reasonable discretion of Ofgem. Generally, Ofgem's judgment of the future allowed revenue of licensees has been based upon, among other things:

- the actual operating costs of each of the licensees;
- the operating costs which each of the licensees would incur if it were as efficient as, in Ofgem's judgment, the most efficient licensees;
- the regulatory value to be ascribed to each of the licensees' distribution network assets;
- the allowance for depreciation of the distribution network assets of each of the licensees;
- the rate of return to be allowed on investment in the distribution network assets by all licensees; and
- the financial ratios of each of the licensees and the license requirement for each licensee to maintain an investment grade status.

As a result of the review concluded in 1999, the allowed revenue of Northern Electric's distribution business was reduced by 24%, in real terms, and the allowed revenue of Yorkshire Electricity's distribution business was reduced by 23%, in real terms, with effect from April 1, 2000.

Ofgem's process of reviewing each DLH's existing price control formula, with a revised formula for each DLH (including Northern Electric and Yorkshire Electricity) to take effect from April 1, 2005 for an expected period of five years was recently completed. As a result of the review, the allowed revenue of Northern Electric's distribution business was reduced by 4%, in real terms, and the allowed revenue of Yorkshire Electricity's distribution business was reduced by 9%, in real terms, with effect from April 1, 2005. The Xd factor was set at zero. Ofgem indicated that during the period 2005 to 2010, the retention of the benefits of any out−performance from the operating cost assumptions made by Ofgem in setting the new price control may depend on the successful implementation of revised cost reporting guidelines to be prescribed by Ofgem and applied by all DLHs. In setting the allowed revenue of Northern Electric and Yorkshire Electricity (and all other DLHs) with effect from April 1, 2005, Ofgem made a specific allowance for an amount in respect of each DLH's pension costs.

With effect from April 1, 2005, a number of incentive schemes operate to encourage DLHs to provide an appropriate quality of service. Payments in respect of each failure to meet a prescribed standard of service are set out in regulations. The aggregate payments that may be due is uncapped, although payments are excused in certain force majeure circumstances. In storm conditions the obligations relating to the period within which supplies should be restored are relaxed and the overall, annual exposure under the restoration standard in storm conditions is limited to 2% of a DLH's allowed revenue. There also is a discretionary reward scheme of up to a £1 million per annum, and other incentive schemes pursuant to which a DLH's allowed revenue may increase by up to 3.3% or decrease by up to 3.5% in any year.

Under the Utilities Act 2000, the Gas and Electricity Markets Authority ("GEMA") is able to impose financial penalties on license holders who contravene (or have in the past contravened) any of their license duties or certain of their duties under the Electricity Act 1989 or who are failing (or have in the past failed) to achieve a satisfactory performance in relation to the individual standards of performance prescribed by GEMA. Any penalty imposed must be reasonable and may not exceed 10% of the licensee's revenue.

CalEnergy Generation–Foreign

In June 2004, Philippine President Gloria Macapagal–Arroyo was re–elected for a six–year term, through June 2010. President Macapagal–Arroyo has announced a plan to pursue policies targeting balanced economic growth, strong market–based industry, and poverty alleviation. In connection with those policies, the Philippine Department of Energy has announced an energy plan focused on attaining a 100 percent electrification level throughout the Philippines, further developing and utilizing renewable energy sources for power and electrification, and enhancing private sector participation in all energy activities.

The Philippine Congress has passed EPIRA, which is aimed at restructuring the Philippine power industry, privatizing the NPC and introducing a competitive electricity market, among other initiatives. The implementation of EPIRA may have an impact on the Company's future operations in the Philippines and the Philippines power industry as a whole, the effect of which is not yet determinable or estimable.

In connection with an interagency review of approximately 40 independent power project contracts in the Philippines pursuant to EPIRA, in 2003 the Casecnan project (together with four other unrelated projects) had reportedly been identified as raising legal and financial questions and, with those projects, had been prioritized for renegotiation. As part of the Supplemental Agreement, CE Casecnan received written confirmation from the Private Sector Assets and Liabilities Management Corporation that the issues with respect to the Casecnan project that had been raised by the interagency review of independent power producers in the Philippines or that may have existed with respect to the project under certain provisions of EPIRA, which authorized the ROP to seek to renegotiate certain contracts such as the Project Agreement, have been satisfactorily addressed by the Supplemental Agreement. MEHC's indirect subsidiaries' Leyte Projects also had reportedly been identified as raising financial questions. In connection with the entering into of amendments to the energy conversion agreement for each of the Leyte Projects with PNOC–EDC, the Company believes that any issues raised by the interagency review of independent power producers in the Philippines with respect to the Leyte Projects have been resolved.

CalEnergy Generation–Domestic

Each of the domestic power facilities in the CalEnergy Generation–Domestic platform, excluding Cordova Energy and Power Resources, meets the requirements promulgated under PURPA to be a QF. QF status under PURPA provides two primary benefits. First, regulations under PURPA exempt QFs from PUHCA, the FERC rate regulation under the Federal Power Act and the state laws concerning rates of electric utilities and financial and organization regulations of electric utilities. Second, the FERC's regulations promulgated under PURPA require that (1) electric utilities purchase electricity generated by QFs, the construction of which commenced on or after November 9, 1978, at a price based on the purchasing utility's Avoided Cost of Energy, (2) electric utilities sell back–up, interruptible, maintenance and supplemental power to QFs on a non–discriminatory basis, and (3) electric utilities interconnect with QFs in their service territories. There can be no assurance that the QF status of such CalEnergy Generation – Domestic facilities will be maintained.

Cordova Energy and Power Resources are exempt from regulation under PUHCA because they are EWGs. PUHCA provides that a EWG is not considered to be an electric utility company. A EWG is permitted to sell capacity and electricity in the wholesale markets, but not in the retail markets.

If an EWG is subject to a "material change" in facts that might affect its continued eligibility for EWG status, within 60 days of such material change, the EWG must (1) file a written explanation of why the material change does not affect its EWG status, (2) file a new application for EWG status, or (3) notify the FERC that it no longer wishes to maintain EWG status.

HomeServices

HomeServices is subject to regulations promulgated by the U.S. Department of Housing and Urban Development ("HUD") as well as regulatory agencies in the states within which it operates that significantly influence its operating environment. On July 29, 2002, HUD issued a proposed regulation under the Real Estate Settlement and Procedures Act.("RESPA") HUD has characterized the proposal as "fundamentally changing the way in which payments to mortgage brokers are recorded and reported to consumers," "significantly" improving the disclosure of settlement costs on the Good Faith Estimate making it firmer and more usable, and "removing regulatory barriers to allow guaranteed packages of settlement services and mortgages to be made available to consumers." The proposal was submitted to the Office of Management and Budget on December 16, 2003, and was voluntarily withdrawn by HUD on March 22, 2004. The House Committee on Financial Services, the Senate Committee on Banking, Housing and Urban Affairs and HUD each has indicated that reforming the RESPA regulation is a priority in 2005. It is unknown whether a proposed rule will be introduced or finalized in 2005. Accordingly, the Company is presently unable to quantify the likely impact of any proposed rule, if issued.

Environmental Regulation

Domestic

The Company's domestic operations are subject to a number of federal, state and local environmental and environmentally related laws and regulations affecting many aspects of its present and future operations in the United States. Such laws and regulations generally require the Company's domestic operations to obtain and comply with a wide variety of licenses, permits and other approvals. The Company believes that its operating power facilities and gas pipeline operations are currently in material compliance with all applicable federal, state and local laws and regulations. However, no guarantee can be given that in the future the Company's domestic operations will be in material compliance with all applicable environmental statutes and regulations or that all necessary permits will be obtained or approved. In addition, the construction of new power facilities and gas pipeline operations is a costly and time-consuming process requiring a multitude of complex environmental permits and approvals prior to the start of construction that may create the risk of expensive delays or material impairment of project value if projects cannot function as planned due to changing regulatory requirements or local opposition. The Company cannot provide assurance that existing regulations will not be revised or that new regulations will not be adopted or become applicable to it which could have an adverse impact on its capital or operating costs or its operations.

Clean Air Standards

MidAmerican Energy's generating facilities are subject to applicable provisions of the Clean Air Act and related air quality standards promulgated by the United States Environmental Protection Agency ("EPA"). The Clean Air Act provides the framework for regulation of certain air emissions and permitting and monitoring associated with those emissions. MidAmerican Energy believes it is in material compliance with current air quality requirements.

The EPA has in recent years implemented more stringent national ambient air quality standards for ozone and new standards for fine particulate matter. These standards set the minimum level of air quality that must be met throughout the United States. Areas that achieve the standards, as determined by ambient monitoring, are characterized as being in attainment of the standard. Areas that fail to meet the standard are designated as being nonattainment areas. Generally, once an area has been designated as a nonattainment area, sources of emissions in the area that contribute to the failure to achieve the ambient air quality standards are required to make emissions reductions. The EPA has concluded that the entire State of Iowa is in attainment of the ozone standards and the fine particulate standards.

On December 4, 2003, the EPA announced the development of its Interstate Air Quality Rule, now known as the Clean Air Interstate Rule, a proposal to require coal-burning power plants in 29 states, including Iowa, and the District of Columbia to reduce emissions of sulfur dioxide ("SO_2") and nitrogen oxides ("NO_X") in an effort to reduce ozone and fine particulate matter in the Eastern United States. It is likely that MidAmerican Energy's coal-burning facilities will be impacted by this proposal.

In December 2000, the EPA concluded that mercury emissions from coal-fired generating stations should be regulated. The EPA is currently considering two regulatory alternatives that would reduce emissions of mercury from coal-fired utilities. One of these alternatives would require reductions of mercury from all coal-fired facilities greater than 25 MW through application of Maximum Achievable Control Technology with compliance assessed on a facility basis. The other alternative would regulate the mercury emissions of coal-fired facilities that pose a health hazard through a market based cap-and-trade mechanism similar to the SO_2 allowance system. The EPA is currently under a deadline to finalize the mercury reduction rule by March 2005.

The Clean Air Interstate Rule or the mercury reduction rule could, in whole or in part, be superseded or made more stringent by one of a number of multi-pollutant emission reduction proposals currently under consideration at the federal level, including the "Clear Skies Initiative," and other pending legislative proposals that contemplate 70% to 90% reductions of SO_2, NO_X and mercury, as well as possible new federal regulation of carbon dioxide and other gasses that may affect global climate change.

Depending on the outcome of the final Clean Air Interstate Rule and the mercury reduction rule or any superseding legislation by Congress, MidAmerican Energy may be required to install control equipment on its generating stations, purchase emission allowances or decrease the number of hours during which its generating stations operate. However, until final regulatory or legislative action is taken, the impact of the regulations on MidAmerican Energy cannot be predicted.

MidAmerican Energy has implemented a planning process that forecasts the site-specific controls and actions that may be required to meet emissions reductions as contemplated by the EPA. In accordance with an Iowa law passed in 2001, MidAmerican Energy has on file with the IUB its current multi-year plan and budget for managing SO_2 and NO_X from its generating facilities in a cost-effective manner. The plan, which is required to be updated every two years, provides specific actions to be taken at each coal-fired generating facility and the related costs and timing for each action. On July 17, 2003, the IUB issued an order that affirmed an administrative law judge's approval of the initial plan filed on April 1, 2002, as amended. On October 4, 2004, the IUB issued an order approving MidAmerican Energy's second biennial plan as revised in a settlement MidAmerican Energy entered into with the Iowa Consumer Advocate Division of the Department of Justice. That plan covers the time period from April 1, 2004 through December 31, 2006. Neither IUB order resulted in any changes to electric rates for MidAmerican Energy. The effect of the orders is to approve the prudence of expenditures made consistent with the plans. Pursuant to an unrelated rate settlement agreement approved by the IUB on October 17, 2003, if prior to January 1, 2011, capital and operating expenditures to comply with environmental requirements cumulatively exceed $325.0 million, then MidAmerican Energy may seek to recover the additional expenditures from customers. At this time, MidAmerican Energy does not expect these capital expenditures to exceed such amount.

Under the New Source Review ("NSR") provisions of the Clean Air Act, a utility is required to obtain a permit from the EPA or a state regulatory agency prior to (1) beginning construction of a new major stationary source of an NSR-regulated pollutant or (2) making a physical or operational change to an existing facility that potentially increases emissions, unless the changes are exempt under the regulations (including routine maintenance, repair and replacement of equipment). In general, projects subject to NSR regulations are subject to pre-construction review and permitting under the Prevention of Significant Deterioration ("PSD") provisions of the Clean Air Act. Under the PSD program, a project that emits threshold levels of regulated pollutants must undergo a Best Available Control Technology analysis and evaluate the most effective emissions controls. These controls must be installed in order to receive a permit. Violations of NSR regulations, which may be alleged by the EPA, states and environmental groups, among others, potentially subject a utility to material expenses for fines and other sanctions and remedies including requiring installation of enhanced pollution controls and funding supplemental environmental projects.

In recent years, the EPA has requested from several utilities information and support regarding their capital projects for various generating plants. The requests were issued as part of an industry-wide investigation to assess compliance with the NSR and the New Source Performance Standards of the Clean Air Act. In December 2002 and April 2003, MidAmerican Energy received requests from the EPA to provide documentation related to its capital projects from January 1, 1980, to April 2003 for a number of its generating plants. MidAmerican Energy has submitted information to the EPA in responses to these requests, and there are currently no outstanding data requests pending from the EPA. MidAmerican Energy cannot predict the outcome of these requests at this time. However, on August 27, 2003, the EPA announced changes to its NSR rules that clarify what constitutes routine repair, maintenance and replacement for purposes of triggering NSR requirements. The EPA concluded equipment that is repaired, maintained or replaced with an expenditure not greater than 20 percent of the value of the source will not trigger the NSR provisions of the Clean Air Act. A number of states and local air districts challenged the EPA's clarification of the NSR rule and a panel of the U.S. Circuit Court of Appeals for the District of Columbia Circuit issued an order on December 24, 2003, staying the EPA's implementation of its clarifications of the equipment replacement rule. On July 1, 2004, the EPA published a notice of stay of the final equipment replacement rule in the *Federal Register*, consistent with the judicial stay. Additionally, on the same date, the EPA published a Notice of Reconsideration and Request for Comment on the equipment replacement rule in response to the Petitioners' legal challenges. Until such time as the EPA takes final action on the equipment replacement rule, the previous rules without the clarified exemption remain in effect.

<u>Nuclear Regulation</u>

MidAmerican Energy is subject to the jurisdiction of the NRC with respect to its license and 25% ownership interest in Quad Cities Station Units 1 and 2. Exelon Generation Company, LLC ("Exelon Generation") is the operator of Quad Cities Station and is under contract with MidAmerican Energy to secure and keep in effect all necessary NRC licenses and authorizations.

The NRC regulations control the granting of permits and licenses for the construction and operation of nuclear generating stations and subject such stations to continuing review and regulation. On October 29, 2004, the NRC granted renewed licenses for both Quad Cities Station Unit 1 and Unit 2 that provide for operation until December 14, 2032, which is in effect a 20-year extension of the licenses. The NRC review and regulatory process covers, among other things, operations, maintenance, and environmental and radiological aspects of such stations. The NRC may modify, suspend or revoke licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under such Act or the terms of such licenses.

Federal regulations provide that any nuclear operating facility may be required to cease operation if the NRC determines there are deficiencies in state, local or utility emergency preparedness plans relating to such facility, and the deficiencies are not corrected. Exelon Generation has advised MidAmerican Energy that an emergency preparedness plan for Quad Cities Station has been approved by the NRC. Exelon Generation has also advised MidAmerican Energy that state and local plans relating to Quad Cities Station have been approved by the Federal Emergency Management Agency.

The NRC also regulates the decommissioning of nuclear power plants including the planning and funding for the eventual decommissioning of the plants. In accordance with these regulations, MidAmerican Energy submits a report to the NRC every two years providing reasonable assurance that funds will be available to pay the costs of decommissioning its share of Quad Cities Station.

Under the Nuclear Waste Policy Act of 1982 ("NWPA"), the U.S. Department of Energy ("DOE") is responsible for the selection and development of repositories for, and the permanent disposal of, spent nuclear fuel and high-level radioactive wastes. Exelon Generation, as required by the NWPA, signed a contract with the DOE under which the DOE was to receive spent nuclear fuel and high-level radioactive waste for disposal beginning not later than January 1998. The DOE did not begin receiving spent nuclear fuel on the scheduled date, and remains unable to receive such fuel and waste. The earliest the DOE currently is expected to be able to receive such fuel and waste is 2010. The costs to be incurred by the DOE for disposal activities are being financed by fees charged to owners and generators of the waste. In 2004, Exelon Generation reached a settlement with the DOE concerning the DOE's failure to begin accepting spent nuclear fuel in 1998. As a result, Quad Cities Station will be billing the DOE, and the DOE will be obligated to reimburse the station for all station costs incurred due to the DOE's delay. Exelon Generation has informed MidAmerican Energy that existing on-site storage capability at Quad Cities Station is sufficient to permit interim storage in 2005. For Quad Cities Station, Exelon Generation has begun to develop an interim spent fuel storage installation ("ISFSI") at Quad Cities Station to store spent nuclear fuel in dry casks in order to free space in the storage pool. The first pad at the ISFSI is expected to facilitate storage of casks to support operations at Quad Cities Station until at least 2017. Exelon Generation has completed the bulk of the construction work on the first pad and expects the first cask loading to take place in 2005. In the 2017 to 2022 timeframe, Exelon Generation plans to add a second pad to the ISFSI to accommodate storage of spent nuclear fuel through the end of operations at Quad Cities Station.

MidAmerican Energy has established trusts for the investment of funds collected for nuclear decommissioning associated with Quad Cities Station. Electric tariffs currently in effect include provisions for annualized collection of estimated decommissioning costs at Quad Cities Station. In Iowa, estimated Quad Cities Station decommissioning costs are reflected in base rates. MidAmerican Energy's cost related to decommissioning funding in 2004 was $8.3 million.

United Kingdom

CE Electric UK's businesses are subject to extensive regulatory requirements with respect to the protection of the environment.

The United Kingdom government introduced new contaminated land legislation in April 2000 that requires local governmental authorities to put in place a program for investigating land in their area in order to identify contamination. Local authorities (and the Environment Agency where controlled waters are affected) can enforce remedial action where such contamination of land poses a threat to the greater environment. If the "person" who contaminated the land cannot be found, the land owner will be held responsible.

The UK local authorities have not identified any CE Electric UK sites that require any action under these regulations. CE Electric UK evaluations of three potential sites confirm this conclusion. A project with an environmental remediation company is in progress at one of these sites where there is an agreement to reduce pockets of localized contamination to an acceptable standard.

The Environmental Protection Act (Disposal of PCB's and other Dangerous Substances) Regulations 2001 were introduced on May 5, 2000. The regulations required that transformers containing over 50 parts per million of PCB's and other dangerous substances be registered with the Environment Agency. Transformers containing 500 parts per million had to be de-contaminated by December 31, 2000. As of December 31, 2004, CE Electric UK had 360 transformers containing between 50 and 500 parts per million of such substances registered with the Environment Agency and is continuing with its sampling, labeling and registration program. CE Electric UK believes it is in compliance and these regulations are not expected to have a material impact on the Company.

The 1998 Groundwater Regulations seek to prevent listed hazardous substances from entering groundwater and strengthens the United Kingdom Environment Agency's powers to require additional protective measures, especially in areas of important groundwater supplies. Mineral oils and hydrocarbons are included in the list of more tightly controlled substances ("List I substances"). This affects the high voltage fluid filled electricity cable network incorporating an insulating fluid that is currently in List I. The existing voluntary Operating Code of Practice, as agreed between the Environment Agency and companies in the electricity industry, is undergoing revision to address the regulatory changes. The existing voluntary Operating Code of Practice is, and any revised Operating Code of Practice will be, incorporated into the operating practices of Northern Electric and Yorkshire Electricity. Any revisions which are made are not expected to have a material impact on the Company.

The Oil Storage Regulations became effective in 2002 and require the phased introduction of secondary containment measures (bunding) for all above ground oil storage locations where the capacity is more than 200 liters. The primary containers must be in sound condition, leak free, and positioned away from vehicle traffic routes. The secondary containment must be impermeable to water and oil (without drainage valve) and be subject to routine maintenance. The capacity of the bund must be sufficient to hold up to 110% of the largest stored vessel or 25% of the maximum stored capacity, whichever is the greater. On March 1, 2002, these regulations came into effect for all new oil storage facilities. On September 1, 2003, the regulations became effective for existing storage facilities at "significant risk" (i.e. within 10 meters of a water course), and on September 1, 2005, the regulations come into effect for all remaining storage facilities. A detailed study of the impacts has been carried out and a plan of action prepared to ensure compliance. The Company expects that the cost of compliance with the remaining provisions of such regulations will not have a material impact.

The Electricity Act 1989 obligates either the United Kingdom Secretary of State or the Director General of Electric Supply to take into account the effect of electricity generation, transmission and supply activities on the physical environment when approving applications for the construction of overhead power lines. The Electricity Act requires CE Electric UK to consider the desirability of preserving natural beauty and the conservation of natural and man-made features of particular interest when it formulates proposals for development in connection with certain of its activities. CE Electric UK mitigates the effects its proposals have on natural and man-made features and administers an environmental assessment when it intends to lay cables, construct overhead lines or carry out any other development in connection with its licensed activities. The Company expects that the cost of compliance with these obligations and the mitigation thereof will not have a material impact.

CE Electric UK's policy is to carry out its activities in such a manner as to minimize the impact of its works and operations on the environment, and in accordance with environmental legislation and good practice. There have not been any significant regulatory environmental compliance issues and there are no material legal or administrative proceedings pending against CE Electric UK with respect to any environmental matter.

Environmental laws and regulations in the United Kingdom currently have, and future modifications may increasingly have, the effect of requiring modification of CE Electric UK's facilities and increasing its operating costs.

Philippines

On June 23, 1999, the Philippine Congress enacted the Philippine Clean Air Act of 1999. The related implementing rules and regulations were adopted in November 2000. The law as written would require the Leyte Projects to comply with a maximum discharge of 200 grams of hydrogen sulfide per gross MWh of output by June 2004. On November 13, 2002, the Secretary of the Philippine Department of Environment and Natural Resources issued a Memorandum Circular ("MC") designating geothermal areas as "special airsheds." PNOC-EDC has advised the Leyte Projects that the MC exempts the Mahanagdong and Malitbog plants from the need to comply with the point-source emission standards of the Clean Air Act. CE Cebu and PNOC-EDC have constructed a gas dispersion facility for the Upper Mahiao project which is designed to ensure compliance with the emission standards of the Clean Air Act. The gas dispersion project was put into commercial operation in December 2003.

Employees

At December 31, 2004, the Company employed approximately 11,540 people, of which approximately 3,900 are covered by union contracts. MidAmerican Energy's union contract with International Brotherhood of Electrical Workers locals 109 and 499 expires February 28, 2006, and covers approximately 1,700 employee members.

Item 2. Properties.

The Company's utility properties consist of physical assets necessary and appropriate to render electric and gas service in its service territories. Electric property consists primarily of generation, transmission and distribution facilities and related rights-of-way. Gas property consists primarily of distribution plants, natural gas pipelines, related rights-of-way, compressor stations and meter stations. It is the opinion of management that the principal depreciable properties owned by the Company are in good operating condition and well maintained. Pursuant to separate financing agreements, substantially all or most of the properties of each subsidiary (except CE Electric UK and Northern Natural Gas) are pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. See Notes 6 and 23 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information about the Company's properties.

MidAmerican Energy

MidAmerican Energy's most significant properties are its electric generation facilities. Refer to the MidAmerican Energy discussion in "Item 1. Business" of this Form 10-K for additional information about MidAmerican Energy's generation facilities.

The electric transmission system of MidAmerican Energy at December 31, 2004, included 918 miles of 345-kV lines and 1,128 miles of 161-kV lines. MidAmerican Energy's electric distribution system included approximately 222,300 transformers and 382 substations at December 31, 2004.

Gas property consists primarily of natural gas mains and services pipelines, meters and related distribution equipment, including feeder lines to communities served from natural gas pipelines owned by others. The gas distribution facilities of MidAmerican Energy at December 31, 2004, included approximately 21,548 miles of gas mains and services pipelines.

Kern River and Northern Natural Gas

At December 31, 2004, Kern River's pipeline consisted of two distinguishable sections: the mainline section and the common facilities. The mainline section consists of the original 682 miles of 36-inch pipeline, 628 miles of 36-inch loop pipeline related to the 2003 Expansion Project and 68 miles of various laterals that connect to the mainline, and extends from the pipeline's point of origination near Opal, Wyoming through the Central Rocky Mountains area into Daggett, California and is owned entirely by Kern River. The common facilities consist of the 219-mile section of original pipeline that extends from the point of interconnection with the mainline in Daggett to Bakersfield, California and an additional 82 miles related to the 2003 Expansion Project. The common facilities are jointly owned by Kern River (currently approximately 76.8%) and Mojave (currently approximately 23.2%) as tenants-in-common.

At December 31, 2004, Northern Natural Gas' system was comprised of approximately 7,300 miles of mainline transmission pipelines and approximately 9,200 miles of lateral pipelines. Northern Natural Gas' storage services are provided through the operation of three underground storage fields, in Redfield, Iowa, and Lyons and Cunningham, Kansas. Northern Natural Gas' three underground natural gas storage facilities and two LNG storage peaking units have a total storage capacity of approximately 59 Bcf. Northern Natural Gas' two LNG liquefaction/vaporization facilities are located near Garner, Iowa and Wrenshall, Minnesota with storage capacity of 2 Bcf each.

The right to construct and operate the pipelines across certain property was obtained through negotiations and through the exercise of the power of eminent domain, where necessary. Kern River and Northern Natural Gas continue to have the power of eminent domain in each of the states in which they operate their respective pipelines, but they do not have the power of eminent domain with respect to Native American tribal lands. Although the main Kern River pipeline crosses the Moapa Indian Reservation, all facilities are located within a utility corridor that is reserved to the United States Department of Interior, Bureau of Land Management.

With respect to real property, each of the pipelines falls into two basic categories: (1) parcels that are owned in fee, such as certain of the compressor stations, measurement stations and district office sites; and (2) parcels where the interest derives from leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities permitting the use of such land for the construction, operation and maintenance of the pipelines.

MEHC believes that Kern River and Northern Natural Gas each have satisfactory title to all of the real property making up their respective pipelines in all material respects.

CE Electric UK

At December 31, 2004, Northern Electric's and Yorkshire Electricity's electricity distribution networks (excluding service connection to consumers) on a combined basis included approximately 33,000 kilometers of overhead lines and approximately 64,000 kilometers of underground cables. In addition to the circuits referred to above, at December 31, 2004, Northern Electric's and Yorkshire Electricity's distribution facilities also included approximately 58,000 transformers and approximately 750 primary substations.

Other Properties

At December 31, 2004, MEHC's most significant physical properties, other than those owned by MidAmerican Energy, Kern River, Northern Natural Gas and CE Electric UK, are its current interests in operating power facilities and its plants under construction and related real property interests, as well as leases of office space for its residential real estate brokerage operations. See "Item 1. Business" of this Form 10-K for further detail.

Item 3. Legal Proceedings.

In addition to the proceedings described below, the Company is currently party to various items of litigation or arbitration in the normal course of business, none of which are reasonably expected by the Company to have a material adverse effect on its financial position, results of operations or cash flows.

Pipeline Litigation

In 1998, the United States Department of Justice informed the then current owners of Kern River and Northern Natural Gas that Jack Grynberg, an individual, had filed claims in the United States District Court for the District of Colorado under the False Claims Act against such entities and certain of their subsidiaries including Kern River and Northern Natural Gas. Mr. Grynberg has also filed claims against numerous other energy companies and alleges that the defendants violated the False Claims Act in connection with the measurement and purchase of hydrocarbons. The relief sought is an unspecified amount of royalties allegedly not paid to the federal government, treble damages, civil penalties, attorneys' fees and costs. On April 9, 1999, the United States Department of Justice announced that it declined to intervene in any of the Grynberg qui tam cases, including the actions filed against Kern River and Northern Natural Gas in the United States District Court for the District of Colorado. On October 21, 1999, the Panel on Multi-District Litigation transferred the Grynberg qui tam cases, including the ones filed against Kern River and Northern Natural Gas, to the United States District Court for the District of Wyoming for pre-trial purposes. Motions to dismiss the complaint, filed by various defendants including Northern Natural Gas and The Williams Companies, Inc. ("Williams"), which was the former owner of Kern River, were denied on May 18, 2001. On October 9, 2002, the United States District Court for the District of Wyoming dismissed Grynberg's royalty valuation claims. On November 19, 2002, the United States District Court for the District of Wyoming denied Grynberg's motion for clarification and dismissed his royalty valuation claims. Grynberg appealed this dismissal to the United States Court of Appeals for the Tenth Circuit and on May 13, 2003, the Tenth Circuit Court dismissed his appeal. Motions to Dismiss based on various jurisdictional grounds were filed on June 4, 2004. Grynberg filed his brief and other pleadings in opposition to the Motions to Dismiss on October 22, 2004. In connection with the purchase of Kern River from Williams in March 2002, Williams agreed to indemnify MEHC against any liability for this claim; however, no assurance can be given as to the ability of Williams to perform on this indemnity should it become necessary. No such indemnification was obtained in connection with the purchase of Northern Natural Gas in August 2002. The Company believes that the Grynberg cases filed against Kern River and Northern Natural Gas are without merit and that Williams, on behalf of Kern River pursuant to its indemnification, and Northern Natural Gas, intend to defend these actions vigorously.

On June 8, 2001, a number of interstate pipeline companies, including Kern River and Northern Natural Gas, were named as defendants in a nationwide class action lawsuit which had been pending in the 26th Judicial District, District Court, Stevens County Kansas, Civil Department against other defendants, generally pipeline and gathering companies, since May 20, 1999. The plaintiffs allege that the defendants have engaged in mismeasurement techniques that distort the heating content of natural gas, resulting in an alleged underpayment of royalties to the class of producer plaintiffs. In November 2001, Kern River and Northern Natural Gas, along with the coordinating defendants, filed a motion to dismiss under Rules 9B and 12B of the Kansas Rules of Civil Procedure. The court denied this motion. In January 2002, Kern River and most of the coordinating defendants filed a motion to dismiss for lack of personal jurisdiction. The court has yet to rule on these motions. The plaintiffs filed for certification of the plaintiff class on September 16, 2002. On January 13, 2003, oral arguments were heard on coordinating defendants' opposition to class certification. On April 10, 2003, the court entered an order denying the plaintiffs' motion for class certification. On May 12, 2003, the plaintiffs filed a motion for leave to file a fourth amended petition alleging a class of gas royalty owners in Kansas, Colorado and Wyoming. The court granted the motion for leave to amend on July 28, 2003. Kern River was not a named defendant in the amended complaint and has been dismissed from the action. Northern Natural Gas filed an answer to the fourth amended petition on August 22, 2003. Class discovery is ongoing. Williams has agreed to indemnify MEHC against any liability associated with Kern River for this claim; however, no assurance can be given as to the ability of Williams to perform on this indemnity should it become necessary. Northern Natural Gas anticipates joining with other defendants in contesting certification of the plaintiff class. Kern River and Northern Natural Gas believe that this claim is without merit and that Kern River's and Northern Natural Gas' gas measurement techniques have been in accordance with industry standards and their tariffs.

Similar to the June 8, 2001 matter referenced above, the plaintiffs in that matter have filed a new companion action against a number of parties, including Northern Natural Gas but excluding Kern River, in a Kansas state district court for damages for mismeasurement of British thermal unit content, resulting in lower royalties. The action was filed on May 12, 2003, shortly after the state district court dismissed the plaintiffs' third amended petition in the original litigation which sought to certify a nationwide class. The new companion action which seeks to certify a class of royalty owners in Kansas, Colorado and Wyoming, tracking the fourth amended petition in the action referenced above, was not served until August 4, 2003. A motion to dismiss was filed on August 25, 2003. On October 9, 2003, the state district court denied the motion to dismiss; Northern Natural Gas filed its answer on November 6, 2003. Class discovery is ongoing. Northern Natural Gas anticipates joining with other defendants in contesting certification of the plaintiff class. Northern Natural Gas believes that this claim is without merit and that Northern Natural Gas' gas measurement techniques have been in accordance with industry standards and its tariff.

Natural Gas Commodity Litigation

MidAmerican Energy is one of dozens of companies named as defendants in a January 20, 2004 consolidated class action lawsuit filed in the U.S. District Court for the Southern District of New York. The suit alleges that the defendants have engaged in unlawful manipulation of the prices of natural gas futures and options contracts traded on the New York Mercantile Exchange ("NYMEX") during the period January 1, 2000 to December 31, 2002. MidAmerican Energy is mentioned as a company that has engaged in wash trades on Enron Online (an electronic trading platform) that had the effect of distorting prices for gas trades on the NYMEX. The plaintiffs to the class action do not specify the amount of alleged damages. At this time, MidAmerican Energy does not believe that it has any material exposure in this lawsuit.

The original complaint in this matter, *Cornerstone Propane Partners, L.P. v. Reliant, et al. ("Cornerstone")*, was filed on August 18, 2003 in the United States District Court, Southern District of New York naming MidAmerican Energy and MEHC. On October 1, 2003, a second complaint, *Roberto, E. Calle Gracey, et al. ("Calle Gracey")*, was filed in the same court but did not name MidAmerican Energy or MEHC. On November 14, 2003, a third complaint, *Dominick Viola ("Viola"), et* al., was filed in the same court and named MidAmerican Energy and MEHC as defendants. On November 19, 2003, an Order of Voluntary Dismissal Without Prejudice of MEHC was entered by the court dismissing MEHC from the *Cornerstone* and *Viola* complaints. On December 5, 2003, the court entered Pretrial Order No. 1, which among other procedural matters, ordered the consolidation of the *Cornerstone, Calle Gracey* and *Viola* complaints and permitted plaintiffs to file an amended complaint in this matter. On January 20, 2004, plaintiffs filed *In Re: Natural Gas Commodity Litigation* as the amended complaint reasserting their previous allegations. On February 19, 2004, MidAmerican Energy filed a Motion to Dismiss and joined with several other defendants to file a joint Motion to Dismiss. The plaintiffs filed a response on May 19, 2004, contesting both Motions to Dismiss. On September 24, 2004, the pending Motions to Dismiss were denied. On October 14, 2004, the plaintiffs filed an amended consolidated class action complaint reasserting their previous allegations. On January 25, 2005, the plaintiffs filed their motion for class certification. MidAmerican Energy will continue to coordinate with the other defendants and vigorously defend the allegations against it.

Philippines

Pursuant to the share ownership adjustment mechanism in the CE Casecnan stockholder agreement, which is based upon pro forma financial projections of the Casecnan project prepared following commencement of commercial operations, in February 2002, MEHC's indirect wholly-owned subsidiary, CE Casecnan Ltd., advised the minority stockholder, LaPrairie Group Contractors (International) Ltd. ("LPG"), that MEHC's ownership interest in CE Casecnan had increased to 100% effective from commencement of commercial operations. On July 8, 2002, LPG filed a complaint in the Superior Court of the State of California, City and County of San Francisco against, among others, CE Casecnan Ltd. and MEHC. On January 21, 2004, CE Casecnan Ltd. and LPG entered into a status quo agreement pursuant to which the parties agreed to set aside certain distributions related to the shares subject to the LPG dispute and CE Casecnan agreed not to take any further actions with respect to such distribution without at least 15 days prior notice to LPG. Accordingly, 15% of the CE Casecnan dividend distributions declared in 2004, totaling $15.9 million, was set aside by CE Casecnan in an unsecured CE Casecnan account and is shown as restricted cash and short-term investments and other current liabilities in the accompanying consolidated balance sheet included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K. The court is currently expected to rule on the first phase of the litigation before the end of the first quarter of 2005. The impact, if any, of this litigation on the Company cannot be determined at this time.

Mirant Americas Energy Marketing ("Mirant") Claim

Mirant was one of the shippers that entered into a 15-year, 2003 Expansion Project, firm gas transportation contract (90,000 Dth per day) with Kern River (the "Mirant Agreement") and provided a letter of credit equivalent to 12 months of reservation charges as security for its obligations under the Mirant Agreement. In July 2003, Mirant filed for Chapter 11 bankruptcy protection and continued to perform under the Mirant Agreement post-bankruptcy. In October 2003, Mirant informed Kern River that it would not renew its letter of credit and Kern River drew on the letter of credit and held the proceeds thereof, $14.8 million, as cash collateral. Effective December 18, 2003, Mirant rejected the Mirant Agreement pursuant to procedures under the Bankruptcy Code and paid all post-petition amounts then due and owing under the Mirant Agreement through December 18, 2003. On January 13, 2004, Kern River filed a proof of claim with the bankruptcy court for an aggregate total amount of $210.2 million (the "Kern River Claim"), which Kern River believed was secured to the extent of the $14.8 million in proceeds received from the letter of credit and held as a cash security deposit. The claims underpinning the proof of claim arise from damages caused by Mirant's rejection of the Mirant Agreement. On May 25, 2004, the bankruptcy court issued an order permitting Kern River to apply 100% of the $14.8 million cash security deposit to its claim for damages. On October 12, 2004, Mirant raised an objection to the Kern River Claim asserting, among other things, that Kern River had not included a discount adjustment or mitigation to the claim. On November 11, 2004, Kern River filed an amended proof of claim of $138.8 million, reflecting discounting, mitigation and other adjustments, and which excludes the $14.8 million already received by Kern River. Kern River can not determine at this time if it will collect any portion of the balance of the Kern River Claim or be able to remarket the rejected Mirant Agreement capacity.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Since March 14, 2000, MEHC's equity securities have been owned by Berkshire Hathaway, Walter Scott, Jr. (together with certain of his family members and family trusts and corporations), David L. Sokol and Gregory E. Abel and have not been registered with the SEC pursuant to the Securities Act of 1933, as amended, listed on a stock exchange or otherwise publicly held or traded.

Item 6. Selected Financial Data.

The following table sets forth selected financial data, which should be read in conjunction with the Company's consolidated financial statements and the related notes to those statements included in "Item 8. Financial Statements and Supplementary Data" and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K. The selected financial data as of and for the years ended December 31, 2004, 2003, 2002 and 2001, and as of December 31, 2000 and for the period from March 14, 2000 through December 31, 2000, have been derived from the Company's historical consolidated financial statements. The selected financial data from January 1, 2000 through March 13, 2000, have been derived from MEHC (Predecessor)'s historical consolidated financial statements.

						MEHC (Predecessor)
	Year Ended December 31,				March 14 2000 through December 31, 2000[3]	January 1, 2000 through March 13, 2000[4]
	2004	2003	2002[1]	2001[2]		
	(Amounts in millions)					
Statement of Operations Data:						
Operating revenue	$ 6,553.4	$ 5,965.6	$ 4,795.2	$ 4,696.8	$ 3,918.1	$ 1,056.4
Income from continuing operations	537.8	442.7	397.4	148.4	84.1	51.4
Loss from discontinued operations, net of tax[5]	(367.6)	(27.1)	(17.4)	(5.7)	(2.8)	(0.1)
Net income	$ 170.2	$ 415.6	$ 380.0	$ 142.7	$ 81.3	$ 51.3
Balance Sheet Data:						
Total assets	$ 19,903.6	$ 19,145.0	$ 18,434.9	$ 12,994.6	$ 11,960.4	N/A
Parent company senior debt[6]	2,772.0	2,777.9	2,323.4	1,834.5	1,830.0	N/A
Parent company subordinated debt[6]	1,585.8	1,772.1	–	–	–	N/A
Company-obligated mandatory redeemable preferred securities of subsidiary trusts	–	–	2,063.4	788.2	786.5	N/A
Subsidiary and project debt[6]	6,304.9	6,674.6	7,077.1	4,754.8	3,398.7	N/A
Subsidiary-obligated mandatorily redeemable preferred securities of subsidiary trusts	–	–	–	100.0	100.0	N/A
Preferred securities of subsidiaries	89.5	92.1	93.3	121.2	145.7	N/A
Total stockholders' equity	$ 2,971.2	$ 2,771.4	$ 2,294.3	$ 1,708.2	$ 1,576.4	N/A

(1) Reflects the acquisitions of Kern River on March 27, 2002 and Northern Natural Gas on August 16, 2002.

(2) Reflects the Yorkshire Swap on September 21, 2001 and includes $15.2 million of after-tax income related to the sale of the Northern Electric electricity and gas supply business, the sale of the Telephone Flat Project, the sale of Western States Geothermal, the transfer of Bali Energy Ltd. shares, and the Teesside Power Limited ("TPL") asset valuation impairment charge.

(3) Reflects the Teton Transaction on March 14, 2000.

(4) Includes $7.6 million of expenses related to the Teton Transaction.

(5) Reflects MEHC's decision to cease operations of the Zinc Recovery Project effective September 10, 2004, which resulted in a non-cash, after-tax impairment charge of $340.3 million being recorded to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively, the "Mineral Assets"). The charge and related activity of the Mineral Assets, including the reclassification of such activity for the years ended December 31, 2003, 2002 and 2001 and for the periods January 1, 2000 through March 13, 2000 and March 14, 2000 through December 31, 2000, are classified separately as discontinued operations.

(6) Excludes current portion.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in combination with the selected financial data and the consolidated financial statements included in Items 6 and 8 herein.

General

The Company's operations are organized and managed on seven distinct platforms: MidAmerican Energy, Kern River, Northern Natural Gas, CE Electric UK (which includes Northern Electric and Yorkshire Electricity), CalEnergy Generation-Foreign, CalEnergy Generation-Domestic, and HomeServices.

The Company owns and operates a combined electric and natural gas utility company in the United States, two natural gas pipeline companies in the United States, two electricity distribution companies in the United Kingdom, a diversified portfolio of domestic and international independent power projects and the second largest residential real estate brokerage firm in the United States.

The Company's principal energy subsidiaries generate, transmit, store, distribute and supply energy. The Company's electric and natural gas utility subsidiaries currently serve approximately 4.4 million electricity customers and approximately 680,000 natural gas customers. Its natural gas pipeline subsidiaries operate interstate natural gas transmission systems with approximately 18,300 miles of pipeline in operation and peak delivery capacity of 6.4 Bcf of natural gas per day. The Company has interests in 6,777 net owned MW of power generation facilities in operation and under construction, including 5,203 net owned MW in facilities that are part of the regulated return asset base of its electric utility business and 1,574 net owned MW in non-utility power generation facilities. Substantially all of the non-utility power generation facilities have long-term contracts for the sale of energy and/or capacity from the facilities.

Executive Summary

The following significant events and changes, as discussed in more detail herein, highlight some factors that affect the comparability of our financial results, for the years ended December 31, 2004, 2003 and 2002, respectively:

- On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project, effective immediately. Based on this decision, a non–cash, after–tax impairment charge of $340.3 million has been recorded to write–off the Mineral Assets.

- In December 2004, MidAmerican Energy placed into service the second phase of its 327 MW natural gas–fired combined cycle generating plant. The plant is the first of three electric generating projects to be completed by MidAmerican Energy. MidAmerican Energy expects to invest approximately $1.1 billion in the two remaining projects through 2007. Both projects are currently under construction and $350.4 million of the $1.1 billion had been invested through December 31, 2004.

- The Company made significant investments in its natural gas pipeline business by acquiring Kern River in March 2002 for $419.7 million, net of cash acquired, and Northern Natural Gas in August 2002 for $882.7 million, net of cash acquired, and completing the 2003 Expansion Project in May 2003 at a total cost of $1.2 billion. These pipelines serve major markets in the midwest and western United States.

- HomeServices separately acquired 13 real estate companies throughout 2004, 2003 and 2002. Operating revenue has grown from $1.1 billion in 2002 to $1.8 billion in 2004.

- CE Electric UK operates mainly in Great Britain and the majority of its transactions are in Pounds Sterling. The weighted average ratio of U.S. Dollars to Pounds Sterling was 1.84, 1.64 and 1.49 during each of the years ended December 31, 2004, 2003 and 2002, respectively, which continues to produce positive revenue and profit comparisons on a year over year basis.

- Both Kern River and Northern Natural Gas have filed for rate increases with the FERC and have hearings scheduled in 2005. New rates for Northern Natural Gas' May 2003 rate case went into effect on November 1, 2003, subject to refund. New rates for the Northern Natural Gas' January 2004 and Kern River's April 2004 rate cases each went into effect on November 1, 2004, subject to refund. Additionally, Ofgem completed the process of reviewing the existing price control formula for Northern Electric and Yorkshire Electricity in November 2004. As a result of the review, the allowed revenue of Northern Electric's and Yorkshire Electricity's distribution businesses will be reduced by 4% and 9%, respectively, in real terms, effective April 1, 2005.

- CE Casecnan reached an arbitration settlement with the NIA effective during the fourth quarter of 2003. As part of the settlement, NIA paid CE Casecnan $17.7 million plus Philippines pesos of 39.9 million (approximately $0.7 million) and delivered a ROP $97.0 million 8.375% Note due in 2013. In exchange, CE Casecnan agreed to modify certain provisions of the project agreement, the most significant being the elimination of the tax compensation portion of the water delivery fee and modification of the threshold volume of water used to calculate the guaranteed water delivery fee. In January 2004, CE Casecnan exercised its right to put the note and received $99.2 million (representing par plus accrued interest) from the ROP.

- On November 23, 2004, Northern Natural Gas sold its stipulated general, unsecured claim of $249.0 million against Enron Corp. ("Enron") to a third party investor for $72.2 million and recorded the proceeds received as other income in 2004.

- In the fourth quarter of 2004, CE Generation recorded a $16.8 million charge as a result of the partial impairment of the carrying value of the Power Resources project.

• In February 2004, MEHC issued $250.0 million of 5.00% senior notes due February 15, 2014. The proceeds from these issuances were used to satisfy a demand made by MEHC's affiliate, Salton Sea Funding Corporation ("Funding Corporation"), for the amount remaining on MEHC's guarantee of Funding Corporation's 7.475% Senior Secured Series F Bonds ("Series F Bonds") and for other general corporate purposes. In October 2004, MidAmerican Energy issued $350.0 million of 4.65% medium–term notes due October 2014, which were used for general corporate purposes.

Results of Operations for the Year Ended December 31, 2004 and the Year Ended December 31, 2003

The following table summarizes net income for the years ended December 31(in millions):

	2004	2003
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income:		
MidAmerican Energy	$ 267.8	$ 271.4
Kern River	142.6	133.7
Northern Natural Gas	218.0	127.3
CE Electric UK	325.9	288.7
CalEnergy Generation–Foreign	165.7	177.6
CalEnergy Generation–Domestic	3.1	2.1
HomeServices	111.9	90.0
Total reportable segments	1,235.0	1,090.8
Corporate/other	(435.8)	(232.9)
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	799.2	857.9
Income tax expense	265.0	270.3
Minority interest and preferred dividends of subsidiaries	13.3	183.2
Income from continuing operations before equity income	520.9	404.4
Equity income	16.9	38.3
Income from continuing operations	537.8	442.7
Loss from discontinued operations, net of tax benefits	(367.6)	(27.1)
Net income available to common and preferred stockholders	$ 170.2	$ 415.6

The $367.6 million loss from discontinued operations, net of tax benefits, for the year ended December 31, 2004 included a $340.3 million non-cash impairment charge recognized in connection with ceasing operations of the Company's Zinc Recovery Project and a $27.1 million loss from operations, net of tax, of the Zinc Recovery Project.

Income from continuing operations for the year ended December 31, 2004, increased $95.1 million, or 21.5%, to $537.8 million compared with $442.7 million for the same period in 2003.

Equity income for the year ended December 31, 2004, decreased $21.4 million to $16.9 million compared with $38.3 million for the same period in 2003. CE Generation recorded a $16.8 million charge as a result of the partial impairment of the carrying value of the Power Resources project. Additionally, HomeServices' mortgage joint ventures had lower income due to lower refinancing activity.

Minority interest and preferred dividends for the year ended December 31, 2004, decreased $169.9 million to $13.3 million from $183.2 million for the same period in 2003. The decrease was due to the Company's adoption, as of October 1, 2003, of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R") related to certain finance subsidiaries. The adoption required the deconsolidation of certain finance subsidiaries, which resulted in the amounts previously classified as mandatorily redeemable preferred securities of subsidiary trusts being reclassified as parent company subordinated debt in the Company's consolidated balance sheet at December 31, 2003. The adoption also required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations, prospectively. In accordance with the requirements of FIN 46R, no amounts prior to adoption, on October 1, 2003, have been reclassified. The amount remaining in minority interest and preferred dividends of subsidiaries related to these mandatorily redeemable preferred securities of subsidiary trusts for the nine–month period ended September 30, 2003, was $170.2 million.

Income tax expense for the year ended December 31, 2004, decreased $5.3 million to $265.0 million from $270.3 million for the same period in 2003. The effective tax rate was 33.2% and 31.5% for the years ended December 31, 2004 and 2003, respectively. The increase in the effective tax rate in 2004 was mainly due to the effect of the $170.2 million of tax deductible interest on subordinated debt not included in income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income in 2003, partially offset by the $24.4 million tax payment made in connection with the NIA arbitration settlement at CE Casecnan in 2003, and the settlement by CE Electric UK of various positions with the Inland Revenue department and a change in the State of Iowa's income tax laws in 2004.

Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income decreased $58.7 million, or 6.8%, to $799.2 million in 2004 from $857.9 million in 2003. The decrease was due to the following:

Reportable Segments

- Kern River's pre-tax earnings were $8.9 million higher due to the completion of the 2003 Expansion Project in May 2003, partially offset by lower capitalized interest in connection with completing the expansion. In 2004, Kern River collected $14.8 million on its claim for damages against Mirant for the rejection by Mirant of its firm gas transportation contract. The income was largely offset by revenue lost related to the rejection of the agreement.

- Northern Natural Gas' pre-tax earnings were $90.7 million higher due to a $72.2 million pre-tax gain on the sale of the Enron Note Receivable and improved results associated with the May 2003 rate case which resulted in higher rates commencing November 1, 2003.

- CE Electric UK's pre-tax earnings were $37.2 million higher primarily from the approximately $34.0 million favorable earnings impact of the continued weakness of the U.S. dollar relative to the British pound, partially offset by the $8.9 million gain from the sale of a local operational and dispatch facility at Northern Electric in 2003.

- CalEnergy Generation-Foreign's pre-tax earnings were $11.9 million lower in 2004 compared to 2003. In 2003, CE Casecnan recorded $31.9 million of income in connection with the settlement of its arbitration with the NIA. That gain was partially offset by the settlement of various disputes which the Leyte Projects had with PNOC-EDC, which resulted in the reversal of accrued revenue totaling $11.3 million. In 2004, CE Casecnan had lower revenue as a result of its contract arbitration settlement, which was fully offset by higher revenue at the Leyte Projects due to price indices and lower interest expense on the repayment of project debt. Also in 2004, CalEnergy Generation-Foreign earned higher interest income on affiliate loans of $8.7 million.

- Pre-tax earnings at HomeServices were $21.9 million higher due to higher average home sales prices and acquisitions not included in the comparable 2003 period.

Corporate

- The Company's adoption of FIN 46R, as previously described, required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations prospectively. As a result, the charges for interest expense related to securities of the Company's finance subsidiaries increased by $147.1 million to $196.9 million in 2004 from $49.8 million in 2003.

- During June 2003, the Company sold its investment in Williams Cumulative Convertible Preferred Stock. As a result, 2003 pre-tax earnings included $32.6 million from the gain on the sale and dividend income.

- The Company's corporate interest expense increased $11.5 million primarily as a result of the issuance of the $250.0 million of 5.00% senior notes in February 2004.

Revenue

Operating revenue for the year ended December 31, 2004 increased $587.8 million or 9.9% to $6,553.4 million from $5,965.6 million for the same period in 2003. The following table summarizes operating revenue by segment for the years ended December 31 (in millions):

	Year Ended December 31,	
	2004	2003
Operating revenue:		
MidAmerican Energy	$2,701.7	$2,600.2
Kern River	316.1	260.2
Northern Natural Gas	544.8	486.9
CE Electric UK	936.4	830.0
CalEnergy Generation–Foreign	307.4	326.4
CalEnergy Generation–Domestic	39.0	45.2
HomeServices	1,756.4	1,476.6
Total reportable segments	6,601.8	6,025.5
Corporate/other	(48.4)	(59.9)
Total operating revenue	$6,553.4	$5,965.6

MidAmerican Energy's operating revenue for the year ended December 31, 2004, increased $101.5 million, or 3.9%, to $2,701.7 million. Regulated and non–regulated natural gas revenue increased $53.8 million, or 4.8%, to $1,166.5 million mainly due to higher prices for natural gas purchased for regulated customers, which is passed directly to the customer, and regulated wholesale volumes. Average natural gas prices increased 7.4% from 2003 to 2004. These price increases were partially offset by lower regulated retail and non–regulated volumes. Regulated and non–regulated electric revenue increased $49.8 million, or 3.4%, to $1,518.9 million mainly due to higher regulated retail and non–regulated volumes as well as prices of wholesale sales. These increases were partially offset by lower regulated wholesale volumes and regulated retail prices.

Operating revenue at Kern River and Northern Natural Gas is principally derived by providing firm or interruptible transportation services under long–term gas transportation service agreements. Northern Natural Gas also derives part of its revenue from storing gas. Kern River's operating revenue for the year ended December 31, 2004, increased $55.9 million, or 21.5%, to $316.1 million primarily due to the transportation fees earned in connection with the 2003 Expansion Project, which began operations May 1, 2003. Northern Natural Gas' operating revenue, which reflects the impact of the new rates beginning November 1, 2004 and 2003, and higher gas and liquid sales, increased $57.9 million, or 11.9%, to $544.8 million for the year ended December 31, 2004.

CE Electric UK's operating revenue for the year ended December 31, 2004, increased $106.4 million, or 12.8%, to $936.4 million primarily as a result of the weaker U.S. dollar. Additionally, CE Electric UK experienced increased revenue at its contracting business.

Operating revenue for CalEnergy Generation–Foreign for the year ended December 31, 2004, decreased $19.0 million, or 5.8%, to $307.4 million primarily due to lower water delivery fees in connection with the NIA arbitration settlement at CE Casecnan effective in the fourth quarter of 2003, partially offset by higher energy fees due to increased generation on higher water flows in 2004.

HomeServices' operating revenue for the year ended December 31, 2004, consisting mainly of commission revenue from real estate brokerage transactions, increased $279.8 million, or 18.9%, to $1,756.4 million. The increase is due primarily to growth at existing businesses of $154.7 million due primarily to higher average home sales prices and acquisitions not included in the comparable 2003 period totaling $125.1 million. During the year ended December 31, 2004, HomeServices participated in $59.8 billion of transactions, an increase of $11.2 billion from 2003. About 24% of the increase came from the six acquisitions made during the year.

Costs and expenses

Cost of sales for the year ended December 31, 2004, increased $351.4 million, or 14.6%, to $2,751.9 million from $2,400.5 million for the same period in 2003. HomeServices' cost of sales, consisting primarily of commissions on real estate brokered transactions, increased $211.8 million due to higher commission expense on incremental sales at existing business units and acquisitions not included in the comparable 2003 period. MidAmerican Energy's costs of sales increased $87.4 million due mainly to an increase in the per unit cost of natural gas, higher regulated wholesale natural gas, regulated retail electric and non–regulated electric volumes, partially offset by lower regulated retail and non–regulated natural gas volumes. Northern Natural Gas' cost of sales increased $18.9 million due to higher gas and liquid sales. CE Electric UK's cost of sales increased $16.7 million mainly due to increased activity at its contracting business and the weaker U.S. dollar, partially offset by lower exit charges from the National Grid Company at both Northern Electric and Yorkshire Electricity.

Operating expenses for the year ended December 31, 2004, increased $125.6 million, or 8.3%, to $1,637.9 million from $1,512.3 million for the same period in 2003. HomeServices' operating expenses, consisting mainly of compensation, marketing and other administrative costs, increased $44.8 million due mainly to acquisitions not included in the comparable 2003 period. MidAmerican Energy's operating expenses increased $40.3 million due mainly to higher generation maintenance costs, Quad Cities Station expenses, and transmission expenses. CE Electric UK's operating expenses increased $39.3 million, mainly due to higher pension costs and the weaker U.S. dollar in 2004, and a gain on the sale of a local operational dispatch facility in 2003. Kern River's operating expenses increased $16.4 million due to the commencement of operations of the 2003 Expansion Project. CalEnergy Generation–Foreign's operating expenses decreased $12.5 million mainly due to lower legal and other costs in 2004.

Depreciation and amortization for the year ended December 31, 2004, increased $35.3 million to $638.2 million from $602.9 million for the same period in 2003. Kern River's expense increased $16.5 million due to the completion of the 2003 Expansion Project. Northern Natural Gas' expense increased $15.2 million due to higher depreciation rates consistent with the filed rate case. CE Electric UK's expense increased $12.7 million primarily due to the weaker U.S. dollar. Partially offsetting these increases was a decrease in MidAmerican Energy's expense of $14.6 million due primarily to a decrease in regulatory expense related to its revenue sharing arrangements.

Other income and expense

Interest expense for the year ended December 31, 2004, increased $142.2 million to $903.2 million from $761.0 million for the same period in 2003. On October 1, 2003, the Company adopted FIN 46R related to certain finance subsidiaries. The adoption required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the accompanying consolidated statement of operations, prospectively. For the year ended December 31, 2004 and the three–month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these finance subsidiaries. In accordance with the requirements of FIN 46R, no amounts prior to adoption on October 1, 2003 have been reclassified. The amount included in minority interest and preferred dividends of subsidiaries related to these finance subsidiaries for the nine–month period ended September 30, 2003, was $170.2 million. Other interest expense decreased $4.9 million. The Company incurred lower interest expense of $42.9 million due mainly to the Company's scheduled redemption of $215.0 million of 6.96% senior notes in September 2003, redemption in full of the outstanding shares of the Yorkshire Capital Trust I, 8.08% trust securities in June 2003, and reductions in subsidiary project debt. The Company incurred additional interest expense, totaling $38.0 million, on the Company's debt issuances of $450.0 million of 3.5% senior notes in May 2003 and $250.0 million of 5.0% senior notes in February 2004 and the effects of the weaker U.S. dollar.

Capitalized interest for the year ended December 31, 2004, decreased $10.5 million to $20.0 million from $30.5 million for the same period in 2003. The decrease was mainly due to the discontinuance of capitalizing interest on Kern River's 2003 Expansion Project, partially offset by increased construction activity at MidAmerican Energy's generation projects.

Interest and dividend income for the year ended December 31, 2004, decreased $9.0 million to $38.9 million from $47.9 million for the same period in 2003. The decrease was mainly due to dividend income received in 2003 from the Company's investment in Williams Cumulative Convertible Preferred Stock that was sold in June 2003, partially offset by higher interest income at CE Electric UK resulting from higher cash balances.

Other income for the year ended December 31, 2004, increased $31.6 million to $128.2 million from $96.6 million for the same period in 2003. In 2004, the Company recognized a $72.2 million gain on Northern Natural Gas' sale of the Enron Note Receivable and a $14.8 million gain on amounts collected by Kern River on its claim for damages against Mirant. In 2003, the Company recognized a $31.9 million gain in connection with the NIA arbitration settlement and a $13.8 million gain on the sale of Williams Cumulative Convertible Preferred Stock. Additionally, the allowance for equity funds used during construction for the year ended December 31, 2004, decreased $6.2 million due primarily to the completion of Kern River's expansion in 2003.

Results of Operations for the Year Ended December 31, 2003 and the Year Ended December 31, 2002

The following table summarizes net income for the years ended December 31(in millions):

	2003	2002
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income:		
MidAmerican Energy	$ 271.4	$ 238.8
Kern River	133.7	60.7
Northern Natural Gas	127.3	42.9
CE Electric UK	288.7	266.8
CalEnergy Generation–Foreign	177.6	147.9
CalEnergy Generation–Domestic	2.1	(1.2)
HomeServices	90.0	61.2
Total reportable segments	1,090.8	817.1
Corporate/other	(232.9)	(185.4)
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	857.9	631.7
Income tax expense	270.3	111.3
Minority interest and preferred dividends of subsidiaries	183.2	163.5
Income from continuing operations before equity income	404.4	356.9
Equity income	38.3	40.5
Income from continuing operations	442.7	397.4
Loss from discontinued operations, net of tax benefits	(27.1)	(17.4)
Net income available to common and preferred stockholders	$ 415.6	$ 380.0

The loss from discontinued operations, net of tax benefits, for the year ended December 31, 2003, was $27.1 million as compared to $17.4 million for 2002 and consists of losses from the operation of the Company's Zinc Recovery Project.

Income from continuing operations for the year ended December 31, 2003, increased $45.3 million, or 11.4%, to $442.7 million compared with $397.4 million for the same period in 2002.

Equity income for the year ended December 31, 2003, decreased $2.2 million to $38.3 million compared with $40.5 million for the same period in 2003. Equity income from non–regulated generation equity investments decreased $16.6 million to $14.8 million from $31.4 million in 2002 mainly due to the expiration of a contract at the Power Resources project and a charge associated with an equity investment. Equity income from HomeServices for the year ended December 31, 2003 increased $14.8 million to $23.6 million primarily due to increased refinancing activity at mortgage joint ventures.

Minority interest and preferred dividends for the year ended December 31, 2003, increased $19.7 million to $183.2 million from $163.5 million for the same period in 2002. As previously described, the Company was required to adopt, as of October 1, 2003, FIN 46R related to certain finance subsidiaries. The adoption required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations prospectively. In accordance with the requirements of FIN 46R, no amounts prior to adoption, on October 1, 2003, have been reclassified. The amount remaining in minority interest and preferred dividends of subsidiaries related to these securities increased $22.5 million to $170.2 million for the nine–month period ended September 30, 2003, from $147.7 million for the year ended December 31, 2002. Mandatorily redeemable preferred securities of subsidiary trusts were issued in 2002 to finance the acquisitions of both Kern River and Northern Natural Gas.

Income tax expense for the year ended December 31, 2003, increased $159.0 million to $270.3 million from $111.3 million for the same period in 2002. The effective tax rate was 31.5% and 17.6% for the years ended December 31, 2003 and 2002, respectively. The increase in the effective tax rate was primarily due to increased tax expense on foreign income including the incremental tax expense of $24.4 million in connection with the CE Casecnan NIA arbitration settlement proceeds. The 2002 effective tax rate was unusually low as the Company recognized tax benefits of $35.7 million in connection with the execution of the TPL restructuring agreement at CE Electric UK.

Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income increased $226.2 million, or 35.8%, to $857.9 million in 2003 from $631.7 million in 2002. The increase was due to the following:

Reportable Segments

- Pre-tax earnings at MidAmerican Energy were higher by $32.6 million. The reportable segment earned higher regulated Iowa electric income as it benefited from the first phase of the Greater Des Moines Energy Center beginning operation in May 2003, higher equity funds used during the construction of its electric generation projects, and certain non-recurring items, including lower fuel costs resulting from a contract restructuring and the settlement of a bankruptcy claim.

- Kern River, acquired in March 2002, and Northern Natural Gas, acquired in August 2002, had higher pre-tax earnings of $73.0 million and $84.4 million, respectively, due mainly to the inclusion of the acquisitions for a full-year of operations in the Company's consolidated results and the completion of Kern River's 2003 Expansion Project.

- CE Electric UK's pre-tax earnings were higher by $21.9 million. Approximately $20.0 million of the increase resulted from higher distribution revenue at Yorkshire Electricity, $18.5 million was due to the earnings benefit of the continued weakness of the U.S. dollar relative to the British pound, $11.3 million related to lower costs primarily achieved from economies of scale with Northern Electric and Yorkshire Electricity, $14.4 million was a result of the gain and lower interest costs associated with a bond redemption, $8.9 million related to the gain on sale of a local operational and dispatch facility at Northern Electric, and $7.0 million for rebates received from the National Grid Company. These increases were partially offset by the sale of several of its north sea, natural gas assets resulting in a pre-tax gain of $54.3 million.

- Pre-tax earnings at CalEnergy Generation-Foreign were higher by $29.7 million. In 2003, CE Casecnan recorded $31.9 million of other income in connection with the settlement of its arbitration with the NIA. The 2003 gain was partially offset by the settlement of various disputes which the Leyte Projects had with PNOC-EDC, which resulted in the reversal of accrued revenue totaling $11.3 million. The other significant difference in 2003 was the decrease in financial expense of $10.6 million due to repayment of debt and lower variable interest rates.

- HomeServices' pre-tax earnings were higher by $28.8 million due to acquisitions made throughout 2002 and 2003 and due to growth from higher home prices and higher mortgage refinancing activity at existing companies.

Corporate

- The Company's adoption of FIN 46R, as previously described, required that amounts previously recorded in minority interest and preferred dividends of subsidiaries be recorded as interest expense in the Company's consolidated statements of operations prospectively. The charge to interest expense related to securities of the Company's finance subsidiaries was $49.8 million in 2003 and $ – million in 2002.

Revenue

Operating revenue for the year ended December 31, 2003 increased $1,170.4 million or 24.4% to $5,965.6 million from $4,795.2 million for the same period in 2002. The following table summarizes operating revenue by segment for the years ended December 31 (in millions):

	Year Ended December 31, 2003	2002
Operating revenue:		
MidAmerican Energy	$2,600.2	$2,240.9
Kern River	260.2	127.3
Northern Natural Gas	486.9	178.1
CE Electric UK	830.0	795.4
CalEnergy Generation–Foreign	326.4	326.3
CalEnergy Generation–Domestic	45.2	38.5
HomeServices	1,476.6	1,138.3
Total reportable segments	6,025.5	4,844.8

Corporate/other	(59.9)	(49.6)
Total operating revenue	$5,965.6	$4,795.2

MidAmerican Energy's operating revenue for the year ended December 31, 2003, increased $359.3 million, or 16.0%, to $2,600.2 million. MidAmerican Energy's regulated and non-regulated gas revenue for the year ended December 31, 2003 increased $308.4 million to $1,112.7 million from $804.3 million in 2002 mainly due to higher prices for gas purchased for regulated customers which is passed directly to the customer. Average gas prices increased 59.9% or $2.24 per Dth from 2002 to 2003. Regulated electric revenue for the year ended December 31, 2003 increased $44.6 million to $1,398.0 million from $1,353.4 million for the same period in 2002 mainly due to higher prices of wholesale sales during 2003.

Operating revenue at both pipelines is principally derived by providing firm or interruptible transportation services under long-term gas transportation service agreements. Northern Natural Gas also derives part of its revenue from storing gas. Kern River's operating revenue for the year ended December 31, 2003, increased $132.9 million to $260.2 million. The increase was primarily due to the transportation fees earned in connection with the 2003 Expansion Project which began operations May 1, 2003, and to a lesser degree, the inclusion of its operations for all of 2003. Northern Natural Gas' operating revenue for the year ended December 31, 2003, increased $308.8 million to $486.9 million. Northern Natural Gas was acquired on August 16, 2002. The increase in its operating revenue relates to the timing of that acquisition and inclusion of its operations for all of 2003.

CE Electric UK's operating revenue for the year ended December 31, 2004, increased $34.6 million, or 4.4%, to $830.0 million. The increase was a result of the weaker U.S. dollar, higher distribution revenue and higher revenue at its contracting business. This was partially offset by lower revenue caused by the sale of CE Gas assets in 2002.

HomeServices' operating revenue for the year ended December 31, 2003, consisting mainly of commission revenue from real estate brokerage transactions, increased $338.3 million, or 29.7%, to $1,476.6 million. The increase was due to acquisitions made throughout 2002 and 2003 and $91.3 million due to growth at existing companies. During the year ended December 31, 2003, HomeServices participated in $48.6 billion of transactions, an increase of $11.7 billion from 2002. About 23% of the increase came from the four acquisitions made during the year.

Costs and expenses

Cost of sales for the year ended December 31, 2003 increased $556.5 million, or 30.2%, to $2,400.5 million from $1,844.0 million for the same period in 2002. MidAmerican Energy's cost of sales for the year ended December 31, 2003 increased $345.6 million, or 34.9%, to $1,334.5 million from $988.9 million for the same period in 2002. MidAmerican Energy's regulated and non-regulated gas cost of sales for the year ended December 31, 2003 increased $291.1 million to $878.1 million from $587.0 million in 2002 mainly due to the increase in per unit cost of gas discussed in operating revenue. Electric cost of sales increased $51.0 million in 2003 primarily due to the reclassification of costs for energy purchased under the Cooper Nuclear Station restructured contract between MidAmerican Energy and the Nebraska Public Power District which expired in December 2004. Prior to August 1, 2002, the date of the restructuring, only fuel costs for energy purchased from Cooper Nuclear Station were classified as a cost of sales. Consistent with the restructured contract, other costs under the contract are classified as operating expenses. Following the restructuring, all costs for energy and capacity purchased under the contract were included in cost of sales consistent with the new power purchase contract. Operating expenses decreased accordingly.

HomeServices' cost of sales, consisting primarily of commissions on real estate brokerage transactions, increased $235.6 million for the year ended December 31, 2003, or 30.7%, to $1,003.2 million from $767.6 million for the same period in 2002. Cost of sales increased $106.7 million due to acquisitions made during 2002 and 2003. The remainder of HomeServices' increase was due to growth of existing companies totaling $128.9 million.

Operating expenses for the year ended December 31, 2003 increased $209.5 million, or 16.1%, to $1,512.3 million from $1,302.8 million for the same period in 2002. An increase of $146.6 million was due to Northern Natural Gas, which was owned for the entire period in 2003. Increased operating expenses at HomeServices were $78.8 million, primarily due to the impact of acquisitions and increased compensation expenses. These increases were partially offset by lower operating expenses at CE Electric UK of $39.6 million, mainly due to the sale of the retail business in 2002 and a gain on the sale of a local operational dispatch facility in 2003, and lower operating expenses at MidAmerican Energy of $19.5 million primarily due to the restructuring of the Cooper contract.

Depreciation and amortization for the year ended December 31, 2003 increased $72.8 million, or 13.7%, to $602.9 million from $530.1 million for the same period in 2002. An increase of $34.6 million was due to Northern Natural Gas, which was owned for the entire period in 2003. Increased depreciation at Kern River was $19.6 million mainly due to the completion of the 2003 Expansion Project and the inclusion of Kern River's operations for the entire period. Increased depreciation of $11.6 million at MidAmerican Energy due to higher utility plant depreciation and increased depreciation of $8.2 million at CE Electric UK due to a weaker U.S. dollar and an increased asset base, partially offset by the CE Gas asset sale in 2002.

In 2002, CE Gas executed the sale of several of its assets and recorded a pre–tax gain of $54.3 million, which included a write off of non–deductible goodwill of $49.6 million. Refer to Note 5 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10–K for additional information regarding the asset sales.

Other Income and Expense

Interest expense for the year ended December 31, 2003 increased $128.9 million to $761.0 million from $632.1 million for the same period in 2002. The increase was mainly due to interest on parent company subordinated debt which was $49.8 million for the quarter and year ended December 31, 2003. This amount represents the interest recorded on the parent company subordinated debt for the period from October 1, 2003, the date the Company adopted FIN 46R, through December 31, 2003. Prior to the adoption of FIN 46R, the parent company subordinated debt was classified as company–obligated mandatorily redeemable preferred securities of subsidiary trusts. Costs associated with those instruments, prior to the adoption of FIN 46R, were classified as minority interest and preferred dividends of subsidiaries in the accompanying consolidated statements of operations. The remaining $79.1 million increase resulted from additional interest expense totaling $38.9 million on MEHC's debt issuances of $700.0 million in October 2002 and $450.0 million in May 2003, increased interest expense of $32.5 million at Northern Natural Gas primarily due to a full year of ownership and increased interest expense at Kern River of $32.2 million due to additional borrowings related to the 2003 Expansion Project and a full year of ownership. The increases were partially offset by decreased interest, totaling $27.9 million, due to the combination of the June 2003 redemption of the Yorkshire Electricity securities, reductions in CalEnergy Generation–Foreign project debt, MEHC's revolving credit facility and the retirement of MEHC's 6.96% Senior Notes.

Capitalized interest for the year ended December 31, 2003 increased $7.1 million to $30.5 million. The increase was mainly due to Kern River's 2003 Expansion Project and increased construction activity at MidAmerican Energy's generation projects.

Interest and dividend income for the year ended December 31, 2003 decreased $8.1 million to $47.9 million from $56.0 million for the same period in 2002. The decrease was primarily due to lower income at CE Electric UK of $9.9 million due to lower cash balances partially offset by higher dividend income on the investment in Williams Cumulative Convertible Preferred Stock totaling $4.7 million and interest earned on higher corporate cash balances available during 2003.

Other income for the year ended December 31, 2003, increased $56.4 million to $96.6 million from $40.2 million for the same period in 2003. In 2003, the Company recognized a $31.9 million gain in connection with the NIA arbitration settlement and a $13.8 million gain on the sale of Williams Cumulative Convertible Preferred Stock. Additionally, the allowance for equity funds used during construction for the year ended December 31, 2003, increased $7.3 million due primarily to the construction of Kern River's expansion in 2003.

Other expense for the year ended December 31, 2003, decreased $22.7 million to $5.9 million from $28.6 million for the same period in 2002. In 2002, MidAmerican Energy recorded an impairment of its investment in airplane leases and other non-regulated investments of $21.7 million.

Liquidity and Capital Resources

The Company has available a variety of sources of liquidity and capital resources, both internal and external. These resources provide funds required for current operations, construction expenditures, debt retirement and other capital requirements. The Company may from time to time seek to retire its outstanding securities through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Each of MEHC's direct or indirect subsidiaries is organized as a legal entity separate and apart from MEHC and its other subsidiaries. Pursuant to separate financing agreements at each subsidiary, the assets of each subsidiary may be pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. It should not be assumed that any asset of any subsidiary of MEHC will be available to satisfy the obligations of MEHC or any of its other subsidiaries; provided, however, that unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing arrangements for such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to MEHC or affiliates thereof.

The Company's cash and cash equivalents were $960.9 million at December 31, 2004, compared to $660.2 million at December 31, 2003. In addition, the Company recorded separately, in restricted cash and short-term investments and in deferred charges and other assets, restricted cash and investments of $164.5 million and $119.5 million at December 31, 2004 and 2003, respectively. The restricted cash balance for both periods is comprised primarily of amounts deposited in restricted accounts which are reserved for the service of debt obligations, customer deposits held in escrow, custody deposits and unpaid dividends declared obligations.

Cash Flows from Operating Activities

The Company generated cash flows from operations of $1,424.6 million for the year ended December 31, 2004, compared with $1,217.9 million for the same period in 2003. The increase was mainly due to greater income from continuing operations and a tax refund as a result of a 2003 net operating loss from accelerated depreciation. Also contributing to the net increase in cash flows from operations were changes in working capital, partially offset by lower distributions from equity investments.

Cash Flows from Investing Activities

Cash flows used in investing activities for the years ended December 31, 2004 and 2003 were $1,029.7 million and $1,003.2 million, respectively. Capital expenditures, construction and other development costs for the years ended December 31, 2004 and 2003 were $1,179.4 million and $1,219.4 million, respectively. In addition to the capital expenditures, contributing to the increase of cash flows used in investing activities was $288.8 million of proceeds from the sale of convertible preferred securities in 2003, partially offset by the receipt of the proceeds of the put of the ROP Note, and sale of the Enron Note Receivable claim, as described below.

Put of ROP Note and Receipt of Cash

On January 14, 2004, CE Casecnan exercised its right to put the ROP Note to the ROP and, in accordance with the terms of the put option, CE Casecnan received $99.2 million (representing $97.0 million par value plus accrued interest) from the ROP on January 21, 2004.

Sale of Enron Note Receivable and Receipt of Cash

Northern Natural Gas had a note receivable of approximately $259.0 million (the "Enron Note Receivable") with Enron. As a result of Enron filing for bankruptcy on December 2, 2001, Northern Natural Gas filed a bankruptcy claim against Enron seeking to recover payment of the Enron Note Receivable. As of December 31, 2001, Northern Natural Gas had written-off the note. By stipulation, Enron and Northern Natural Gas agreed to a value of $249.0 million for the claim and received approval of the stipulation from Enron's Bankruptcy Court on August 26, 2004. On November 23, 2004, Northern Natural Gas sold its stipulated general, unsecured claim against Enron of $249.0 million to a third party investor for $72.2 million, which was recorded as other income in the fourth quarter of 2004.

Capital Expenditures, Construction and Other Development Costs

Capital expenditures, construction and other development costs were $1,310.3 for the year ended December 31, 2004, compared with $1,179.8 million for the same period in 2003. The following table summarizes the expenditures by business segment (in millions):

	Year Ended December 31, 2004	Year Ended December 31, 2003
Capital expenditures:		
MidAmerican Energy	$ 633.8	$ 346.5
Kern River	26.9	433.1
Northern Natural Gas	138.8	104.4
CE Electric UK	334.5	301.9
CalEnergy Generation–Foreign	4.6	8.5
CalEnergy Generation–Domestic	1.3	6.6
HomeServices	20.8	18.3
Segment capital expenditures	1,160.7	1,219.3
Corporate/other	18.7	0.1
Total capital expenditures	$1,179.4	$1,219.4

Forecasted capital expenditures, construction and other development costs for fiscal 2005 are approximately $1.3 billion. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company expects to meet these capital expenditures with cash flows from operations and the issuance of debt. Capital expenditures relating to operating projects, consisting mainly of recurring expenditures, were $778.3 million for the year ended December 31, 2004. Construction and other development costs were $401.0 million for the year ended December 31, 2004. These costs consist mainly of expenditures for large scale, generation projects as follows:

MidAmerican Energy

MidAmerican Energy anticipates a continuing increase in demand for electricity from its regulated customers. To meet anticipated demand and ensure adequate electric generation in its service territory, MidAmerican Energy recently completed its combined cycle combustion turbine project and is currently constructing the 790 MW CBEC Unit 4 and a 310 MW (nameplate rating) wind power project in Iowa. A 50 MW (nameplate rating) expansion of the wind power project is also expected to be constructed in 2005. The projects will provide service to regulated retail electricity customers.

MidAmerican Energy has obtained regulatory approval to include the Iowa portion of the actual costs of the generation projects in its Iowa rate base as long as actual costs do not exceed the agreed caps that MidAmerican Energy has deemed to be reasonable. If the caps are exceeded, MidAmerican Energy has the right to demonstrate the prudence of the expenditures above the caps, subject to regulatory review. Wholesale sales may also be made from the projects to the extent the power is not immediately needed for regulated retail service. MidAmerican Energy expects to invest approximately $1.1 billion in the CBEC Unit 4 and wind generation projects currently under construction, of which $350.4 million has been invested through December 31, 2004.

MidAmerican Energy recently completed work on its Greater Des Moines Energy Center, a natural gas-fired, combined cycle unit located near Pleasant Hill, Iowa. Construction of the plant was completed in two phases. Commercial operation of the simple cycle mode began on May 5, 2003, and continued through most of 2004, providing 327 MW of accredited capacity in the summer of 2004. Commercial operation of the combined cycle mode began on December 16, 2004. The additional accredited capacity from completion of the second phase is expected to be 190 MW. MidAmerican Energy expects the total cost of the Greater Des Moines Energy Center to be under the $357.0 million cost cap established by the IUB.

MidAmerican Energy is currently constructing the CBEC Unit 4, a 790 MW (based on expected accreditation) super-critical-temperature, low-sulfur coal-fired plant. MidAmerican Energy will operate the plant and hold an undivided ownership interest as a tenant in common with the other owners of the plant. MidAmerican Energy's ownership interest is 60.67%, equating to 479 MW of output. MidAmerican Energy expects its share of the estimated cost of the project, including transmission facilities, to be approximately $737.0 million, excluding allowance for funds used during construction. Municipal, cooperative and public power utilities will own the remainder, which is a typical ownership arrangement for large base-load plants in Iowa. On February 12, 2003, MidAmerican Energy executed a contract with Mitsui for engineering, procurement and construction of the plant. On September 9, 2003, MidAmerican Energy began construction of the plant, which it expects to be completed in the summer of 2007. On December 29, 2004, MidAmerican Energy received an order from the IUB approving construction of the associated transmission facilities and is proceeding with construction.

The second electric generating project currently under construction consists of wind power facilities located at two sites in north central Iowa totaling 310 MW based on the nameplate rating. Generally speaking, accredited capacity ratings for wind power facilities are considerably less than the nameplate ratings due to the varying nature of wind. The current projected accredited capacity for these wind power facilities is approximately 53 MW. MidAmerican Energy will own and operate these facilities, which are expected to cost approximately $323.0 million, including transmission facilities and excluding the allowance for funds using during construction. As of December 31, 2004, wind turbines totaling 160.5 MW at one of the sites were completed and in service. Completion of the remaining turbines is expected by the middle of 2005. On January 31, 2005, the IUB approved ratemaking principles related to expanding the wind power project. An additional 50 MW of capacity, based on nameplate rating, is expected to be constructed at the sites in 2005 at an estimated cost of $63.0 million.

MidAmerican Energy's total accredited net generating capability in the summer of 2004 was 4,897 MW. Accredited net generating capability represents the amount of generation available to meet the requirements on MidAmerican Energy's system and consists of MidAmerican Energy-owned generation of 4,481 MW and the net amount of capacity purchases and sales of 416 MW. The actual amount of generation capacity available at any time may be less than the accredited capability due to regulatory restrictions, transmission constraints, fuel restrictions and generating units being temporarily out of service for inspection, maintenance, refueling, modifications or other reasons.

HomeServices' Acquisitions

In 2004, HomeServices separately acquired six real estate companies for an aggregate purchase price of $30.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2003, these real estate companies had combined revenue of $95.7 million on approximately 15,000 closed sides representing $3.2 billion of sales volume. These purchases were financed using HomeServices' cash balances. In 2003, HomeServices separately acquired four real estate companies for an aggregate purchase price of $36.7 million, net of cash acquired, plus working capital and certain other adjustments. For the year ended December 31, 2002, these real estate companies had combined revenue of $102.9 million on approximately 16,000 closed sides representing $3.6 billion of sales volume. Additionally in 2004, HomeServices paid an earnout of $6.0 million based on 2004 financial performance measures. These purchases were financed using HomeServices' cash balances and revolving credit facility.

Cash Flows from Financing Activities

Cash flows used in financing activities for the year ended December 31, 2004 were $122.8 million. During 2004, the Company used cash for financing activities, totaling $747.9 million, primarily for repayments of subsidiary and parent company obligations, including $136.4 million of cash flows from discontinued operations, and generated cash from financing activities, totaling $625.1 million, from the issuance of subsidiary, project and parent company debt. Cash flows used in financing activities for the year ended December 31, 2003 were $426.3 million. During 2003, the Company used cash for financing activities, totaling $2,033.2 million, primarily for repayments of subsidiary obligations and parent company debt and the retirement of preferred securities of subsidiary trusts, and generated cash from financing activities, totaling $1,606.9 million, from the issuance of subsidiary, project and parent company debt.

Recent Debt Issuances, Redemptions and Stock Transactions

On February 12, 2004, MEHC completed the sale of $250 million in aggregate principal amount of its 5.00% senior notes due February 15, 2014. The proceeds were used to satisfy a demand made by its affiliate, Funding Corporation, for $136.4 million, the amount remaining on MEHC's guarantee of Funding Corporation's Series F Bonds, and for other general corporate purposes.

On March 1, 2004, Funding Corporation completed the redemption of an aggregate principal amount of $136.4 million of its Series F Bonds, pro rata, at a redemption price of 100% of such aggregate outstanding principal amount, plus accrued interest to the date of redemption. A demand was also made on MEHC for the full amount remaining on MEHC's guarantee of the Series F Bonds in order to fund the redemption. MEHC made the requisite payment and, as a result, it has no further liability with respect to its guarantee. The payment was included in cash flows from discontinued operations.

On October 1, 2004, MidAmerican Energy issued $350.0 million of 4.65% medium-term notes due October 1, 2014. The proceeds were used for general corporate purposes.

In 2004, the Company made the required $100.0 million payment on its 11.00% parent company subordinated debt. The payments on subsidiary and project debt made in 2004 consisted of the maturity of CE Electric UK's 6.853% senior notes, totaling $117.1 million, and regularly scheduled principal payments on project term loans.

On January 6, 2004, the Company purchased a portion of the shares of common stock owned by the Company's chairman and chief executive officer, for an aggregate purchase price of $20.0 million.

Current Maturities of Long-Term Debt

The Company's current portion of long-term debt increased $644.7 million to $1,145.6 million at December 31, 2004, from $500.9 million at December 31, 2003, due mainly to $260.0 million of 7.23% parent company senior notes becoming due in the third quarter of 2005, and, pursuant to a call option exercised in February 2005, at a cost of $17.5 million, a subsidiary of CE Electric UK purchased, and then cancelled, its Variable Rate Reset Trust Securities, due in 2020, at a par value of £155.0 million. Accordingly, the Company has included the entire principal amount of these securities in its current portion of long-term debt in the accompanying consolidated balance sheet. The Company plans to use existing cash and future debt issuances to repay these obligations.

Restricted Cash and Short-Term Investments

During the year ended December 31, 2004, CE Casecnan increased its restricted cash related to obligations for debt service and unpaid dividends declared. Additionally, Northern Natural Gas increased its restricted cash related to custody deposits.

Discontinued Operations – Zinc Recovery Project and Mineral Assets

Indirect wholly–owned subsidiaries of MEHC, own the rights to commercial quantities of extractable minerals from elements in solution in the geothermal brine and fluids utilized at the Imperial Valley Projects and a zinc recovery plant constructed near the Imperial Valley Projects designed to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process.

The Zinc Recovery Project began limited production during December 2002 and continued limited production until September 10, 2004. Efforts to increase production had continued since the Zinc Recovery Project was place in service with an emphasis on process modification. Management had been assessing the long–term economic viability of the Zinc Recovery Project in light of continuing cash flow deficits and operating losses and the efforts to increase production, and had continued to evaluate the expected impact of the planned improvements to the extraction process during the third quarter of 2004. Furthermore, management had been exploring other operating alternatives, such as establishing strategic partnerships and consideration of ceasing operations of the Zinc Recovery Project.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project, effective immediately. Based on this decision, a non–cash, after–tax impairment charge of $340.3 million has been recorded to write–off the Mineral Assets.

In connection with ceasing operations, the Zinc Recovery Project's assets are being dismantled and sold and certain employees of the operator of the Zinc Recovery Project were paid one–time termination benefits. Cash expenditures of approximately $4.1 million, consisting of pre–tax disposal costs, termination benefit costs and property taxes, were made through December 31, 2004. The Company expects to make additional cash expenditures of pre–tax disposal costs and property taxes of approximately $1.6 million. Substantially all of such costs are expected to relate to disposal activities, and a portion of the disposal costs is expected to be offset by proceeds from sales of the Zinc Recovery Project's assets. These costs are recognized in the period in which the related liability is incurred. Salvage proceeds will be recognized in the period earned. Implementation of a disposal plan began in September 2004 and will continue in 2005. The Company also expects to receive approximately $55 million in future tax benefits.

The operating losses from discontinued operations before income taxes during the years ended December 31, 2004, 2003 and 2002 were $42.7 million, $46.4 million and $29.1 million, respectively.

Credit Ratings Risks

Debt and preferred securities of the Company may be rated by nationally recognized credit rating agencies. Assigned credit ratings are based on each rating agency's assessment of the rated company's ability to, in general, meet the obligations of its debt or preferred securities. The credit ratings are not a recommendation to buy, sell or hold securities, and there is no assurance that a particular credit rating will continue for any given period of time. Other than the agreements discussed below, the Company does not have any credit agreements that require termination or a material change in collateral requirements or payment schedule in the event of a downgrade in the credit ratings of the respective company's securities.

In conjunction with its wholesale marketing and trading activities, MidAmerican Energy must meet credit quality standards as required by counterparties. MidAmerican Energy has energy trading agreements that, in accordance with industry practice, either specifically require it to maintain investment grade credit ratings or provide the right for counterparties to demand "adequate assurances" in the event of a material adverse change in MidAmerican Energy's creditworthiness. If one or more of MidAmerican Energy's credit ratings decline below investment grade, MidAmerican Energy may be required to post cash collateral, letters of credit or other similar credit support to facilitate ongoing wholesale marketing and trading activities. As of December 31, 2004, MidAmerican Energy's estimated potential collateral requirements totaled approximately $151.0 million. MidAmerican Energy's collateral requirements could fluctuate considerably due to seasonality, market price volatility, and a loss of key MidAmerican Energy generating facilities or other related factors.

Yorkshire Power Group Limited ("YPGL"), a subsidiary of CE Electric UK, entered into certain currency rate swap agreements for its Yankee Bonds with three large multi–national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling. For the $281.1 million of the 6.496% Yankee Bonds outstanding at December 31, 2004, the agreements extend until February 25, 2008 and convert the U.S. dollar interest rate to a fixed Sterling rate ranging from 7.3175% to 7.345%. The estimated fair value of these swap agreements at December 31, 2004 was $96.1 million based on quotes from the counterparties to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated. Certain of these counterparties have the option to terminate the swap agreements and demand payment of the fair value of the swaps if YPGL's credit ratings from the three recognized credit rating agencies decline below investment grade. As of December 31, 2004, YPGL's credit ratings from the three recognized credit rating agencies were investment grade; however, if the ratings fell below investment grade, payment requirements would have been approximately $44.8 million.

Inflation

Inflation has not had a significant impact on the Company's costs.

Obligations and Commitments

The Company has contractual obligations and commercial commitments that may affect its financial condition. Contractual obligations to make future payments arise from parent company and subsidiary long–term debt and notes payable, preferred equity securities, operating leases and power and fuel purchase contracts. Other obligations arise from unused lines of credit and letters of credit. Material obligations as of December 31, 2004 are as follows (in millions):

	Payments Due By Periods				
	Total	< 1 Year	2–3 Years	4–5 Years	>5 Years
Contractual Cash Obligations:					
Parent company senior debt	$ 3,032.0	$ 260.0	$ 550.0	$ 1,000.0	$ 1,222.0
Parent company subordinated debt	1,774.4	188.5	468.0	468.0	649.9
Subsidiary and project debt	7,190.4	885.6	695.3	844.3	4,765.2
Preferred securities of subsidiaries	89.5	–	–	–	89.5
Interest payments on long–term debt[1]	7,588.5	811.9	1,417.8	1,056.7	4,302.1
Coal, electricity and natural gas contract commitments (2)	668.8	173.0	255.3	122.2	118.3
Operating leases[2]	375.0	70.4	121.0	78.9	104.7
Deferred costs on construction contracts[3]	152.3	–	152.3	–	–
Total contractual cash obligations	$ 20,870.9	$ 2,389.4	$ 3,659.7	$ 3,570.1	$ 11,251.7

	Commitment Expiration per Period				
Total		< 1 Year	2–3 Years	4–5 Years	>5 Years
Other Commercial Commitments:					
Unused parent company revolving lines of credit	$ 30.0	$ –	$ 30.0	$ –	$ –
Parent company letters of credit	71.1	71.1	–	–	–
Unused subsidiary lines of credit	144.9	144.9	–	–	–
Total other commercial commitments	$ 246.0	$ 216.0	$ 30.0	$ –	$ –

(1) Excludes interest payments on variable rate long–term debt.

(2) The coal, electricity and natural gas contract commitments and operating leases are not reflected on the consolidated balance sheets.

(3) MidAmerican Energy is allowed to defer up to $200.0 million in payments to Mitsui under its engineering, procurement and construction contract to build the CBEC Unit 4, which is expected to be complete in the summer of 2007.

The Company has other types of commitments that are subject to change and relate primarily to the items listed below. For additional information, refer, where applicable, to the respective referenced note of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplemental Data" of this Form 10-K.

- Construction expenditures (see Note 6)
- Asset retirement obligations (see Note 10)
- Debt service reserve guarantees (see Note 14)
- Nuclear decommissioning costs (see Note 21)
- Residual guarantees on operating leases (see Note 21)

Off-Balance Sheet Arrangements

The Company has certain investments that are accounted for under the equity method in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, an amount is recorded on the Company's balance sheet as an equity investment and is increased or decreased for the Company's pro-rata share of earnings or losses, respectively, less any dividend distribution from such investments.

As of December 31, 2004, the Company's investments which are accounted for under the equity method had $861.3 million of debt and $40.2 million in outstanding letters of credit. As of December 31, 2004, the Company's pro-rata share of such debt and outstanding letters of credit, which is all non-recourse to MEHC, was $430.3 million and $20.1 million, respectively.

MEHC is generally not required to support the debt service obligations of its equity investments. However, default with respect to this non-recourse debt could result in a loss of invested equity.

New Accounting Pronouncements

In December 2003, the FASB issued FIN 46R, which served to clarify guidance in FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" ("FIN 46"). The Company adopted and applied the provisions of FIN 46R, related to certain finance subsidiaries, as of October 1, 2003. The adoption required the deconsolidation of certain finance subsidiaries, which resulted in the amounts previously classified as mandatorily redeemable preferred securities of subsidiary trusts, in the amount of $1.9 billion, being reclassified to parent company subordinated debt in the accompanying consolidated balance sheets. In addition, amounts previously recorded as minority interest and preferred dividends of subsidiaries are now recorded as interest expense in the accompanying consolidated statements of operations prospectively. For the year ended December 31, 2004, and the three-month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these securities. In accordance with the requirements of FIN 46R, no amounts prior to adoption of FIN 46R on October 1, 2003 have been reclassified. The amounts included in minority interest and preferred dividends of subsidiaries related to these securities for the nine-month period ended September 30, 2003, and the year ended December 31, 2002, were $170.2 million and $147.7 million, respectively. The Company adopted the provisions of FIN 46R related to non-special purpose entities in the first quarter of 2004. The Company considered the provisions of FIN 46R for all subsidiaries and their related power purchase, power sale, or tolling agreements. Factors considered in the analysis include the duration of the agreements, how capacity and energy payments are determined, source and payment terms for fuel, as well as responsibility and payment for operating and maintenance expenses. As a result of these considerations, the Company has determined its power purchase, power sale and tolling agreements do not represent significant variable interests. Accordingly, the Company concluded that it is appropriate to continue to consolidate the power plant projects with ownership interests greater than 50% and not to consolidate the power plants from which it purchases power.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires entities to measure compensation costs for all share-based payments, including stock options, at fair value and expense such payments over the service period. Since MEHC is considered a nonpublic entity under the criteria of SFAS 123R, this standard is effective for annual periods beginning after December 15, 2005. Adoption of this standard will not have an effect on the Company's financial position, results of operations or cash flows as all of the Company's outstanding stock options were fully vested at the date of issuance of SFAS 123R. Modifications to outstanding stock options after the effective date of the standard may result in additional compensation expense pursuant to the provisions of SFAS 123R.

Critical Accounting Policies

The preparation of financial statements and related documents in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 2 to the consolidated financial statements for the year ended December 31, 2004 included in this annual report describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Estimates are used for, but not limited to, the accounting for the effects of certain types of regulation, impairment of long-lived assets, contingent liabilities, accrued pension and post-retirement expense and revenue. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Accounting for the Effects of Certain Types of Regulation

MidAmerican Energy, Kern River and Northern Natural Gas prepare their financial statements in accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation ("SFAS 71"), which differs in certain respects from the application of GAAP by non-regulated businesses. In general, SFAS 71 recognizes that accounting for rate-regulated enterprises should reflect the economic effects of regulation. As a result, a regulated utility is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (a regulatory liability) if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates. Accordingly, MidAmerican Energy, Kern River and Northern Natural Gas have deferred certain costs, which will be amortized over various future periods. To the extent that collection of such costs or payment of such obligations is no longer probable as a result of changes in regulation, the associated regulatory asset or liability is charged or credited to income.

A possible consequence of deregulation of the regulated energy industry is that SFAS 71 may no longer apply. If portions of the Company's regulated energy operations no longer meet the criteria of SFAS 71, the Company could be required to write off the related regulatory assets and liabilities from its balance sheet, and thus a material adjustment to earnings in that period could result if regulatory assets or liabilities are not recovered in transition provisions of any deregulation legislation.

The Company continues to evaluate the applicability of SFAS 71 to its regulated energy operations and the recoverability of these assets and liabilities through rates as there are on-going changes in the regulatory and economic environment.

Impairment of Long-Lived Assets and Goodwill

The Company's long-lived assets consist primarily of properties, plants and equipment. Depreciation is computed using the straight-line method based on economic lives or regulatorily mandated recovery periods. The Company believes the useful lives assigned to the depreciable assets, which generally range from 3 to 87 years, are reasonable.

The Company periodically evaluates long-lived assets, including properties, plants and equipment, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Upon the occurrence of a triggering event, the carrying amount of a long-lived asset is reviewed to assess whether the recoverable amount has declined below its carrying amount. The recoverable amount is the estimated net future cash flows that the Company expects to recover from the future use of the asset, undiscounted and without interest, plus the asset's residual value on disposal. Where the recoverable amount of the long-lived asset is less than the carrying value, an impairment loss would be recognized to write down the asset to its fair value that is based on discounted estimated cash flows from the future use of the asset.

The estimate of cash flows arising from future use of the asset that are used in the impairment analysis requires judgment regarding what the Company would expect to recover from future use of the asset. Any changes in the estimates of cash flows arising from future use of the asset or the residual value of the asset on disposal based on changes in the market conditions, changes in the use of the asset, management's plans, the determination of the useful life of the asset and technology changes in the industry could significantly change the calculation of the fair value or recoverable amount of the asset and the resulting impairment loss, which could significantly affect the results of operations. The determination of whether impairment has occurred is primarily based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions.

The provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which establishes the accounting for acquired goodwill and other intangible assets, and provides that goodwill and indefinite-lived intangible assets will not be amortized, requires allocating goodwill to each reporting unit and testing for impairment using a two-step approach. The goodwill impairment test is performed annually or whenever an event has occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company completed its annual review pursuant to SFAS 142 for its reporting units as of October 31, 2004, primarily using a discounted cash flow methodology. No impairment was indicated as a result of these assessments.

Contingent Liabilities

The Company establishes accruals for estimated loss contingencies, such as environmental, legal and regulatory matters, when it is management's assessment that a loss is probable and the amount of the loss can be reasonably estimated. Revisions to contingent liabilities are recorded in the period in which different facts or information become known or circumstances change that affect the previous assumptions with respect to the likelihood or amount of loss. Accruals for contingent liabilities and subsequent revisions are reflected in income when accruals are recorded or as regulatory treatment dictates. Accruals for contingent liabilities are based upon management's assumptions and estimates, and advice of legal counsel or other third parties regarding the probable outcomes of the matter. Should the outcomes differ from the assumptions and estimates, revisions to the estimated accruals for contingent liabilities would be required.

Accrued Pension and Postretirement Expense

Pension and postretirement costs are accrued throughout the year based on results of an annual study performed by external actuaries. In addition to the benefits granted to employees, the timing of the cost of these plans is impacted by assumptions used by the actuaries, including assumptions provided by MEHC for the discount rate and long-term rate of return on assets. Both of these factors require estimates and projections by management and can fluctuate from period to period. Actual returns on assets are significantly affected by stock and bond markets, over which management has little control. The interest rate at which projected benefits are discounted significantly affects amounts expensed. Refer to Note 22 of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional disclosures regarding the Company's pension and post retirement commitments.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Based on existing regulatory precedent, MidAmerican Energy is not allowed to recognize deferred income tax expense related to certain temporary differences resulting from accelerated tax depreciation and other property related basis differences. For these differences, MidAmerican Energy establishes deferred tax liabilities and regulatory assets on the consolidated balance sheets since MidAmerican Energy is allowed to recover the increased tax expense when these differences turn around.

The Company has not provided U.S. deferred income taxes on its currency translation adjustment or the cumulative earnings of international subsidiaries that have been determined by management to be reinvested indefinitely. These earnings related to ongoing operations and were approximately $1.5 billion at December 31, 2004. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. Deferred taxes are provided for earnings of international subsidiaries when the Company plans to remit those earnings.

The calculation of current and deferred income taxes requires management to apply judgment relating to the application of complex tax laws or related interpretations and uncertainties related to the outcome of tax audits. Changes in such factors may result in changes to management's estimates, which could require the Company to adjust its currently recorded tax assets and liabilities and record additional income tax expense or benefits.

Revenue Recognition

Revenue is recorded based upon services rendered and electricity, gas and steam delivered, distributed or supplied to the end of the period. The Company records unbilled revenue representing the estimated amounts customers will be billed for services rendered between the meter reading dates in a particular month and the end of that month.

Where billings result in an overrecovery of United Kingdom distribution business revenue against the maximum regulated amount, revenue is deferred in an amount equivalent to the over recovered amount. The deferred amount is deducted from revenue and included in other liabilities. Where there is an under recovery, no anticipation of any potential future recovery is made.

Revenue from the transportation and storage of gas is recognized based on contractual terms and the related volumes. Kern River and Northern Natural Gas are subject to the FERC's regulations and, accordingly, certain revenue collected may be subject to possible refunds upon final orders in pending rate proceedings. Kern River and Northern Natural Gas record revenue which is subject to refund based on their best estimate of the final outcome of these proceedings and other third party regulatory proceedings, advice of counsel and estimated total exposure, as well as collection and other risks. The estimate of the refund is recorded in other current liabilities in the accompanying consolidated balance sheets.

Revenue from water and energy delivery is recorded on the basis of the contractual minimum guaranteed water delivery threshold for the respective contract year. If and when cumulative deliveries within a contract year exceed the minimum threshold, additional revenue is recognized. Revenue from long-term electricity contracts is recorded at the lower of the amount billed or the average of the contract, subject to contractual provisions at each project.

Commission revenue from real estate brokerage transactions and related amounts due to agents are recognized when title has transferred from seller to buyer. Title fee revenue from real estate transactions and related amounts due to the title insurer are recognized at the closing, which is when consideration is received. Fees related to loan originations are recognized at the closing, which is when services have been provided and consideration is received. To the extent the estimated amount differs from the actual amount, revenue will be affected.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk, including changes in the market price of certain commodities and interest rates. To manage the price volatility relating to these exposures, the Company enters into various financial derivative instruments. Senior management provides the overall direction, structure, conduct and control of the Company's risk management activities, including the use of financial derivative instruments, authorization and communication of risk management policies and procedures, strategic hedging program guidelines, appropriate market and credit risk limits, and appropriate systems for recording, monitoring and reporting the results of transactional and risk management activities.

Interest Rate Risk

At December 31, 2004, the Company had fixed-rate long-term debt of $11,503.4 million in aggregate principal amount and having a fair value of $12,416.2 million. These instruments are fixed-rate and therefore do not expose the Company to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would decrease by approximately $396.0 million if interest rates were to increase by 10% from their levels at December 31, 2004. In general, such a decrease in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments prior to their maturity.

At December 31, 2003, the Company had fixed-rate long-term debt of $11,369.4 million in aggregate principal amount and having a fair value of $12,015.1 million. These instruments were fixed-rate and therefore did not expose the Company to the risk of earnings loss due to changes in market interest rates.

At December 31, 2004, the Company had floating-rate obligations of $493.4 million that expose the Company to the risk of increased interest expense in the event of increases in short-term interest rates. These obligations are not hedged. If the floating rates were to increase by 1%, the Company's consolidated interest expense for unhedged floating-rate obligations would increase by approximately $0.4 million each month in which such increase continued based upon December 31, 2004 principal balances.

At December 31, 2003, the Company had floating-rate obligations of $459.8 million that exposed the Company to the risk of increased interest expense in the event of increases in short-term interest rates. These obligations were not hedged.

Currency Exchange Rate Risk

CE Electric UK entered into currency rate swap agreements for its Senior Notes with large multi–national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $237.0 million of 6.995% Senior Notes outstanding at December 31, 2004. The agreements extend until maturity on December 30, 2007 and convert the U.S. dollar interest rate to a fixed Sterling rate of 7.737%. The estimated fair value of these swap agreements at December 31, 2004 and 2003 was $35.7 million and $16.0 million, respectively, based on quotes from the counterparty to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated.

A subsidiary of CE Electric UK entered into certain currency rate swap agreements for its Yankee Bonds with three large multi–national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $281.1 million of 6.496% Yankee Bonds outstanding at December 31, 2004. The agreements extend until maturity on February 25, 2008 and convert the U.S. dollar interest rate to a fixed Sterling rate ranging from 7.3175% to 7.345%. The estimated fair value of these swap agreements at December 31, 2004 and 2003 was $96.1 million and $62.6 million, respectively, based on quotes from the counterparties to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated.

A 10% devaluation of the U.S. dollar versus Sterling from the value at December 31, 2004 would increase the amount owed by the Company if these swap agreements were terminated by approximately $69.9 million.

Derivatives

As of December 31, 2004, MidAmerican Energy held derivative instruments used for non–trading and trading purposes with the following fair values (in thousands):

Contract Type	Maturity in 2005	Maturity in 2006–08	Total
Non–trading:			
Regulated electric assets	$ 2,260	$ 431	$ 2,691
Regulated electric (liabilities)	(10,057)	(4,817)	(14,874)
Regulated gas assets	2,973	1,798	4,771
Regulated gas (liabilities)	(21,921)	–	(21,921)
Regulated weather (liabilities)	(4,495)	–	(4,495)
Nonregulated electric assets	1,957	372	2,329
Nonregulated electric (liabilities)	(1,158)	(214)	(1,372)
Nonregulated gas assets	5,937	1,919	7,856
Nonregulated gas (liabilities)	(6,606)	(1,558)	(8,164)
Total	(31,110)	(2,069)	(33,179)
Trading:			
Nonregulated gas assets	993	–	993
Nonregulated gas (liabilities)	(430)	(100)	(530)
Total	563	(100)	463
Total MidAmerican Energy assets	$ 14,120	$ 4,520	$ 18,640
Total MidAmerican Energy (liabilities)	$ (44,667)	$ (6,689)	$ (51,356)

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
MidAmerican Energy Holdings Company
Des Moines, Iowa

We have audited the accompanying consolidated balance sheets of MidAmerican Energy Holdings Company and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the consolidated financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MidAmerican Energy Holdings Company and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 10 to the consolidated financial statements, the Company changed its accounting policy for asset retirement obligations and for variable interest entities in 2003.

/s/ Deloitte & Touche LLP

Des Moines, Iowa
February 25, 2005

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	As of December 31, 2004	As of December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 960,903	$ 660,213
Restricted cash and short-term investments	129,316	55,281
Accounts receivable, net of allowance for doubtful accounts of $26,033 and $26,004	695,761	666,063
Inventories	125,079	123,301
Other current assets	278,219	348,618
Total current assets	2,189,278	1,853,476
Properties, plants and equipment, net	11,607,264	11,180,979
Goodwill	4,306,751	4,305,643
Regulatory assets	451,830	512,549
Other investments	236,258	228,896
Equity investments	210,430	234,370
Deferred charges and other assets	901,751	829,039
Total assets	$ 19,903,562	$ 19,144,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 410,319	$ 345,237
Accrued interest	197,813	189,635
Accrued property and other taxes	166,639	112,823
Other liabilities	532,160	420,294
Short-term debt	9,090	48,036
Current portion of long-term debt	1,145,598	500,941
Current portion of parent company subordinated debt	188,543	100,000
Total current liabilities	2,650,162	1,716,966
Other long-term accrued liabilities	2,171,616	1,961,695
Parent company senior debt	2,771,957	2,777,878
Parent company subordinated debt	1,585,810	1,772,146
Subsidiary and project debt	6,304,923	6,674,640
Deferred income taxes	1,281,833	1,299,082
Total liabilities	16,766,301	16,202,407
Deferred income	62,443	69,201
Minority interest	14,119	9,754
Preferred securities of subsidiaries	89,540	92,145
Commitments and contingencies (Note 21)		
Stockholders' equity:		
Zero coupon convertible preferred stock — authorized 50,000 shares, no par value; 41,263 shares issued and outstanding	–	–
Common stock — authorized 60,000 shares, no par value; 9,081 and 9,281 shares issued and outstanding at December 31, 2004 and 2003, respectively	–	–
Additional paid-in capital	1,950,663	1,957,277
Retained earnings	1,156,843	999,627
Accumulated other comprehensive loss, net	(136,347)	(185,459)
Total stockholders' equity	2,971,159	2,771,445
Total liabilities and stockholders' equity	$ 19,903,562	$ 19,144,952

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Year Ended December 31,		
	2004	2003	2002
Operating revenue	$ 6,553,388	$ 5,965,630	$ 4,795,179
Costs and expenses:			
Cost of sales	2,751,856	2,400,536	1,843,955
Operating expense	1,637,922	1,512,345	1,302,780
Depreciation and amortization	638,209	602,934	530,078
Gain on CE Gas asset sale (Note 5)	–	–	(54,345)
Total costs and expenses	5,027,987	4,515,815	3,622,468
Operating income	1,525,401	1,449,815	1,172,711
Other income (expense):			
Interest expense	(903,217)	(760,956)	(632,133)
Capitalized interest	20,040	30,494	23,361
Interest and dividend income	38,889	47,908	56,037
Other income	128,205	96,643	40,223
Other expense	(10,125)	(5,913)	(28,561)
Total other income (expense)	(726,208)	(591,824)	(541,073)
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	799,193	857,991	631,638
Income tax expense	264,986	270,276	111,278
Minority interest and preferred dividends of subsidiaries	13,301	183,203	163,468
Income from continuing operations before equity income	520,906	404,512	356,892
Equity income	16,861	38,224	40,520
Income from continuing operations	537,767	442,736	397,412
Loss from discontinued operations, net of tax benefits (Note 3)	(367,561)	(27,118)	(17,369)
Net income available to common and preferred stockholders	$ 170,206	$ 415,618	$ 380,043

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2004
(Amounts in thousands)

	Outstanding Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2002	9,281	$ –	$ 1,553,073	$ 223,926	$ (68,832)	$ 1,708,167
Net income	–	–	–	380,043	–	380,043
Other comprehensive income:						
Foreign currency translation adjustment	–	–	–	–	166,880	166,880
Fair value adjustment on cash flow hedges, net of tax of $(10,106)	–	–	–	–	(27,623)	(27,623)
Minimum pension liability adjustment, net of tax of $(135,707)	–	–	–	–	(313,456)	(313,456)
Unrealized losses on securities, net of tax of $(1,813)	–	–	–	–	(3,204)	(3,204)
Total comprehensive income						202,640
Issuance of zero-coupon convertible preferred stock	–	–	402,000	–	–	402,000
Retirement of stock options	–	–	815	(19,960)	–	(19,145)
Other equity transactions	–	–	621	–	–	621
Balance, December 31, 2002	9,281	–	1,956,509	584,009	(246,235)	2,294,283
Net income	–	–	–	415,618	–	415,618
Other comprehensive income:						
Foreign currency translation adjustment	–	–	–	–	58,148	58,148
Fair value adjustment on cash flow hedges, net of tax of $7,202	–	–	–	–	16,769	16,769
Minimum pension liability adjustment, net of tax of $(6,425)	–	–	–	–	(14,989)	(14,989)
Unrealized gains on securities, net of tax of $566	–	–	–	–	848	848
Total comprehensive income						476,394
Other equity transactions	–	–	768	–	–	768
Balance, December 31, 2003	9,281	–	1,957,277	999,627	(185,459)	2,771,445
Net income	–	–	–	170,206	–	170,206
Other comprehensive income:						
Foreign currency translation adjustment	–	–	–	–	107,370	107,370
Fair value adjustment on cash flow hedges, net of tax of $(6,069)	–	–	–	–	(12,270)	(12,270)
Minimum pension liability adjustment, net of tax of $(19,898)	–	–	–	–	(46,429)	(46,429)
Unrealized gains on securities, net of tax of $294	–	–	–	–	441	441
Total comprehensive income						219,318
Common stock purchase	(200)	–	(7,010)	(12,990)	–	(20,000)
Other equity transactions	–	–	396	–	–	396
Balance, December 31, 2004	9,081	$ –	$ 1,950,663	$ 1,156,843	$ (136,347)	$ 2,971,159

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Income from continuing operations	$ 537,767	$ 442,736	$ 397,412
Adjustments to reconcile income from continuing operations to cash flows from continuing operations:			
Distributions less income on equity investments	20,022	40,160	(11,383)
Gain on other items	(71,757)	(29,264)	(47,086)
Depreciation and amortization	638,209	602,934	530,078
Amortization of regulatory assets and liabilities	(1,586)	(14,363)	8,709
Amortization of deferred financing costs	20,875	27,748	28,433
Provision for deferred income taxes	176,591	220,136	(18,020)
Other	16,981	8,211	8,356
Changes in other items:			
Accounts receivable and other current assets	(43,600)	(25,900)	(200,760)
Accounts payable and other accrued liabilities	171,457	(17,835)	78,813
Deferred income	(6,465)	(9,344)	(4,839)
Net cash flows from continuing operations	1,458,494	1,245,219	769,713
Net cash flows from discontinued operations	(33,846)	(27,296)	(11,987)
Net cash flows from operating activities	1,424,648	1,217,923	757,726
Cash flows from investing activities:			
Capital expenditures relating to operating projects	(778,300)	(616,804)	(528,950)
Construction and other development costs	(401,090)	(602,564)	(813,348)
Proceeds from notes receivable	169,210	–	–
Acquisitions, net of cash acquired	(36,706)	(54,263)	(1,416,937)
Proceeds from (purchase of) affiliate notes, net	14,118	(32,406)	–
Sale (purchase) of convertible preferred securities	–	288,750	(275,000)
Other	2,148	25,786	189,984
Net cash flows from continuing operations	(1,030,620)	(991,501)	(2,844,251)
Net cash flows from discontinued operations	966	(11,666)	(63,560)
Net cash flows from investing activities	(1,029,654)	(1,003,167)	(2,907,811)
Cash flows from financing activities:			
Proceeds from subsidiary and project debt	375,351	1,157,649	1,485,349
Proceeds from parent company senior debt	249,765	449,295	700,000
Repayments of subsidiary and project debt	(368,417)	(1,490,986)	(393,264)
Repayments of parent company senior and subordinated debt	(100,000)	(412,551)	–
Net repayment of subsidiary short-term debt	(43,949)	(31,750)	(472,835)
Purchase and retirement of common stock	(20,000)	–	–
Proceeds from issuance of trust preferred securities	–	–	1,273,000
Proceeds from issuance of preferred stock	–	–	402,000
Net repayment of parent company revolving credit facility	–	–	(153,500)
Repayment of other obligations	–	–	(94,297)
Increase in restricted cash and investments	(48,515)	(4,024)	(41,524)
Redemption of preferred securities of subsidiaries	(2,606)	(1,176)	(127,908)
Other	(27,167)	(91,387)	(40,962)
Net cash flows from continuing operations	14,462	(424,930)	2,536,059
Net cash flows from discontinued operations	(137,297)	(1,407)	19,175
Net cash flows from financing activities	(122,835)	(426,337)	2,555,234
Effect of exchange rate changes	28,531	27,364	52,536
Net change in cash and cash equivalents	300,690	(184,217)	457,685
Cash and cash equivalents at beginning of period	660,213	844,430	386,745
Cash and cash equivalents at end of period	$ 960,903	$ 660,213	$ 844,430

The accompanying notes are an integral part of these financial statements.

MIDAMERICAN ENERGY HOLDINGS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

MidAmerican Energy Holdings Company ("MEHC") and its subsidiaries (together with MEHC, the "Company") are organized and managed on seven distinct platforms: MidAmerican Energy Company ("MidAmerican Energy"), Kern River Gas Transmission Company ("Kern River"), Northern Natural Gas Company ("Northern Natural Gas"), CE Electric UK Funding ("CE Electric UK") (which includes Northern Electric Distribution Limited ("Northern Electric") and Yorkshire Electricity Distribution plc ("Yorkshire Electricity")), CalEnergy Generation–Foreign (the subsidiaries owning the Upper Mahiao, Malitbog and Mahanagdong Projects (collectively the "Leyte Projects") and the Casecnan project), CalEnergy Generation–Domestic (the subsidiaries owning interests in independent power projects and related operations) and HomeServices of America, Inc. (collectively with its subsidiaries, "HomeServices"). Through these platforms, the Company owns and operates a combined electric and natural gas utility company in the United States, two natural gas pipeline companies in the United States, two electricity distribution companies in the United Kingdom, a diversified portfolio of domestic and international independent power projects and the second largest residential real estate brokerage firm in the United States.

On March 14, 2000, MEHC and an investor group comprising Berkshire Hathaway Inc. ("Berkshire Hathaway"), Walter Scott, Jr., a director of MEHC, David L. Sokol, Chairman and Chief Executive Officer of MEHC, and Gregory E. Abel, President and Chief Operating Officer of MEHC, closed on a definitive agreement and plan of merger whereby the investor group, together with certain of Mr. Scott's family members and family trusts and corporations, acquired all of the outstanding common stock of MEHC (the "Teton Transaction").

MEHC initially incorporated in 1971 under the laws of the State of Delaware and reincorporated in 1999 in Iowa, at which time it changed its name from CalEnergy Company, Inc. to MidAmerican Energy Holdings Company.

In these notes to consolidated financial statements, references to "U.S. dollars," "dollars," "$" or "cents" are to the currency of the United States, references to "pounds sterling," " £," "sterling," "pence" or "p" are to the currency of the United Kingdom and references to "pesos" are to the currency of the Philippines. References to kW means kilowatts, MW means megawatts, GW means gigawatts, kWh means kilowatt hours, MWh means megawatt hours, GWh means gigawatts hours, kV means kilovolts, mmcf means million cubic feet, Bcf means billion cubic feet, Tcf means trillion cubic feet and Dth means decatherms or one million British thermal units.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of MEHC and its wholly–owned subsidiaries except for certain trusts formed to hold trust preferred securities. Under Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R") these trusts, by design, are considered variable interest entities, with no variable interest holder being considered the primary beneficiary, thus requiring the reporting entity to deconsolidate the trust. Subsidiaries which are less than 100% owned but greater than 50% owned are consolidated with a minority interest. Subsidiaries that are 50% owned or less, but where the Company has the ability to exercise significant influence, are accounted for under the equity method of accounting. Investments where the Company's ability to influence is limited are accounted for under the cost method of accounting. All inter–enterprise transactions and accounts have been eliminated. The results of operations of the Company include the Company's proportionate share of results of operations of entities acquired from the date of each acquisition for purchase business combinations.

For the Company's foreign operations whose functional currency is not the U.S. dollar, the assets and liabilities are translated into U.S. dollars at current exchange rates. Resulting translation adjustments are reflected as other comprehensive income in stockholders' equity. Revenue and expenses are translated at average exchange rates for the period. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Reclassifications

Certain amounts in the fiscal 2003 and 2002 consolidated financial statements and supporting note disclosures have been reclassified to conform to the fiscal 2004 presentation, including the reclassification of activity as discontinued operations (see Note 3). Such reclassification did not impact previously reported net income or retained earnings.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for the Effects of Certain Types of Regulation

MidAmerican Energy, Kern River and Northern Natural Gas prepare their financial statements in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), which differs in certain respects from the application of generally accepted accounting principles by non–regulated businesses. In general, SFAS 71 recognizes that accounting for rate–regulated enterprises should reflect the economic effects of regulation. As a result, a regulated entity is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (a regulatory liability) if it is probable that, through the rate–making process, there will be a corresponding increase or decrease in future rates. Accordingly, MidAmerican Energy, Kern River and Northern Natural Gas have deferred certain costs, which will be amortized over various future periods. To the extent that collection of such costs or payment of such obligations is no longer probable as a result of changes in regulation, the associated regulatory asset or liability is charged or credited to income.

A possible consequence of deregulation of the regulated energy industry is that SFAS 71 may no longer apply. If portions of the Company's regulated energy operations no longer meet the criteria of SFAS 71, the Company could be required to write off the related regulatory assets and liabilities from its consolidated balance sheet, and thus a material adjustment to earnings in that period could result if regulatory assets or liabilities are not recovered in transition provisions of any deregulation legislation.

The Company continues to evaluate the applicability of SFAS 71 to its regulated energy operations and the recoverability of these assets and liabilities through rates as there are on–going changes in the regulatory and economic environment.

Consolidated Statements of Cash Flows

The Company considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Investments other than restricted cash are primarily commercial paper and money market securities. Restricted cash is not considered a cash equivalent. The supplemental disclosures to the accompanying consolidated statements of cash flows were as follows (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Interest paid, net of interest capitalized	$ 867,181	$ 706,039	$ 588,972
Income taxes (refunded) paid	$ (16,616)	$ 9,911	$ 101,225
Non–cash transaction – ROP note received under NIA Arbitration Settlement	$ –	$ 97,000	$ –

Cash paid for interest for the years ended December 31, 2003 and 2002 does not include $170,151 and $147,667, respectively, of interest paid on subordinated debt, which is included in minority interest and preferred dividends of subsidiaries in the consolidated statements of operations. These amounts were not reclassified pursuant to the FIN 46R.

Restricted Cash and Investments

The restricted cash and short–term investments balance recorded separately in restricted cash and short–term investments and in deferred charges and other assets, was $164.5 million and $119.5 million at December 31, 2004 and 2003, respectively, and includes commercial paper and money market securities. The balance is mainly composed of amounts deposited in restricted accounts from which the Company will source its debt service reserve requirements relating to the projects, customer deposits held in escrow, custody deposits, and unpaid dividends declared obligations. The debt service funds are restricted by their respective project debt agreements to be used only for the related project.

The Company's nuclear decommissioning trust funds and other marketable securities are classified as available for sale and are accounted for at fair value.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectibility of payments from its customers. This assessment requires judgment regarding the outcome of pending disputes, arbitrations and the ability of customers to pay the amounts owed to the Company.

Inventories

Inventories consist mainly of materials and supplies, coal stocks, gas in storage and fuel oil, which are valued at the lower of cost, determined primarily using average cost, or market.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, the fair value estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current transaction.

The methods and assumptions used to estimate fair value are as follows:

<u>Short–term debt</u> — Due to the short–term nature of the short–term debt, the fair value approximates the carrying value.

<u>Debt instruments</u> — The fair value of all debt instruments has been estimated based upon quoted market prices as supplied by third–party broker dealers, where available, or at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risks.

<u>Other financial instruments</u> — All other financial instruments of a material nature are short–term and the fair value approximates the carrying amount.

Properties, Plants and Equipment, Net

Properties, plants and equipment are recorded at historical cost. The cost of major additions and betterments are capitalized, while replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed. Depreciation is computed using the straight–line method based on economic lives or regulatorily mandated recovery periods. The Company believes the useful lives assigned to the depreciable assets, which generally range from 3 to 87 years, are reasonable.

Capitalized costs for gas reserves, other than costs of unevaluated exploration projects and projects awaiting development consent, are depleted using the units of production method. Depletion is calculated based on hydrocarbon reserves of properties in the evaluated pool estimated to be commercially recoverable and include anticipated future development costs in respect of those reserves.

Impairment of Long–Lived Assets

The Company periodically evaluates long–lived assets, including properties, plants and equipment, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Upon the occurrence of a triggering event, the carrying amount of a long–lived asset is reviewed to assess whether the recoverable amount has declined below its carrying amount. The recoverable amount is the estimated net future cash flows that the Company expects to recover from the future use of the asset, undiscounted and without interest, plus the asset's residual value on disposal. Where the recoverable amount of the long–lived asset is less than the carrying value, an impairment loss would be recognized to write down the asset to its fair value that is based on discounted estimated cash flows from the future use of the asset.

Goodwill

The provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which establishes the accounting for acquired goodwill and other intangible assets, and provides that goodwill and indefinite–lived intangible assets will not be amortized, requires allocating goodwill to each reporting unit and testing for impairment using a two–step approach. The goodwill impairment test is performed annually or whenever an event has occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company completed its annual review pursuant to SFAS 142 for its reporting units as of October 31, 2004 primarily using a discounted cash flow methodology. No impairment was indicated as a result of these assessments.

Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both properties, plants and equipment and earnings, it is realized in cash through depreciation provisions included in rates for subsidiaries that apply SFAS 71. Interest and AFUDC for subsidiaries that apply SFAS 71 are capitalized as a component of projects under construction and will be amortized over the assets' estimated useful lives.

Deferred Financing Cost

The Company capitalizes costs associated with financings, as deferred financing costs, and amortizes the amounts over the term of the related financing using the effective interest method.

Contingent Liabilities

The Company establishes accruals for estimated loss contingencies, such as environmental, legal and regulatory matters, when it is management's assessment that a loss is probable and the amount of the loss can be reasonably estimated.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Based on existing regulatory precedent, MidAmerican Energy is not allowed to recognize deferred income tax expense related to certain temporary differences resulting from accelerated tax depreciation and other property related basis differences. For these differences, MidAmerican Energy establishes deferred tax liabilities and regulatory assets on the consolidated balance sheets since MidAmerican Energy is allowed to recover the increased tax expense when these differences turn around.

The Company has not provided U.S. deferred income taxes on its currency translation adjustment or the cumulative earnings of international subsidiaries that have been determined by management to be reinvested indefinitely. These earnings related to ongoing operations and were approximately $1.5 billion at December 31, 2004. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. Deferred taxes are provided for earnings of international subsidiaries when the Company plans to remit those earnings.

The calculation of current and deferred income taxes requires management to apply judgment relating to the application of complex tax laws or related interpretations and uncertainties related to the outcome of tax audits. Changes in such factors may result in changes to management's estimates, which could require the Company to adjust its currently recorded tax assets and liabilities and record additional income tax expense or benefits.

Revenue Recognition

Revenue is recorded based upon services rendered and electricity, gas and steam delivered, distributed or supplied to the end of the period. The Company records unbilled revenue representing the estimated amounts customers will be billed for services rendered between the meter reading dates in a particular month and the end of that month.

Where billings result in an overrecovery of United Kingdom distribution business revenue against the maximum regulated amount, revenue is deferred in an amount equivalent to the over recovered amount. The deferred amount is deducted from revenue and included in other liabilities. Where there is an under recovery, no anticipation of any potential future recovery is made.

Revenue from the transportation and storage of gas are recognized based on contractual terms and the related volumes. Kern River and Northern Natural Gas are subject to the Federal Energy Regulatory Commission's ("FERC") regulations and, accordingly, certain revenue collected may be subject to possible refunds upon final orders in pending rate proceedings. Kern River and Northern Natural Gas record revenue which is subject to refund based on their best estimate of the final outcome of these proceedings and other third party regulatory proceedings, advice of counsel and estimated total exposure, as well as collection and other risks. The estimate of the refund is recorded in other current liabilities in the accompanying consolidated balance sheets.

Revenue from water and energy delivery is recorded on the basis of the contractual minimum guaranteed water delivery threshold for the respective contract year. If and when cumulative deliveries within a contract year exceed the minimum threshold, additional revenue is recognized. Revenue from long-term electricity contracts is recorded at the lower of the amount billed or the average of the contract, subject to contractual provisions at each project.

Commission revenue from real estate brokerage transactions and related amounts due to agents are recognized when title has transferred from seller to buyer. Title fee revenue from real estate transactions and related amounts due to the title insurer are recognized at the closing, which is when consideration is received. Fees related to loan originations are recognized at the closing, which is when services have been provided and consideration is received.

Financial Instruments

The Company currently utilizes swap agreements and forward purchase agreements to manage market risks and reduce its exposure resulting from fluctuation in interest rates, foreign currency exchange rates and electric and gas prices. For interest rate swap agreements, the net cash amounts paid or received on the agreements are accrued and recognized as an adjustment to interest expense. Gains and losses related to gas forward contracts are deferred and included in the measurement of the related gas purchases. These instruments are either exchange traded or with counterparties of high credit quality; therefore, the risk of nonperformance by the counterparties is considered to be negligible.

New Accounting Pronouncements

In December 2003, the FASB issued FIN 46R, which served to clarify guidance in FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51." The Company adopted and applied the provisions of FIN 46R, related to certain finance subsidiaries, as of October 1, 2003. The adoption required the deconsolidation of certain finance subsidiaries, which resulted in the amounts previously classified as mandatorily redeemable preferred securities of subsidiary trusts, in the amount of $1.9 billion, being reclassified to parent company subordinated debt in the accompanying consolidated balance sheets. In addition, amounts previously recorded as minority interest and preferred dividends of subsidiaries are now recorded as interest expense in the accompanying consolidated statements of operations, prospectively. For the year ended December 31, 2004, and the three-month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these securities. In accordance with the requirements of FIN 46R, no amounts prior to adoption of FIN 46R on October 1, 2003 have been reclassified. The amounts included in minority interest and preferred dividends of subsidiaries related to these securities for the nine-month period ended September 30, 2003, and the year ended December 31, 2002, were $170.2 million and $147.7 million, respectively. The Company adopted the provisions of FIN 46R related to non-special purpose entities in the first quarter of 2004. The Company considered the provisions of FIN 46R for all subsidiaries and their related power purchase, power sale, or tolling agreements. Factors considered in the analysis include the duration of the agreements, how capacity and energy payments are determined, source and payment terms for fuel, as well as responsibility and payment for operating and maintenance expenses. As a result of these considerations, the Company has determined its power purchase, power sale and tolling agreements do not represent significant variable interests. Accordingly, the Company concluded that it is appropriate to continue to consolidate the power plant projects with ownership interests greater than 50% and not to consolidate the power plants from which it purchases power.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires entities to measure compensation costs for all share-based payments, including stock options, at fair value and expense such payments over the service period. Since MEHC is considered a nonpublic entity under the criteria of SFAS 123R, this standard is effective for annual period beginning after December 15, 2005. Adoption of this standard will not have an effect on the Company's financial position, results of operations or cash flows as all of the Company's outstanding stock options were fully vested at the date of issuance of SFAS 123R. Modifications to outstanding stock options after the effective date of the standard may result in additional compensation expense pursuant to the provisions of SFAS 123R.

3. Discontinued Operations – Zinc Recovery Project and Mineral Assets

Indirect wholly-owned subsidiaries of MEHC, own the rights to commercial quantities of extractable minerals from elements in solution in the geothermal brine and fluids utilized at certain geothermal energy generation facilities located in the Imperial Valley of California and a zinc recovery plant constructed near the geothermal energy generation facilities designed to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the "Zinc Recovery Project").

The Zinc Recovery Project began limited production during December 2002 and continued limited production until September 10, 2004. Efforts to increase production had continued since the Zinc Recovery Project was placed in service with an emphasis on process modification. Management had been assessing the long-term economic viability of the Zinc Recovery Project in light of continuing cash flow deficits and operating losses and the efforts to increase production, and had continued to evaluate the expected impact of the planned improvements to the extraction process during the third quarter of 2004. Furthermore, management had been exploring other operating alternatives, such as establishing strategic partnerships and consideration of ceasing operations of the Zinc Recovery Project.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash, after-tax impairment charge of $340.3 million has been recorded to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively, the "Mineral Assets"). The charge and the related activity of the Mineral Assets are classified separately as discontinued operations in the accompanying consolidated statements of operations and include the following (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Total revenue	$ 3,401	$ 659	$ 288
Losses from discontinued operations	$ (42,695)	$ (46,423)	$ (29,059)
Costs of disposal activities, net	(4,134)	–	–
Asset impairment charges, including goodwill	(532,009)	–	–
Income tax benefits	211,277	19,305	11,690
Loss from discontinued operations, net of tax	$(367,561)	$ (27,118)	$ (17,369)

In connection with ceasing operations, the Zinc Recovery Project's assets are being dismantled and sold and certain employees of the operator of the Zinc Recovery Project were paid one-time termination benefits. Cash expenditures of approximately $4.1 million, consisting of pre-tax disposal costs, termination benefit costs and property taxes, were made through December 31, 2004. The Company expects to make additional cash expenditures of pre-tax disposal costs and property taxes of approximately $1.6 million. Substantially all of such costs are expected to relate to disposal activities, and a portion of the disposal costs is expected to be offset by proceeds from sales of the Zinc Recovery Project's assets. These costs are recognized in the period in which the related liability is incurred. Salvage proceeds will be recognized in the period earned. Implementation of a disposal plan began in September 2004 and will continue in 2005. The Company also expects to receive approximately $55 million in future tax benefits.

4. Acquisitions

HomeServices

In 2004, HomeServices separately acquired six real estate companies for an aggregate purchase price of $30.7 million, net of cash acquired, plus working capital and certain other adjustments. These purchases were financed using HomeServices' cash balances.

In 2003, HomeServices separately acquired four real estate companies for an aggregate purchase price of $36.7 million, net of cash acquired, plus working capital and certain other adjustments. Additionally in 2004, HomeServices paid an earnout of $6.0 million based on 2004 financial performance measures. These purchases were financed using HomeServices' cash balances and revolving credit facility.

In 2002, HomeServices separately acquired three real estate companies for an aggregate purchase price of $106.1 million, net of cash acquired, plus working capital and certain other adjustments. Additionally in 2003, HomeServices paid an earnout of $17.6 million based on 2002 financial performance measures. These purchases were financed using HomeServices' cash balances, revolving credit facility and $40.0 million from MEHC, which was contributed to HomeServices as equity.

Kern River

On March 27, 2002, the Company acquired Kern River from The Williams Companies, Inc. ("Williams"). At the date of acquisition, Kern River owned a 926-mile interstate pipeline transporting Rocky Mountain and Canadian natural gas to markets in California, Nevada and Utah.

The Company paid $419.7 million, net of cash acquired and a working capital adjustment, for Kern River's gas pipeline business. The acquisition has been accounted for as a purchase business combination. The Company completed the allocation of the purchase price to the assets and liabilities acquired during 2003. The results of operations for Kern River are included in the Company's results beginning March 27, 2002.

The recognition of goodwill resulted from various attributes of Kern River's operations and business in general. These attributes include, but are not limited to:

- Opportunities for expansion;
- Generally high credit quality shippers contracting with Kern River;
- Kern River's strong competitive position;
- Exceptional operating track record and state-of-the-art technology;
- Strong demand for gas in the Western markets; and
- An ample supply of low-cost gas.

There is no assurance that these attributes will continue to exist to the same degree as believed at the time of the acquisition.

In connection with the acquisition of Kern River, MEHC issued $323.0 million of 11% Company-obligated mandatorily redeemable preferred securities of a subsidiary trust due March 12, 2012 with scheduled principal payments beginning in 2005 and $127.0 million of no par, zero coupon convertible preferred stock to Berkshire Hathaway. Each share of preferred stock is convertible at the option of the holder into one share of the Company's common stock subject to certain adjustments as described in the MEHC Amended and Restated Articles of Incorporation.

Northern Natural Gas

On August 16, 2002, the Company acquired Northern Natural Gas from Dynegy Inc. Northern Natural Gas is a 16,500–mile interstate pipeline extending from southwest Texas to the upper Midwest region of the United States.

The Company paid $882.7 million for Northern Natural Gas, net of cash acquired and a working capital adjustment. The acquisition has been accounted for as a purchase business combination. The Company completed the allocation of the purchase price to the assets and liabilities acquired during 2003. The results of operations for Northern Natural Gas are included in the Company's results beginning August 16, 2002.

The recognition of goodwill resulted from various attributes of Northern Natural Gas' operations and business in general. These attributes include, but are not limited to:

- Generally high credit quality shippers contracting with Northern Natural Gas;
- Northern Natural Gas' strong competitive position;
- Strategic location in the high demand Upper Midwest markets;
- Flexible access to an ample supply of low–cost gas;
- Exceptional operating track record; and
- Opportunities for expansion.

There is no assurance that these attributes will continue to exist to the same degree as believed at the time of the acquisition.

In connection with the acquisition of Northern Natural Gas, MEHC issued $950.0 million of 11% Company–obligated mandatorily redeemable preferred securities of a subsidiary trust due August 31, 2011, with scheduled principal payments beginning in 2003, to Berkshire Hathaway.

The following pro forma financial information of the Company represents the unaudited pro forma results of operations as if the Kern River and Northern Natural Gas acquisitions, and the related financings, had occurred at the beginning of 2002. These pro forma results have been prepared for comparative purposes only and do not profess to be indicative of the results of operations which would have been achieved had these transactions been completed at the beginning of the year, nor are the results indicative of the Company's future results of operations (in millions):

	Year Ended December 31, 2002
Revenue	$ 5,299.4
Income before cumulative effect of change in accounting principle	285.5
Net income available to common and preferred shareholders	285.5

5. Dispositions and Other Items

CE Gas Asset Sale

In May 2002, CalEnergy Gas (Holdings) Limited ("CE Gas"), an indirect wholly owned subsidiary of the Company, executed the sale of several of its U.K. natural gas assets to Gaz de France for approximately $200.0 million (£137.0 million), which was included in other investing activities in the accompany consolidated statement of cash flows in 2002. CE Gas sold its interest in four natural gas–producing fields located in the southern basin of the U.K. North Sea (Anglia, Johnston, Schooner and Windermere). The transaction also included the sale of rights in four gas fields (in development/construction) and three exploration blocks owned by CE Gas. The Company recorded pre–tax and after–tax income of $54.3 million and $41.3 million, respectively, which includes a write off of non–deductible goodwill of $49.6 million.

Teesside Power Limited ("TPL")

The Company has a 15.4% interest in TPL, which owns and operates a 1,875 MW combined cycle gas-fired power plant. Enron Corp. ("Enron"), which through its subsidiaries has a 42.5% interest, previously operated TPL. TPL is now in administration and administrators have been appointed to run its business and are attempting to find a buyer. The Company wrote-off its investment in TPL during 2001. Shareholders in TPL had previously utilized TPL's taxable losses with an obligation to reimburse TPL later in the project's life. In May 2002, TPL executed a restructuring and stabilization agreement with its lenders. The contract included an agreement between TPL and its shareholders with respect to the waiver of these repayment obligations. In May 2002, TPL released $35.7 million due to the repayment obligation being waived which is reflected as a tax benefit in income tax expense in 2002.

6. Properties, Plants and Equipment, Net

Properties, plants and equipment, net comprise the following at December 31 (in thousands):

	Depreciation Life	2004	2003
Utility generation and distribution system	10-50 years	$10,149,818	$ 8,987,158
Interstate pipelines' assets	3-87 years	3,566,578	3,470,117
Independent power plants	10-30 years	1,384,660	1,395,782
Mineral and gas reserves and exploration assets	5-30 years	101,472	554,780
Utility non-operational assets	3-30 years	465,297	429,228
Other assets	3-10 years	167,150	146,286
Total operating assets		15,834,975	14,983,351
Accumulated depreciation and amortization		(4,800,372)	(4,260,643)
Net operating assets		11,034,603	10,722,708
Construction in progress		572,661	458,271
Properties, plants and equipment, net		$11,607,264	$11,180,979

7. Investment in CE Generation

The Company holds a 50% interest in CE Generation, LLC ("CE Generation") and accounts for this interest as an equity investment. The equity investment in CE Generation at December 31, 2004 and 2003 was $188.7 million and $209.4 million, respectively. The following is summarized financial information for CE Generation as of and for the years ended December 31 (in thousands):

	2004	2003	2002
Revenue	$ 444,228	$ 487,422	$ 510,082
Income (loss) before cumulative effect of change in accounting principle	(3,084)	37,341	58,314
Net income (loss)	(3,084)	34,874	58,314
Current assets	124,734	260,551	
Total assets	1,447,388	1,708,742	
Current liabilities	115,153	253,237	
Long-term debt, including current portion	722,650	924,565	

As part of its annual impairment test, CE Generation determined on December 9, 2004 that a portion of the carrying value of the Power Resources project's long-lived assets were no longer recoverable. As a result, CE Generation recognized a non-cash impairment charge of $54.5 million ($33.5 million after tax), in accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets," to write down the long-lived assets to their fair value. The fair value was determined based on discounted estimated cash flows from the future use of the long-lived assets. The impairment charge will not result in any current or future cash expenditures. MEHC's $16.8 million portion of the Power Resources impairment is reflected in income on equity investments in the accompanying consolidated statement of operations for the year ended December 31, 2004.

8. Other Income and Expense

Other income for the years ending December 31 consists of the following (in thousands):

	2004	2003	2002
Gain on Enron note receivable	$ 72,210	$ –	$ –
Gain on CE Casecnan settlement	–	31,889	–
Allowance for equity funds used during construction	20,476	26,708	19,366
Gain on Mirant bankruptcy claim	14,750	–	–
Gain on Williams preferred stock	–	13,750	2,750
Corporate–owned life insurance income	5,447	6,317	1,330
Gain on sale of other assets and investments	3,609	4,183	7,519
Other	11,713	13,796	9,258
Total other income	$ 128,205	$ 96,643	$ 40,223

Other expense for the years ending December 31, 2004, 2003 and 2002 was $10.1 million, $5.9 million and $28.6 million, respectively. In 2002, MidAmerican Energy recorded an impairment of its investment in airplane leases and other non–regulated investments of $21.7 million.

Sale of Enron Note Receivable and Receipt of Cash

Northern Natural Gas had a note receivable of approximately $259.0 million (the "Enron Note Receivable") with Enron. As a result of Enron filing for bankruptcy on December 2, 2001, Northern Natural Gas filed a bankruptcy claim against Enron seeking to recover payment of the Enron Note Receivable. As of December 31, 2001, Northern Natural Gas had written–off the note. By stipulation, Enron and Northern Natural Gas agreed to a value of $249.0 million for the claim and received approval of the stipulation from Enron's Bankruptcy Court on August 26, 2004. On November 23, 2004, Northern Natural Gas sold its stipulated general, unsecured claim against Enron of $249.0 million to a third party investor for $72.2 million, which was recorded as other income in the fourth quarter of 2004.

CE Casecnan Water and Energy Company ("CE Casecnan") Arbitration Settlement

On October 15, 2003, CE Casecnan, an indirect, majority–owned subsidiary of the Company, closed a transaction settling the arbitration, which arose from a Statement of Claim made on August 19, 2002, by CE Casecnan against the Republic of the Philippines ("ROP") National Irrigation Administration ("NIA"). As a result of the agreement, CE Casecnan recorded $31.9 million of other income and $24.4 million of associated income taxes. In connection with the settlement, the NIA delivered to CE Casecnan a ROP $97.0 million 8.375% Note due 2013 (the "ROP Note"), which contained a put provision granting CE Casecnan the right to put the ROP Note to the ROP for a price of par plus accrued interest for a 30–day period commencing on January 14, 2004. The ROP Note is included in other current assets in the accompanying consolidated balance sheet at December 31, 2003.

On January 14, 2004, CE Casecnan exercised its right to put the ROP Note to the ROP and, in accordance with the terms of the put, CE Casecnan received $99.2 million (representing $97.0 million par value plus accrued interest) from the ROP on January 21, 2004.

Mirant Americas Energy Marketing ("Mirant") Claim

In July 2003, Mirant filed Chapter 11 bankruptcy. On January 13, 2004, Kern River filed a proof of claim with the bankruptcy court for an aggregate total of $210.2 million, which Kern River believed was secured by the $14.8 million in proceeds received from its letter of credit and held as a cash security deposit. In May 2004, the bankruptcy court issued an order permitting Kern River to apply 100% of the $14.8 million it held in cash collateral to its claim for damages. On October 12, 2004, Mirant raised an objection to Kern River's claim asserting, among other things, that Kern River had not included a discount adjustment or mitigation to the claim. On November 11, 2004, Kern River filed an amended proof of claim of $138.8 million, reflecting discounting, mitigation and other adjustments. The amended proof of claim excludes the $14.8 million already received by Kern River. Kern River can not determine at this time if it will collect any portion of the balance of the claim or be able to remarket the rejected capacity.

Williams Preferred Stock

On March 27, 2002, the Company invested $275.0 million in Williams in exchange for shares of 9 7/8% cumulative convertible preferred stock of Williams. Dividends on Williams preferred stock were received quarterly, commencing July 1, 2002. On June 10, 2003, Williams repurchased, for $288.8 million, plus accrued dividends, all of the shares of its 9 7/8% Cumulative Convertible Preferred Stock originally acquired by the Company in March 2002 for $275.0 million. The Company recorded a pre-tax gain of $13.8 million on the transaction.

9. Regulatory Assets and Liabilities

The principal components of the Company's regulatory assets and liabilities were as follows as of December 31 (in thousands):

	As of December 31,		
	Weighted Average Remaining Life	2004	2003
Regulatory assets:			
Deferred income taxes, net	24 years	$ 160,662	$ 138,192
Computer systems development costs	7 years	63,637	72,787
System levelized account	25 years	53,576	54,109
Minimum pension liability adjustment	N/A	41,136	36,795
Unrealized loss on regulated hedges	1 year	36,794	14,248
Pipe recoating and reconditioning costs	87 years	22,406	22,315
Asset retirement obligations	9 years	20,875	90,556
Debt refinancing costs	7 years	15,365	19,698
Environmental costs	3 years	9,284	13,995
Nuclear generation assets	28 years	6,727	7,522
Cooper Nuclear Station capital improvement costs	–	–	7,314
Other	Various	21,368	35,018
Total		$ 451,830	$ 512,549
Regulatory liabilities:			
Cost of removal accrual	24 years	$ 428,719	$ 408,608
Iowa electric settlement accrual	3 years	181,188	144,418
Asset retirement obligations	49 years	53,259	–
Unrealized gain on regulated hedges	2 years	7,462	15,122
Environmental insurance recovery	3 years	3,599	3,781
Nuclear insurance reserve	49 years	3,262	2,561
Other	Various	5,278	10,250
Total		$ 682,767	$ 584,740

Of the regulatory assets listed above, only the nuclear generation assets at MidAmerican Energy and the computer systems development costs, the system levelized account, and the pipe recoating and reconditioning costs at Northern Natural Gas are included in rate base and earn a return.

The decrease in the asset retirement obligation regulatory asset and the establishment of a related regulatory liability is the result of a 20-year extension to the operating license of Quad Cities Generating Station and its impact on the timing of related cash flows. Regulatory liabilities are included in other long-term accrued liabilities in the accompanying consolidated balance sheets.

10. Asset Retirement Obligations

On January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" and recognized a liability for legal retirement obligations for nuclear decommissioning, wet and dry ash landfills and offshore and minor lateral pipeline facilities. Concurrent with the recognition of the liability, the estimated cost of the asset retirement obligation ("ARO") was capitalized and is being depreciated over the remaining life of the asset. The difference between the ARO liability, the ARO net asset and amounts recovered from regulated customers to satisfy such liabilities is recorded as a regulatory asset or liability.

The change in the balance of the ARO liability, which is included in other long-term accrued liabilities in the accompanying consolidated balance sheets, for the years ended December 31 is summarized as follows (in thousands):

	2004	2003
Balance, January 1	$ 284,007	$ 289,323
Revision to nuclear decommissioning ARO liability	(120,098)	(21,902)
Addition for new wind power facilities	2,777	–
Accretion	15,877	16,586
Balance, December 31	$ 182,563	$ 284,007

At December 31, 2004, S154.2 million of the ARO liability pertained to the decommissioning of Quad Cities Station. Also, at December 31, 2004, $207.5 million of assets reflected in other investments in the accompanying consolidated balance sheet are restricted for satisfying the Quad Cities Station ARO liability.

The 2004 revision is a result of a change in the assumed life of Quad Cities Station pursuant to a 20-year extension to the operating license of the plant by the Nuclear Regulatory Commission ("NRC") in October 2004 and its impact on the timing of related cash flows. The 2003 revision to the nuclear decommissioning ARO liability was due to the results of a decommissioning study performed by the plant operator.

In addition to the ARO liabilities, MidAmerican Energy has accrued for the cost of removing other electric and gas assets through its depreciation rates, in accordance with accepted regulatory practices. These accruals are reflected in other long-term accrued liabilities in the accompanying consolidated balance sheets and total $428.7 million and $408.6 million at December 31, 2004 and 2003, respectively.

11. Short-Term Debt

Short-term debt consists of the following at December 31 (in thousands):

	2004	2003
MidAmerican Energy commercial paper	$ –	$ 48,000
HomeServices revolving credit facilities	9,052	–
Other	38	36
Total short-term debt	$ 9,090	$ 48,036

Parent Company Revolving Credit Facilities

In the second quarter of 2003, the Company terminated its $400.0 million credit facility. On June 6, 2003, the Company closed on a new $100.0 million revolving credit facility which expires on June 6, 2006. The facility supports letters of credit of which $70.0 million were outstanding at December 31, 2004. No borrowings were outstanding at December 31, 2004 or 2003. The facility, which was not drawn on during 2004, carries a variable interest rate based on LIBOR and ranged from 2.02% to 2.255% in 2003.

MidAmerican Energy Short–Term Debt

As of December 31, 2004, MidAmerican Energy has in place a $425.0 million revolving credit facility, which expires on November 18, 2009, and supports its $304.6 million commercial paper program and its variable rate pollution control revenue obligations, all of which was available at December 31, 2004. In addition, MidAmerican Energy has a $5.0 million line of credit which expires on July 1, 2005. There was no commercial paper outstanding at December 31, 2004, and commercial paper totaled $48.0 million at December 31, 2003. MHC Inc., an indirect wholly–owned subsidiary of the Company, has a $4.0 million line of credit, expiring July 1, 2005, under which no borrowings were outstanding at December 31, 2004 or 2003. The commercial paper, bank notes and outstanding line of credit had a weighted average interest rate of 0.98% at December 31, 2003.

HomeServices Revolving Credit Facilities

HomeServices maintains a $125.0 million senior secured revolving credit facility, which expires in November 2005. Amounts outstanding under this revolving credit facility are secured by a pledge of the capital stock of all of the existing and future subsidiaries of HomeServices and bear interest, at HomeServices' option, at either the prime lending rate or LIBOR plus a fixed spread of 1.25% to 2.25%, which varies based on HomeServices' cash flow leverage ratio. The spread was 1.25% at December 31, 2004 and 2003. No borrowings were outstanding at December 31, 2004 or 2003. In addition, HomeServices has in place two mortgage warehouse lines of credit totaling $20.0 million, which expire on March 31, 2005 and October 31, 2005, and bear interest at LIBOR plus 1.75% and LIBOR plus 2.25%, respectively. The balances outstanding on these mortgage warehouse lines of credit at December 31, 2004, totaled $9.1 million. There were no borrowings outstanding at December 31, 2003. The mortgage warehouse lines of credit had weighted average interest rates of 4.54% and 4.21%, respectively, at December 31, 2004.

12. Parent Company Senior Debt

Parent company senior debt is unsecured senior obligations of MEHC and consists of the following at December 31 (in thousands):

	2004	2003
7.23% Senior Notes, due 2005	$ 260,000	$ 260,000
4.625% Senior Notes, due 2007	199,403	199,225
7.63% Senior Notes, due 2007	350,000	350,000
3.50% Senior Notes, due 2008	449,497	449,373
7.52% Senior Notes, due 2008	450,000	450,000
7.52% Senior Notes, due 2008 (Series B)	101,037	101,267
5.875% Senior Notes, due 2012	499,906	499,898
5.00% Senior Notes, due 2014	249,797	–
8.48% Senior Notes, due 2028	475,000	475,000
Fair value adjustments and other	(2,683)	(6,885)
Total Parent Company Senior Debt	3,031,957	2,777,878
Less current portion	(260,000)	–
Total Long–Term Parent Company Senior Debt	$2,771,957	$2,777,878

On February 12, 2004, MEHC issued $250.0 million, net of discount, of its 5.00% Senior Notes with a final maturity on February 15, 2014. The proceeds were used to satisfy a demand made by its affiliate, Salton Sea Funding Corporation ("Funding Corporation"), for $136.4 million, the amount remaining on MEHC's guarantee of Funding Corporation's 7.475% Senior Secured Series F Bonds due November 30, 2018 ("Series F Bonds"), and for other general corporate purposes.

On May 16, 2003, MEHC issued $450.0 million, net of discount, of its 3.50% Senior Notes with a final maturity on May 15, 2008. The proceeds were used for general corporate purposes.

13. Parent Company Subordinated Debt

MEHC has organized special purpose Delaware business trusts (collectively, the "Trusts") pursuant to their respective amended and restated declarations of trusts (collectively, the "Declarations").

The financial terms of MEHC's various subordinated debentures held by such Trusts are essentially identical to the corresponding terms of the mandatorily redeemable preferred securities issued by such Trusts (the "Trust Securities").

Pursuant to Preferred Securities Guarantee Agreements (collectively, the "Guarantees"), between MEHC and a trustee, MEHC has agreed irrevocably to pay to the holders of the Trust Securities, to the extent that the applicable Trust has funds available to make such payments, quarterly distributions, redemption payments and liquidation payments on the Trust Securities. Considered together, the undertakings contained in the Declarations, Junior Debentures, Indentures and Guarantees constitute full and unconditional guarantees on a subordinated basis by MEHC of the Trusts' obligations under the Trust Securities.

Parent company subordinated debt consists of the following at December 31 (in thousands):

	2004	2003
CalEnergy Capital Trust II — 6.25%, due 2012	$ 104,645	$ 104,645
CalEnergy Capital Trust III — 6.5%, due 2027	269,980	269,980
MidAmerican Capital Trust I — 11%, due 2010	454,772	454,772
MidAmerican Capital Trust II — 11%, due 2011	700,000	800,000
MidAmerican Capital Trust III — 11%, due 2012	323,000	323,000
Fair value adjustment	(78,044)	(80,251)
Total Parent Company Subordinated Debt	1,774,353	1,872,146
Less current portion	(188,543)	(100,000)
Long–Term Parent Company Subordinated Debt	$1,585,810	$1,772,146

MEHC owns all of the common securities of the Trusts. The Trust Securities have a liquidation preference of $50 each (plus accrued and unpaid dividends thereon to the date of payment) and represent undivided beneficial ownership interests in each of the Trusts. The assets of the Trusts consist solely of Subordinated Debentures of MEHC (collectively, the "Junior Debentures") issued pursuant to their respective indentures. The indentures include agreements by MEHC to pay expenses and obligations incurred by the Trusts.

Prior to the Teton Transaction, each Trust Security issued by CalEnergy Capital Trust II and III with a par value of $50 was convertible at the option of the holder at any time into shares of MEHC's common stock based on a specified conversion rate. As a result of the Teton Transaction, in lieu of shares of MEHC's common stock, upon any conversion, holders of Trust Securities will receive $35.05 for each share of common stock it would have been entitled to receive on conversion.

Distributions on the Trust Securities (and Junior Debentures) are cumulative, accrue from the date of initial issuance and are payable quarterly in arrears. The Junior Debentures are subordinated in right of payment to all senior indebtedness of the Company and the Junior Debentures are subject to certain covenants, events of default and optional and mandatory redemption provisions, all as described in the Junior Debenture indentures.

The indentures relating to the CalEnergy Trusts II and III Trust Securities give MEHC the option to defer the interest payments due on the respective Junior Debentures for up to 20 consecutive quarters during which time the corresponding distributions on the respective Trust Securities are deferred (but continue to accumulate and accrue interest). The indentures relating to the MidAmerican Capital Trust I, II and III Trust Securities give MEHC the option to defer the 11% interest payment on the respective Junior Debentures for up to 10 consecutive semi–annual periods during which time the corresponding 11% distributions on the respective Trust Securities are deferred (but continue to accumulate and accrue interest at the rate of 13% per annum). In addition, each declaration of trust establishing the MidAmerican Capital Trusts I, II and III Trust Securities and each of the related subscription agreements contains a provision prohibiting Berkshire Hathaway and its affiliates, who are the holders of all of the respective Trust Securities issued by such Trusts, from transferring such Trust Securities to a non–affiliated person absent an event of default.

14. Subsidiary and Project Debt

Each of MEHC's direct and indirect subsidiaries is organized as a legal entity separate and apart from MEHC and its other subsidiaries. Pursuant to separate project financing agreements, all or substantially all of the assets of each subsidiary are or may be pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. It should not be assumed that any asset of any such subsidiary will be available to satisfy the obligations of MEHC or any of its other such subsidiaries; provided, however, that unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing arrangements of such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to MEHC or affiliates thereof.

The restrictions on distributions at these separate legal entities include various covenants including, but not limited to, leverage ratios, interest coverage ratios and debt service coverage ratios. As of December 31, 2004, the separate legal entities were in compliance with all applicable covenants. However, Cordova Energy's 537 MW gas-fired power plant in the Quad Cities, Illinois area (the "Cordova project") is currently prohibited from making distributions by the terms of its indenture due to its failure to meet its debt service coverage ratio requirement.

Long-term debt of subsidiaries and projects consists of the following at December 31 (in thousands):

	2004	2003
MidAmerican Funding	$ 700,000	$ 700,000
MidAmerican Energy	1,422,527	1,128,647
CE Electric UK	2,504,801	2,467,214
Kern River	1,214,808	1,276,174
Northern Natural Gas	799,614	799,472
CE Casecnan	197,098	246,458
Leyte Projects	105,664	172,813
Cordova Funding	206,663	214,761
Funding Corporation	–	136,384
HomeServices	32,963	37,558
Other, including fair value adjustments	6,383	(3,900)
Total Subsidiary and Project Debt	7,190,521	7,175,581
Less current portion	(885,598)	(500,941)
Total Long-Term Subsidiary and Project Debt	$6,304,923	$6,674,640

MidAmerican Funding

The components of MidAmerican Funding's, a wholly owned subsidiary of MEHC, Senior Notes and Bonds consist of the following at December 31 (in thousands):

	2004	2003
6.339% Senior Notes, due 2009	$ 175,000	$ 175,000
6.75% Senior Notes, due 2011	200,000	200,000
6.927% Senior Bonds, due 2029	325,000	325,000
Total MidAmerican Funding	$ 700,000	$ 700,000

MidAmerican Funding may use distributions that it receives from its subsidiaries to make payments on the Notes and Bonds. These subsidiaries must make payments on their own indebtedness before making distributions to MidAmerican Funding. These distributions are also subject to utility regulatory restrictions agreed to by MidAmerican Energy in March 1999, whereby it committed to the Iowa Utilities Board ("IUB") to use commercially reasonable efforts to maintain an investment grade rating on its long-term debt and to maintain its common equity level above 42% of total capitalization unless circumstances beyond its control result in the common equity level decreasing to below 39% of total capitalization. MidAmerican Energy must seek the approval of the IUB of a reasonable utility capital structure if MidAmerican Energy's common equity level decreases below 42% of total capitalization, unless the decrease is beyond the control of MidAmerican Energy. MidAmerican Energy is also required to seek the approval of the IUB if MidAmerican Energy's equity level decreases to below 39%, even if the decrease is due to circumstances beyond the control of MidAmerican Energy.

MidAmerican Energy

The components of MidAmerican Energy's Mortgage Bonds, Pollution Control Revenue Obligations and Notes consist of the following at December 31 (in thousands):

	2004	2003
Mortgage bonds:		
7.7% Series, due 2004	$ –	$ 55,630
7% Series, due 2005	90,500	90,500
Pollution control revenue obligations:		
6.1% Series, due 2007	1,000	1,000
5.95% Series, due 2023	29,030	29,030
Variable rate series:		
Due 2016 and 2017, 2.05% and 1.26%	37,600	37,600
Due 2023 secured by general mortgage bond, 2.05% and 1.26%	28,295	28,295
Due 2023, 2.05% and 1.26%	6,850	6,850
Due 2024, 2.05% and 1.26%	34,900	34,900
Due 2025, 2.05% and 1.26%	12,750	12,750
Notes:		
6.375% Series, due 2006	160,000	160,000
5.125% Series, due 2013	275,000	275,000
4.65% Series, due 2014	350,000	–
6.75% Series, due 2031	400,000	400,000
Obligations under capital lease	1,524	2,060
Unamortized debt premium and discount, net	(4,922)	(4,968)
Total MidAmerican Energy	$1,422,527	$1,128,647

MidAmerican Energy's 7.7% series of mortgage bonds, totaling $55.6 million, matured on May 17, 2004. On October 1, 2004, MidAmerican Energy issued $350.0 million of 4.65% medium–term notes due October 1, 2014. The proceeds were used for general corporate purposes.

On January 14, 2003, MidAmerican Energy issued $275.0 million of 5.125% medium–term notes due in 2013. The proceeds were used to refinance existing debt and for other corporate purposes.

CE Electric UK

The components of CE Electric UK and its subsidiaries' long–term debt consist of the following at December 31 (in thousands):

	2004	2003
6.853% Senior Notes, due 2004	$ –	$ 117,112
8.625% Bearer bonds, due 2005	192,045	178,877
6.995% Senior Notes, due 2007	237,000	236,174
6.496% Yankee Bonds, due 2008	281,113	281,149
Variable Rate Reset Trust Securities, due 2020 (5.88% and 4.39%)	308,361	287,539
8.875% Bearer bonds, due 2020	191,955	178,644
9.25% Eurobonds, due 2020	485,654	458,187
7.25% Sterling Bonds, due 2022	377,674	351,242
7.25% Eurobonds, due 2028	378,202	352,768
CE Gas Credit Facility, 6.36%	52,797	25,522
Total CE Electric UK	$2,504,801	$2,467,214

Pursuant to a call option exercised in February 2005, at a cost of $17.5 million, a subsidiary of CE Electric UK purchased, and then cancelled, its Variable Rate Reset Trust Securities, due in 2020, at a par value of £155.0 million. Accordingly, the Company has included the entire principal amount of these securities in its current portion of long-term debt in the accompanying consolidated balance sheet at December 31, 2004.

Kern River

The components of Kern River's long-term debt consist of the following at December 31 (in thousands):

	2004	2003
6.676% Senior Notes, due 2016	$ 439,000	$ 464,000
4.893% Senior Notes, due 2018	775,808	812,174
Total Kern River	$1,214,808	$1,276,174

On August 13, 2001, Kern River issued $510.0 million in debt securities. The offering was in the form of $510.0 million of 15-year amortizing Senior Notes bearing a fixed rate of interest of 6.676%. For the Senior Notes, $405.0 million will be amortized through June 2016, with a final payment of $105.0 million to be made on July 31, 2016.

On May 1, 2003, Kern River Funding Corporation, a wholly owned subsidiary of Kern River, issued $836.0 million of its 4.893% Senior Notes with a final maturity on April 30, 2018. The proceeds were used to repay all of the $815.0 million of outstanding borrowings under Kern River's $875.0 million credit facility. Kern River entered into this credit facility in 2002 to finance the construction of its 717 mile expansion.

Northern Natural Gas

The components of Northern Natural Gas' Senior Notes consist of the following at December 31 (in thousands):

	2004	2003
6.875% Senior Notes, due 2005	$ 100,000	$ 100,000
6.75% Senior Notes, due 2008	150,000	150,000
7.00% Senior Notes, due 2011	250,000	250,000
5.375% Senior Notes, due 2012	300,000	300,000
Unamortized debt discount	(386)	(528)
Total Northern Natural Gas	$ 799,614	$ 799,472

CE Casecnan

On November 27, 1995, CE Casecnan issued $371.5 million of notes and bonds to finance the construction of the CE Casecnan project. The CE Casecnan Notes and Bonds consist of the following at December 31 (in thousands):

	2004	2003
11.45% Senior Secured Series A Notes, due in 2005	$ 48,750	$ 91,250
11.95% Senior Secured Series B Bonds, due in 2010	148,348	155,208
Total CE Casecnan	$ 197,098	$ 246,458

The CE Casecnan Notes and Bonds are subject to redemption at the Company's option as provided in the Trust Indenture. The CE Casecnan Notes and Bonds are also subject to mandatory redemption based on certain conditions.

Leyte Projects

The Leyte Projects term loans consist of the following at December 31 (in thousands):

	2004	2003
Mahanagdong Project 6.92% Term Loan, due 2007	$ 51,537	$ 72,151
Mahanagdong Project 7.60% Term Loan, due 2007	11,428	16,000
Malitbog Project 4.99% and 3.67%, due 2005	11,866	26,378
Malitbog Project 9.176% Term Loan, due 2006	6,580	14,628
Upper Mahiao Project 5.95% Term Loan, due 2006	24,253	43,656
Total Leyte Projects	$ 105,664	$ 172,813

MEHC provides debt service reserve letters of credit in amounts equal to the next semi–annual principal and interest payments due on the loans which were equal to $44.6 million and $40.3 million at December 31, 2004 and 2003, respectively.

Cordova Funding

On September 10, 1999, Cordova Funding Corporation ("Cordova Funding"), a wholly owned subsidiary of the Company, closed the $225.0 million aggregate principal amount financing for the construction of the Cordova project. The proceeds were loaned to Cordova Energy and consist of the following at December 31 (in thousands):

	2004	2003
8.48% Senior Secured Bonds, due 2019	$ 11,716	$ 12,175
8.64% Senior Secured Bonds, due 2019	85,893	89,260
8.79% Senior Secured Bonds, due 2019	28,758	29,885
8.82% Senior Secured Bonds, due 2019	53,384	55,476
9.07% Senior Secured Bonds, due 2019	26,912	27,965
Total Cordova Funding	$ 206,663	$ 214,761

MEHC has issued a limited guarantee of a specified portion of the final scheduled principal payment on December 15, 2019, on the Cordova Funding Senior Secured Bonds in an amount up to a maximum of $37.0 million. MEHC has also issued a debt service reserve guarantee of which such maximum amount was $13.0 million as of December 31, 2004.

As of December 31, 2004, Cordova Funding is currently prohibited from making distributions by the terms of its indenture due to its failure to meet its debt service coverage ratio requirement.

Funding Corporation

CalEnergy Minerals LLC ("Minerals"), a wholly–owned indirect subsidiary of MEHC, was one of several guarantors of the Funding Corporation's debt. As a result of a note allocation agreement, Minerals was primarily responsible for $136.4 million of the Series F Bonds. In 1999, MEHC guaranteed a specified portion of the scheduled debt service on the Series F Bonds equal to the then current principal amount of $136.4 million and associated interest.

On March 1, 2004, Funding Corporation completed the redemption of an aggregate principal amount of $136.4 million of the Series F Bonds, pro rata, at a redemption price of 100% of such aggregate outstanding principal amount, plus accrued interest to the date of redemption. Funding Corporation also made a demand on MEHC for the full amount remaining on MEHC's guarantee of the Series F Bonds in order to fund the redemption. MEHC made the requisite payment and, as a result, it has no further liability with respect to its guarantee. The Company had a non–cash, after–tax loss, recorded in loss from discontinued operations in the accompanying consolidated statement of operations, of $6.4 million as a result of the redemption of the Series F Bonds.

HomeServices

In November 1998, HomeServices issued $35.0 million of 7.12% fixed-rate private placement senior notes due in annual increments of $5.0 million beginning in 2004. As of December 31, 2004 and 2003, the balance of the HomeServices Senior Notes was $30.0 million and $35.0 million, respectively.

In addition to the senior notes, HomeServices has outstanding capital leases and other long-term debt, with varying interest rates, totaling $3.0 million and $2.6 million at December 31, 2004 and 2003, respectively.

Annual Repayments of Long-Term Debt

The annual repayments of parent company, subsidiary and project debt for the years beginning January 1, 2005 and thereafter are as follows (in thousands):

	2005	2006	2007	2008	2009	Thereafter	Total
Parent Company senior debt	$260,000	$ -	$ 550,000	$1,000,000	$ -	$1,221,957	$3,031,957
Parent Company subordinated debt	188,543	234,021	234,021	234,021	234,021	649,726	1,774,353
MidAmerican Funding	-	-	-	-	175,000	525,000	700,000
MidAmerican Energy	91,018	160,000	1,000	-	-	1,170,509	1,422,527
CE Electric UK	500,406	9,720	253,925	294,051	4,913	1,441,786	2,504,801
Kern River	62,784	66,128	69,472	72,816	74,906	868,702	1,214,808
Northern Natural Gas	99,963	-	-	150,000	-	549,651	799,614
CE Casecnan	54,753	36,016	37,730	37,730	13,720	17,149	197,098
Leyte Projects	63,034	30,037	12,593	-	-	-	105,664
Cordova Funding	7,875	4,500	4,163	4,725	6,412	178,988	206,663
HomeServices	5,765	5,000	5,000	5,000	5,000	7,198	32,963
Other, including purchase accounting adjustments	-	-	-	-	-	6,383	6,383
Totals	$1,334,141	$545,422	$1,167,904	$1,798,343	$513,972	$6,637,049	$11,996,831

Fair Value

At December 31, 2004, the Company had fixed-rate long-term debt of $11,503.4 million in principal amount and having a fair value of $12,416.2 million. In addition, at December 31, 2004, the Company had floating-rate obligations of $493.4 million that expose the Company to the risk of increased interest expense in the event of increases in short-term interest rates. The fair value of the floating-rate obligations and the short-term debt approximates their carrying amounts.

At December 31, 2003, the Company had fixed-rate long-term debt of $11,369.4 million in principal amount and having a fair value of $12,015.1 million. In addition, at December 31, 2003, the Company had floating-rate obligations of $459.8 million. The fair value of the floating-rate obligations and the short-term debt approximates their carrying amounts.

15. Income Taxes

Income tax expense on continuing operations consists of the following (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Current:			
Federal	$ 18,794	$ (48,911)	$ 57,236
State	(9,862)	10,901	17,476
Foreign	79,463	88,150	54,586
	88,395	50,140	129,298
Deferred:			
Federal	112,719	141,795	(4,900)
State	607	10,833	(13,640)
Foreign	63,265	67,508	520
	176,591	220,136	(18,020)
Total	$ 264,986	$ 270,276	$ 111,278

A reconciliation of the federal statutory tax rate to the effective tax rate on continuing operations applicable to income before income tax expense follows:

	2004	2003	2002
Federal statutory rate	35.0%	35.0%	35.0%
Investment and energy tax credits	(0.6)	(0.5)	(0.7)
State taxes, net of federal tax effect	2.2	1.8	1.2
Equity income	0.7	1.6	2.3
Dividends on preferred securities of subsidiaries	–	(6.9)	(8.3)
Tax effect of foreign income	0.3	0.5	(4.8)
Non–recurring items on CE Electric UK, net of tax effect of foreign income	–	(0.5)	(8.3)
Dividends received deduction	–	(1.1)	(1.9)
Effects of ratemaking	(0.9)	0.9	1.0
Other items, net	(3.5)	0.7	2.1
Effective tax rate	33.2%	31.5%	17.6%

Deferred tax liabilities (assets) consist of the following at December 31 (in thousands):

	2004	2003
Properties, plants and equipment, net	$1,700,884	$1,611,744
Income taxes recoverable through future rates	163,108	142,597
Employee benefits	56,656	43,005
Reacquired debt	3,877	5,665
Fuel cost recoveries	6,028	12,864
	1,930,553	1,815,875
Minimum pension liability adjustment	(172,350)	(147,279)
Revenue sharing accruals	(80,220)	(64,192)
Accruals not currently deductible for tax purposes	(54,402)	(55,290)
Nuclear reserve and decommissioning	(27,112)	(35,955)
Deferred income	(34,458)	(37,819)
Net operating loss ("NOL") and credit carryforwards	(267,051)	(161,659)
Other	(13,127)	(14,599)
	(648,720)	(516,793)
Net deferred income taxes	$1,281,833	$1,299,082

At December 31, 2004, the Company has available unused NOL and credit carryforwards that may be applied against future taxable income and that expire at various intervals between 2007 and 2024.

16. Preferred Securities of Subsidiaries

The total outstanding cumulative preferred securities of MidAmerican Energy are not subject to mandatory redemption requirements and may be redeemed at the option of MidAmerican Energy at prices which, in the aggregate, total $31.1 million. The aggregate total the holders of all preferred securities outstanding at December 31, 2004, are entitled to upon involuntary bankruptcy is $30.3 million plus accrued dividends. The annual dividend requirements for all preferred securities outstanding at December 31, 2004, total $1.2 million.

The total outstanding 8.061% cumulative preferred securities of a subsidiary of CE Electric UK, which are redeemable in the event of the revocation by the Secretary of State of the subsidiary's electricity distribution license, was $56.0 million as of December 31, 2004 and 2003, respectively.

17. Convertible Preferred Stock

In connection with the Kern River acquisition and the purchase of $275.0 million of Williams' preferred stock, MEHC issued 6.7 million shares of no par, zero–coupon convertible preferred stock valued at $402.0 million to Berkshire Hathaway. In connection with the Teton Transaction, MEHC issued 34.6 million shares of no par, zero coupon convertible preferred stock valued at $1,211.4 million. Each share of preferred stock is convertible at the option of the holder into one share of MEHC's common stock subject to certain adjustments as described in MEHC's Amended and Restated Articles of Incorporation.

While the convertible preferred stock does not vote generally with the common stock in the election of directors, the convertible preferred stock gives Berkshire Hathaway the right to elect 20% of MEHC's Board of Directors. The convertible preferred stock is convertible into common stock only upon the occurrence of specified events, including modification or elimination of the Public Utility Holding Company Act of 1935 so that holding company registration would not be triggered by conversion. Additionally, the prior approval of the holders of convertible preferred stock is required for certain fundamental transactions by MEHC. Such transactions include, among others: (a) significant asset sales or dispositions; (b) merger transactions; (c) significant business acquisitions or capital expenditures; (d) issuances or repurchases of equity securities; and (e) the removal or appointment of the Chief Executive Officer.

MEHC's Articles of Incorporation further provide that the convertible preferred shares: (a) are not mandatorily redeemable by MEHC or at the option of the holder; (b) participate in dividends and other distributions to common shareholders as if they were common shares and otherwise possess no dividend rights; (c) are convertible into common shares on a 1 for 1 basis, as adjusted for splits, combinations, reclassifications and other capital changes by MEHC; and (d) upon liquidation, except for a de minimus first priority distribution of $1 per share, shared ratably with the shareholders of common stock. Further, the aforementioned dividend and distribution arrangements cannot be modified without the positive consent of the preferred shareholders.

18. Stock Transactions

As of December 31, 2004, there were 2,048,329 options outstanding which are exercisable until the end of the term on March 14, 2008 at exercise prices ranging from $15.94 to $35.05 per share.

On March 6, 2002, MEHC purchased 800,000 stock options held by Mr. David L. Sokol, its Chairman and Chief Executive Officer. The options purchased had exercise prices ranging from $18.50 to $29.01. MEHC paid Mr. Sokol an aggregate amount of $27.1 million, which is equal to the difference between the option exercise prices and an agreed upon per share value.

On January 6, 2004, the Company purchased a portion of the shares of common stock owned by Mr. Sokol for an aggregate purchase price of $20.0 million.

19. Accounting for Derivatives

The Company is exposed to market risk, including changes in the market price of certain commodities and interest rates. To manage the price volatility relating to these exposures, the Company enters into various financial derivative instruments. Senior management provide the overall direction, structure, conduct and control of the Company's risk management activities, including the use of financial derivative instruments, authorization and communication of risk management policies and procedures, strategic hedging program and guidelines, appropriate market and credit risk limits, and appropriate systems for recording, monitoring and reporting the results of transactional and risk management activities.

Currency Exchange Rate Risk

CE Electric UK entered into currency rate swap agreements for its Senior Notes with large multi–national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $237.0 million of 6.995% Senior Notes outstanding at December 31, 2004. The agreements extend until maturity on December 30, 2007 and convert the U.S. dollar interest rate to a fixed Sterling rate of 7.737%. The estimated fair value of these swap agreements at December 31, 2004 and 2003, was $35.7 million and $16.0 million, respectively, based on quotes from the counterparty to these instruments and represents the estimated amount that the Company would expect to pay if these agreement were terminated.

A subsidiary of CE Electric UK entered into certain currency rate swap agreements for its Yankee Bonds with three large multi–national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in Sterling for $281.1 million of the 6.496% Yankee Bonds outstanding at December 31, 2004. The agreements extend until maturity on February 25, 2008 and convert the U.S. dollar interest rate to a fixed Sterling rate ranging from 7.3175% to 7.345%. The estimated fair value of these swap agreements at December 31, 2004 and 2003, was $96.1 million and $62.6 million, respectively, based on quotes from the counterparties to these instruments and represents the estimated amount that the Company would expect to pay if these agreements were terminated.

Derivatives

As of December 31, 2004, MidAmerican Energy held derivative instruments used for non–trading and trading purposes with the following fair values (in thousands):

Contract Type	Maturity in 2005	Maturity in 2006–08	Total
Non–trading:			
Regulated electric assets	$ 2,260	$ 431	$ 2,691
Regulated electric (liabilities)	(10,057)	(4,817)	(14,874)
Regulated gas assets	2,973	1,798	4,771
Regulated gas (liabilities)	(21,921)	–	(21,921)
Regulated weather (liabilities)	(4,495)	–	(4,495)
Nonregulated electric assets	1,957	372	2,329
Nonregulated electric (liabilities)	(1,158)	(214)	(1,372)
Nonregulated gas assets	5,937	1,919	7,856
Nonregulated gas (liabilities)	(6,606)	(1,558)	(8,164)
Total	(31,110)	(2,069)	(33,179)
Trading:			
Nonregulated gas assets	993	–	993
Nonregulated gas (liabilities)	(430)	(100)	(530)
Total	563	(100)	463
Total MidAmerican Energy assets	$ 14,120	$ 4,520	$ 18,640
Total MidAmerican Energy (liabilities)	$ (44,667)	$ (6,689)	$ (51,356)

20. Regulatory Matters

MidAmerican Energy

Under three settlement agreements between MidAmerican Energy, The Iowa Office of Consumer Advocate ("OCA") and other intervenors approved by the IUB, MidAmerican Energy has agreed not to seek a general increase in electric rates prior to 2012 unless its Iowa jurisdictional electric return on equity for any year falls below 10%. Prior to filing for a general increase in electric rates, MidAmerican Energy is required to conduct 30 days of good faith negotiations with the signatories to the settlement agreements to attempt to avoid a general increase in such rates. As a party to the settlement agreements the OCA has agreed not to request or support any decrease in MidAmerican Energy's Iowa electric rates prior to January 1, 2012. The settlement agreements specifically allow the IUB to approve or order electric rate design or cost of service rate changes that could result in changes to rates for specific customers as long as such changes do not result in an overall increase in revenues for MidAmerican Energy. The settlement agreements also each provide that portions of revenues associated with Iowa retail electric returns on equity within specified ranges will be recorded as a regulatory liability.

Under the first settlement agreement, which was approved by the IUB on December 21, 2001, and is effective through December 31, 2005, an amount equal to 50% of revenues associated with returns on equity between 12% and 14%, and 83.33% of revenues associated with returns on equity above 14%, in each year is recorded as a regulatory liability. The second settlement agreement, which was filed in conjunction with MidAmerican Energy's application for ratemaking principles on its wind power project and was approved by the IUB on October 17, 2003, provides that during the period January 1, 2006 through December 31, 2010, an amount equal to 40% of revenues associated with returns on equity between 11.75% and 13%, 50% of revenues associated with returns on equity between 13% and 14%, and 83.3% of revenues associated with returns on equity above 14%, in each year will be recorded as a regulatory liability.

The third settlement agreement was approved by the IUB on January 31, 2005, in conjunction with MidAmerican Energy's proposed expansion of its wind power project by up to 90 MW. This settlement extended through 2011 MidAmerican Energy's commitment not to seek a general increase in electric rates unless its Iowa jurisdictional electric return on equity falls below 10%. It also extended the revenue sharing mechanism through 2011. In addition, the OCA agreed to commit not to seek any decrease in Iowa electric base rates to become effective before January 1, 2012. The total capacity added as the result of the wind expansion project is currently projected to be 50 MW.

The regulatory liabilities created by the three settlement agreements are recorded as a regulatory charge in depreciation and amortization expense when the liability is accrued. Additionally, interest expense is accrued on the portion of the regulatory liability balance recorded in prior years. The regulatory liabilities created for the years through 2010 are expected to be reduced as they are credited against plant in service in amounts equal to the AFUDC associated with generating plant additions. As a result of the credit applied to generating plant balances from the reduction of the regulatory liabilities, future depreciation will be reduced. As of December 31, 2004 and 2003, the related regulatory liability reflected in the accompanying consolidated balance sheets was $181.2 million and $144.4 million, respectively. The regulatory liability for 2011 will be credited to customer bills in 2012.

Illinois bundled electric rates are frozen until 2007, subject to certain exceptions allowing for increases, at which time bundled rates may be increased or decreased by the Illinois Commerce Commission. Illinois law provides that, through 2006, Illinois earnings above a computed level of return on common equity are to be shared equally between regulated retail electric customers and MidAmerican Energy. MidAmerican Energy's computed level of return on common equity is based on a rolling two-year average of the Monthly Treasury Long-Term Average Rate, as published by the Federal Reserve System, plus a premium of 8.5% for 2000 through 2004 and a premium of 12.5% for 2005 and 2006. The two-year average above which sharing must occur for 2004 is 13.57%. The law allows MidAmerican Energy to mitigate the sharing of earnings above the threshold return on common equity through accelerated recovery of electric assets.

Kern River

Kern River's tariff rates were designed to give it an opportunity to recover all actually and prudently incurred operations and maintenance costs of its pipeline system, taxes, interest, depreciation and amortization and a regulated equity return. Kern River's rates are set using a "levelized cost-of-service" methodology so that the rate is constant over the contract period. This is achieved by using a FERC-approved depreciation schedule in which depreciation increases as interest expense decreases.

Kern River was required to file a general rate case no later than May 1, 2004 pursuant to the terms of its 1998 FERC Docket No. RP99-274 rate case settlement. Kern River filed its rate case on April 30, 2004, which supports a revenue increase of $40.1 million representing a 13% increase from its existing cost of service and a proposed overall cost of service of $347.4 million. Since its last rate case, Kern River has increased the capacity of its system from 724,500 Dth per day to 1,755,575 Dth per day at a cost of approximately $1.3 billion, resulting in a total rate base of approximately $1.8 billion. The rate increase became effective on November 1, 2004, subject to refund, and the FERC set a procedural order with a hearing scheduled for March 2005.

Northern Natural Gas

Northern Natural Gas has implemented a straight fixed variable rate design which provides that all fixed costs assignable to firm capacity customers, including a return on equity, are to be recovered through fixed monthly demand or capacity reservation charges which are not a function of throughput volumes.

On May 1, 2003, Northern Natural Gas filed a request for increased rates with the FERC. The rate increase is primarily attributable to four main cost areas: the capital investment made by Northern Natural Gas in the five years since its last rate case, an increase in Northern Natural Gas' depreciation rates, increased return on equity, and changes in the level of contract entitlement. The rate filing provides evidence in support of a $71 million increase to Northern Natural Gas' annual revenue requirement. However, Northern Natural Gas chose to effectuate only $55 million of the increase. Northern Natural Gas' new rates went into effect November 1, 2003, subject to refund.

Additionally, on January 30, 2004, Northern Natural Gas filed with the FERC to increase its revenue requirement by an incremental $30 million to that requested in the May 1, 2003 filing. The increased revenue requirement is primarily attributable to ongoing pipeline integrity initiative costs that Northern Natural Gas has undertaken since the May 1, 2003 rate filing. The FERC suspended the rate increase until August 1, 2004 and consolidated the 2003 and 2004 rate cases due to the similarity of issues in both cases and the updated costs. On July 29, 2004, Northern Natural Gas notified the FERC that, in furtherance of settlement negotiations, Northern Natural Gas was not moving the rate increase into effect on August 1, 2004, but reserved its statutory right to move the suspended rates into effect at a later date. Northern Natural Gas' implemented the new rates on November 1, 2004, subject to refund.

On February 16, 2005, Northern Natural Gas reached a tentative agreement with the majority of its customers to settle the consolidated rate cases. Definitive terms of the settlement must be agreed by all settling parties and must then be documented in a settlement agreement which must be agreed to by all settling parties. Thereafter, the settlement must be certified by the presiding administrative law judge and approved by the FERC. The terms of the agreement in principle provide for an annual revenue increase of $48 million for the period November 1, 2003 through October 31, 2004, $53 million for the period November 1, 2004 through October 31, 2005, $58 million for the period November 1, 2005 through October 31, 2006, and $62 million beginning November 1, 2006. As a result of the settlement, Northern Natural Gas will be required to refund an amount generally reflecting the difference between the rate increases implemented on November 1, 2003 and November 1, 2004 and the final settled revenue amounts.

CE Electric UK

The majority of the revenue of the Distribution License Holder ("DLH") in the United Kingdom is controlled by a distribution price control formula which is set out in the license of each DLH. It has been the practice of the Office of Gas and Electricity Markets ("Ofgem") (and its predecessor body, the Office of Electricity Regulation), to review and reset the formula at five-year intervals, although the formula may be further reviewed at other times at the discretion of the regulator. Any such resetting of the formula requires the consent of the DLH. If the DLH does not consent to the formula reset, it is reviewed by the United Kingdom's competition authority, whose recommendation can then be given effect by license modifications made by Ofgem.

The current formula requires that regulated distribution income per unit is increased or decreased each year by RPI-Xd where RPI means the Retail Price Index, reflecting the average of the 12-month inflation rates recorded for each month in the previous July to December period. The Xd factor in the formula was established by Ofgem at the price control review effective in April 2000 (and through March 31, 2005, will continue to be set) at 3%. The formula also takes account of a variety of other factors including the changes in system electrical losses, the number of customers connected and the voltage at which customers receive the units of electricity distributed. The distribution price control formula determines the maximum average price per unit of electricity distributed (in pence per kWh) which a DLH is entitled to charge. The distribution price control formula permits DLHs to receive additional revenue due to increased distribution of units and the increase in the number of end users. The price control does not seek to constrain the profits of a DLH from year to year. It is a control on revenue that operates independently of most of the DLH's costs. During the term of the price control, cost savings or additional costs have a direct impact on income and cash flow.

Ofgem's process of reviewing each DLH's existing price control formula, with a revised formula for each DLH (including Northern Electric and Yorkshire Electricity) to take effect from April 1, 2005 for an expected period of five years was recently completed. As a result of the review, the allowed revenue of Northern Electric's distribution business was reduced by 4%, in real terms, and the allowed revenue of Yorkshire Electricity's distribution business was reduced by 9%, in real terms, with effect from April 1, 2005. The Xd factor was set at zero. Ofgem indicated that during the period 2005 to 2010, the retention of the benefits of any out–performance from the operating cost assumptions made by Ofgem in setting the new price control may depend on the successful implementation of revised cost reporting guidelines to be prescribed by Ofgem and applied by all DLHs. In setting the allowed revenue of Northern Electric and Yorkshire Electricity (and all other DLHs) with effect from April 1, 2005, Ofgem made a specific allowance for an amount in respect of each DLH's pension costs.

With effect from April 1, 2005, a number of incentive schemes operate to encourage DLHs to provide an appropriate quality of service. Payments in respect of each failure to meet a prescribed standard of service are set out in regulations. The aggregate payments that may be due is uncapped, although payments are excused in certain force majeure circumstances. In storm conditions the obligations relating to the period within which supplies should be restored are relaxed and the overall, annual exposure under the restoration standard in storm conditions is limited to 2% of a DLH's allowed revenue. There also is a discretionary reward scheme of up to £1 million per annum, and other incentive schemes pursuant to which a DLH's allowed revenue may increase by up to 3.3% or decrease by up to 3.5% in any year.

21. Commitments and Contingencies

MidAmerican Energy, Kern River, Northern Natural Gas, CE Electric UK, CalEnergy Generation–Domestic and HomeServices have non–cancelable operating leases primarily for computer equipment, office space and rail cars. Rental payments on non–cancelable operating leases totaled $71.1 million for 2004, $65.8 million for 2003, and $60.1 million for 2002. The minimum payments under these leases are $70.4 million, $64.3 million, $56.7 million, $45.9 million, and $33.0 million for the years 2005 through 2009, respectively, and $104.7 million for the total of the years thereafter.

MidAmerican Energy

Fuel, Energy and Operating Lease Commitments

MidAmerican Energy has supply and related transportation contracts for its fossil fueled generating stations. As of December 31, 2004, the contracts, with expiration dates ranging from 2005 to 2010, require minimum payments of $83.5 million, $67.4 million, $62.8 million, $22.0 million and $15.8 million for the years 2005 through 2009, respectively, and $15.5 million for the total of the years thereafter. MidAmerican Energy expects to supplement these coal contracts with additional contracts and spot market purchases to fulfill its future fossil fuel needs. Additionally, MidAmerican Energy has a supply and transportation contract for a natural gas–fired generating plant. The contract, which expires in 2012, requires minimum annual payments of $6.2 million.

MidAmerican Energy also has contracts to purchase electric capacity. As of December 31, 2004, the contracts, with expiration dates ranging from 2005 to 2028, require minimum payments of $29.1 million, $25.1 million, $27.3 million, $35.8 million and $28.9 million for the years 2005 through 2009, respectively, and $73.9 million for the total of the years thereafter.

MidAmerican Energy has various natural gas supply and transportation contracts for its gas operations. As of December 31, 2004, the contracts, with expiration dates ranging from 2005 to 2013, require minimum payments of $54.2 million, $35.1 million, $25.2 million, $4.4 million and $2.9 million for the years 2005 through 2009, respectively, and $10.3 million for the total of the years thereafter.

MidAmerican Energy is the lessee on operating leases for coal railcars that contain guarantees of the residual value of such equipment throughout the term of the leases. Events triggering the residual guarantees include termination of the lease, loss of the equipment or purchase of the equipment. Lease terms are for five years with provisions for extensions. As of December 31, 2004, the maximum amount of such guarantees specified in these leases totaled $30.2 million. These guarantees are not reflected in the accompanying consolidated balance sheets.

On February 12, 2003, MidAmerican Energy executed a contract with Mitsui & Co. Energy Development, Inc. ("Mitsui") for engineering, procurement and construction of a 790 MW (based on expected accreditation) coal-fired generating plant expected to be completed in the summer of 2007. MidAmerican Energy will hold a 60.67% individual ownership interest as a tenant in common with the other owners of the plant. Under the contract, MidAmerican Energy is allowed to defer payments, including the other owners' shares, for up to $200.0 million of billed construction costs through the end of the project. Deferred payments as of December 31, 2004 and 2003, totaled $152.3 million and $23.4 million, respectively, and are reflected in other long-term accrued liabilities in the accompanying consolidated balance sheets.

An asset representing the other owners' share of the deferred payments is reflected in deferred charges and other assets in the accompanying consolidated balance sheets and totaled $59.9 million and $9.2 million, respectively, as of December 31, 2004 and 2003. MidAmerican Energy will bill each of the other owners for its share of the deferred payments when payment is made to Mitsui.

Air Quality

MidAmerican Energy's generating facilities are subject to applicable provisions of the Clean Air Act and related air quality standards promulgated by the EPA. The Clean Air Act provides the framework for regulation of certain air emissions and permitting and monitoring associated with those emissions. MidAmerican Energy believes it is in material compliance with current air quality requirements.

The EPA has in recent years implemented more stringent national ambient air quality standards for ozone and new standards for fine particulate matter. These standards set the minimum level of air quality that must be met throughout the United States. Areas that achieve the standards, as determined by ambient monitoring, are characterized as being in attainment of the standard. Areas that fail to meet the standard are designated as being nonattainment areas. Generally, once an area has been designated as a nonattainment area, sources of emissions in the area that contribute to the failure to achieve the ambient air quality standards are required to make emissions reductions. The EPA has concluded that the entire State of Iowa is in attainment of the ozone standards and the fine particulate standards.

On December 4, 2003, the EPA announced the development of its Interstate Air Quality Rule, now known as the Clean Air Interstate Rule, a proposal to require coal-burning power plants in 29 states, including Iowa, and the District of Columbia to reduce emissions of sulfur dioxide ("SO_2") and nitrogen oxides ("NO_X") in an effort to reduce ozone and fine particulate matter in the Eastern United States. It is likely that MidAmerican Energy's coal-burning facilities will be impacted by this proposal.

In December 2000, the EPA concluded that mercury emissions from coal-fired generating stations should be regulated. The EPA is currently considering two regulatory alternatives that would reduce emissions of mercury from coal-fired utilities. One of these alternatives would require reductions of mercury from all coal-fired facilities greater than 25 MW through application of Maximum Achievable Control Technology with compliance assessed on a facility basis. The other alternative would regulate the mercury emissions of coal-fired facilities that pose a health hazard through a market based cap-and-trade mechanism similar to the SO_2 allowance system. The EPA is currently under a deadline to finalize the mercury reduction rule by March 2005.

The Clean Air Interstate Rule or the mercury reduction rule could, in whole or in part, be superseded or made more stringent by one of a number of multi-pollutant emission reduction proposals currently under consideration at the federal level, including the "Clear Skies Initiative," and other pending legislative proposals that contemplate 70% to 90% reductions of SO_2, NO_X and mercury, as well as possible new federal regulation of carbon dioxide and other gasses that may affect global climate change.

Depending on the outcome of the final Clean Air Interstate Rule and the mercury reduction rule or any superseding legislation by Congress, MidAmerican Energy may be required to install control equipment on its generating stations, purchase emission allowances or decrease the number of hours during which its generating stations operate. However, until final regulatory or legislative action is taken, the impact of the regulations on MidAmerican Energy cannot be predicted.

MidAmerican Energy has implemented a planning process that forecasts the site–specific controls and actions that may be required to meet emissions reductions as contemplated by the United States Environmental Protection Agency ("EPA"). In accordance with an Iowa law passed in 2001, MidAmerican Energy has on file with the IUB its current multi–year plan and budget for managing SO_2 and NO_X from its generating facilities in a cost–effective manner. The plan, which is required to be updated every two years, provides specific actions to be taken at each coal–fired generating facility and the related costs and timing for each action. On July 17, 2003, the IUB issued an order that affirmed an administrative law judge's approval of the initial plan filed on April 1, 2002, as amended. On October 4, 2004, the IUB issued an order approving MidAmerican Energy's second biennial plan as revised in a settlement MidAmerican Energy entered into with the Iowa Consumer Advocate Division of the Department of Justice. That plan covers the time period from April 1, 2004 through December 31, 2006. Neither IUB order resulted in any changes to electric rates for MidAmerican Energy. The effect of the orders is to approve the prudence of expenditures made consistent with the plans. Pursuant to an unrelated rate settlement agreement approved by the IUB on October 17, 2003, if prior to January 1, 2011, capital and operating expenditures to comply with environmental requirements cumulatively exceed $325.0 million, then MidAmerican Energy may seek to recover the additional expenditures from customers. At this time, MidAmerican Energy does not expect these capital expenditures to exceed such amount.

Under the New Source Review ("NSR") provisions of the Clean Air Act, a utility is required to obtain a permit from the EPA or a state regulatory agency prior to (1) beginning construction of a new major stationary source of an NSR–regulated pollutant or (2) making a physical or operational change to an existing facility that potentially increases emissions, unless the changes are exempt under the regulations (including routine maintenance, repair and replacement of equipment). In general, projects subject to NSR regulations are subject to pre–construction review and permitting under the Prevention of Significant Deterioration ("PSD") provisions of the Clean Air Act. Under the PSD program, a project that emits threshold levels of regulated pollutants must undergo a Best Available Control Technology analysis and evaluate the most effective emissions controls. These controls must be installed in order to receive a permit. Violations of NSR regulations, which may be alleged by the EPA, states and environmental groups, among others, potentially subject a utility to material expenses for fines and other sanctions and remedies including requiring installation of enhanced pollution controls and funding supplemental environmental projects.

In recent years, the EPA has requested from several utilities information and support regarding their capital projects for various generating plants. The requests were issued as part of an industry–wide investigation to assess compliance with the NSR and the New Source Performance Standards of the Clean Air Act. In December 2002 and April 2003, MidAmerican Energy received requests from the EPA to provide documentation related to its capital projects from January 1, 1980, to April 2003 for a number of its generating plants. MidAmerican Energy has submitted information to the EPA in responses to these requests, and there are currently no outstanding data requests pending from the EPA. MidAmerican Energy cannot predict the outcome of these requests at this time. However, on August 27, 2003, the EPA announced changes to its NSR rules that clarify what constitutes routine repair, maintenance and replacement for purposes of triggering NSR requirements. The EPA concluded equipment that is repaired, maintained or replaced with an expenditure not greater than 20 percent of the value of the source will not trigger the NSR provisions of the Clean Air Act. A number of states and local air districts challenged the EPA's clarification of the NSR rule and a panel of the U.S. Circuit Court of Appeals for the District of Columbia Circuit issued an order on December 24, 2003, staying the EPA's implementation of its clarifications of the equipment replacement rule. On July 1, 2004, the EPA published a notice of stay of the final equipment replacement rule in the *Federal Register*, consistent with the judicial stay. Additionally, on the same date, the EPA published a Notice of Reconsideration and Request for Comment on the equipment replacement rule in response to the Petitioners' legal challenges. Until such time as the EPA takes final action on the equipment replacement rule, the previous rules without the clarified exemption remain in effect.

Nuclear Decommissioning Costs

Expected decommissioning costs for Quad Cities Station have been developed based on a site–specific decommissioning study that includes decontamination, dismantling, site restoration, dry fuel storage cost and an assumed shutdown date. Quad Cities Station decommissioning costs are included in base rates in Iowa tariffs.

MidAmerican Energy's share of expected decommissioning costs for Quad Cities Station, in 2004 dollars, is $154.0 million and is the ARO liability for Quad Cities Station. MidAmerican Energy has established trusts for the investment of funds for decommissioning the Quad Cities Station. The fair value of the assets held in the trusts is reflected in other investments in the accompanying consolidated balance sheets.

Nuclear Insurance

MidAmerican Energy maintains financial protection against catastrophic loss associated with its interest in Quad Cities Station through a combination of insurance purchased by Exelon Generation Company, LLC ("Exelon Generation") (the operator and joint owner of Quad Cities Station), insurance purchased directly by MidAmerican Energy, and the mandatory industry–wide loss funding mechanism afforded under the Price–Anderson Amendments Act of 1988. The general types of coverage are: nuclear liability, property coverage and nuclear worker liability.

Exelon Generation purchases nuclear liability insurance for Quad Cities Station in the maximum available amount of $300.0 million, which includes coverage for MidAmerican Energy's ownership. In accordance with the Price–Anderson Amendments Act of 1988, excess liability protection above that amount is provided by a mandatory industry–wide Secondary Financial Protection program under which the licensees of nuclear generating facilities could be assessed for liability incurred due to a serious nuclear incident at any commercial nuclear reactor in the United States. Currently, MidAmerican Energy's aggregate maximum potential share of an assessment for Quad Cities Station is approximately $50.3 million per incident, payable in installments not to exceed $5.0 million annually.

The property insurance covers property damage, stabilization and decontamination of the facility, disposal of the decontaminated material and premature decommissioning arising out of a covered loss. For Quad Cities Station, Exelon Generation purchased primary and excess property insurance protection for the combined interests in Quad Cities Station, with coverage limits totaling $2.1 billion. MidAmerican Energy also directly purchased extra expense or business interruption coverage for its share of replacement power and other extra expenses in the event of a covered accidental outage at Quad Cities Station. The property and related coverages purchased directly by MidAmerican Energy and by Exelon Generation, which includes the interests of MidAmerican Energy, are underwritten by an industry mutual insurance company and contain provisions for retrospective premium assessments should two or more full policy–limit losses occur in one policy year. Currently, the maximum retrospective amounts that could be assessed against MidAmerican Energy from industry mutual policies for its obligations associated with Quad Cities Station total $8.8 million.

The master nuclear worker liability coverage, which is purchased by Exelon Generation for Quad Cities Station, is an industry–wide guaranteed–cost policy with an aggregate limit of $300 million for the nuclear industry as a whole, which is in effect to cover tort claims in nuclear–related industries.

The current Price–Anderson Act expired in August 2002 and is pending congressional action for reauthorization. Its contingent financial obligations still apply to reactors licensed by the NRC as of its expiration date. It is anticipated that the Price–Anderson Act will be renewed with increased third party financial protection requirements for nuclear incidents.

Legal Matters

In addition to the proceedings described below, the Company is currently party to various items of litigation or arbitration in the normal course of business, none of which are reasonably expected by the Company to have a material adverse effect on its financial position, results of operations or cash flows.

CalEnergy Generation–Foreign

Pursuant to the share ownership adjustment mechanism in the CE Casecnan stockholder agreement, which is based upon pro forma financial projections of the Casecnan project prepared following commencement of commercial operations, in February 2002, MEHC's indirect wholly–owned subsidiary, CE Casecnan Ltd., advised the minority stockholder, LaPrairie Group Contractors (International) Ltd. ("LPG"), that MEHC's ownership interest in CE Casecnan had increased to 100% effective from commencement of commercial operations. On July 8, 2002, LPG filed a complaint in the Superior Court of the State of California, City and County of San Francisco against, among others, CE Casecnan Ltd. and MEHC. On January 21, 2004, CE Casecnan Ltd. and LPG entered into a status quo agreement pursuant to which the parties agreed to set aside certain distributions related to the shares subject to the LPG dispute and CE Casecnan agreed not to take any further actions with respect to such distributions without at least 15 days prior notice to LPG. Accordingly, 15% of the CE Casecnan dividend distributions declared in 2004, totaling to $15.9 million, was set aside by CE Casecnan in an unsecured CE Casecnan account and is shown as restricted cash and short–term investments and other current liabilities in the accompanying consolidated balance sheet. The court is currently expected to rule on the first phase of the litigation before the end of the first quarter of 2005. The impact, if any, of this litigation on the Company cannot be determined at this time.

22. Pension and Postretirement Commitments

Domestic Operations

MidAmerican Energy sponsors a noncontributory defined benefit pension plan covering substantially all employees of MEHC and its domestic energy subsidiaries. Benefit obligations under the plan are based on participants' compensation, years of service and age at retirement. Funding to the established trust is based upon the actuarially determined costs of the plan and the requirements of the Internal Revenue Code and the Employee Retirement Income Security Act. The Company also maintains noncontributory, nonqualified defined benefit supplemental executive retirement plans for active and retired participants.

MidAmerican Energy also sponsors certain postretirement health care and life insurance benefits covering substantially all retired employees of MEHC and its domestic energy subsidiaries. Under the plans, covered employees may become eligible for these benefits if they reach retirement age while working for the Company. On July 1, 2004, the postretirement benefit plan was amended for non–union participants. Non–union employees hired July 1, 2004, and after will no longer be eligible for postretirement benefits other than pensions. The amendment establishes retiree medical accounts for participants to which the Company will make fixed contributions. Participants will use such accounts to pay a portion of their medical premiums during retirement. The Company retains the right to change these benefits anytime, subject to provisions in its collective bargaining agreements.

Net periodic pension benefit cost, including supplemental retirement, and postretirement benefit cost included the following components for MEHC and its domestic energy subsidiaries for the years ended December 31. For purposes of calculating the expected return on pension plan assets, a market–related value is used. Market–related value is equal to fair value except for gains and losses on equity investments which are amortized into market–related value on a straight–line basis over five years.

	Pension Cost			Postretirement Cost		
	2004	2003	2002	2004	2003	2002
	(in thousands)					
Service cost	$ 25,568	$ 24,693	$ 20,235	$ 7,842	$ 8,175	$ 6,028
Interest cost	35,159	34,533	34,177	15,716	16,065	13,928
Expected return on plan assets	(38,258)	(38,396)	(38,213)	(8,437)	(6,008)	(4,880)
Amortization of net transition obligation	(792)	(2,591)	(2,591)	3,283	4,110	4,110
Amortization of prior service cost	2,758	2,761	2,729	296	593	425
Amortization of prior year (gain) loss	1,569	1,483	(2,482)	3,299	3,716	2,385
Regulatory expense	–	3,320	6,639	–	–	–
Net periodic benefit cost	$ 26,004	$ 25,803	$ 20,494	$21,999	$26,651	$21,996

Weighted–average assumptions used to determine benefit obligations at December 31:

	2004	2003	2002	2004	2003	2002
Discount rate	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	5.00%	5.00%	5.00%	Not applicable		

Weighted–average assumptions used to determine net benefit cost for the years ended December 31:

	2004	2003	2002	2004	2003	2002
Discount rate	5.75%	5.75%	6.50%	5.75%	5.75%	6.50%
Expected return on plan assets	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%	5.00%	Not applicable		

Assumed health care cost trend rates at December 31:

	2004	2003
Health care cost trend rate assumed for next year	10.00%	11.00%
Rate that the cost trend rate gradually declines to	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2010	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects in thousands:

	Increase (Decrease) in Expense	
	One Percentage-Point Increase	One Percentage-Point Decrease
Effect on total service and interest cost	$ 4,855	$ (3,740)
Effect on postretirement benefit obligation	$ 29,420	$ (24,066)

The following table presents a reconciliation of the beginning and ending balances of the benefit obligation, fair value of plan assets and the funded status of the aforementioned plans to the net amounts measured and recognized in the accompanying consolidated balance sheets as of December 31(in thousands):

	Pension Benefits		Postretirement Benefits	
	2004	2003	2004	2003
Reconciliation of the fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 551,568	$ 467,773	$ 157,849	$ 122,655
Employer contributions	5,083	5,044	23,782	32,566
Participant contributions	–	–	7,733	6,371
Actual return on plan assets	63,151	105,438	9,698	15,853
Benefits paid	(28,174)	(26,687)	(19,687)	(19,596)
Fair value of plan assets at end of year	$ 591,628	$ 551,568	$ 179,375	$ 157,849
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$ 620,048	$ 593,179	$ 297,433	$ 291,441
Service cost	25,568	24,693	7,841	8,175
Interest cost	35,159	34,533	15,716	16,065
Participant contributions	–	–	7,733	6,371
Plan amendments	–	–	(19,219)	–
Actuarial (gain) loss	4,805	(5,670)	(33,773)	(5,023)
Benefits paid	(28,174)	(26,687)	(19,687)	(19,596)
Benefit obligation at end of year	$ 657,406	$ 620,048	$ 256,044	$ 297,433
Funded status	$ (65,778)	$ (68,480)	$ (76,669)	$ (139,584)
Amounts not recognized in consolidated balance sheets:				
Unrecognized net (gain) loss	(34,319)	(12,907)	42,768	83,509
Unrecognized prior service cost	15,157	17,915	–	5,451
Unrecognized net transition obligation (asset)	–	(792)	19,641	36,992
Net amount recognized in the consolidated balance sheets	$ (84,940)	$ (64,264)	$ (14,260)	$ (13,632)
Net amount recognized in the consolidated balance sheets consists of:				
Prepaid benefit cost	$ –	$ 39	$ –	$ –
Accrued benefit liability	(117,357)	(100,490)	(14,260)	(13,632)
Intangible assets	14,653	17,367	–	–
Regulatory assets	17,764	18,820	–	–
Net amount recognized	$ (84,940)	$ (64,264)	$ (14,260)	$ (13,632)

The portion of the pension projected benefit obligation, included in the table above, related to the supplemental executive retirement plan was $106.5 million and $105.1 million as of December 31, 2004 and 2003, respectively. The supplemental executive retirement plan has no assets, and accordingly, the fair value of its plan assets was zero as of December 31, 2004 and 2003. The accumulated benefit obligation for all defined benefit pension plans was $585.4 million and $554.6 million at December 31, 2004 and 2003, respectively. Of these amounts, the supplemental executive retirement plan accumulated benefit obligation totaled $102.3 million and $100.5 million for 2004 and 2003, respectively.

Although the supplemental executive retirement plan had no assets as of December 31, 2004, the Company has Rabbi trusts that hold corporate-owned life insurance and other investments to provide funding for the future cash requirements. Because this plan is nonqualified, the cash surrender value of these assets is not included in the plan assets. The cash surrender value of the Rabbi trust investments was $98.8 million and $88.1 million at December 31, 2004 and 2003, respectively.

Plan Assets

The Company's investment policy for its domestic pension and postretirement plans is to balance risk and return through a diversified portfolio of high-quality equity and fixed income securities. Equity targets for the pension and postretirement plans are as indicated in the tables below. Maturities for fixed income securities are managed such that sufficient liquidity exists to meet near-term benefit payment obligations. The plans retain outside investment advisors to manage plan investments within the parameters outlined by the Company's Pension and Employee Benefits Plans Administrative Committee. The weighted average return on assets assumption is based on historical performance for the types of assets in which the plans invest.

The Company's pension plan asset allocations at December 31, 2004 and 2003, are as follows:

	Percentage of Plan Assets at December 31		
Asset Category	2004	2003	Target Range
Equity securities	71%	70%	65–75%
Debt securities	22%	23%	20–30%
Real estate	6%	7%	0–10%
Other	1%	–%	0–5%
Total	100%	100%	

The Company's postretirement benefit plan asset allocations at December 31, 2004, and 2003, are as follows:

	Percentage of Plan Assets at December 31		
Asset Category	2004	2003	Target Range
Equity securities	49%	49%	45–55%
Debt securities	47%	48%	45–55%
Other	4%	3%	0–10%
Total	100%	100%	

Cash Flows

MidAmerican Energy's expected benefit payments for its pension and postretirement plans for 2005 through 2009 and for the five years thereafter are summarized below (in thousands):

	Pension Benefits	Postretirement Benefits
2005	$ 30,670	$ 12,241
2006	32,728	11,731
2007	34,972	12,618
2008	38,092	13,432
2009	42,339	14,321
2010–14	$267,549	$ 87,264

Employer contributions to the domestic pension and postretirement plans are currently expected to be $6.6 million and $15.8 million, respectively, for 2005. The Company's policy is to contribute the minimum required amount to the pension plan and the amount expensed to its postretirement plans.

The Company sponsors defined contribution pension plans (401(k) plans) covering substantially all domestic employees. The Company's contributions vary depending on the plan but are based primarily on each participant's level of contribution and cannot exceed the maximum allowable for tax purposes. Total contributions were $17.1 million, $15.5 million and $12.0 million for 2004, 2003 and 2002, respectively.

In December 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Medicare Act"). The Medicare Act introduces a prescription drug benefit under Medicare as well as a subsidy to sponsors of retiree health care plans that provide a benefit to participants that is at least actuarially equivalent to Medicare Part D. The Medicare Act is expected to ultimately reduce the Company's postretirement costs from what they would have been absent such changes. Detailed regulations pertaining to the Medicare Act were promulgated in July 2004, resulting in a $23.8 million reduction in the accumulated postretirement obligation, which has been reflected as an actuarial gain in the table above. The impact of the Medicare Act on the net periodic postretirement benefit expense will initially be recognized in 2005 in conjunction with the next valuation of the postretirement plans.

United Kingdom Operations

Certain wholly–owned subsidiaries of CE Electric UK participate in the Electricity Supply Pension Scheme (the "UK Plan"), which provides pension and other related defined benefits, based on final pensionable pay, to substantially all employees throughout the electricity supply industry in the United Kingdom.

Net periodic pension benefit cost included the following components for CE Electric UK for the years ended December 31. For purposes of calculating the expected return on pension plan assets, a market–related value is used. Market–related value is equal to fair value except for gains and losses on equity investments which are amortized into market–related value on a straight–line basis over five years.

	Pension Cost		
	2004	2003	2002
Service cost	$ 12,100	$ 9,485	$ 8,718
Interest cost	73,515	62,632	56,817
Expected return on plan assets	(98,448)	(89,124)	(85,927)
Amortization of prior service cost	1,915	1,472	1,202
Amortization of loss	12,742	537	–
Curtailment loss	–	–	6,463
Net periodic expense (benefit)	$ 1,824	$ (14,998)	$ (12,727)

Weighted–average assumptions used to determine benefit obligations at December 31:

	2004	2003	2002
Discount rate	5.25%	5.50%	5.75%
Rate of compensation increase	2.75%	2.75%	2.50%

Weighted–average assumptions used to determine net benefit cost for years ended December 31:

	2004	2003	2002
Discount rate	5.50%	5.75%	5.75%
Expected return on plan assets	7.00%	7.00%	7.00%
Rate of compensation increase	2.75%	2.50%	2.50%

The following table presents a reconciliation of the beginning and ending balances of the benefit obligation, fair value of plan assets and the funded status of the UK Plan to the net amounts measured and recognized in the accompanying consolidated balance sheets as of December 31 (in thousands):

	Pension Benefits	
	2004	2003
Reconciliation of the fair value of plan assets:		
Fair value of plan assets at beginning of year	$1,206,216	$ 976,427
Employer contributions	17,600	14,391
Participant contributions	6,417	4,742
Actual return on plan assets	106,515	152,246
Benefits paid	(65,265)	(57,726)
Foreign currency exchange rate changes	93,239	116,136
Fair value of plan assets at end of year	$1,364,722	$1,206,216
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$1,334,587	$1,102,730
Service cost	12,100	9,485
Interest cost	73,515	62,632
Participant contributions	6,417	4,742
Benefits paid	(65,265)	(57,726)
Experience loss and change of assumptions	104,315	83,890
Foreign currency exchange rate changes	105,910	128,834
Benefit obligation at end of year	$1,571,579	$1,334,587
Funded status	$ (206,857)	$ (128,371)
Unrecognized net loss	614,182	507,039
Net amount recognized in the consolidated balance sheets	$ 407,325	$ 378,668
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid benefit cost	$ 407,325	$ 378,668
Accrued benefit liability	(561,988)	(496,147)
Intangible assets	16,119	16,604
Accumulated other comprehensive income	545,869	479,543
Net amount recognized	$ 407,325	$ 378,668

The accumulated benefit obligation for the defined benefit pension plan was $1.5 billion and $1.3 billion at December 31, 2004 and 2003, respectively.

The Company recorded a minimum pension liability as of December 31, 2004 and 2003 in the amount of $545.9 million and $479.5 million, respectively. The pension liability is primarily due to the decline in market value of the pension plan assets during 2002 combined with the effects of lower discount rates and higher rates of compensation increases used to value the plan's liabilities in 2004 and 2003, as well as, mortality assumption changes which increased the liability. As of December 31, 2004 and 2003, the minimum pension liability is measured as the amount of the plan's accumulated benefit obligation that is in excess of the plan's market value of assets at December 31, 2004 and 2003 plus the prepaid asset balance. A charge equal to the excess was recorded to the Company's stockholders' equity, net of income tax benefits, as a component of comprehensive loss in the amount of $46.4 million and $27.1 million in 2004 and 2003, respectively. This adjustment does not impact current year earnings, or the funding requirements of the plan.

Plan Assets

CE Electric UK's investment policy for its pension and postretirement plans is to balance risk and return through a diversified portfolio of high-quality equity and fixed income securities. Maturities for fixed income securities are managed such that sufficient liquidity exists to meet near-term benefit payment obligations. The plans retain outside investment advisors to manage plan investments within the parameters outlined by the Benefits Committee of subsidiaries of CE Electric UK. The weighted average return on assets assumption is based on historical performance for the types of assets in which the plans invest.

CE Electric UK's pension plan asset allocation consists of the following at December 31:

	Percentage of Plan Assets at December 31,		
	2004	2003	Target
Asset Category			
Equity securities	49%	64%	50%
Debt securities	39%	26%	40%
Real estate	11%	9%	10%
Other	1%	1%	–
Total	100%	100%	100%

Cash Flows

CE Electric UK's expected benefit payments relative to the UK Plan for 2005 through 2009 and for the five years thereafter are summarized below (in millions):

2005	$ 67.5
2006	67.0
2007	67.7
2008	68.1
2009	70.5
2010–14	$369.8

Employer contributions to fund the ongoing liabilities of the UK Plan were approximately $14.7 million in 2004. The triennial process of valuing the UK Plan's assets and liabilities, which will value the plan assets and liabilities as of March 31, 2004, is underway. This valuation will set a revised level of contributions for the next three years. The preliminary report of the actuaries conducting the valuation showed a funding deficiency of $365.2 million. Based on the preliminary valuation, CE Electric UK has proposed that its subsidiaries contribute $63.6 million to the UK Plan each year, which amount includes $42.7 million each year in respect of the existing funding deficiency. The amount in respect of the funding deficiency has been calculated based on eliminating the funding deficiency over 12 years commencing April 1, 2005. Discussions on the appropriate level of contributions continue with the UK Plan trustees in accordance with the UK Plan rules.

23. Segment Information

The Company has identified seven reportable segments: MidAmerican Energy, Kern River, Northern Natural Gas, CE Electric UK, CalEnergy Generation–Foreign, CalEnergy Generation–Domestic and HomeServices. The Company's determination of reportable segments considers the strategic units under which the Company is managed. The Company's foreign reportable segments include CE Electric UK and CalEnergy Generation–Foreign. The reportable segment financial information includes all necessary adjustments and eliminations needed to conform to the Company's significant accounting policies including the allocation of goodwill and fair value adjustments relating to acquisitions. Additionally, the activity of the Company's Mineral Assets, which was previously reported in the CalEnergy Generation–Domestic reportable segment, is presented as discontinued operations within the accompanying consolidated financial statements. Information related to the Company's reportable segments is shown below (in thousands).

	Year Ended December 31,		
	2004	2003	2002
Operating revenue:			
MidAmerican Energy	$2,701,700	$2,600,239	$2,240,879
Kern River	316,131	260,182	127,254
Northern Natural Gas	544,822	486,878	178,118
CE Electric UK	936,364	829,993	795,366
CalEnergy Generation–Foreign	307,395	326,454	326,316
CalEnergy Generation–Domestic	38,960	45,154	38,478
HomeServices	1,756,454	1,476,569	1,138,332
Total reportable segments	6,601,826	6,025,469	4,844,743
Corporate/other[(1)]	(48,438)	(59,839)	(49,564)
Total operating revenue	$6,553,388	$5,965,630	$4,795,179
Depreciation and amortization:			
MidAmerican Energy	$ 266,409	$ 281,001	$ 269,412
Kern River	53,250	36,771	17,165
Northern Natural Gas	67,913	52,716	18,151
CE Electric UK	137,746	125,000	116,792
CalEnergy Generation–Foreign	90,328	87,928	88,036
CalEnergy Generation–Domestic	8,721	8,882	8,648
HomeServices	20,827	17,560	22,072
Total reportable segments	645,194	609,858	540,276
Corporate/other[(1)]	(6,985)	(6,924)	(10,198)
Total depreciation and amortization	$ 638,209	$ 602,934	$ 530,078
Interest expense:			
MidAmerican Energy	$ 125,189	$ 123,395	$ 122,561
Kern River	76,671	79,272	47,034
Northern Natural Gas	53,100	56,008	23,550
CE Electric UK	202,067	180,207	189,554
CalEnergy Generation–Foreign	42,696	59,603	68,338
CalEnergy Generation–Domestic	18,971	19,736	20,043
HomeServices	2,837	3,864	4,256
Total reportable segments	521,531	522,085	475,336
Corporate/other[(1)]	184,811	189,083	156,797
Parent company subordinated debt[(2)]	196,875	49,788	–
Total interest expense	$ 903,217	$ 760,956	$ 632,133

	Year Ended December 31,		
	2004	2003	2002
Income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income:			
MidAmerican Energy	$ 267,838	$ 271,437	$ 238,761
Kern River	142,643	133,720	60,700
Northern Natural Gas	217,981	127,307	42,882
CE Electric UK	325,844	288,720	266,755
CalEnergy Generation–Foreign	165,703	177,568	147,936
CalEnergy Generation–Domestic	3,071	2,120	(1,155)
HomeServices	111,906	89,981	61,202
Total reportable segments	1,234,986	1,090,853	817,081
Corporate/other[1][2]	(435,793)	(232,862)	(185,443)
Total income from continuing operations before income tax expense, minority interest and preferred dividends of subsidiaries and equity income	$ 799,193	$ 857,991	$ 631,638
Income tax expense:			
MidAmerican Energy	$ 87,336	$ 110,078	$ 99,782
Kern River	54,148	51,319	23,014
Northern Natural Gas	84,423	50,599	16,947
CE Electric UK	80,211	91,539	25,245
CalEnergy Generation–Foreign	62,548	62,130	31,924
CalEnergy Generation–Domestic	1,217	1,078	(4,611)
HomeServices	52,996	43,587	28,207
Total reportable segments	422,879	410,330	220,508
Corporate/other[1]	(157,893)	(140,054)	(109,230)
Total income tax expense	$ 264,986	$ 270,276	$ 111,278
Capital expenditures:			
MidAmerican Energy	$ 633,807	$ 346,449	$ 332,845
Kern River	26,936	433,125	692,586
Northern Natural Gas	138,747	104,400	62,409
CE Electric UK	334,458	301,896	222,622
CalEnergy Generation–Foreign	4,633	8,497	7,830
CalEnergy Generation–Domestic	1,341	6,619	(1,640)
HomeServices	20,786	18,311	18,273
Total reportable segments	1,160,708	1,219,297	1,334,925
Corporate/other[1]	18,682	71	7,373
Total capital expenditures	$1,179,390	$1,219,368	$1,342,298

	As of December 31,		
	2004	2003	2002
Total assets:			
MidAmerican Energy	$ 7,274,999	$ 6,596,849	$ 6,411,143
Kern River	2,135,265	2,200,201	1,797,850
Northern Natural Gas	2,200,846	2,167,621	2,162,367
CE Electric UK	5,794,887	5,038,880	4,714,459
CalEnergy Generation–Foreign	767,465	951,155	974,852
CalEnergy Generation–Domestic	553,741	1,113,172	1,145,456
HomeServices	724,592	567,736	488,324
Total reportable segments	19,451,795	18,635,614	17,694,451
Corporate/other[1]	451,767	509,338	740,469
Total assets	$19,903,562	$19,144,952	$18,434,920
Long–lived assets:			
MidAmerican Energy	$ 3,892,031	$ 3,385,056	$ 3,236,046
Kern River	1,945,094	1,976,213	1,650,387
Northern Natural Gas	1,491,428	1,430,475	1,403,748
CE Electric UK	3,691,459	3,227,723	2,741,277
CalEnergy Generation–Foreign	520,406	621,674	724,908
CalEnergy Generation–Domestic	256,429	738,296	739,940
HomeServices	59,827	53,518	45,078
Total reportable segments	11,856,674	11,432,955	10,541,384
Corporate/other[1]	(249,410)	(251,976)	(256,897)
Total long–lived assets	$11,607,264	$11,180,979	$10,284,487

(1) The remaining differences between the segment amounts and the consolidated amounts described as "Corporate/other" relate principally to the corporate functions including administrative costs, interest expense, corporate cash and related interest income, intersegment eliminations and fair value adjustments relating to acquisitions.

(2) The Company adopted and applied the provisions of FIN 46R related to certain finance subsidiaries as of October 1, 2003. The adoption required amounts previously recorded in minority interest and preferred dividends of subsidiaries to be recorded as interest expense in the accompanying consolidated statements of operations. For the year ended December 31, 2004, and the three–month period ended December 31, 2003, the Company has recorded $196.9 million and $49.8 million, respectively, of interest expense related to these securities. In accordance with the requirements of FIN 46R, no amounts prior to adoption of FIN 46R on October 1, 2003 have been reclassified. The amounts included in minority interest and preferred dividends of subsidiaries related to these securities for the nine–month period ended September 30, 2003, and the year ended December 31, 2002, were $170.2 million and $147.7 million, respectively.

The following table shows the change in the carrying amount of goodwill by reportable segment for the years ended December 31, 2004 and 2003 (in thousands):

	MidAmerican Energy	Kern River	Northern Natural Gas	CE Electric UK	Cal Energy Generation Domestic	Home-Services	Total
Balance, January 1, 2003	$2,149,282	$ 32,547	$ 414,721	$1,195,321	$126,440	$ 339,821	$4,258,132
Goodwill from acquisitions during the year	-	-	-	-	-	26,648	26,648
Other goodwill adjustments[1]	(10,059)	1,353	(35,573)	66,262	(132)	(988)	20,863
Balance, December 31, 2003	2,139,223	33,900	379,148	1,261,583	126,308	365,481	4,305,643
Goodwill from acquisitions during the year	-	-	-	-	-	32,120	32,120
Impairment losses[2]	-	-	-	-	(52,776)	-	(52,776)
Other goodwill adjustments[1]	(18,098)	-	(24,236)	68,208	(1,038)	(3,072)	21,764
Balance, December 31, 2004	$2,121,125	$33,900	$354,912	$1,329,791	$72,494	$394,529	$4,306,751

(1) Other goodwill adjustments include income tax, foreign currency translation and purchase price adjustments.

(2) Impairment losses relate to the write-off of the Mineral Assets – see Note 3.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer, regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a–15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2004. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes during the fourth quarter of 2004 in the Company's internal controls or in other factors that could significantly affect internal controls.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

MEHC's management structure is organized functionally and the current executive officers and directors of MEHC and their positions are as follows:

Name	Position
David L. Sokol	Chairman of the Board, Chief Executive Officer and Director
Gregory E. Abel	President, Chief Operating Officer and Director
Patrick J. Goodman	Senior Vice President and Chief Financial Officer
Douglas L. Anderson	Senior Vice President, General Counsel and Corporate Secretary
Keith D. Hartje	Senior Vice President, Communications, General Services and Safety Audit and Compliance
Warren E. Buffett	Director
Walter Scott Jr.	Director
Marc D. Hamburg	Director
W. David Scott	Director
Edgar D. Aronson	Director
John K. Boyer	Director
Stanley J. Bright	Director
Richard R. Jaros	Director

Officers are elected annually by the Board of Directors. There are no family relationships among the executive officers, nor any arrangements or understanding between any officer and any other person pursuant to which the officer was appointed.

Set forth below is certain information, as of January 1, 2005, with respect to each of the foregoing officers and directors:

DAVID L. SOKOL, 48, Chairman of the Board of Directors and Chief Executive Officer. Mr. Sokol has been the Chief Executive Officer since April 19, 1993 and served as President of MEHC from April 19, 1993 until January 21, 1995. Mr. Sokol has been Chairman of the Board of Directors since May 1994 and a director since March 1991. Formerly, among other positions held in the independent power industry, Mr. Sokol served as President and Chief Executive Officer of Kiewit Energy Company, which at that time was a wholly owned subsidiary of Peter Kiewit & Sons', Inc., and Ogden Projects, Inc.

GREGORY E. ABEL, 42, President, Chief Operating Officer and Director. Mr. Abel joined MEHC in 1992 and initially served as Vice President and Controller. Mr. Abel is a Chartered Accountant and from 1984 to 1992 was employed by Price Waterhouse. As a Manager in the San Francisco office of Price Waterhouse, he was responsible for clients in the energy industry.

PATRICK J. GOODMAN, 38, Senior Vice President and Chief Financial Officer. Mr. Goodman joined MEHC in 1995 and served in various accounting positions including Senior Vice President and Chief Accounting Officer. Prior to joining MEHC, Mr. Goodman was a financial manager for National Indemnity Company and a senior associate at Coopers & Lybrand.

DOUGLAS L. ANDERSON, 46, Senior Vice President and General Counsel. Mr. Anderson joined MEHC in February 1993 and has served in various legal positions including General Counsel of the Company's independent power affiliates. From 1990 to 1993, Mr. Anderson was a corporate attorney with Fraser, Stryker in Omaha, NE. Prior to that Mr. Anderson was a principal in the firm Anderson and Anderson.

KEITH D. HARTJE, 54, Senior Vice President, Communications, General Services and Safety Audit and Compliance. Mr. Hartje has been with MidAmerican Energy and its predecessor companies since 1973. In that time, he has held a number of positions, including General Counsel and Corporate Secretary, District Vice President for southwest Iowa operations, and Vice President, Corporate Communications.

WARREN E. BUFFETT, 74, Director. Mr. Buffett has been a director of MEHC since March 2000. He is Chairman of the Board and Chief Executive Office of Berkshire Hathaway. Mr. Buffett is a Director of the Coca-Cola Company, the Gillette Company and The Washington Post Company.

WALTER SCOTT, JR., 73, Director. Mr. Scott has been a director of MEHC since June 1991. Mr. Scott was the Chairman and Chief Executive Officer of MEHC from January 8, 1992 until April 19, 1993. For more than the past five years, he has been Chairman of the Board of Directors of Level 3 Communications, Inc., a successor to certain businesses of Peter Kiewit & Sons', Inc. Mr. Scott is a director of Peter Kiewit & Sons', Inc., Berkshire Hathaway, Burlington Resources, Inc., ConAgra, Inc., Valmont Industries, Inc., Kiewit Materials Co., Commonwealth Telephone Enterprises, Inc. and RCN Corporation. Mr. Scott is the father of W. David Scott.

MARC D. HAMBURG, 55, Director. Mr. Hamburg has been a director of MEHC since March 2000. He has served as Vice President – Chief Financial Officer of Berkshire Hathaway since October 1, 1992 and Treasurer since June 1, 1987, his date of employment with Berkshire Hathaway.

W. DAVID SCOTT, 43, Director. Mr. Scott has been a director of MEHC since March 2000. Mr. Scott formed Magnum Resources, Inc., a commercial real estate investment and management company, in October 1994 and has served as its President and Chief Executive Officer since its inception. Before forming Magnum Resources, Mr. Scott worked for America First Companies, Cornerstone Banking Group and Peter Kiewit & Sons', Inc. Mr. Scott has been a director of America First Mortgage Investments, Inc., a mortgage REIT, since 1998. Mr. Scott is the son of Walter Scott, Jr.

EDGAR D. ARONSON, 70, Director. Mr. Aronson has been a director of MEHC since 1983. Mr. Aronson founded EDACO, Inc., a private venture capital company, in 1981, and has been President of EDACO, Inc. since that time. Prior to that, Mr. Aronson was Chairman of Dillon, Read International from 1979 to 1981 and a General Partner in charge of the International Department of Salomon Brothers Inc. from 1973 to 1979. Mr. Aronson served during 1962–1968 as Vice President consecutively in the International Departments of First National Bank of Chicago and Republic National Bank of New York. He founded the International Department of Salomon Brothers and Hutzler in 1968.

JOHN K. BOYER, 60, Director. Mr. Boyer has been a director of MEHC since March 2000. He is a partner with Fraser, Stryker, Meusey, Olson, Boyer & Bloch, P.C. where he has practiced from 1973 to present with emphasis on corporate, commercial, federal, state, and local taxation.

STANLEY J. BRIGHT, 64, Director. Mr. Bright was Chairman and Chief Executive Officer of MidAmerican Energy from July 1, 1995 until March 1999. Mr. Bright joined Iowa-Illinois Gas and Electric Company (a predecessor of MidAmerican Energy) as Vice President and Chief Financial Officer in 1986, became a director in 1987, President and Chief Operating Officer in 1990, and Chairman and Chief Executive Officer in 1991.

RICHARD R. JAROS, 52, Director. Mr. Jaros has been a director of MEHC since March 1991. Mr. Jaros served as President and Chief Operating Officer of MEHC from January 8, 1992 to April 19, 1993 and as Chairman of the Board from April 19, 1993 to May 1994. Until July 1997, Mr. Jaros was Executive Vice President and Chief Financial Officer of Peter Kiewit & Sons', Inc. and President of Kiewit Diversified Group, Inc., which is now Level 3 Communications, Inc. Mr. Jaros serves as director of Commonwealth Telephone Enterprises, Inc., RCN Corporation and Level 3 Communications, Inc.

Audit Committee Members and Financial Experts

The audit committee of the Board of Directors is comprised of Messrs. Marc D. Hamburg and Richard R. Jaros. The Board of Directors has determined that Messrs. Hamburg and Jaros qualify as "audit committee financial experts," as defined by Securities and Exchange Commission Rules, based on their education, experience and background. Mr. Jaros is independent as that term is used in Item 7(d) (3) (IV) of Schedule 14A under the Exchange Act.

Code of Ethics

MEHC has adopted a code of ethics that applies to its principal executive officer, its principal financial officer, its chief accounting officer and certain other covered officers. The code of ethics is filed as an exhibit to this annual report on Form 10-K.

Item 11. Executive Compensation.

The following table sets forth the compensation of MEHC's Chief Executive Officer and its four other most highly compensated executive officers who were employed as of December 31, 2004, which MEHC refers to as its Named Executive Officers. Information is provided regarding its Named Executive Officers for the last three fiscal years during which they were its executive officers, if applicable.

Name and Principal Positions	Year Ended Dec. 31	Salary(1)	Bonus(1)	Other Annual Comp(2)	LTIP Payouts	All Other Comp(3)
David L. Sokol	2004	$ 800,000	$ 2,500,000	$ 131,644	$ –	$ 9,995
Chairman and Chief	2003	800,000	2,750,000	141,501	–	9,800
Executive Officer	2002	800,000	2,750,000	27,232,047	–	8,850
Gregory E. Abel	2004	720,000	2,200,000	80,424	–	9,995
President and	2003	700,000	2,200,000	87,162	–	9,800
Chief Operating Officer	2002	540,000	2,200,000	–	–	8,857
Patrick J. Goodman	2004	290,000	295,000	–	257,664	88,391
Senior Vice President and	2003	275,000	285,000	–	–	108,631
Chief Financial Officer	2002	248,000	260,000	209,970	–	(16,342)
Douglas L. Anderson	2004	270,000	240,000	–	151,585	77,145
Senior Vice President and	2003	260,000	240,000	–	–	83,703
General Counsel	2002	200,000	220,000	–	–	(7,289)
Keith D. Hartje	2004	180,000	65,000	–	128,847	54,774
Senior Vice President,	2003	180,000	65,000	–	–	71,317
Communications, General Services and Safety Audit and Compliance	2002	180,000	65,000	–	–	(3,015)

(1) Includes amounts voluntarily deferred by the executive, if applicable.

(2) Consists of perquisites and other benefits if the aggregate amount of such benefits exceeds the lesser of either $50,000 or 10% of the total of salary and bonus reported for the Named Executive Officer. The amounts shown include the personal use of aircraft for 2004 for Mr. Sokol of $100,726 and for Mr. Abel of $73,859.

(3) Consists of the 2004 earnings on the MEHC Long-Term Incentive Partnership Plan ("LTIP") awards not paid out in 2004 and 401(k) plan contributions. For 2004, LTIP earnings on awards not paid out in 2004 were $78,396 for Mr. Goodman, $67,150 for Mr. Anderson and $44,979 for Mr. Hartje. Messrs. Sokol and Abel are not participants in the LTIP. Additionally, the amounts shown include company 401(k) contributions for 2004 for Messrs. Sokol, Abel, Goodman and Anderson of $9,995 and for Mr. Hartje of $9,795.

Pursuant to MEHC's Executive Incremental Profit Sharing Plan, Messrs. Sokol and Abel are each eligible to receive a one-time profit sharing award of $11.25 million, $18.75 million or $37.5 million based upon achieving specified adjusted diluted earnings per share targets for any calendar year from 2004 through 2007 and continued employment during such time.

Option Grants in Last Fiscal Year

MEHC did not grant any options during 2004.

Aggregated Option Exercises In Last Fiscal Year And Fiscal Year End Option Values

The following table sets forth the option exercises and the number of securities underlying exercisable and unexercisable options held by each of its Named Executive Officers at December 31, 2004.

Name	Shares Acquired On Exercise (#)	Value Realized	Underlying Unexercised Options Held (#) Exercisable	Unexercisable	Value of Unexercised In-the-money Options ($) (1) Exercisable	Unexercisable
David Sokol	–	–	1,399,277	–	$ 113,073,927	N/A
Gregory E. Abel	–	–	649,052	–	$ 55,748,672	N/A
Patrick J. Goodman	–	–	–	–	–	–
Douglas L. Anderson	–	–	–	–	–	–
Keith D. Hartje	–	–	–	–	–	–

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(1) On March 14, 2000, MEHC was acquired by a private investor group. As a privately held company, MEHC has no publicly traded equity securities. The value shown is based on an assumed fair market value of the stock of $113 per share as of December 31, 2004, as agreed to by MEHC stockholders.

Long-Term Incentive Plans – Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation Or Payout	Threshold (1) ($)	Target (1) ($)	Maximum (1) ($)
Patrick J. Goodman	N/A	December 31, 2008	40,000	N/A	N/A
Douglas L. Anderson	N/A	December 31, 2008	40,000	N/A	N/A
Keith D. Hartje	N/A	December 31, 2008	40,000	N/A	N/A

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(1) The awards shown in the foregoing table are made pursuant to the LTIP. The amounts shown are dollar amounts credited to an investment account for the benefit of the named executive officers and such amounts vest equally over five years (starting with year 2004) with any unvested balances forfeited upon termination of employment. Vested balances (including any investment performance profits or losses thereon) are paid to the participant at the time of termination. Once an award is fully vested, the participant may elect to defer or receive payment of part or the entire award. Awards are credited or reduced with annual interest or loss based on a composite of funds or indices. Because the amounts to be paid out may increase or decrease depending on investment performance, the ultimate benefits are undeterminable and the payouts do not have a "target" or "maximum" amount.

Compensation of Directors

All directors, excluding Messrs. Sokol, Abel, Buffett and Walter Scott Jr., are paid an annual retainer fee of $24,000 and a fee of $500 per day for attendance at Board and Committee meetings. Directors who are employees are not entitled to receive such fees. All directors are reimbursed for their expenses incurred in attending Board meetings.

Retirement Plans

The MidAmerican Energy Company Supplemental Retirement Plan for Designated Officers (the "SERP"), provides additional retirement benefits to designated participants, as determined by the Board of Directors. Messrs. Sokol, Abel, Goodman and Hartje are participants in the SERP. The SERP provides annual retirement benefits up to sixty-five percent of a participant's Total Cash Compensation in effect immediately prior to retirement, subject to a $1 million maximum retirement benefit. "Total Cash Compensation" means the highest amount payable to a participant as monthly base salary during the five years immediately prior to retirement multiplied by 12 plus the average of the participant's last three years awards under an annual incentive bonus program and special, additional or non-recurring bonus awards, if any, that are required to be included in Total Cash Compensation pursuant to a participant's employment agreement or approved for inclusion by the Board. Participants must be credited with five years of service to be eligible to receive benefits under the SERP. Each of the Company's Named Executive Officers has or will have five years of credited service with the Company as of their respective normal retirement age and will be eligible to receive benefits under the SERP. A participant who elects early retirement is entitled to reduced benefits under the SERP, however, in accordance with their respective employment agreements, Messrs. Sokol and Abel are eligible to receive the maximum retirement benefit at age 47. A survivor benefit is payable to a surviving spouse under the SERP. Benefits from the SERP will be paid out of general corporate funds; however, through a Rabbi trust, the Company maintains life insurance on the participants in amounts expected to be sufficient to fund the after-tax cost of the projected benefits. Deferred compensation is considered part of the salary covered by the SERP.

The SERP benefit will be reduced by the amount of the participant's regular retirement benefit under the MidAmerican Energy Company Cash Balance Retirement Plan (the "MidAmerican Retirement Plan"), which became effective January 1, 1997, and by benefits under the Iowa Resources Inc. and Subsidiaries Supplemental Retirement Income Plan (the "IOR Supplemental Plan"), as applicable.

Part A of IOR Supplemental Plan provides retirement benefits up to sixty-five percent of a participant's highest annual salary during the five years prior to retirement reduced by the participant's MidAmerican Retirement Plan benefit. The percentage applied is based on years of credited service. A participant who elects early retirement is entitled to reduced benefits under the plan. A survivor benefit is payable to a surviving spouse. Benefits are adjusted annually for inflation. Part B of the IOR Supplemental Plan provides that an additional one hundred-fifty percent of annual salary is to be paid out to participants at the rate of ten percent per year over fifteen years, except in the event of a participant's death, in which event the unpaid balance would be paid to the participant's beneficiary or estate. Deferred compensation is considered part of the salary covered by the IOR Supplemental Plan.

The MidAmerican Retirement Plan replaced retirement plans of predecessor companies that were structured as traditional, defined benefit plans. Under the MidAmerican Retirement Plan, each participant has an account, for record keeping purposes only, to which credits are allocated each payroll period based upon a percentage of the participant's salary paid in the current pay period. In addition, all balances in the accounts of participants earn a fixed rate of interest that is credited annually. The interest rate for a particular year is based on the constant maturity Treasury yield plus seven-tenths of one percentage point. At retirement, or other termination of employment, an amount equal to the vested balance then credited to the account is payable to the participant in the form of a lump sum or a form of annuity for the entire benefit under the MidAmerican Retirement Plan.

The table below shows the estimated aggregate annual benefits payable under the SERP and the MidAmerican Retirement Plan. The amounts exclude Social Security and are based on a straight life annuity and retirement at ages 55, 60 and 65. Federal law limits the amount of benefits payable to an individual through the tax qualified defined benefit and contribution plans, and benefits exceeding such limitation are payable under the SERP.

Total Cash Compensation at Retirement ($)	Estimated Annual Benefit Age of Retirement 55	60	65
$	$	$	$
400,000	220,000	240,000	260,000
500,000	275,000	300,000	325,000
600,000	330,000	360,000	390,000
700,000	385,000	420,000	455,000
800,000	440,000	480,000	520,000
900,000	495,000	540,000	585,000
1,000,000	550,000	600,000	650,000
1,250,000	687,500	750,000	812,500
1,500,000	825,000	900,000	975,000
1,750,000	962,500	1,000,000	1,000,000
$2,000,000and greater	$1,000,000	$1,000,000	$1,000,000

Employment Agreements

Pursuant to his employment agreement, Mr. Sokol serves as Chairman of MEHC's Board of Directors and Chief Executive Officer. The employment agreement provides that Mr. Sokol is to receive an annual base salary of not less than $750,000, senior executive employee benefits and annual bonus awards that shall not be less than $675,000. Subject to an annual renewal provision, such agreement is scheduled to expire on August 21, 2005.

The employment agreement provides that MEHC may terminate the employment of Mr. Sokol with cause, in which case MEHC is to pay to him any accrued but unpaid salary and a bonus of not less than the minimum annual bonus, or due to death, permanent disability or other than for cause, including a change in control, in which case Mr. Sokol is entitled to receive an amount equal to three times the sum of his annual salary then in effect and the greater of his minimum annual bonus or his average annual bonus for the two preceding years, as well as three years of accelerated option vesting plus continuation of his senior executive employee benefits (or the economic equivalent thereof) for three years. If Mr. Sokol resigns, MEHC is to pay to him any accrued but unpaid salary and a bonus of not less than the annual minimum bonus, unless he resigns for good reason in which case he will receive the same benefits as if he were terminated other than for cause.

In the event Mr. Sokol has relinquished his position as Chief Executive Officer and is subsequently terminated as Chairman of the Board due to death, disability or other than for cause, he is entitled to (i) any accrued but unpaid salary plus an amount equal to the aggregate annual salary that would have been paid to him through the fifth anniversary of the date he commenced his employment solely as Chairman of the Board, (ii) the immediate vesting of all of his options, and (iii) the continuation of his senior executive employee benefits (or the economic equivalent thereof) through such fifth anniversary. If Mr. Sokol relinquishes his position as Chief Executive Officer but offers to remain employed as the Chairman of the Board, he is to receive a special achievement bonus equal to two times the sum of his annual salary then in effect and the greater of his minimum annual bonus or his average annual bonus for the two preceding years, as well as two years of accelerated option vesting.

Under the terms of separate employment agreements with MEHC, each of Messrs. Abel and Goodman is entitled to receive two years base salary continuation, payments in respect of average bonuses for the prior two years and two years continued option vesting in the event MEHC terminates his employment other than for cause. If such persons were terminated without cause, Messrs. Sokol, Abel and Goodman would currently be entitled to be paid approximately $10,650,000, $5,750,000 and $1,200,000, respectively, without giving effect to any tax related provisions.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding beneficial ownership of the shares of MEHC's common stock and certain information with respect to the beneficial ownership of each director, its Named Executive Officers and all directors and executive officers as a group as of January 31, 2005.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned(2)	Percentage Of Class(2)
Common Stock:		
Walter Scott, Jr. (3)	5,000,000	55.06%
David L. Sokol (4)	1,523,482	14.54%
Berkshire Hathaway (5)	900,942	9.92%
Gregory E. Abel (6)	704,992	7.25%
W. David Scott (7)	624,350	6.88%
Douglas L. Anderson	–	–
Edgar D. Aronson	–	–
Stanley J. Bright	–	–
John K. Boyer	–	–
Warren E. Buffett (8)	–	–
Patrick J. Goodman	–	–
Marc D. Hamburg (8)	–	–
Richard R. Jaros	–	–
Keith D. Hartje	–	–
All directors and executive officers as a group (14 persons)	8,753,766	77.40%

(1) Unless otherwise indicated, each address is c/o MEHC at 666 Grand Avenue, 29th Floor, Des Moines, Iowa 50309.

(2) Includes shares which the listed beneficial owner is deemed to have the right to acquire beneficial ownership under Rule 13d–3(d) under the Securities Exchange Act, including, among other things, shares which the listed beneficial owner has the right to acquire within 60 days.

(3) Excludes 3 million shares held by family members and family controlled trusts and corporations ("Scott Family Interests") as to which Mr. Scott disclaims beneficial ownership. Such beneficial owner's address is 1000 Kiewit Plaza, Omaha, Nebraska 68131.

(4) Includes options to purchase 1,399,277 shares of common stock that are exercisable within 60 days.

(5) Such beneficial owner's address is 1440 Kiewit Plaza, Omaha, Nebraska 68131.

(6) Includes options to purchase 649,052 shares of common stock which are exercisable within 60 days. Excludes 10,041 shares reserved for issuance pursuant to a deferred compensation plan.

(7) Includes shares held by trusts for the benefit of or controlled by W. David Scott. Such beneficial owner's address is 11422 Miracle Hills Drive, Suite 400, Omaha, Nebraska 68154.

(8) Excludes 900,942 shares of common stock held by Berkshire Hathaway of which beneficial ownership of such shares is disclaimed.

The terms of MEHC's Zero Coupon Convertible Preferred Stock held by Berkshire Hathaway entitle the holder thereof to elect two members of its Board of Directors. The Zero Coupon Convertible Preferred Stock does not vote as to the election of any other members of MEHC's Board of Directors. Mr. Sokol's employment agreement gives him the right during the term of his employment to serve as a member of the Board of Directors and to designate two additional directors.

Pursuant to a shareholders agreement, following March 14, 2003, Walter Scott, Jr. or any of the Scott Family Interests are able to require Berkshire Hathaway to purchase, for an agreed value or an appraised value, any or all of Walter Scott, Jr.'s and the Scott Family Interests' shares of MEHC's common stock, provided that Berkshire Hathaway is then a purchaser of a type which is able to consummate such a purchase without causing it or any of its affiliates or MEHC or any of its subsidiaries to become subject to regulation as a registered holding company or a subsidiary of a registered holding company under PUHCA. Berkshire Hathaway is not currently such a purchaser. The consummation of such a transaction could result in a change in control with respect to MEHC.

MEHC's Amended and Restated Articles of Incorporation provide that each share of the Zero Coupon Convertible Preferred Stock is convertible at the option of the holder thereof into one conversion unit, which is one share of its common stock subject to certain adjustments as described in its articles, upon the occurrence of a Conversion Event. A "Conversion Event" includes (1) any conversion of Zero Coupon Convertible Preferred Stock that would not cause the holder of the shares of common stock issued upon conversion (or any affiliate of such holder) or the Company to become subject to regulation as a registered holding company or as a subsidiary of a registered holding company under PUHCA either as a result of the repeal or amendment of PUHCA, the number of shares involved or the identity of the holder of such shares and (2) a Company Sale. A "Company Sale" includes MEHC's involuntary or voluntary liquidation, dissolution, recapitalization, winding-up or termination and mergers, consolidations or sale of all or substantially all of its assets. The conversion by Berkshire Hathaway of its shares of Zero Coupon Convertible Preferred Stock into MEHC's common stock could result in a change in control with respect to beneficial ownership of its voting securities as calculated pursuant to Rule 13d-3(d) under the Securities Exchange Act.

Item 13. Certain Relationships and Related Transactions.

Under a subscription agreement with MEHC, which expires in March 2007, Berkshire Hathaway has agreed to purchase, under certain circumstances, additional 11% trust issued mandatorily redeemable preferred securities in the event that certain outstanding trust preferred securities of MEHC which were outstanding prior to the closing of its acquisition by a private investor group on March 14, 2000 are tendered for conversion to cash by the current holders.

MEHC provided a guarantee in favor of a third party lender in connection with a $1,663,998.75 loan from such lender to its President, Gregory E. Abel, in March 2000. The loan matures on April 1, 2010. The proceeds of this loan were used by Mr. Abel to purchase 47,475 shares of MEHC's common stock. Such common stock (together with 8,465 additional shares of common stock owned by Mr. Abel) also secures the loan. The entire original principal amount of the loan and the guarantee remain presently outstanding.

In order to finance its acquisition of Northern Natural Gas, on August 16, 2002, MEHC sold to Berkshire Hathaway $950.0 million in aggregate principal amount of the 11% mandatorily redeemable trust issued preferred securities Series A, of its subsidiary trust, MidAmerican Capital Trust II, due August 31, 2012. The transaction was a private placement pursuant to Section 4(1) of the Securities Act and did not involve any underwriters, underwriting discounts or commissions. Scheduled principal payments began in August 2003. Messrs. Warren E. Buffett and Walter Scott, Jr. are members of the Board of Directors of Berkshire Hathaway. Messrs. Buffett and Marc D. Hamburg are executive officers of Berkshire Hathaway.

On January 6, 2004, MEHC purchased a portion of the shares of common stock owned by Mr. Sokol for an aggregate purchase price of $20.0 million.

Compensation Committee Interlocks and Insider Participation

The compensation committee of the Board of Directors is comprised of Messrs. Warren E. Buffett and Walter Scott, Jr. Mr. Walter Scott, Jr. is a former officer of the Company. See "Certain Relationships and Related Transactions."

Item 14. Principal Accountant Fees and Services.

Aggregate fees billed to the Company as a consolidated entity during the fiscal years ending December 31, 2004 and 2003 by the Company's principal accounting firm, Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche"), are set forth below. The audit committee has considered whether the provision of the non-audit services described below is compatible with maintaining the principal accountant's independence.

	Year Ended December 31, 2004	2003
	(in millions)	
Audit Fees (1)	$ 3.2	$ 2.6
Audit-Related Fees (2)	0.1	0.3
Tax Fees (3)	0.4	0.9
All Other Fees (4)	–	–
Total aggregate fees billed	$ 3.7	$ 3.8

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(1) Includes the aggregate fees billed for each of the last two fiscal years for professional services rendered by Deloitte & Touche for the audit of the Company's annual financial statements and the review of financial statements included in the Company's Form 10-Q or for services that are normally provided by Deloitte & Touche in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) Includes the aggregate fees billed in each of the last two fiscal years for assurance and related services by Deloitte & Touche that are reasonably related to the performance of the audit or review of the Company's financial statements. Services included in this category include audits of benefit plans, due diligence for possible acquisitions and consultation pertaining to new and proposed accounting and regulatory rules.

(3) Includes the aggregate fees billed in each of the last two fiscal years for professional services rendered by Deloitte & Touche for tax compliance, tax advice, and tax planning.

(4) Includes the aggregate fees billed in each of the last two fiscal years for products and services provided by Deloitte & Touche, other than the services reported as "Audit Fees," "Audit-Related Fees," or "Tax Fees".

The audit committee reviewed the non-audit services rendered by Deloitte & Touche in and for fiscal 2004 as set forth in the above table and concluded that such services were compatible with maintaining the principal accountant's independence. Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by the Company's principal accountant are approved in advance by the audit committee to assure that such services do not impair the principal accountant's independence from the Company. Accordingly, the audit committee has an Audit and Non-Audit Services Pre-Approval Policy (the "Policy") which sets forth the procedures and the conditions pursuant to which services to be performed by the principal accountant are to be pre-approved. Pursuant to the Policy, certain services described in detail in the Policy may be pre-approved on an annual basis together with pre-approved maximum fee levels for such services. The services eligible for annual pre-approval consist of services that would be included under the categories of Audit Fees, Audit-Related Fees and Tax Fees. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the principal accountant. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the audit committee prior to being performed. The audit committee may delegate authority to pre-approve audit and non-audit services to any member of the audit committee, but may not delegate such authority to management.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements and Schedules

(i) Financial Statements

Financial Statements are included in Item 8 of this Form 10–K.

(ii) Financial Statement Schedules

See Schedule I on page 112.
See Schedule II on page 115.

Schedules not listed above have been omitted because they are either not applicable, not required or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

(b) Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of this Annual Report.

(c) Financial statements required by Regulation S–X, which are excluded from the Annual Report by Rule 14a–3(b).

Not applicable.

Schedule I

MidAmerican Energy Holdings Company
Parent Company Only
Condensed Balance Sheets
As of December 31, 2004 and 2003
(Amounts in thousands)

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 349,689	$ 328,750
Investments in and advances to subsidiaries and joint ventures	6,141,843	5,731,915
Equipment, net	18,881	15,388
Goodwill	1,299,560	1,370,241
Deferred charges and other assets	168,805	180,331
Total assets	$ 7,978,778	$ 7,626,625
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other liabilities	$ 55,535	$ 52,934
Current portion of senior debt	260,000	–
Current portion of subordinated debt	188,543	100,000
Total current liabilities	504,078	152,934
Other long–term accrued liabilities	35,142	31,298
Notes payable — affiliate	76,000	86,045
Senior debt	2,771,957	2,777,878
Subordinated debt	1,585,810	1,772,146
Total liabilities	4,972,987	4,820,301
Deferred income	30,229	32,916
Minority interest	4,403	1,963
Stockholders' equity:		
Zero coupon convertible preferred stock — authorized 50,000 shares, no par value; 41,263 shares outstanding	–	–
Common stock — authorized 60,000 shares, no par value; 9,081 and 9,281 shares issued and outstanding at December 31, 2004 and 2003, respectively	–	–
Additional paid in capital	1,950,663	1,957,277
Retained earnings	1,156,843	999,627
Accumulated other comprehensive loss, net	(136,347)	(185,459)
Total stockholders' equity	2,971,159	2,771,445
Total liabilities and stockholders' equity	$ 7,978,778	$ 7,626,625

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

Schedule I

MidAmerican Energy Holdings Company
Parent Company Only (continued)
Condensed Statements of Operations
For the three years ended December 31, 2004
(Amounts in thousands)

	2004	2003	2002
Revenues:			
Equity in undistributed earnings of subsidiary companies and joint ventures	$ 103,176	$ 375,666	$ 250,517
Dividends and distributions from subsidiary companies and joint ventures	330,678	318,665	351,847
Interest and other income	11,713	19,377	778
Total revenues	445,567	713,708	603,142
Costs and expenses:			
General and administration	30,209	35,503	31,914
Depreciation and amortization	5,219	5,225	5,271
Interest, net of capitalized interest	399,394	247,509	164,290
Total costs and expenses	434,822	288,237	201,475
Income before income taxes	10,745	425,471	401,667
Income tax benefit	(159,461)	(160,298)	(126,043)
Income before preferred dividends of subsidiaries	170,206	585,769	527,710
Preferred dividends of subsidiaries	–	170,151	147,667
Net income available to common and preferred stockholders	$ 170,206	$ 415,618	$ 380,043

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

MidAmerican Energy Holdings Company
Parent Company Only (continued)
Condensed Statements of Cash Flows
For the three years ended December 31, 2004
(Amounts in thousands)

	2004	2003	2002
Cash flows from operating activities	$ (228,468)	$ (230,354)	$ (211,704)
Cash flows from investing activities:			
Decrease (increase) in advances to and investments in subsidiaries and joint ventures	116,167	228,083	(1,654,755)
Other, net	6,803	(21,031)	(2,840)
Net cash flows from investing activities	122,970	207,052	(1,657,595)
Cash flows from financing activities:			
Purchase and retirement of common stock	(20,000)	–	–
Repayment of subordinated debt	(100,000)	(198,958)	–
Proceeds from senior debt	249,765	449,295	700,000
Repayments of senior debt	–	(215,000)	–
Proceeds from issuance of preferred stock	–	–	402,000
Proceeds from issuance of trust preferred securities	–	–	1,273,000
Net repayment of revolving credit facility	–	–	(153,500)
Other	(3,328)	(3,914)	(34,096)
Net cash flows from financing activities	126,437	31,423	2,187,404
Net change in cash and cash equivalents	20,939	8,121	318,105
Cash and cash equivalents at beginning of year	328,750	320,629	2,524
Cash and cash equivalents at end of year	$ 349,689	$ 328,750	$ 320,629
Supplemental disclosures:			
Interest paid, net of interest capitalized	$ 392,390	$ 219,910	$ 164,267
Income tax receipts	$ (138,757)	$ (135,025)	$ (81,656)

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

Schedule II

MIDAMERICAN ENERGY HOLDINGS COMPANY
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 31, 2004
(Amounts in thousands)

Column A Description	Column B Balance at Beginning of Year	Column C Charged to Income	Column C Other Accounts	Column C Acquisition Reserves [2]	Column D Deductions	Column E Balance at End of Year
Reserves Deducted From Assets To Which They Apply:						
Reserve for uncollectible accounts receivable:						
Year ended 2004	$ 26,004	$ 15,304	$ –	$ –	$ (15,275)	$ 26,033
Year ended 2003	$ 39,742	$ 13,620	$ –	$ –	$ (27,358)	$ 26,004
Year ended 2002	$ 7,319	$ 27,782	$ –	$ 10,142	$ (5,501)	$ 39,742
Reserves Not Deducted From Assets[1]:						
Year ended 2004	$ 17,417	$ 4,048	$ –	$ –	$ (10,617)	$ 10,848
Year ended 2003	$ 10,981	$ 10,527	$ –	$ –	$ (4,091)	$ 17,417
Year ended 2002	$ 13,631	$ 2,798	$ 247	$ –	$ (5,695)	$ 10,981

The notes to the consolidated MEHC financial statements are an integral part of this financial statement schedule.

(1) Reserves not deducted from assets include estimated liabilities for losses retained by MEHC for workers compensation, public liability and property damage claims.

(2) Acquisition reserves represent the reserves recorded at Kern River and Northern Natural Gas at the date of acquisition.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Des Moines, State of Iowa, on this 28th day of February 2005.

MIDAMERICAN ENERGY HOLDINGS COMPANY

/s/ David L. Sokol*
David L. Sokol
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Date
/s/ David L. Sokol* David L. Sokol Chairman of the Board, Chief Executive Officer, and Director	February 28, 2005
/s/ Gregory E. Abel* Gregory E. Abel President, Chief Operating Officer and Director	February 28, 2005
/s/ Patrick J. Goodman* Patrick J. Goodman Senior Vice President and Chief Financial Officer	February 28, 2005
/s/ Edgar D. Aronson* Edgar D. Aronson Director	February 28, 2005
/s/ Stanley J. Bright* Stanley J. Bright Director	February 28, 2005
/s/ Walter Scott, Jr.* Walter Scott, Jr. Director	February 28, 2005
/s/ Marc D. Hamburg* Marc D. Hamburg Director	February 28, 2005
/s/ Warren E. Buffett* Warren E. Buffett Director	February 28, 2005

Signature	Date
/s/ John K. Boyer* John K. Boyer Director	February 28, 2005
/s/ W. David Scott* W. David Scott Director	February 28, 2005
/s/ Richard R. Jaros* Richard R. Jaros Director	February 28, 2005
* By: /s/ Douglas L. Anderson Douglas L. Anderson Attorney–in–Fact	February 28, 2005

EXHIBIT INDEX

Exhibit No.	
3.1	Amended and Restated Articles of Incorporation of MidAmerican Energy Holdings Company effective March 6, 2002 (incorporated by reference to Exhibit 3.3 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).
3.2	Bylaws of MidAmerican Energy Holdings Company (incorporated by reference to Exhibit 3.2 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
4.1	Indenture, dated as of October 4, 2002, by and between MidAmerican Energy Holdings Company and The Bank of New York, relating to the 4.625% Senior Notes due 2007 and the 5.875% Senior Notes due 2012 (incorporated by reference to Exhibit 4.1 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.2	First Supplemental Indenture, dated as of October 4, 2002, by and between MidAmerican Energy Holdings Company and The Bank of New York, relating to the 4.625% Senior Notes due 2007 and the 5.875% Senior Notes due 2012 (incorporated by reference to Exhibit 4.2 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.3	Registration Rights Agreement, dated as of October 1, 2002, by and between MidAmerican Energy Holdings Company and Credit Suisse First Boston (as Representative for the Initial Purchasers) (incorporated by reference to Exhibit 4.3 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.4	Indenture for the 6 1/4% Convertible Junior Subordinated Debentures due 2012, dated as of February 26, 1997, between MidAmerican Energy Holdings Company, as issuer, and the Bank of New York, as Trustee (incorporated by reference to Exhibit 10.129 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1995).
4.5	Indenture, dated as of October 15, 1997, among MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated October 23, 1997).
4.6	Form of First Supplemental Indenture for the 7.63% Senior Notes in the principal amount of $350,000,000 due 2007, dated as of October 28, 1997, among MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to Exhibit 4.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated October 23, 1997).
4.7	Form of Second Supplemental Indenture for the 6.96% Senior Notes in the principal amount of $215,000,000 due 2003, 7.23% Senior Notes in the principal amount of $260,000,000 due 2005, 7.52% Senior Notes in the principal amount of $450,000,000 due 2008, and 8.48% Senior Notes in the principal amount of $475,000,000 due 2028, dated as of September 22, 1998 between MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated September 17, 1998.)
4.8	Form of Third Supplemental Indenture for the 7.52% Senior Notes in the principal amount of $100,000,000 due 2008, dated as of November 13, 1998, between MidAmerican Energy Holdings Company and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated November 10, 1998).

Exhibit No.

4.9	Indenture, dated as of March 14, 2000, among MidAmerican Energy Holdings Company and the Bank of New York, as Trustee (incorporated by reference to Exhibit 4.9 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
4.10	Subscription Agreement, dated as of March 14, 2000, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.10 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
4.11	Indenture, dated as of March 12, 2002, between MidAmerican Energy Holdings Company and the Bank of New York, as Trustee (incorporated by reference to Exhibit 4.11 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).
4.12	Subscription Agreement, dated as of March 7, 2002, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.12 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).
4.13	Subscription Agreement, dated as of March 12, 2002, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.13 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2001).
4.14	Amended and Restated Declaration of Trust of MidAmerican Capital Trust III, dated as of August 16, 2002 (incorporated by reference to Exhibit 4.14 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.15	Amended and Restated Declaration of Trust of MidAmerican Capital Trust II, dated as of March 12, 2002 (incorporated by reference to Exhibit 4.15 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.16	Amended and Restated Declaration of Trust of MidAmerican Capital Trust I, dated as of March 14, 2000 (incorporated by reference to Exhibit 4.16 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.17	Indenture, dated as of August 16, 2002, between MidAmerican Energy Holdings Company and the Bank of New York, as Trustee (incorporated by reference to Exhibit 4.17 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.18	Subscription Agreement, dated as of August 16, 2002, executed by Berkshire Hathaway Inc. (incorporated by reference to Exhibit 4.18 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
4.19	Shareholders Agreement, dated as of March 14, 2000 (incorporated by reference to Exhibit 4.19 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
10.1	Amended and Restated Employment Agreement between MidAmerican Energy Holdings Company and David L. Sokol, dated May 10, 1999 (incorporated by reference to Exhibit 10.1 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
10.2	Amendment No. 1 to the Amended and Restated Employment Agreement between MidAmerican Energy Holdings Company and David L. Sokol, dated March 14, 2000 (incorporated by reference to Exhibit 10.2 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).

Exhibit No.

10.3	Non-Qualified Stock Option Agreements of David L. Sokol, dated March 14, 2000 (incorporated by reference to Exhibit 10.3 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
10.4	Amended and Restated Employment Agreement between MidAmerican Energy Holdings Company and Gregory E. Abel, dated May 10, 1999 (incorporated by reference to Exhibit 10.3 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
10.5	Non-Qualified Stock Option Agreements of Gregory E. Abel, dated March 14, 2000 (incorporated by reference to Exhibit 10.5 of MidAmerican Energy Holdings Company's Registration Statement No. 333-101699 dated December 6, 2002).
10.6	Employment Agreement between MidAmerican Energy Holdings Company and Patrick J. Goodman, dated April 21, 1999 (incorporated by reference to Exhibit 10.5 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K/A for the year ended December 31, 1999).
10.7	125 MW Power Plant-Upper Mahiao Agreement, dated September 6, 1993, between PNOC-Energy Development Corporation and Ormat, Inc. as amended by the First Amendment to 125 MW Power Plant Upper Mahiao Agreement, dated as of January 28, 1994, the Letter Agreement dated February 10, 1994, the Letter Agreement dated February 18, 1994 and the Fourth Amendment to 125 MW Power Plant-Upper Mahiao Agreement, dated as of March 7, 1994 (incorporated by reference to Exhibit 10.95 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.8	Credit Agreement, dated April 8, 1994, among CE Cebu Geothermal Power Company, Inc., the Banks thereto, Credit Suisse as Agent (incorporated by reference to Exhibit 10.96 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.9	Credit Agreement, dated as of April 8, 1994, between CE Cebu Geothermal Power Company, Inc., Export-Import Bank of the United States (incorporated by reference to Exhibit 10.97 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.10	Pledge Agreement, dated as of April 8, 1994, among CE Philippines Ltd, Ormat-Cebu Ltd., Credit Suisse as Collateral Agent and CE Cebu Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.98 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.11	Overseas Private Investment Corporation Contract of Insurance, dated April 8, 1994, between the Overseas Private Investment Corporation and the Company through its subsidiaries CE International Ltd., CE Philippines Ltd., and Ormat-Cebu Ltd. (incorporated by reference to Exhibit 10.99 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.12	180 MW Power Plant-Mahanagdong Agreement, dated September 18, 1993, between PNOC-Energy Development Corporation and CE Philippines Ltd. and the Company, as amended by the First Amendment to Mahanagdong Agreement, dated June 22, 1994, the Letter Agreement dated July 12, 1994, the Letter Agreement dated July 29, 1994, and the Fourth Amendment to Mahanagdong Agreement, dated March 3, 1995 (incorporated by reference to Exhibit 10.1 00 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.13	Credit Agreement, dated as of June 30, 1994, among CE Luzon Geothermal Power Company, Inc., American Pacific Finance Company, the Lenders party thereto, and Bank of America National Trust and Savings Association as Administrative Agent (incorporated by reference to Exhibit 10.101 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).

Exhibit No.

10.14	Credit Agreement, dated as of June 30, 1994, between CE Luzon Geothermal Power Company, Inc. and Export-Import Bank of the United States (incorporated by reference to Exhibit 10.102 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.15	Finance Agreement, dated as of June 30, 1994, between CE Luzon Geothermal Power Company, Inc. and Overseas Private Investment Corporation (incorporated by reference to Exhibit 10.103 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.16	Pledge Agreement, dated as of June 30, 1994, among CE Mahanagdong Ltd., Kiewit Energy International (Bermuda) Ltd., Bank of America National Trust and Savings Association as Collateral Agent and CE Luzon Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.104 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.17	Overseas Private Investment Corporation Contract of Insurance, dated July 29, 1994, between Overseas Private Investment Corporation and the Company, CE International Ltd., CE Mahanagdong Ltd. and American Pacific Finance Company and Amendment No. 1, dated August 3, 1994 (incorporated by reference to Exhibit 10.105 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.18	231 MW Power Plant-Malitbog Agreement, dated September 10, 1993, between PNOC- Energy Development Corporation and Magma Power Company and the First and Second Amendments thereto, dated December 8, 1993 and March 10, 1994, respectively (incorporated by reference to Exhibit 10.106 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.19	Credit Agreement, dated as of November 10, 1994, among Visayas Power Capital Corporation, the Banks parties thereto and Credit Suisse, as Bank Agent (incorporated by reference to Exhibit 10.107 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.20	Finance Agreement, dated as of November 10, 1994, between Visayas Geothermal Power Company and Overseas Private Investment Corporation (incorporated by reference to Exhibit 10.108 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.21	Pledge and Security Agreement, dated as of November 10, 1994, among Broad Street Contract Services, Inc., Magma Power Company, Magma Netherlands B.V. and Credit Suisse, as Bank Agent (incorporated by reference to Exhibit 10.109 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.22	Overseas Private Investment Corporation Contract of Insurance, dated December 21, 1994, between Overseas Private Investment Corporation and Magma Netherlands, B.V. (incorporated by reference to Exhibit 10.110 to MidAmerican Energy Holdings Company's Annual Report on Form10-K for the year ended December 31, 1993).
10.23	Agreement as to Certain Common Representations, Warranties, Covenants and Other Terms, dated November 10, 1994, between Visayas Geothermal Power Company, Visayas Power Capital Corporation, Credit Suisse, as Bank Agent, Overseas Private Investment Corporation and the Banks named therein (incorporated by reference to Exhibit 10.111 to MidAmerican Energy Holdings Company's 1994 Annual Report on Form 10-K for the year ended December 31, 1993).
10.24	Trust Indenture, dated as of November 27, 1995, between the CE Casecnan Water and Energy Company, Inc. and Chemical Trust Company of California (incorporated by reference to Exhibit 4.1 to CE Casecnan Water and Energy Company, Inc.'s Registration Statement on Form S-4 dated January 25, 1996).

Exhibit No.

10.25	Amended and Restated Casecnan Project Agreement, dated June 26, 1995, between the National Irrigation Administration and CE Casecnan Water and Energy Company Inc. (incorporated by reference to Exhibit 10.1 to CE Casecnan Water and Energy Company, Inc.'s Registration Statement on Form S-4 dated January 25, 1996).
10.26	Indenture and First Supplemental Indenture, dated March 11, 1999, between MidAmerican Funding LLC and IBJ Whitehall Bank & Trust Company and the First Supplement thereto relating to the $700 million Senior Notes and Bonds (incorporated by reference to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.27	General Mortgage Indenture and Deed of Trust, dated as of January 1, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4(b)-1 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1992, Commission File No. 1-10654).
10.28	First Supplemental Indenture, dated as of January 1, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4(b)-2 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1992, Commission File No. 1-10654).
10.29	Second Supplemental Indenture, dated as of January 15, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4(b)-3 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1992, Commission File No. 1-10654).
10.30	Third Supplemental Indenture, dated as of May 1, 1993, between Midwest Power Systems Inc. and Morgan Guaranty Trust Company of New York, Trustee (incorporated by reference to Exhibit 4.4 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1993, Commission File No. 1-10654).
10.31	Fourth Supplemental Indenture, dated as of October 1, 1994, between Midwest Power Systems Inc. and Harris Trust and Savings Bank, Trustee (incorporated by reference to Exhibit 4.5 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1994, Commission File No. 1-10654).
10.32	Fifth Supplemental Indenture, dated as of November 1, 1994, between Midwest Power Systems Inc. and Harris Trust and Savings Bank, Trustee (incorporated by reference to Exhibit 4.6 to the Midwest Resources Inc. Annual Report on Form 10-K for the year ended December 31, 1994, Commission File No. 1-10654).
10.33	Sixth Supplemental Indenture, dated as of July 1, 1995, between Midwest Power Systems Inc. and Harris Trust and Savings Bank, Trustee (incorporated by reference to Exhibit 4.15 to the MidAmerican Energy Company Annual Report on Form 10-K for the year ended December 31, 1995, Commission File No. 1-11505).
10.34	Supplemental Agreement between CE Casecnan Water and Energy Company, Inc. and the Philippines National Irrigation Administration dated as of September 29, 2003 (incorporated by reference to Exhibit 98.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated October 15, 2003).
10.35	Sixth Amendment to 180 MW Power Plant-Mahanagdong Agreement, dated August 31, 2003, between PNOC-Energy Development Corporation and CE Luzon Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.44 to MidAmerican Energy Holdings Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit No.

10.36 Third Amendment to 231 MW Power Plant–Malitbog Agreement, dated August 31, 2003, between PNOC–Energy Development Corporation and Visayas Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.45 to MidAmerican Energy Holdings Company's Annual Report on Form 10–K for the year ended December 31, 2003).

10.37 Seventh Amendment to 125 MW Power Plant–Upper Mahiao Agreement, dated August 31, 2003, between PNOC–Energy Development Corporation and CE Cebu Geothermal Power Company, Inc. (incorporated by reference to Exhibit 10.46 to MidAmerican Energy Holdings Company's Annual Report on Form 10–K for the year ended December 31, 2003).

10.38 Fiscal Agency Agreement, dated as of October 15, 2002, between Northern Natural Gas Company and J.P. Morgan Trust Company, National Association, Fiscal Agent, relating to the $300,000,000 in principal amount of the 5.375% Senior Notes due 2012. (incorporated by reference to Exhibit 10.47 to MidAmerican Energy Holdings Company's Annual Report on Form 10–K for the year ended December 31, 2003).

10.39 Trust Indenture, dated as of August 13, 2001, among Kern River Funding Corporation, Kern River Gas Transmission Company and the JP Morgan Chase Bank, as Trustee, relating to the $510,000,000 in principal amount of the 6.676% Senior Notes due 2016. (incorporated by reference to Exhibit 10.48 to MidAmerican Energy Holdings Company's Annual Report on Form 10–K for the year ended December 31, 2003).

10.40 Third Supplemental Indenture, dated as of May 1, 2003, among Kern River Funding Corporation, Kern River Gas Transmission Company and JPMorgan Chase Bank, as Trustee, relating to the $836,000,000 in principal amount of the 4.893% Senior Notes due 2018. (incorporated by reference to Exhibit 10.49 to MidAmerican Energy Holdings Company's Annual Report on Form 10–K for the year ended December 31, 2003).

10.41 CalEnergy Company, Inc. Voluntary Deferred Compensation Plan, effective December 1, 1997, First Amendment, dated as of August 17, 1999, and Second Amendment effective March 14, 2000 (incorporated by reference to Exhibit 10.50 of MidAmerican Energy Holdings Company's Registration Statement No. 333–101699 dated December 6, 2002).

10.42 MidAmerican Energy Holdings Company Executive Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10.51 of MidAmerican Energy Holdings Company's Registration Statement No. 333–101699 dated December 6, 2002).

10.43 MidAmerican Energy Company First Amended and Restated Supplemental Retirement Plan for Designated Officers dated as of May 10, 1999 (incorporated by reference to Exhibit 10.52 of MidAmerican Energy Holdings Company's Registration Statement No. 333–101699 dated December 6, 2002).

10.44 MidAmerican Energy Company Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 to MidAmerican Energy Holdings Company's Annual Report on Form 10–K/A for the year ended December 31, 1999).

10.45 MidAmerican Energy Holdings Company Restated Deferred Compensation Plan–Board of Directors (incorporated by reference to Exhibit 10 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended June 30, 1999).

10.46 MidAmerican Energy Company Combined Midwest Resources/Iowa Resources Restated Deferred Compensation Plan–Board of Directors (incorporated by reference to Exhibit 10.63 to MidAmerican Energy Holdings Company's Annual Report on Form 10–K/A for the year ended December 31, 1999).

10.47 Share Sale Agreement, dated as of August 6, 2001, among NPower Yorkshire Limited, Innogy Holdings plc, CE Electric UK plc and Northern Electric plc (incorporated by reference to Exhibit 10.63 of MidAmerican Energy Holdings Company's Registration Statement No. 333–101699 dated December 6, 2002).

Exhibit No.

10.48	Purchase Agreement, dated as of March 7, 2002, among The Williams Companies, Inc., Williams Gas Pipeline Company, LLC, Williams Western Pipeline Company LLC, Kern River Acquisition, LLC and MidAmerican Energy Holdings Company, KR Holding, LLC, KR Acquisition 1, LLC and KR Acquisition 2, LLC (incorporated by reference to Exhibit 99.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 28, 2002).
10.49	MidAmerican Energy Holdings Company Executive Incremental Profit Sharing Plan (incorporated by reference to Exhibit 10.2 of MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.)
10.50	Purchase and Sale Agreement, dated as of July 28, 2002, between Dynegy Inc., NNGC Holding Company, Inc. and MidAmerican Energy Holdings Company (incorporated by reference to Exhibit 99.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated July 30, 2002).
10.51	Trust Deed between CE Electric UK Funding Company, AMBAC Insurance UK Limited and The Law Debenture Trust Corporation, p.l.c. dated December 15, 1997 (incorporated by reference to Exhibit 99.1 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 30, 2004).
10.52	Insurance and Indemnity Agreement between CE Electric UK Funding Company and AMBAC Insurance UK Limited dated December 15, 1997 (incorporated by reference to Exhibit 99.2 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 30, 2004).
10.53	Supplemental Agreement to Insurance and Indemnity Agreement between CE Electric UK Funding Company and AMBAC Insurance UK Limited dated September 19, 2001 (incorporated by reference to Exhibit 99.3 to MidAmerican Energy Holdings Company's Current Report on Form 8-K dated March 30, 2004).
10.54	Fiscal Agency Agreement, dated as of May 4, 1993, among Northern Natural Gas Company, Enron Corp. and Continental Bank, National Association, Fiscal Agent, relating to the $100,000,000 in principal amount of the 6.875% Senior Notes due 2005 (incorporated by reference to Exhibit 10.68 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.55	Fiscal Agency Agreement, dated as of September 4, 1998, between Northern Natural Gas Company and Chase Bank of Texas, National Association, Fiscal Agent, relating to the $150,000,000 in principal amount of the 6.75% Senior Notes due 2008 (incorporated by reference to Exhibit 10.69 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.56	Fiscal Agency Agreement, dated as of May 24, 1999, between Northern Natural Gas Company and Chase Bank of Texas, National Association, Fiscal Agent, relating to the $250,000,000 in principal amount of the 7.00% Senior Notes due 2011(incorporated by reference to Exhibit 10.70 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.57	Trust Indenture, dated as of September 10, 1999, between Cordova Funding Corporation and Chase Manhattan Bank and Trust Company, National Association, Trustee, relating to the $225,000,000 in principal amount of the 8.75% Senior Secured Bonds due 2019 (incorporated by reference to Exhibit 10.71 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.58	Indenture, dated as of December 15, 1997, among CE Electric UK Funding Company, The Bank of New York, as Trustee, and Banque Internationale A Luxembourg S.A., as Paying Agent (incorporated by reference to Exhibit 10.72 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).

Exhibit No.

10.59	First Supplemental Indenture, dated as of December 15, 1997, among CE Electric UK Funding Company, The Bank of New York, Trustee, and Banque Internationale A Luxembourg S.A., Paying Agent, relating to the $125,000,000 in principal amount of the 6.853% Senior Notes due 2004 and to the $237,000,000 in principal amount of the 6.995% Senior Notes due 2007 (incorporated by reference to Exhibit 10.73 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004)
10.60	Trust Deed, dated as of February 4, 1998 among Yorkshire Power Finance Limited, Yorkshire Power Group Limited and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 7.25% Guaranteed Bonds due 2028 (incorporated by reference to Exhibit 10.74 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.61	First Supplemental Trust Deed, dated as of October 1, 2001, among Yorkshire Power Finance Limited, Yorkshire Power Group Limited and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 7.25% Guaranteed Bonds due 2028 (incorporated by reference to Exhibit 10.75 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.62	Third Supplemental Trust Deed, dated as of October 1, 2001, among Yorkshire Electricity Distribution plc, Yorkshire Electricity Group PLC and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 9.25% Bonds due 2020 (incorporated by reference to Exhibit 10.76 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.63	Indenture, dated as of February 1, 1998, and Second Supplemental Indenture, dated as of February 25, 1998, each among Yorkshire Power Finance Limited, Yorkshire Power Group Limited, The Bank of New York, Trustee, and Banque Internationale du Luxembourg S.A., Paying Agent, relating to the $300,000,000 in principal amount of the 6.496% Notes due 2008 (incorporated by reference to Exhibit 10.77 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.64	Indenture, dated as of February 1, 2000, among Yorkshire Power Finance 2 Limited, Yorkshire Power Group Limited and The Bank of New York, Trustee (incorporated by reference to Exhibit 10.78 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.65	First Supplemental Indenture, dated as of February 16, 2000, among Yorkshire Power Finance 2 Limited, Yorkshire Power Group Limited and The Bank of New York, Trustee, relating to the £155,000,000 in principal amount of the Reset Senior Notes due 2020 (incorporated by reference to Exhibit 10.79 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.66	Trust Agreement, dated as of February 1, 2000, among Yorkshire Power Group Limited, YPG Holdings LLC and The Bank of New York, Trustee, relating to the $250,000,000 in principal amount of the 8.25% Pass–Through Asset Trust Securities due 2005 (incorporated by reference to Exhibit 10.80 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.67	First Supplemental Trust Deed, dated as of September 27, 2001, among Northern Electric Finance plc, Northern Electric plc, Northern Electric Distribution Limited and The Law Debenture Trust Corporation p.l.c., Trustee, relating to the £100,000,000 in principal amount of the 8.625% Guaranteed Bonds due 2005 and to the £100,000,000 in principal amount of the 8.875% Guaranteed Bonds due 2020 (incorporated by reference to Exhibit 10.81 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).

Exhibit No.

10.68	Stock Redemption Agreement, dated as of January 8, 2004, between David L. Sokol and MidAmerican Energy Holdings Company (incorporated by reference to Exhibit 10.82 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.69	Trust Deed, dated as of January 17, 1995, between Yorkshire Electricity Group plc and Bankers Trustee Company Limited, Trustee, relating to the £200,000,000 in principal amount of the 9 1/4% Bonds due 2020 (incorporated by reference to Exhibit 10.83 to MidAmerican Energy Holdings Company's Quarterly Report on Form 10–Q for the quarter ended March 31, 2004).
10.70	Master Trust Deed, dated as of October 16, 1995, among Northern Electric Finance plc, Northern Electric plc and The Law Debenture Trust Corporation p.l.c., Trustee, relating to the £100,000,000 in principal amount of the 8.625% Guaranteed Bonds due 2005 and to the £100,000,000 in principal amount of the 8.875% Guaranteed Bonds due 2020.
10.71	MidAmerican Energy Holdings Company Amended and Restated Long–Term Incentive Partnership Plan dated as of January 1, 2004.
14.1	MidAmerican Energy Holdings Company Code of Ethics for Chief Executive Officer, Chief Financial Officer and Other Covered Officers.
21.1	Subsidiaries of the Registrant.
24.1	Power of Attorney.
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
32.1	Chief Executive Officer's Certificate Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
32.2	Chief Financial Officer's Certificate Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.

CONFORMED COPY

DATED 16th October, 1995

NORTHERN ELECTRIC FINANCE plc (1)

NORTHERN ELECTRIC plc (2)

and

THE LAW DEBENTURE TRUST CORPORATION p.l.c. (3)

MASTER TRUST DEED

constituting
(pound)100,000,000 8.625 per cent.
Guaranteed Bonds due 2005
and
(pound)100,000,000 8.875 per cent.
Guaranteed Bonds due 2020
with power to issue further securities

Norton Rose
London

CONTENTS

Schedule

THIS TRUST DEED is made on 16th October, 1995 BETWEEN:

(1) NORTHERN ELECTRIC FINANCE plc whose registered office is at Carliol House, Market Street, Newcastle-upon-Tyne NE1 6NE (the "Company" or the "Issuer");

(2) NORTHERN ELECTRIC plc whose registered office is at Carliol House, Market Street, Newcastle-Upon-Tyne NE1 6NE (the "Guarantor"); and

(2) THE LAW DEBENTURE TRUST CORPORATION p.l.c. whose registered office is at Princes House, 95 Gresham Street, London EC2V 7LY (the "Trustee", which expression shall, where the context so admits, include all persons for the time being the trustee or trustees of these presents).

WHEREAS:

(A) The Company, incorporated in England and Wales with registered number 3070482, has by resolution of its Board of Directors passed on 9th October, 1995 authorised the issue of (pound)100,000,000 8.625 per cent. Guaranteed Bonds due 2005 and (pound)100,000,000 8.875 per cent. Guaranteed Bonds 2020 to be constituted by these presents.

(B) The Guarantor, incorporated in England and Wales with registered number 2366942, has by resolution of a duly authorised committee of its Board of Directors passed on 9th October, 1995 resolved to give its guarantee in relation to the said Bonds upon and subject to the terms and conditions of these presents.

(C) The Trustee has agreed to act as trustee of these presents on and subject to the terms and conditions set out in these presents.

NOW THIS DEED WITNESSES AND IT IS HEREBY AGREED AND DECLARED as follows:

1 Interpretation

1.1 Definitions: In these presents, unless the context otherwise requires, the following expressions shall have the following meanings:

"AGENCY AGREEMENT" means, in relation to the Original Bonds 2005, the Paying Agency Agreement dated 16th October, 1995 between the Company, the Guarantor, the Trustee, the Principal Paying Agent and the other Paying Agents whereby the Agents were appointed in respect of the Original Bonds 2005, in relation to the Original Bonds 2020, the Paying Agency Agreement dated 16th October, 1995 between the Company, the Guarantor, the Trustee, the Principal Paying Agent and the other Paying Agents whereby the Agents were appointed in respect of the Original Bonds 2020 and, in relation to any Further Bonds, the agreement appointing, on terms previously approved in writing by the Trustee, the Principal Paying Agent and the other Paying Agents and/or any other Agent in respect of such Further Bonds and, in relation to the relevant Bonds, includes any agreement (whether made pursuant to another agreement or otherwise) appointing, on terms previously approved in writing by the Trustee, a further or another Agent and any other agreement for the time being in force, the terms of which shall have been previously approved in writing by the Trustee, relating to the duties of any Agent or amending or modifying any of such agreements;

"Agents" means, in relation to the Original Bonds, the Principal Paying Agent and the other Paying Agents or, as the context requires, any of them and, in relation to any Further Bonds, any Principal Paying Agent and other Paying Agents and other agent approved by the Trustee appointed under the Agency Agreement in respect of such Further Bonds or, as the context requires, any of them;

"Auditors" means the auditors for the time being of the Company or the Guarantor (as the case may require) or, if there shall be joint auditors, any one

or more of such auditors or, in the event of their being unable or unwilling to carry out any action requested of them pursuant to these presents, such other chartered accountant or firm of chartered accountants as may be nominated by the Company or the Guarantor (as the case may require) with the prior written approval of the Trustee or, in default of such nomination and approval, nominated by the Trustee after consultation with the Company or the Guarantor (as the case may require) where such consultation is not prejudicial to the interests of the Bondholders for the purpose;

"Bondholder" and, in relation to a Bond, "holder" means the bearer of that Bond;

"Bonds" means the Original Bonds and/or, as the context may require, any Further Bonds;

"Cedel" means Cedel Bank, societe anonyme;

"Certificate" means a certificate in definitive form representing a Bond including any Global Bond and includes any replacement certificate in definitive form issued pursuant to the relevant Conditions;

"Conditions" means, in relation to the Original Bonds 2005, the terms and conditions set out in Schedule 2 and, in relation to the Original Bonds 2020, the terms and conditions set out in Schedule 4 or, in either case, other the terms and conditions for the time being endorsed on the Original Bonds as the same may from time to time be modified in accordance with these presents and references in these presents to a particular numbered Condition shall, in relation to the Original Bonds be construed accordingly and, in relation to any Further Bonds, the terms and conditions for the time being endorsed on such Further Bonds and references in these presents to a particular numbered Condition shall, in relation to any Further Bonds, unless either referring specifically to a particular numbered Condition of such Further Bonds or the context otherwise requires,

be construed as a reference to the provisions (if any) in the Conditions thereof which corresponds to the provisions of the particular numbered Condition of the Original Bonds;

"Couponholder" and, in relation to a Coupon, "holder" means the bearer of a Coupon;

"Coupons" means the Original Coupons and/or, as the context may require, the bearer interest coupons for the time being relating to any Further Bonds or, as the context may require, a specific number of them and includes any replacement coupons issued pursuant to the relevant Conditions and, where the context so permits, the Talons (if any);

"Couponholder" means, in relation to a Coupon, the bearer of a Coupon;

"Euroclear" means Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System;

"Event of Default" means any of the events described in paragraphs (a) to (i) (inclusive) of Condition 10 which, in the case of the events described in paragraphs (b),(c),(e),(f),(g) and (h) of such Condition, shall have been certified in writing by the Trustee to be in its opinion materially prejudicial to the interests of the Bondholders;

"Extraordinary Resolution" has the meaning set out in paragraph 21 of Schedule 5;

"Further Bonds" means any further bonds or notes or similar securities issued in accordance with the provisions of Clause 6 and constituted by a deed supplemental to this Master Trust Deed or, as the context may require, a specific number of them and includes the Certificates representing the same including any relevant Global Bond;

"Global Bond' means the Original Global Bond 2005 and/or, as the context may require, the Original Global Bond 2020 and/or, as the context may require, any other global Bond Certificate in definitive form representing Further Bonds or any of them;

issue" includes allot and vice versa;

"London Stock Exchange" means The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited;

"Original Bonds" means, the Original Bonds 2005 and/or, as the context may require, the Original Bonds 2020;

"Original Bonds 2005" means the Bonds in bearer form comprising the (pound)100,000,000 8.625 per cent. Guaranteed Bonds due 2005 constituted by these presents and for the time being outstanding or, as the context may require, a specific number of them and includes the Certificates representing the same including the Original Global Bond 2005;

"Original Bonds 2020" means the Bonds in bearer form comprising the (pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020 constituted by these presents and for the time being outstanding or, as the context may require, a specific number of them and includes the Certificates representing the same including the Original Global Bond 2020;

"Original Bondholders" means the holders for the time being of the Original Bonds;

"Original Coupons" means the Original Coupons 2005 and/or, as the context may require, the Original Coupons 2020;

"Original Coupons 2005" means the Coupons relating to the Original Bonds 2005;

"Original Coupons 2020" means the Coupons relating to the Original Bonds 2020;

"Original Couponholders" means the holders for the time being of the Original Coupons;

"Original Global Bond" means the Original Global Bond 2005 and/or, as the context may require, the Original Global Bond 2020;

"Original Global Bond 2005" means the single temporary global Bond Certificate in definitive form representing the Original Bonds 2005;

"Original Global Bond 2020" means the single temporary global Bond Certificate in definitive form representing the Original Bonds 2020;

"Original Talons 2020" means the Talons relating to the Original Bonds 2020;

"outstanding" means, in relation to the Bonds, all the Bonds issued other than:

(a) those which have been redeemed and cancelled in accordance with the Conditions;

(b) those in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest accrued on such Bonds to the date for such redemption and any interest payable under Condition 4 after such date) have been duly paid to the relevant Bondholder (or to a person on behalf of such Bondholder) or to the Trustee or to the Principal Paying Agent as provided in the proviso to Clause 2.3 and remain available for payment against presentation and surrender of Bonds and/or Coupons, as the case may be;

(c) those which have become void or in respect of which claims have become prescribed under Condition 9;

(d) those mutilated or defaced Bonds which have been surrendered and cancelled in exchange for replacement Bonds pursuant to Condition 13;

(e) (for the purpose only of determining how many Bonds are outstanding and without prejudice to their status for any other purpose) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacement Bonds have been issued pursuant to Condition 13;

(f) those which have been purchased and cancelled as provided in Condition 6;

(g) the Global Bond to the extent that it shall have been exchanged for individual Bonds,

provided that for the purposes of:

(i) ascertaining the right to attend and vote at any meeting of the Bondholders;

(ii) the determination of how many Bonds are outstanding for the purposes of Clause 8.2 and Conditions 7(D), 10, 11 and 15 and Schedule 5;

(iii) the exercise of any discretion, power or authority which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders or, as the case may be, any of them; and

(iv) the determination by the Trustee whether any event, circumstance, matter or thing is, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders,

those Bonds (if any) which are beneficially held by, or are held on behalf of, the Company or the Guarantor or any of the Subsidiaries and not yet cancelled shall (unless and until cancelled or, as the case may be, ceasing to be so held) be deemed not to remain outstanding;

"Paying Agents" means, in relation to the Original Bonds, the several institutions (including the Principal Paying Agent) at their respective specified offices referred to in the Conditions and, in relation to any Further Bonds, such institutions at their respective specified offices as shall be appointed under the Agency Agreement as Paying Agents in respect of such Further Bonds by or on behalf of the Company with the prior written approval of the Trustee or, in any case, such other institutions at their respective specified offices as may from time to time be appointed under the Agency Agreement as Paying Agents in respect of the relevant Bonds by or on behalf of the Company with the prior written approval of the Trustee;

"Potential Event of Default" means an event or circumstance which would with the giving of notice and/or lapse of time and/or the issuing of a certificate and/or the fulfilment of any other requirement provided for in Condition 10 become an Event of Default;

"Principal Paying Agent" means, in relation to the Original Bonds, Barclays Bank PLC at its specified office in its capacity as Principal Paying Agent in respect of the Original Bonds and, in relation to any Further Bonds, such institution at its specified office as shall be appointed under the Agency Agreement as the Principal Paying Agent in respect of such Further Bonds by or on behalf of the Company with the prior written approval of the Trustee or, in any case, such other institution at its specified office as may from time to time be appointed under the Agency Agreement as Principal Paying Agent in respect of the relevant Bonds by or on behalf of the Company with the prior written approval of the Trustee;

"specified office" means, in relation to any Agent, either the office identified with its name at the end of the Conditions or any other office approved by the Trustee and notified to the Bondholders pursuant to Clause 9.1(k);

"Subsidiary" means a subsidiary for the time being of the Company or the Guarantor;

"Talons" means the Original Talons 2020 and/or, as the context may require, the talons relating to, and exchangeable in accordance with the provisions therein contained for further Coupons relating to, any relevant Further Bonds or, as the context may require, a specific number of them and includes any replacement talons issued pursuant to the relevant Conditions;

"these presents" means this Master Trust Deed, including its Schedules, as altered from time to time, and any other document executed in accordance with or pursuant to this Master Trust Deed, as ~o altered, and expressed to be supplemental to this Master Trust Deed and includes the Bonds, the Coupons and the Conditions; and

"trust corporation" means a corporation entitled by rules made under the Public Trustee Act 1906 or entitled pursuant to any other legislation applicable to a trustee in any jurisdiction other than England to carry out the functions of a custodian trustee.

1.2 Construction of certain references: Unless otherwise provided in these presents, references in these presents to:

(a) costs, charges, remuneration or expenses shall include any value added tax, turnover tax or similar tax charged in respect thereof and legal fees and expenses on a full indemnity basis;

(b) "sterling" and "pound" shall be construed as references to the lawful currency for the time being of the United Kingdom;

(c) the expressions subsidiary and holding company have the respective meanings ascribed thereto by the Companies Act 1985;

(d) any action, remedy or method of judicial proceedings for the enforcement of rights of creditors shall include, in respect of any jurisdiction other than England, references to such action, remedy or method of judicial proceedings for the enforcement of rights of creditors available or appropriate in such jurisdiction as shall most nearly approximate thereto;

(e) words denoting the singular number only shall include the plural number and vice versa;

(f) words denoting one gender only shall include the other genders:

(g) words denoting persons only shall include firms and corporations and vice versa;

(h) any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment;

(i) any document shall be deemed also to refer to any amendment thereto;

(j) Schedules and Clauses shall be construed as references to Schedules to, and to Clauses of, this Trust Deed respectively;

(k) the carrying out of the trusts of these presents includes the exercise of the functions of the Trustee under these presents and the exercise of the powers, authorities and discretions vested in the Trustee (or any agent or delegate or sub-delegate) by, under or pursuant to these presents;

(l) taking proceedings against the Company and/or the Guarantor shall be deemed to include references to proving in the winding-up of the Company and/or the Guarantor; and

(m) principal or principal amount of and/or interest in respect of the Bonds shall include any premium and other additional amounts which may be payable under Condition 6(B) or 8 or (in the case of Condition 8) under any obligations undertaken in addition thereto or in substitution therefor pursuant to these presents.

1.3 Definitions in Conditions: Words and expressions defined in the Conditions and not otherwise defined in the main body of any other document comprised in these presents shall when used in these presents have the meanings given to them in the Conditions.

1.4 Headings: Headings shall be ignored in construing these presents.

1.5 Schedules: The Schedules to any document comprised in these presents form part of these presents and shall have effect accordingly.

1.6 Enforceability: If at any time any provision of these presents is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of these presents nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

2 Amounts of Original Bonds and covenant to pay

2.1 Amounts of Original Bonds: The aggregate principal amount of the Original Bonds 2005 is limited to (pound)100,000,000. The aggregate principal amount of the Original Bonds 2020 is limited to (pound)100,000,000.

2.2 Original Bonds separate series: The Original Bonds 2005 and the Original Bonds 2020 shall be separate series and the provisions of Clauses 1.1 (to the extent applicable), 2.3, 2.4, 2.5, 2.6, 3, 4.3, 4.4, 4.5 and of Clauses 5 to 23 (inclusive) and Schedule 5 shall apply mutatis mutandis separately and independently to the Original Bonds 2005 and the Original Bonds 2020 and shall be construed accordingly.

2.3 Covenant to pay: The Company will by 11.00 a.m. (London time) on any date when the Original Bonds or any of them bec9me due to be redeemed or, if the due date is not a Business Day in London, on the immediately following Business Day in London unconditionally pay to or to the order of the Trustee in sterling in immediately available funds in London (or such other place as the Trustee and the Company may agree in writing) the principal amount of the Original Bonds becoming due for redemption on that date and will (subject to the Conditions) up to and including the date of such payment (both before and after judgment) unconditionally so pay to or to the order of the Trustee in sterling in immediately available funds in London (or such other place as the Trustee and the Company may agree in writing) interest on the principal amount of the Original Bonds outstanding as set out in the Conditions, provided that:

(a) every payment of any such principal amount and/or interest made to or to the order of the Principal Paying Agent as provided in the Agency Agreement shall, to such extent, satisfy the applicable such obligation except to the extent that there is failure in the subsequent payment of such principal amount and/or interest (as the case may be) to the relevant Original Bondholders or Original Couponholders (as the case may be);

(b) in the case of any payment of principal amount and/or interest made after the due date therefor or following the application of Condition 10, the principal amount in respect of which the payment thereof or of the interest thereon shall have been so made shall continue to bear interest until the day the full amount due has been received by or to the order of the Trustee or by the Principal Paying Agent as provided in the Agency Agreement and notice to that effect has been given to the Original Bondholders if required in accordance with Clause 9.1(i), except to the extent that there is failure in the subsequent payment of such principal amount and/or interest (as the case may be) to the relevant Original Bondholders or Original Couponholders (as the case may be), and so that a full amount due shall be deemed to have been received by or to the order of the Trustee on the day when by 11.00 a.m. (London time) such amount shall have been so received in sterling in immediately available funds in London (or such other place ,as the Trustee and the Company may agree in writing); and

(c) in the event that on the occasion for redemption or purchase of any Original Bond falling to be redeemed or, as the case may be, purchased payment of any principal amount and/or interest due in respect of that Original Bond is improperly withheld or refused, the principal amount in respect of which the payment thereof or of the interest thereon shall have been so improperly withheld or refused will continue to bear interest as aforesaid up to and including the date on which such payment is deemed to have been received by the Trustee as provided in paragraph (b) of this proviso.

The Trustee will hold the benefit of this covenant on trust for the Original Bondholders and Original Couponholders.

2.4 Discharge: Subject to Clause 2.5, any payment to be made in respect of the Bonds or the Coupons by the Company, the Guarantor or the Trustee may be

made as provided in the Conditions and any payment so made will (subject to Clause 2.5) to such extent be a good discharge to the Company, the Guarantor or the Trustee, as the case may be.

2.5 Payment after default: At any time after a Potential Event of Default has occurred and whilst the same is subsisting or after an Event of Default has occurred and is continuing the Trustee may:

(a) by notice in writing to the Company, the Guarantor and the Agents, require the Agents, until notified by the Trustee to the contrary, so far as permitted by any applicable law:

(i) to act thereafter as Agents of the Trustee in relation to payments to be made by or on behalf of the Trustee under these presents on the terms of the Agency Agreement (with consequential amendments as necessary and save that the Trustee's liability for the indemnification, remuneration and all other out-of-pocket expenses of the Agents will be limited to the amounts for the time being held by the Trustee in respect of the Bonds on the terms of these presents) and thereafter to hold all Bonds and Coupons and all moneys, documents and records held by them in respect of Bonds and Coupons to the order of the Trustee: and/or

(ii) to deliver all Bonds and Coupons and all moneys, documents and records held by them in respect of the Bonds and Coupons to the Trustee or as the Trustee directs in such notice, provided that such notice shall be deemed not to apply to any documents or records which the relevant Agent is obliged not to release by any law or regulation; and

(b) by notice in writing to the Company and the Guarantor require each of them to make all subsequent payments in respect of the Bonds and the

Coupons to or to the order of the Trustee and not to the Principal Paying Agent.

If the Potential Event of Default in respect of which the Trustee has given notice in writing to the Company, the Guarantor and the Agents as aforesaid shall cease to subsist and Provided that

(i) no other Potential Event of Default shall have occurred and be subsisting or be about to occur; or

(ii) no Event of Default shall have occurred and be continuing or be about to occur; or

(iii) the Bonds shall not have been declared immediately due and repayable,

the Trustee shall by notice in writing to the Company, the Guarantor and the Agents require the Agents to cease acting forthwith as the Agents of the Trustee.

The provisions of this Clause 2.5 may apply on any number of occasions.

2.6 Ranking of obligations: The Company hereby covenants with the Trustee that the obligations of the Company in respect of the Bonds and the Coupons constitute direct, unconditional and, subject to Condition 3, unsecured obligations of the Company and that the Bonds and the Coupons rank and will rank pari passu and rateably without any preference or priority among themselves and, subject to Condition 3, rank and will rank pan passu with all other outstanding unsecured and unsubordinated obligations of the Company, present and future, but, in the event of the insolvency of the Company, only to the extent permitted by applicable laws relating to creditors' rights.

3 Guarantee

3.1 Guarantor's liability: The Guarantor hereby irrevocably and unconditionally guarantees to the Trustee the due and punctual payment by the Company of all moneys payable from time to time in respect of the Original Bonds and the Original Coupons (including, without prejudice to the generality of the foregoing, all additional amounts payable pursuant to Condition 8) and all other moneys payable from time to time under or pursuant to these presents as follows:

(a) if and whenever the Company shall make default in the payment of any such moneys, the Guarantor shall forthwith upon written demand therefor by the Trustee irrevocably and unconditionally pay to or to the order of the Trustee in sterling the amount in respect of which such default has been made and any payment so made shall to such extent cure such default by the Company subject as provided in Clauses 2.3, 2.4 and 2.5, the provisions of which Clauses shall apply mutatis mutandis to such payment;

(b) as a separate and independent stipulation the Guarantor agrees that any such moneys which may not be recoverable from the Company by reason of any legal limitation, disability or incapacity on or of the Company or any other fact or circumstance shall nevertheless be recoverable from the Guarantor as though the same had been incurred by the Guarantor and the Guarantor were the sole and principal debtor in respect thereof and shall be paid by the Guarantor forthwith upon written demand therefor by the Trustee. The Guarantor shall not be exonerated or discharged from liability by time being given, or any other indulgence or concession being granted, to the Company by the Trustee or by the Original Bondholders or the Original Couponholders or any of them or by anything done by the Trustee in exercise of any of the trusts, powers, authorities or discretions vested in it by these presents or by anything

which the Original Bondholders or the Original Couponholders or the Trustee or any of them may do or omit or neglect to do or by any other dealing or thing which, but for this provision, might operate to exonerate or discharge the Guarantor from its obligations hereunder. It is further agreed as a separate and independent stipulation that any sums of money which may not be recoverable from the Guarantor on the footing of a guarantee whether by reason of any legal limitation, disability or. any other fact or circumstances and whether or not known to the Trustee or the Original Bondholders or the Original Couponholders or any of them shall nevertheless be recoverable from the Guarantor as sole or principal debtor in respect thereof and shall be paid by the Guarantor to the Trustee forthwith upon written demand therefor by the Trustee;

(c) this guarantee shall be a continuing guarantee and accordingly shall remain in operation until all such moneys have been paid or satisfied in full and shall be in addition to and not in substitution for, and shall not be affected by, any other rights which the Trustee or the Original Bondholders or the Original Couponholders or any of them may have under or by virtue of these presents and may be enforced without first having recourse to any such rights and without taking any steps or proceedings against the Company;

(d) the Trustee may from time to time make any arrangement or compromise with the Guarantor in relation to this guarantee which the Trustee may think fit;

(e) prior to the liquidation of the Company, the Guarantor shall not, without the prior written consent of the Trustee, at any time after default has been made by the Company in the payment of any such moneys and so long as any moneys payable from time to time by the Guarantor in respect of such defaulted moneys remain unpaid, exercise in respect of any amounts paid under this guarantee any right of subrogation,

indemnity or reimbursement or any other right or remedy which the Guarantor may have in respect of or as a result of such payment;

(f) in the event of the liquidation of the Company, if any moneys shall then be payable by the Guarantor under this guarantee, the Guarantor will, until all such moneys payable from time to time in respect of the Original Bonds and the Original Coupons and all other moneys payable from time to time under or pursuant to these presents have been paid in full, hold the benefit of all its claims against the Company upon trust to pay the same to the Trustee and shall prove for such claims against the Company and the Guarantor hereby irrevocably authorises the Company to pay to the Trustee, to the extent that all such moneys payable from time to time in respect of the Original Bonds and the Original Coupons and all other moneys payable under or pursuant to these presents shall not have been paid in full, all moneys due in respect of such claims;

(g) if any payment received by the Trustee or any Original Bondholder or Original Couponholder pursuant to the provisions hereof shall be avoided under any laws relating to bankruptcy, insolvency, corporate reorganisation or other similar events, such payment shall not be considered as having discharged or diminished the liability of the Guarantor, and this guarantee shall continue to apply as if such payment had at all times remained owing by the Company and the Guarantor shall indemnify the Trustee and the Original Bondholders and Original Couponholders in respect thereof.

3.2 No payments by Company: If any moneys shall become payable by the Guarantor under the guarantee, this Company shall not (save in the event of the liquidation of the Company), so long as such moneys remain unpaid, pay any moneys for the time being due by the Company to the Guarantor.

3.3 Consents and authorisations: If at any time any authorisation or approval becomes necessary to permit the Guarantor to pay any moneys payable from time to time in respect of the Original Bonds or the Original Coupons or under or pursuant to these presents in accordance with the terms of these presents as a result of any change in, any change in the official application of, or any amendment to, the laws or regulations of the United Kingdom, the Guarantor shall forthwith apply for the necessary authorisation and approval and shall provide copies of such application as soon as reasonably practicable to the Trustee. The Guarantor shall provide copies of such authorisation and approval to the Trustee as soon as they are obtained.

3.4 Application of moneys received by Trustee: Any amount from time to time received by the Trustee under this guarantee shall be applied by the Trustee in accordance with the provisions of Clause 7.

3.5 Nature of obligations: The Guarantor hereby covenants with the Trustee that the obligations of the Guarantor under this guarantee constitute direct, unconditional and, subject to Condition 3, unsecured obligations of the Guarantor and, subject to Condition 3, rank and will rank pan passu with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future but, in the event of the insolvency of the Guarantor, only to the extent permitted by applicable laws relating to creditors' rights.

4 Forms of Original Bonds and Original Coupons

4.1 Original Global Bond: The Original Bonds 2005 will initially be represented by the Original Global Bond 2005 and the Original Bonds 2020 will initially be represented by the Original Global Bond 2020, each in the principal amount of (pound)100,000,000 and each of which will be exchangeable for relevant individual Original Bonds (serially numbered) in denominations of (pound)1,000, (pound)10,000 and (pound)100,000 each with Coupons attached as set out in the relevant Original Global Bond. The Company shall issue each Original Global Bond to a bank depositary

common to both Euroclear and Cedel on terms that such depositary shall hold the same for the account of the persons who would otherwise be entitled to receive the Original Bonds (as notified to such depositary by the Principal Paying Agent) and the successors in title to such persons as appearing in the records of Euroclear and Cedel for the time being. The Company shall issue the relevant Original Bonds in exchange for the relevant Original Global Bond only in accordance with the provisions thereof. Pending exchange of an Original Global Bond, its holder will be deemed to be the holder of the relevant individual Original Bonds and Original Coupons for all purposes.

4.2 Original Bonds and Original Coupons: The Certificates representing the Original Bonds and the Original Coupons will be security printed in accordance with the applicable stock exchange requirements. The individual Certificates representing Original Bonds 2005, the Original Global Bond 2005 and the Original Coupons 2005 will be in or substantially in the respective forms set out in Parts I, II and III of Schedule 1 and the Original Bonds 2005 will be endorsed with the Conditions set out in Schedule 2. The individual Certificates representing Original Bonds 2020, the Original Global Bond 2020, the Original Coupons 2020 and the Original Talons 2020 will be in or substantially in the respective forms set out in Parts I, II, III and IV of Schedule 3 and the Original Bonds 2020 will be endorsed with the Conditions set out in Schedule 4. Title to the Original Bonds and the Original Coupons shall pass by delivery.

4.3 Signature: Each Original Global Bond and individual Certificate representing Original Bonds and Original Coupon will be signed manually or in facsimile by two Directors of the Company and two Directors of the Guarantor and will be authenticated by or on behalf of the Principal Paying Agent. The Company and the Guarantor may use the facsimile signature of any person who is at the date of this Master Trust Deed a Director of the Company or the Guarantor respectively even if at the time of issue of any Original Global Bond, individual Certificate representing Original Bonds or Original Coupon he no longer holds such office. An Original Global Bond, an individual Certificate representing

Original Bonds or an Original Coupon which is not so executed and authenticated shall not be valid for any purpose. Each Original Global Bond and individual Certificate representing Original Bonds and Original Coupon which shall be so executed and authenticated shall represent valid binding and enforceable obligations of the Company and of the Guarantor.

4.4 Issue: Issue and delivery of the Original Bonds shall be complete on the issue and delivery of the relevant Original Global Bond to the depositary referred to in Clause 4.1 (or its representative) by, or at the order of, the Company and the Guarantor.

4.5 Bondholder deemed to be absolute owner: The Company, the Guarantor, the Trustee and the Agents may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond and the holder of any Coupon as the absolute owner of such Bond or such Coupon, as the case may be, for all purposes (whether or not such Bond or such Coupon shall be overdue and notwithstanding any notice of ownership or writing thereon or any notice of previous loss or theft thereof), and the Company, the Guarantor, the Trustee and the Agents shall not be affected by any notice or other matter to the contrary, and shall not be liable to anyone for so treating such holder. All payments made to any such holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for the moneys payable upon such Bond or Coupon, as the case may be.

5 Stamp duties and taxes

5.1 Stamp duties: The Company (failing which the Guarantor) will pay any capital, stamp, issue, registration, documentary and other similar taxes and duties and all costs and expenses, including interest and penalties, payable in the United Kingdom, Belgium and Luxembourg in respect of the creation, constitution, issue and original offering of the Bonds and the Coupons, and the execution and delivery of these presents. The Company (failing which the Guarantor) will also

indemnify the Trustee, the Bondholders and the Couponholders from and against all stamp, issue, registration, documentary and other taxes and duties paid by any of them in any jurisdiction in relation to which the liability to pay arises directly as a result of any action taken by or on behalf of the Trustee or, as the case may be, (where entitled under Condition 11 to do so) the Bondholders or the Couponholders to enforce the obligations of the Company or the Guarantor under these presents.

5.2 Change of taxing jurisdiction: If the Company and/or the Guarantor becomes subject generally to the taxing jurisdiction of any territory or any political subdivision or authority of or in that territory having power to tax other than or in addition to the United Kingdom or any political sub-division or authority of or in the United Kingdom, the Company and the Guarantor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking in form and manner satisfactory to the Trustee in terms corresponding to the terms of Condition 8 with the substitution for, or, where applicable, the addition to, the references in that Condition to the United Kingdom of references to that other or additional territory or political sub-division or authority to the taxing jurisdiction of which the Company and/or the Guarantor (as the case may be) has become so subject and in such event these presents will be read accordingly.

6 Further Bonds

6.1 Liberty to create: The Company may from time to time without the consent of the Bondholders or Couponholders create and issue further bonds or notes or similar securities, in bearer or registered form, ranking pari passu with the Original Bonds and either having the same terms and conditions as the Original Bonds in all respects (or in all respects except for the amount of the first payment of interest thereon) or upon such terms and conditions as to interest, conversion, premium, redemption and otherwise as the Directors of the Company may at the time of issue thereof determine. Any such further bonds having the same terms and conditions as the Original Bonds in all respects or

which after the first payment of interest will have the same such terms and conditions shall (if applicable, after such first payment of interest) be consolidated and form a single series with the Original Bonds and any Further Bonds forming a single series with the Original Bonds.

6.2 Means of constitution: Any Further Bonds created and issued pursuant to Clause 6. 1 so as to form either immediately or after the first payment of interest a single series with the Original Bonds or Further Bonds of any series shall be constituted by a deed supplemental to these presents and any other further bonds, notes or similar securities created and issued pursuant to Clause 6.1 may, with the consent of the Trustee, be so constituted. The Company and the Guarantor shall prior to the issue of Further Bonds execute and deliver to the Trustee a deed supplemental to these presents (if applicable duly stamped or denoted) and containing a covenant by the Company in the form mutatis mutandis of Clause 2.3, and a guarantee by the Guarantor in the form mutatis mutandis of Clause 3, in relation to the principal amount of and interest in respect of such Further Bonds and such other provisions (corresponding to any of the provisions contained in these presents) as the Trustee shall require.

6.3 Noting of supplemental deeds: A memorandum of every such supplemental deed shall be endorsed by the Trustee on this Master Trust Deed and by the Company and the Guarantor on each duplicate of this Master Trust Deed.

6.4 Notice of further issues: Whenever it is proposed to create and issue any Further Bonds, the Company shall give to the Trustee not less than seven days' notice in writing of its intention to do so, stating the amount of Further Bonds proposed to be created and issued.

6.5 Separate series: Any Further Bonds not forming a single series with the Original Bonds or Further Bonds of any series shall form a separate series and accordingly, unless for any purpose the Trustee in its absolute discretion shall otherwise determine, the provisions of Clauses 1.1 (to the extent applicable),

2.4, 2.5, 2.6, 4.3, 4.4, 4.5, 5 and 6.2 and of Clauses 7 to 23 (inclusive) and Schedule 5 shall apply (if at all) mutatis mutandis separately and independently to the Bonds of each series and shall be construed accordingly.

7 Application of moneys received by Trustee

7.1 Declaration of trust: All moneys received by the Trustee under or pursuant to these presents will, regardless of any appropriation of all or part of them by the Company or, in respect of amounts received from the Guarantor, the Guarantor, be held by the Trustee upon trust to apply them (subject to Clause 7.2):

(a) first, in payment or satisfaction of all costs, charges, expenses and liabilities properly incurred in or about the exercise of powers conferred on the Trustee by these presents or otherwise in relation to these presents and payments made by the Trustee under any of the provisions contained in these presents and of all remuneration payable to the Trustee under these presents with interest thereon (as provided in Clause 10.4) and in payment or satisfaction of all amounts payable pursuant to these presents to any attorney, manager, agent, delegate or other person appointed by or under these presents;

(b) secondly, in payment of any principal and interest and all other sums owing in respect of the Bonds and the Coupons pari passu and rateably; and

(c) thirdly, in payment of the balance (if any) to the Company for itself or, in respect of amounts received from the Guarantor, the Guarantor for itself.

Without prejudice to this Clause 7.1, if the Trustee holds any moneys which represent principal or interest or other sums in respect of Bonds or Coupons

which have become void or in respect of which claims have become prescribed under Condition 9, the Trustee will hold such moneys upon the above trusts.

7.2 Accumulation: If the amount of the moneys at any time available for payment in respect of the Bonds under Clause 7.1 is less than 10 per cent of the principal amount of the Bonds then outstanding, the Trustee may, at its discretion, invest such moneys in accordance with the provisions of Clause 7.3. The Trustee may retain such investments and accumulate the resulting income until the investments and the accumulations, together with any other funds for the time being under the control of the Trustee and available for such payment, amount to at least 10 per cent of the principal amount of the Bonds then outstanding and then such investments, accumulations and funds (after deduction of any applicable taxes or provisions made therefor) will be applied as specified in Clause 7.1.

7.3 Investment: Any moneys which under the trusts herein contained ought to or may be invested by the Trustee may be invested in the name or under the control of the Trustee in any of the investments for the time being authorised by English law for the investment by trustees of trust moneys or in any other investments, whether similar to the aforesaid or not, which may be selected by the Trustee or by placing the same on deposit in the name or under the control of the Trustee with such bank or other financial institution as the Trustee may, in its absolute discretion, think fit and the Trustee may at any time vary or transpose any of such investments for or into other such investments and shall not be responsible for any loss occasioned thereby whether by depreciation in value or otherwise.

8 Covenants to comply with provisions

8.1 Compliance with these presents: Each of the Company and the Guarantor hereby covenants with the Trustee that it will comply with and perform and observe all the provisions of these presents which are expressed to be binding

on it (including those which may subsequently be determined to be illegal, invalid or unenforceable for any reason). The Trustee shall be entitled to enforce the obligations of the Company and the Guarantor under these presents.

8.2 When Trustee required to act: The Trustee is hereby authorised and it is declared that the Trustee shall be entitled to assume without enquiry (in the absence of express written notice to the Trustee from the Company or. the Guarantor, as the case may be, to the contrary) that the Company and the Guarantor are duly performing and observing all covenants and provisions contained in these presents and on their respective parts to be performed and observed. Notwithstanding knowledge by or notice to the Trustee of any breach of any such covenant or provision it shall be in the discretion of the Trustee whether or not to take any action or proceedings to enforce the performance thereof and the Trustee shall not be bound to enforce the same or any of the covenants or provisions of these presents unless and until in any of such cases (but subject to Condition 10) the Trustee, is required to do so by an Extraordinary Resolution or in writing by the holders of not less than one-quarter part in principal amount of the Bonds for the time being outstanding, and then only if the Trustee shall be indemnified to its satisfaction against all actions, proceedings, costs, claims and demands to which it may render itself liable and all costs, charges, damages and expenses which it may incur by so doing. Only the Trustee may enforce the provisions of these presents. No Bondholder or Couponholder shall be entitled to proceed directly against the Company unless the Trustee having become bound as aforesaid to take proceedings fails so to do within a reasonable period and such failure shall be continuing.

9 Covenants

9.1 So long as any Bond is outstanding, the Company will and the Guarantor will procure that the Company will:

(a) Carry on and conduct its affairs in an efficient manner and keep books of account: at all times carry on and conduct its affairs, and procure that each of the Subsidiaries carries on and conducts its affairs, in a proper and efficient manner and keep, and procure that each of the Subsidiaries keeps, proper books of account and, at any time after the occurrence of an Event of Default or a Potential Event of Default or if the Trustee has reasonable grounds to believe that any such event has occurred, so far as permitted by applicable law, allow, and procure that each of the Subsidiaries will allow, the Trustee and anyone appointed by it to whom the Company and/or the relevant Subsidiary has no reasonable objection access to the books of account of the Company and/or the relevant Subsidiary respectively at all reasonable times during normal business hours;

(b) Notice of security interests: notify the Trustee in writing immediately upon becoming aware that the provisions of Condition 3 shall have become applicable by reason of any encumbrance or security interest referred to therein being created or being permitted to subsist or arising;

(c) Notice of Event of Default: notify the Trustee in writing immediately upon becoming aware of the occurrence of any Event of Default or Potential Event of Default;

(d) Information: so far as permitted by applicable law, give to the Trustee such information and assistance as it requires to carry out the trusts of these presents;

(e) Financial statements etc.: send to the Trustee two copies or translations, in each case in the English language, of:

(i) all accounts, financial statements and reports for or in respect of any annual, half-yearly or other period in respect of which any

account, financial statement or report is prepared by the Company for issue to its shareholders, together with any report of the Auditors thereon, as soon as practicable, and in any event within six months, after the last day of such period;

(ii) all notices, statements, circulars and other documents issued, sent or given to holders of the shares or of any other securities of the Company (other than the Bonds) or of any of the Subsidiaries, and which, in the opinion of the Trustee, have a material bearing on the interests of the Bondholders, when such documents are issued, sent or given to such holders; and

(iii) all notices, statements, circulars and other documents issued, sent or given to Bondholders when such documents are issued, sent or given to Bondholders and prior thereto, in the case of any such document addressed to Bondholders, send to the Trustee two copies of the form of such document at least 48 hours prior to publication,

and so that:

(a) if and to the extent that any account, financial statement or report referred to in paragraph (i) of this Clause 9.1(e) shall not be prepared or adjusted on a basis consistent with that used for the relevant preceding period, that fact shall be stated in such account, financial statement or report (as the case may be);

(b) any document referred to in paragraph (iii) in this Clause 9.1(e) addressed to Bondholders shall be issued, sent or given in a form previously approved in writing by the Trustee (such approval, unless so expressed, not to constitute approval for the purposes of section 57 of the Financial Services Act 1986 of any such

notice which is an investment advertisement (as therein defined)); and

(c) any notice, statement, circular and other document issued, sent or given to Bondholders shall be so issued sent or given in accordance with Condition 14;

(f) Certificates of Directors: send to the Trustee, within ten days after a request by the Trustee therefor and also (without the necessity for any such demand) promptly or in any event within 14 days of its annual audited financial statements being issued to its shareholders, a certificate signed by two of its Directors certifying to the effect that, having made all reasonable enquiries, in the opinion of the persons so certifying as at a date (the "Certification Date"), being not more than five days before the date of the certificate, no Event of Default or Potential Event of Default had occurred since the date of this Master Trust Deed or, if later, the Certification Date of the last such certificate (if any) and, if such an event had occurred, giving details of it;

(g) Reports of Auditors: procure that the Auditors furnish to the Trustee such reports and information as the Trustee may request in connection with any calculation or matter arising under these presents;

(h) Further acts: so far as permitted by applicable law, do all such further things as may be necessary in the opinion of the Trustee to give effect to these presents and to enable the Trustee to carry out the trusts of these presents;

(i) Notice of late payment: forthwith after a request by the Trustee give notice to the Bondholders of any unconditional payment to the Trustee or the Principal Paying Agent of any sum due in respect of the Bonds or Coupons made after the due date for such payment;

(j) Listing of Bonds: use all reasonable endeavours to maintain at its expense a listing or quotation for the Bonds on the London Stock Exchange and/or on any other stock exchange or securities market on which the Bonds shall for the time being be listed or quoted, provided that if, notwithstanding such endeavours, it is unable to do so or if the terms and conditions subject to which such listing or quotation is maintained are agreed by the Trustee in writing to be unduly onerous (whether by reason of expense or otherwise) and the Trustee is satisfied that the interests of the Bondholders would not be thereby materially prejudiced, the Company will instead use all reasonable endeavours to obtain and maintain at its expense a listing or quotation for the Bonds on such other stock exchange or securities market as it may (with the prior written approval of the Trustee) decide and will promptly give notice (in a form previously approved in writing by the Trustee) to the Bondholders of any delisting or listing or grant or loss of quotation for the Bonds occurring hereafter (other than the initial listing on the London Stock Exchange);

(k) Change in Agents: give not less than 14 days' prior notice to the Bondholders of any appointment or resignation or removal of any Agent or of any change by any Agent of its specified office, in each case occurring after the date of this Master Trust Deed, and not make any such appointment or removal without the prior written approval of the Trustee;

(l) Bonds held by the Company etc.: send to the Trustee as soon as practicable after being so requested by the Trustee a certificate signed by two Directors of the Company setting out the total number of Bonds which, at the date of such certificate, were held by or on behalf of the Company and each of its Subsidiaries respectively and which had not been cancelled;

(m) Early redemption: give prior written notice to the Trustee of any proposed redemption pursuant to Condition 6(B) or (C) and, if it gives notice to Bondholders of its intention to redeem any Bonds pursuant to Condition 6(B), make selections by lot (if appropriate) and redeem Bonds accordingly;

(n) Agency Agreement: comply with and perform all its obligations under the Agency Agreement, use all reasonable endeavours to procure that each of the Agents complies with and performs its obligations thereunder, not take any steps to prevent compliance by the Agent in accordance with the terms of the Agency Agreement and not amend or modify the Agency Agreement without the prior written consent of the Trustee;

(o) Availability of information: make available for inspection at the specified offices of the Agents copies of the accounts, financial statements and reports referred to in Clause 9.1(d) as from the date of issue thereof to the Company's shareholders;

(p) Cedel and Euroclear: use all reasonable endeavours to provide assistance to Cedel and/or Euroclear (as the case may be) in the issuance of any certificate or other document requested by the Trustee under Clause 11(q) as soon as practicable after such request;

(q) Filings: duly and punctually comply with or procure that there is complied with all filing, reporting and similar requirements required in accordance with applicable English law and regulations from time to time relating in any manner whatsoever to the Bonds, and deliver to the Trustee two copies of all orders, directions notices given or made to the Company by the London Stock Exchange and any other stock exchange or securities market on which the Bonds shall for the time being be listed

or quoted (other than of a purely procedural, routine or technical nature) together, if applicable, with English language translations thereof;

(r) Principal Subsidiaries: give to the Trustee within 14 days of its annual audited financial statements being issued to its shareholders and also within 14 days of a request by the Trustee, either a certificate by the Auditors listing the Principal Subsidiaries which, as at the last day of the latest completed financial year of the Company or as at the date specified in such request, were the consolidated Principal Subsidiaries or, if the Company has no such Principal Subsidiaries, a certificate to that effect signed by two Directors of the Company.

9.2 Covenants by the Guarantor: The Guarantor hereby covenants with the Trustee in the terms of Clauses 9.1(a), (b), (c), (d), (e), (f), (g), (h), (k), (l), (n), (o), (p), (q) and (r) as if references to the Company therein were references to the Guarantor. So long as any Bond is outstanding the Guarantor will send to the Trustee a certificate of the Guarantor signed by two of its Directors:

(a) specifying details of any modification to the terms and conditions of the PES Licence, such certificate to be provided promptly upon any such modification being made; and

(b) specifying any higher figure determined by the Director (as defined in the PES Licence) as is mentioned in Condition 10, such certificate to be provided within five days of the Director determining such figure by notice in writing to the Secretary of State (as defined in the PES Licence) and the Guarantor.

10 Remuneration and indemnification of Trustee

10.1 Normal remuneration: So long as any Bond is outstanding the Company (failing which the Guarantor) will pay to the Trustee by way of remuneration for its services as Trustee such sum as may from time to time be agreed between them. Such remuneration will accrue from day to day from the date of this Trust Deed until the trusts of these presents shall be finally wound up and shall be payable on such dates as shall be agreed between the Company and the Trustee. Upon the issue of any Further Bonds, the rate of remuneration in force immediately prior thereto shall be increased by such amount, and as from such date, as shall be agreed between the Company and the Trustee.

10.2 Extra remuneration: At any time after the occurrence of an Event of Default or a Potential Event of Default or if the Trustee finds it expedient in the interests of Bondholders or necessary, or if the Trustee is requested by the Company or the Guarantor to undertake duties which the Trustee and the Company or the Guarantor (as the case may be) agree to be of an exceptional nature or otherwise outside the scope of the normal duties of the Trustee under these presents, the Company (failing which the Guarantor) will pay such additional remuneration as may be agreed between the Company and the Trustee or, failing agreement as to any of the matters in this Clause 10.2 (or as to such sums referred to in Clause 10. 1), as determined by a merchant or investment bank in London of international repute selected by the Trustee and approved by the Company or, failing such approval, nominated on the application by the Trustee by the President for the time being of The Law Society of England and Wales. In making its determination such merchant or investment bank shall act as an expert and not as an arbitrator and its determination of such matter shall, in the absence of manifest error, be conclusive and binding on the Company, the Guarantor, the Trustee, the Bondholders and the Couponholders. The expenses involved in appointing such merchant or investment bank and the fees and expenses of the merchant or investment bank shall be paid by the Company (failing which by the Guarantor).

10.3 Expenses: The Company (failing which by the Guarantor) will also pay or discharge on a full indemnity basis (in priority to any payment to the Bondholders and the Couponholders) all costs, charges, liabilities and expenses properly incurred by the Trustee in relation to the preparation and execution of these presents and the carrying out of the trusts of these presents and the exercise of the powers, authorities and discretions vested in the Trustee by or pursuant to these presents, including, but not limited to, Legal and travelling expenses and any stamp, issue, registration, documentary or other taxes or duties paid by the Trustee in connection with any legal proceedings brought or contemplated by the Trustee against the Company or the Guarantor for enforcing any obligation under these presents.

10.4 Payment of Expenses: All such costs, charges, liabilities and expenses incurred by the Trustee and payments made referred to in Clause 10 will be payable or reimbursable by the Company (failing which the Guarantor) on a full indemnity basis within 14 days of demand by the Trustee and:

(i) in the case of payments made by the Trustee prior to such demand will carry interest from the date on which the demand is made at the rate of 2 per cent per annum over the base rate for the time being of Barclays Bank PLC; and

(ii) in all other cases will carry interest at such rate from 30 days after the date on which the demand is made or where the demand properly specifies that payment is to be made on an earlier date from such earlier date.

10.5 Indemnity: The Company (failing which the Guarantor) will indemnify the Trustee (in priority to any payment to the Bondholders and the Couponholders) in respect of all liabilities and expenses properly incurred by the Trustee in the carrying out of the trusts of these presents or by anyone appointed by the Trustee or to whom any of the functions of the Trustee may be delegated by the

Trustee in such carrying out of the trusts of these presents and against any loss, liability, cost, claim, action, demand or expense (including, but not limited to, all costs, charges and expenses paid or incurred in disputing or defending any of the foregoing) which the Trustee or any such person may properly incur or which may be made against the Trustee or any such person, arising out of or in relation to or in connection with the appointment of the Trustee or any such person and any thing done or omitted by the Trustee in such carrying out of the trusts of these presents or by any such person under or pursuant to such delegation, provided that such indemnity shall not extend to any such loss, -liability, cost, claim, action, demand or expense incurred or suffered by any agent or delegate appointed by the Trustee in the event of negligence or wilful default of such agent or delegate. The Trustee may retain and pay out of any moneys in its hands arising from the carrying out of the trusts of, or otherwise trusts under, these presents all sums necessary to effect such indemnity and also the remuneration of the Trustee as herein before provided.

10.6 Value added tax: The Company (failing which the Guarantor) shall pay to the Trustee (in priority to any payment to the Bondholders and the Couponholders) an amount equal to any value added tax or similar tax chargeable in respect of any payment to be made to the Trustee under these presents.

10.7 Provisions continuing: The provisions of Clauses 10.3 to 10.6 (inclusive) will continue in full force and effect in relation to the Trustee even if it may have ceased to be Trustee.

10.8 The Trustee shall be entitled in its absolute discretion to determine in respect of which series of Bonds any costs, charges, liabilities and expenses incurred under or pursuant to these presents have been incurred or to allocate any such costs, charges, liabilities and expenses between the Original Bonds and any Further Bonds of any series.

11 Provisions supplemental to Trustee Act 1925

By way of supplement to the Trustee Act 1925 it is expressly declared in the terms of the following provisions of this Clause 11:

(a) Advice: The Trustee may in carrying out the trusts of these presents act on the opinion or advice of, or information obtained from, any accountant, lawyer, valuer, surveyor, broker, auctioneer or other expert, whether obtained by the Company, the Guarantor or the Trustee, and will not be responsible to anyone for any loss occasioned by so acting. Any such opinion, advice or information may be sent or obtained by letter, telephone, telex or facsimile or cable transmission and the Trustee will not be liable to anyone for acting in good faith on any opinion, advice or information purporting to be conveyed by such means even if it contains some error or is not authentic.

(b) Notification of execution: The Trustee need not notify anyone of the execution of these presents.

(c) Resolutions of Bondholders: The Trustee will not be responsible for having acted in good faith upon a resolution purporting to have been passed at a meeting of Bondholders (in respect of which minutes have been made and signed) even though it may later be found that there was a defect in the constitution of such meeting or in the procedures thereat or in the signing of such resolution or that such resolution was not valid or binding upon the Bondholders or Couponholders for any reason whatsoever.

(d) Certificate signed by Directors: The Trustee may call for and may accept as sufficient evidence of any fact or matter or the expediency of any act a certificate signed by two Directors of the Company or of the Guarantor certifying to the effect that, having made all reasonable enquiries, in the

opinion of the persons so certifying such fact or matter is as stated in the certificate or such act is expedient and in any such case and in the case of any certificate given under Clause 9.1(f) or 15.2(a)(iv) the Trustee may rely absolutely on such certificate and need not call for any further evidence and will not be responsible for any loss that may be occasioned by it not calling for further evidence or by it acting on any such certificate.

(e) Deposit of documents: The Trustee may deposit these presents and any other documents in any part of the world with any banker or banking company or entity the business of which includes undertaking the safe custody of documents or with any lawyer or firm of lawyers believed by it to be of good repute, may at its discretion make any such arrangements as it thinks fit for allowing the Company or the Guarantor access to, or its solicitors or auditors access to or possession of, such documents and the Trustee shall not be responsible for or required to insure against loss, liability, claim, action, demand or expense incurred in connection with any such deposit, access or provision and may pay all sums to be paid on account of or in respect of any such deposit, provided that, unless in the opinion of the Trustee it is required in connection with the enforcement of any obligation of the Company or the Guarantor under these presents or otherwise in connection with the carrying out of the trusts of these presents or unless it comprises the holding or placing of such documents in the United Kingdom the Trustee may not take any such action if a liability to stamp duty or other duties or taxes would thereby arise.

(f) Discretion of Trustee: Save as otherwise expressly provided in these presents, the Trustee will have absolute and uncontrolled discretion as to the exercise of the powers, authorities and discretions conferred on, and the functions of, the Trustee under these presents, will not be responsible to anyone for any loss, liability, cost, claim, action, demand, expenses

or inconvenience which may result from their exercise or non-exercise and any such exercise or non-exercise shall, as between the Trustee and the Bondholders and the Couponholders, be conclusive and binding on the Bondholders and the Couponholders.

(g) Agents: The Trustee may, in the carrying out of the trusts of these presents, instead of acting personally, employ and pay an agent believed by it to be of good repute, whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing any acts required to be done by the Trustee in carrying out of the trusts of these presents (including the receipt and payment of money) and any Trustee being a lawyer, accountant, broker or other person engaged in any profession or business shall be entitled to charge and be paid all usual professional and other charges for business transacted and acts done by him or his firm in connection with the trusts of these presents (including matters which ought to or should have been attended to in person by a trustee not being engaged in any trade or profession) and also his reasonable charges in addition to disbursements for all other work and business done and all time spent by him or his firm in connection with matters arising in connection with these presents. The Trustee shall not be responsible to anyone for any misconduct or omission or default on the part of any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.

(h) Delegation: The Trustee may, in the execution and exercise of all or any of the trusts, powers, authorities and discretions vested in it by these presents and the Conditions, act by responsible officers or a responsible officer for the time being of the Trustee, and the Trustee may also whenever it thinks it expedient in the interests of the Bondholders, whether by power of attorney or otherwise, and after such consultation (if any) with the Company and the Guarantor as the Trustee may

consider to be practicable, delegate to any person or fluctuating body of persons all or any of the trusts, powers, authorities and discretions vested in it by these presents and the Conditions and any such delegation may be made upon such terms and conditions and subject to such regulations (including power to sub-delegate) as the Trustee may think fit and provided that the Trustee shall have exercised reasonable care in the selection of such delegate, it shall not be bound to supervise, the proceedings and shall not in any way or to any extent be responsible for any loss incurred by any misconduct or default on the part of such delegate or sub-delegate. The Trustee shall give prompt notice to the Company and the Guarantor of the appointment (and termination thereof) of any delegate as aforesaid and shall procure that any delegate shall also give prompt notice to the Company and the Guarantor of any sub-delegate. Notwithstanding the above, the Trustee may not delegate the right to give written notice to the Company that the Bonds are immediately due and repayable unless prior to such delegation the Trustee provides to the Company and the Guarantor confirmation in writing that the Trustee has been advised by its legal advisers that it should delegate the right (with or without any other rights, trusts, powers, authorities and discretions) to another person or fluctuating body of persons because of a conflict of interest or possible conflict of interest and/or other similar circumstances which the Trustee might face, or be subjected to, as the trustee of these presents if it were not to delegate that right.

(i) Forged Bonds: The Trustee will not be liable to the Company, the Guarantor or any Bondholder or Couponholder by reason of having accepted as valid or not having rejected any Certificate, Coupon or other document relating to any Bond purporting to be such and later found to be forged or not authentic.

(j) Confidentiality: Unless ordered to do so by a court of competent jurisdiction, the Trustee shall not be required to disclose to any Bondholder or Couponholder any confidential, financial, price sensitive or other information made available to the Trustee by the Company or the Guarantor or any of the Subsidiaries and no Bondholder or Couponholder shall be entitled to take any action to obtain from the Trustee any such information (and for this purpose any unpublished accounts and other unpublished financial information of or concerning the Company, the Guarantor or any of the Subsidiaries shall be considered to be confidential).

(k) Determinations conclusive: As between itself and the Bondholders and Couponholders, the Trustee shall have power to determine all questions and doubts arising in relation to any of the provisions of these presents. Every such determination, whether made upon such a question actually raised or implied in the acts or proceedings of the Trustee, shall be conclusive in the absence of manifest error and shall bind the Trustee, the Bondholders, the Couponholders and all other persons interested under these presents.

(l) Currency conversion: Where it is necessary or desirable to convert any sum from one currency to another, it shall (unless otherwise provided under these presents or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may be specified by the Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified will be binding on the Company, the Guarantor, the Bondholders and the Couponholders.

(m) Events of Default and other events: The Trustee may determine whether or not a default in the performance or observance by the Company or the Guarantor of any of their respective obligations is in its opinion capable of remedy and/or whether or not any event is in its opinion materially

prejudicial to the interests of the Bondholders or has a material adverse effect on the Company's or the Guarantor's ability to perform or to comply with any of its obligations under these presents. Any such determination will be conclusive and binding upon the Company, the Guarantor, the Bondholders and the Couponholders. Notwithstanding the foregoing provisions of this Clause 11.1(m) or any other provisions of these presents, the Trustee shall not be bound to take any steps to ascertain whether or not any Event of Default or Potential Event of Default, Negative Rating Event, Restructuring Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and, until it shall have actual knowledge or express notice pursuant to these presents to the contrary, the Trustee shall be entitled to assume that no Event of Default, Potential Event of Default, Negative Rating Event, Restructuring Event or any other such event has occurred and that each of the Company and the Guarantor is observing and performing all its obligations under these presents.

(n) Payment for and delivery of Bonds: The Trustee will not be responsible for the receipt or application by the Company of the proceeds of the issue of the Bonds, the exchange of interests in the Global Bond for individual Bonds or the delivery of individual Bonds to the persons entitled to them.

(o) Bonds held by the Company etc: In the absence of knowledge or express notice to the contrary, the Trustee may assume without enquiry that no Bonds or Coupons are for the time being held by or on behalf of the Company, the Guarantor or any of the Subsidiaries and that none of such companies has any beneficial interest therein.

(p) Interests of Bondholders: In connection with the carrying out of the trusts of these presents (including, but not limited to, those in relation to any proposed modification, waiver or authorisation of any breach or

proposed breach of any of the Conditions or any of the provisions of these presents or any proposed substitution in accordance with Clause 15), the Trustee shall have regard to the interests of the Bondholders as a class and in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof or otherwise to the tax consequences thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Company, the Guarantor, the Trustee or any other person any indemnification or payment of or in respect of any tax arising in consequence of any such exercise upon individual Bondholders or Couponholders except to the extent provided for in Condition 8 and/or in any undertaking given in addition thereto or in substitution therefor pursuant to these presents.

(q) Cedel and Euroclear: The Trustee may call for any certificate or other document to be issued by Cedel or Euroclear as to the principal amount of Bonds represented by a Global Bond standing to the account of any person. Any such certificate or other document shall be conclusive and binding for all purposes. The Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by Cedel or Euroclear and subsequently found to be forged or not authentic.

12 Trustee liable for breach of trust

Nothing in these presents shall, in any case in which the Trustee has failed to show the degree of care and diligence required of it as Trustee having regard to the provisions of these presents conferring on the Trustee any powers, authorities or discretions, exempt the Trustee from, or indemnify it against, any

liability which by virtue of any rule of law would otherwise attach to it in respect of any breach of trust of which it may be guilty.

13 Waiver, proof of default, consents and Trustee's power to apply to Court

13.1 Waiver: The Trustee may, without the consent of the Bondholders or Couponholders and without prejudice to its rights in respect of any subsequent breach, Potential Event of Default or Event of Default, from time to time and at any time, if in its opinion, the interests of the Bondholders will not be materially prejudiced thereby, waive or authorise, on such terms and conditions as seem expedient to it (including with retrospective effect) any breach or proposed breach by the Company or the Guarantor of any of the provisions of these presents or determine that any Event of Default or Potential Event of Default will not be treated as such, provided that the Trustee will not exercise any of the powers conferred on it by this Clause 13.1 in contravention of any express direction given by an Extraordinary Resolution or by a request made pursuant to Condition 11, but no such direction or request will affect any previous waiver, authorisation or determination. Any such waiver, authorisation or determination will be binding on the Bondholders and the Couponholders and, if, but only if, the Trustee so requires, will be notified to the Bondholders in accordance with Condition 14 by the Company or the Guarantor as soon as practicable.

13.2 Proof of default: If it is proved that as regards any specified Bond or Coupon the Company or the Guarantor has made default in paying any sum due to the relevant Bondholder or Couponholder, such proof will (unless the contrary be proved) be sufficient evidence that the same default has been made as regards all other Bonds or (as the case may be) Coupons which are then payable.

13.3 Consents: Where under these presents provision is made for the giving of any consent or the exercise of any discretion by the Trustee, any such consent may be given and any such discretion may be exercised on such terms and conditions

(if any) as the Trustee may think fit and may be given or exercised with retrospective effect. The Company and the Guarantor, as applicable, shall observe and perform any such terms and conditions and the Trustee may at any time waive or agree a variation in such terms and conditions.

13.4 Trustees' power to apply to Court: The Trustee may at any time apply to the Court for an order that the powers and the carrying out of the trusts of these presents be exercised or carried into execution under the direction of the Court and for any other order in relation to the execution and administration of the powers and the carrying out of the trusts of these presents as the Trustee shall deem expedient and it may assent to or approve any application to the Court made at the instance of any of the Bondholders and shall be indemnified by the Company or, failing which, the Guarantor against all the costs, charges and expenses incurred by and in relation to any such application or proceedings.

14 Trustee not precluded from entering into contracts

Neither the Trustee nor any director, officer or employee of a corporation acting as a Trustee, whether acting for itself or in any other capacity, will be precluded in any way from becoming the owner of, or acquiring any interest in, or holding, or disposing of, any Bond or Coupon or any shares or securities of the Company, the Guarantor, any Subsidiary or any associated companies thereof with the same rights as it would have had if the Trustee or such person were not the Trustee or connected with the Trustee or from entering into or being interested in any contracts or transactions or arrangements with the Company, the Guarantor, any Subsidiary or any associated companies thereof or from acting on, or as depositary or agent for, any committee or body of holders of any securities of the Company, the Guarantor, any Subsidiary or any associated companies thereof and the Trustee will be entitled to retain, and will not be liable to anyone to account for, any profit, share of brokerage, commission, remuneration or other benefit made or received in connection therewith.

15 Modification and substitution

15.1 Modification: The Trustee may agree, without the consent of the Bondholders or the Couponholders, to any modification to these presents which in its opinion is of a formal, minor or technical nature or which is made to correct a manifest error. The Trustee may also so agree to any modification to these presents which in its opinion is not materially prejudicial to the interests of the Bondholders, but so that such power shall not extend to any such modification as is mentioned in the proviso to paragraph 19 of Schedule 5. Any such modification as is permitted by this Clause 15.1 shall be binding upon the Bondholders and the Couponholders and, unless the Trustee otherwise agrees, will be notified by the Company to the Bondholders in accordance with Condition 14 as soon as practicable.

15.2 Substitution:

(a) The Trustee may, without the consent of the Bondholders or the Couponholders, but so as to bind the Bondholders and the Couponholders, agree with the Company and the Guarantor to the substitution of the Guarantor or any Subsidiary or holding company of the Guarantor or any subsidiary of such holding company (the "Substituted Obligor") in place of the Company (or of any previous substitute under this Clause 15.2, 15.3) as the principal debtor under these presents, provided that:

(i) the Trustee is satisfied that such substitution is not materially prejudicial to the interests of the Bondholders;

(ii) a trust deed is executed or some other form of undertaking is given by the Substituted Obligor and, where the Substituted Obligor is not the Guarantor, the Guarantor to the Trustee, in a form and manner satisfactory to the Trustee, agreeing to be

bound or, as the case may be, to continue to be bound by the provisions of these presents binding on the Company or, as the case may be, the Guarantor with any consequential amendments which the Trustee may deem appropriate as fully as if the Substituted Obligor had been named in these presents as the principal debtor in place of the Company (or of any preVious substitute under this Clause 15.2) and, unless the Substituted Obligor is the Guarantor, the guarantee of the Guarantor in these presents had been given accordingly;

(iii) where the Substituted Obligor is subject generally to the taxing jurisdiction of any territory or any political sub-division or any authority of or in that territory having power to tax (for the purpose of this Clause 15.2, the "Substituted Territory") other than or in addition to any territory to the taxing jurisdiction of which (or to any such political sub-division or authority of or in which) the Company (or any previous substitute under this Clause 15.2) is subject generally (for the purpose of this Clause 15.2, the "Existing Territory"), the Substituted Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking in form and manner satisfactory to the Trustee in terms corresponding to the terms of Condition 8 with the substitution for or, where applicable, the addition to, the references in that Condition to the Existing Territory of references to the Substituted Territory and in such event these presents will be read accordingly;

(iv) if any two of the directors or other officers acceptable to the Trustee of the Substituted Obligor certify to the Trustee to the effect that, having made all reasonable enquiries, in the opinion of the persons so certifying the Substituted Obligor will be solvent immediately after such substitution, the Trustee may rely

absolutely on such certificate and need not have regard to the financial condition, profits or prospects of the Substituted Obligor or compare them with those of the Company (or any previous substitute under this Clause 15.2) or call for any further evidence and the provisions of Clause 11(d) shall apply; and

(v) the Company, the Guarantor (and any previous substitute under Clause 15.3) and, the Substituted Obligor (and any previous substitute under this Clause 15.2) comply with such other requirements as the Trustee may direct in the interests of the Bondholders.

In the case of such substitution, the Trustee may agree, without the consent of the Bondholders or the Couponholders, to a change of law governing these presents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Bondholders. Any such substitution as is permitted by this Clause 15.2 shall be binding upon the Bondholders and the Couponholders.

(b) Release of existing obligor: Any such agreement by the Trustee pursuant to this Clause 15.2 will, if so expressed but subject to Clause 15.2(a)(v), operate to release the Company (or any such previous substitute) from any or all of its obligations under these presents. Not later than 14 days after the execution of any such documents and after compliance with such requirements, notice of the substitution will be given by the Substituted Obligor to the Bondholders in accordance with Condition 14 as soon as practicable.

(c) Completion of substitution: Upon the execution of such documents and compliance with such requirements, the Substituted Obligor will be deemed to be named in these presents as the principal debtor in place of the Company (or of any previous substitute under this Clause 15.2) and

these presents will be deemed to be modified in such manner as shall be necessary to give effect to the substitution.

15.3 Substitution:

(a) The Trustee may, without the consent of the Bondholders or the Couponholders, but so as to bind the Bondholders and the Couponholders, agree with the Company and the Guarantor to the substitution of any Subsidiary or holding company of the Guarantor or any subsidiary of such holding company (the "Substituted Guarantor") in place of the Guarantor (or of any previous substitute under this Clause 15.2, 15.3) as the guarantor of the obligations of the Company (or any previous substitute under Clause 15.2) under these presents guaranteed by the Guarantor (or if any previous substitute under this Clause 15.3) under these presents, provided that:

(i) the Trustee is satisfied that such substitution is not materially prejudicial to the interests of the Bondholders;

(ii) the PES Licence is transferred to the Substituted Guarantor;

(iii) a trust deed is executed or some other form of undertaking is given by the Substituted Guarantor to the Trustee, in a form and manner satisfactory to the Trustee, agreeing to be bound by the provisions of these presents binding on the Guarantor with any consequential amendments which the Trustee may deem appropriate as fully as if the Substituted Guarantor had been named in these presents as the guarantor of such obligations of the Company (or of any previous substitute under Clause 15.2) in place of the Guarantor (or of any previous substitute under this Clause 15.3);

(iv) where the Substituted Guarantor is subject generally to the taxing jurisdiction of any territory or any political sub-division or any authority of or in that territory having power to tax (for the purpose of this Clause 15(3), the "Substituted Territory") other than or in addition to any territory to the taxing jurisdiction of which (or to any such political sub-division or authority of or in which) the Guarantor (or any previous substitute under this Clause 15.3) is subject generally (for the purpose of this Clause 15(3), the "Existing Territory"), the Substituted Guarantor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking in form and manner satisfactory to the Trustee in terms corresponding to the terms of Condition 8 with the substitution for or, where applicable, the addition to, the references in that Condition to the Existing Territory of references to the Substituted Territory and in such event these presents will be read accordingly;

(v) if any two of the directors or other officers acceptable to the Trustee of the Substituted Guarantor certify to the Trustee to the effect that, having made all reasonable enquiries, in the opinion of the persons so certifying the Substituted Guarantor will be solvent immediately after such substitution, the Trustee may rely absolutely on such certificate and need not have regard to the financial condition, profits or prospects of the Substituted Guarantor or compare them with those of the Guarantor (or of any previous substitute under this Clause 15.3) or call for any further evidence and the provisions of Clause 11.1(d) shall apply; and

(vi) the Company (and any previous substitute under clause 15.2), the Guarantor and the Substituted Guarantor (and any previous substitute under this Clause 15.3) comply with such other

requirements as the Trustee may direct in the interests of the Bondholders.

In the case of such substitution, the Trustee may agree, without the consent of the Bondholders or the Couponholders, to a change of law governing these presents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Bondholders. Any such substitution as is permitted by this Clause 15.3 shall be binding upon the Bondholders and the Couponholders.

(b) Release of existing obligor: Any such agreement by the Trustee pursuant to this Clause 15.3 will, if so expressed but subject to Clause 15.3(a)(vi), operate to release the Guarantor (or any such previous substitute) from any or all of its obligations under these presents. Not later than 14 days after the execution of any such documents and after compliance with such requirements, notice of the substitution will be given by the Substituted Guarantor to the Bondholders in accordance with Condition 14 as soon as practicable.

(c) Completion of substitution: Upon the execution of such documents and compliance with such requirements, the Substituted Guarantor will be deemed to be named in these presents as the guarantor of the obligations aforesaid of the Company (or of any previous substitute under Clause 15.2) in place of the Guarantor (or of any previous substitute under this Clause 15.3) and these presents will be deemed to be modified in such manner as shall be necessary to give effect to the substitution.

16 Appointment, retirement and removal of Trustee

16.1 Appointment: The Company will have the power of appointing a new Trustee but no person will be so appointed unless previously approved by an Extraordinary Resolution. A trust corporation will at all times be a Trustee and

may be the sole Trustee. Any appointment of a new Trustee will be notified by the Company to the Bondholders and to the Agents as soon as practicable.

16.2 Retirement and removal: Any Trustee may retire at any time on giving not less than three months' notice in writing to the Company without giving any reason and without being responsible for any costs occasioned by such retirement and the Bondholders may by Extraordinary Resolution remove any Trustee provided that the retirement or removal of any sole Trustee or sole trust corporation will not become effective until a trust corporation is appointed as successor Trustee. If a sole Trustee or sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal under this Clause 16.2, it will use all reasonable endeavours to procure that another trust corporation be appointed as Trustee. Any replacement or retirement of a Trustee will be notified by the Company to the Bondholders and to the Agents as soon as practicable.

16.3 Co-Trustees: The Trustee may, notwithstanding the provisions of Clause 16.1, by notice in writing to the Company and the Guarantor (but without the need for the consent of the Company, the Guarantor, the Bondholders or the Couponholders) appoint any person to act as an additional Trustee jointly with the Trustee:

(a) if the Trustee considers such appointment to be in the interests of the Bondholders;

(b) for the purpose of conforming with any legal requirement, restriction or condition in any jurisdiction in which any particular act is to be performed; or

(c) for the purpose of obtaining a judgment in any jurisdiction or the enforcement in any jurisdiction of either a judgment already obtained or

any of the provisions of these presents against the Company or the Guarantor.

Subject to the provisions of these presents the Trustee may confer on any person so appointed such functions as it thinks fit. The Trustee may by notice in writing to the Company, the Guarantor and such person remove any person so appointed. At the request of the Trustee, the Company and the Guarantor will forthwith execute and do all such documents, acts and things as may be required to perfect such appointment or removal and the Company and the Guarantor hereby irrevocably appoints the Trustee to be its attorney in its name and on its behalf to do so. Any appointment or removal of any such additional Trustee shall be notified by the Company or the Guarantor to the Bondholders and to the Agents as soon as practicable.

16.4 Competence of a majority of Trustees: If there are more than two Trustees, the majority of such Trustees will (provided such majority includes a trust corporation) be competent to carry out all or any of the Trustee's functions.

17 Couponholders

17.1 Notices: Neither the Trustee, the Company nor the Guarantor need give any notice to the Couponholders for any purpose under these presents and the Couponholders will be deemed to have notice of the contents of any notice given to the Bondholders.

17.2 Bondholders assumed to hold Coupons: Even if it has express notice to the contrary, whenever the Trustee is required to exercise any of its functions, powers, authorities or discretions by reference to the interests of the Bondholders, the Trustee shall assume that each Bondholder is the holder of all Coupons relating to each Bond of which he is the bearer.

18 Communications

Any notice, confirmation, demand, certificate or other document given, made or served, or required to be given, made or served, under these presents shall be in the English language and shall be given, made or served by letter delivered personally or by facsimile transmission:

(a) in the case of the Company, to it at:

Carliol House,
Market Street,
Newcastle-Upon-Tyne NE1 6NE

Fax no. 0191 210 2081

Attention: The Finance Director

(b) in the case of the Guarantor, to it at:

Carliol House,
Market Street,
Newcastle-Upon-Tyne NE1 6NE

Fax no. 0191 210 2081

Attention: The Finance Director

(c) in the case of the Trustee, to it at:

Princes House,

95 Gresham Street,

London EC2V 7LY

Fax no. 0171 606 0643 or 0171 726 4063

Attention: The Secretary

or, in each case, to such other address or facsimile number as shall have been notified (in accordance with this Clause 18) to the other parties.

Any such communication will take effect, in the case of delivery, at the time of delivery or, in the case of facsimile transmission, at the time of despatch.

Any communication not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

19 Powers in addition

The powers conferred upon the Trustee by these presents shall be in addition to any powers which may from time to time be vested in the Trustee by the general law or as a holder of any of the Bonds or Coupons.

20 Severability

Notwithstanding that any provision of these presents may prove to be illegal or unenforceable, the remaining provisions of these presents shall continue in full force and effect.

21 Execution

Each of the parties to this Master Trust Deed intends it to be a deed, and agrees to execute and deliver it as a deed. The signature or sealing of this Master Trust Deed by or on behalf of a party shall constitute an authority to the solicitors, or an agent or employee of the solicitors, acting for that party in connection with this Master Trust Deed to deliver it as a deed on behalf of that party.

22 Counterparts

These presents may be executed in counterparts, and the counterparts together shall constitute one deed.

23 Governing law

These presents shall be governed by and construed in accordance with English law.

IN WITNESS whereof this Master Trust Deed has been executed as a deed the day and year first above written.

Schedule 1

Part I

Form of individual Certificate for Original Bonds 2005

On the front:

ISIN: Serial No: Cert No:

NORTHERN ELECTRIC FINANCE plc
(Incorporated with limited liability in England and Wales - No. 3070482)

(pound)100,000,000 8.625 per cent. Guaranteed Bonds due 2005
guaranteed as to principal and interest by
NORTHERN ELECTRIC plc
(Incorporated with limited liability in England and Wales - No. 2366942)

The Bonds in respect of which this Certificate is issued are in bearer form and form part of the series designated as specified in the title (the "Bonds") of Northern Electric Finance plc (the "Issuer") constituted by a Master Trust Deed dated 16th October, 1995 between the Issuer, Northern Electric plc (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. as the Trustee (the "Trust Deed", which expression includes all deeds supplemental to such Trust Deed). The Bonds are subject to, and have the benefit of, the Trust Deed and the Terms and Conditions (the "Conditions") set out on the reverse hereof.

The Issuer for value received hereby promises to pay to the bearer of this Certificate the principal amount of (pound)[1,000/10,000/100,000][(One/Ten/One Hundred)] Thousand pounds sterling on 16th October, 2005 or on such earlier date as such principal amount may become payable in accordance with the Conditions and the Trust Deed together with interest thereon and any other moneys payable in respect of the Bonds in accordance with the Conditions and the Trust Deed.

The Bonds are guaranteed as to principal and interest by the Guarantor on the terms of the Trust Deed.

This Certificate shall not be valid or become obligatory for any purpose until signed on behalf of the Issuer and the Guarantor and authenticated by or on behalf of the Principal Paying Agent.

Dated ________________________

In witness whereof the Issuer and the Guarantor have caused this Certificate to be signed in facsimile on their respective behalves.

Northern Electric Finance plc

By: ________________________
Director

By: ________________________
Director

Northern Electric plc

By: ________________________
Director

By: ________________________
Director

Certificate of Authentication

This Certificate is authenticated by or on behalf of the Principal Paying Agent.

By: ________________________
Authorised Signatory

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940.]

On the back:

Terms and Conditions

Details of Agents

Schedule 1

Part II

Form of Original Global Bond 2005

ISIN:

NORTHERN ELECTRIC FINANCE plc
(Incorporated with limited liability in England and Wales - No. 3070482)
(pound)100,000,000 8.625 per cent. Guaranteed Bonds due 2005
guaranteed as to principal and interest by
NORTHERN ELECTRIC plc
(Incorporated with limited liability in England and Wales - No. 2366942)

TEMPORARY GLOBAL BOND CERTIFICATE

The Bonds in respect of which this temporary Global Bond Certificate is issued are in bearer form and comprise the series of Bonds designated as specified in the title (the "Bonds") of Northern Electric Finance plc (the "Issuer") constituted by a Master Trust Deed dated 16th October, 1995 between the Issuer, Northern Electric plc (the "Guarantor") and The .Law Debenture Trust Corporation p.l.c. as the Trustee (the "Trust Deed", which expression includes all deeds supplemental to such Trust Deed). The Bonds are subject to, and have the benefit of, the Trust Deed including the Terms and Conditions set out on the reverse hereof.

The Issuer for value received hereby promises to pay to the bearer of this Certificate the principal amount of (pound)100,000,000 (or such lesser or greater amount as is duly endorsed in the third column of Schedule A to this Certificate) on 16th October, 2005 or on such earlier date as such principal amount may become payable in accordance with the Trust Deed together with interest thereon and any other moneys payable in respect of the Bonds in accordance with the Trust Deed.

The Bonds are guaranteed as to principal and interest by the Guarantor on the terms of the Trust Deed.

This temporary Global Bond Certificate is exchangeable for individual Certificates representing Bonds in bearer form with Coupons attached. The Issuer hereby irrevocably undertakes to deliver individual Certificates representing Bonds in exchange for this temporary Global Bond Certificate on and after 26th November, 1995 (the "Exchange Date").

On or after the Exchange Date this temporary Global Bond Certificate may be exchanged in whole or in part for individual Certificates representing Bonds in an aggregate principal amount not exceeding the principal amount of this temporary Global

Bond by the submission of this temporary Global Bond Certificate to the Principal Paying Agent together with a certificate from Cedel Bank, soci6t-anonyme ("Cedel") or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") substantially to the following effect:

CERTIFICATE OF CLEARING SYSTEM

NORTHERN ELECTRIC FINANCE plc

(pound)100,000,000 8.625 per cent. Guaranteed Bonds due 2005 (the "Bonds")

Common Code: ISIN:

This is to certify that, based solely on certificates we have received in writing, by tested telex or by electronic transmission, from member organisations appearing in our records as persons being entitled to a portion of the principal amount set forth below (Our "Member Organisations") substantially in the form set out in the temporary Global Bond Certificate representing Bonds (the form of which is set out in Part II of Schedule 1 to the Master Trust Deed constituting the Bonds) as of the date hereof .... principal amount of the Bonds (i) is owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States federal income taxation regardless of its source ("United States persons"), (ii) is owned by United States persons that are (a) foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1. 165-12(c)(1)(v)) ("financial institutions") purchasing for their own account or for resale, or (b) United States persons who acquired the Bonds through foreign branches of United States financial institutions and who hold the Bonds through such United States financial institutions on the date hereof (and, in either case (a) or (b), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1. 163-5(c)(2)(i)(D)(7)), and to the further effect that United States or foreign financial institutions described in (iii) above (whether or not also described in (i) or (ii) above) have certified that they have not acquired the Bonds for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

We further certify (i) that we are not making available herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) any portion of the Bonds represented by the temporary Global Bond Certificate excepted in such certificates and (ii) that as of the date hereof we have not received any notification from any of our Member Organisations to the effect that the statements made by such Member Organisation with respect to any portion of the part submitted herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) are no longer true and cannot be relied upon as of the date hereof.

We understand that this certificate is required in connection with certain tax laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorise you to produce this certificate to any interested parry in such proceedings.

Dated: _______________*

Yours faithfully,

[Cedel Bank, societe anonyme]

or

[MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

Brussels office,

as operator of the Euroclear System]

By: ______________________

* To be dated no earlier than the Exchange Date.

Any person appearing in the records maintained by Cedel or Euroclear as entitled to any interest in Bonds represented by this temporary Global Bond Certificate shall be entitled to require the exchange of this temporary Global Bond Certificate for (an) individual Certificate(s) representing such Bonds in bearer form by delivering or causing to be delivered to Cedel or Euroclear a certificate in substantially the following form (copies of which certificate will be available at the office of Cedel in Luxembourg and Euroclear in Brussels and at the specified office of each of the Paying Agents):

"CERTIFICATE OF CLEARING SYSTEM PARTICIPANT

NORTHERN ELECTRIC FINANCE plc

(pound)100,000,000 8.625 per cent. Guaranteed Bonds due 2005 (the "Bonds")

Common Code: ISIN:

To: [Cedel Bank, societe anonyme] [Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System]

This is to certify that, as of the date hereof, and except as set forth below, the Bonds held by you for our account (i) are owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States federal income taxation regardless of its source ("United States persons"), (ii) are owned by United States persons that are (a) foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1. 165-12(c)(1)(v)) ("financial institutions") purchasing for their own account or for resale, or (b) United States persons who acquired the Bonds through foreign branches of United States financial institutions and who hold the Bonds through such United States financial institutions on the date hereof (and, in either case (a) or (b), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) are owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition, if an owner of Bonds is a United States or foreign financial institution described in (iii) above (whether or not also described in (i) or (ii) above), this is to certify further that such financial institution has not acquired the Bonds for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the States and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to that date on which you intend to submit your certificate relating to the Bonds held by you for our account in accordance with your documented procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certificate applies as of such date.

This certificate excepts and does not relate to .... principal amount of the Bonds in respect of which we are not able to certify and as to which we understand exchange and delivery of individual Certificates representing Bonds (or, if relevant, exercise of any rights or collection of any interest) cannot be made until we do so certify.

We understand that this certificate is required in connection with certain tax laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorise you to produce this certificate to any interested party in such proceeding.

Dated: __________________*

By: ____________________

[Name of person giving certificate] as, or as
agent for, the beneficial owner(s) of the
Bonds in respect of which this certificate is issued.

* To be dated no earlier than the fifteenth day prior to the Exchange Date."

Until the exchange of this temporary Global Bond Certificate for individual Certificates representing Bonds pursuant to the foregoing provisions, no person as aforesaid shall (except as stated herein) be entitled to receive any payment by way of principal or interest in respect of the Bonds represented by this temporary Global Bond Certificate (unless, upon due presentation of this temporary Global Bond Certificate for exchange, delivery of any individual Certificate representing Bonds shall be improperly withheld or refused) or to receive (an) individual Certificate(s) representing Bonds which he would otherwise be entitled to receive.

Upon any exchange of this temporary Global Bond Certificate for individual Certificates representing Bonds the portion of the principal amount represented by this temporary Global Bond Certificate in respect of which such exchange shall be effected shall be endorsed by the Principal Paying Agent on the Schedule of exchanges for individual Certificates hereon, whereupon the principal amount represented by this temporary Global Bond Certificate shall be reduced for all purposes by the amount of such portion.

Subject to the second preceding paragraph, no provisions of this temporary Global Bond Certificate shall alter or impair the obligation of the Issuer to pay the principal and interest in respect of the Bonds when due in accordance with the Trust Deed or the obligations of the Guarantor under the Trust Deed.

This temporary Global Bond Certificate is governed by and shall be construed in accordance with English law.

This temporary Global Bond Certificate shall not be valid or become obligatory for any purpose until signed on behalf of the Issuer and the Guarantor and authenticated by or on behalf of the Principal Paying Agent.

Dated ____________________

In witness whereof the Issuer and the Guarantor have caused this temporary Global Bond Certificate to be signed in facsimile on their respective behalves.

Northern Electric Finance plc Director

By: ______________________
Director

By: ______________________
Director

Northern Electric plc

By: ______________________
Director

By: ______________________
Director

Certificate of Authentication

This temporary Global Bond Certificate is authenticated by or on behalf of the Principal Paying Agent.

By: ______________________
Authorised Signatory

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

[NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940.]

Schedule of exchanges for individual Certificates

The principal amount of the Bonds represented by this temporary Global Bond Certificate has been reduced as a result of the issue of individual Certificates representing Bonds in respect of a portion of such principal amount in exchange as follows:

Date of exchange	Amount of decrease in principal amount of Bonds represented by Global Bond Certificate	Principal amount of Bonds represented by Global Bond Certificate following such decrease	Notation made by or on behalf of Principal Paying Agent

Schedule of interest paid

Date of payment	Amount of interest	Notation made

Schedule 1

Part III

Form of Original Coupon 2005

On the front:

ISIN: Serial No: Coupon No:

NORTHERN ELECTRIC FINANCE plc

(Incorporated with limited liability in England and Wales - No. 3070482)

(pound)100,000,000 8.625 per cent Guaranteed Bonds due 2005

guaranteed as to principal and interest by

NORTHERN ELECTRIC plc

(Incorporated with limited liability in England and Wales - No. 2366942)

Coupon for ____________ due on - 199[6/7/8/9/2000/1/2/3/4/5].

This Coupon relates to interest payable on (pound)[1,000/10,000/100,000] [(One/Ten/One Hundred Thousand)] principal amount of the Bonds designated as specified in the title (the "Bonds") of Northern Electric Finance plc (the "Issuer") constituted by a Master Trust Deed dated 16th October, 1995 between the Issuer, Northern Electric plc (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. as the Trustee (the "Trust Deed", which expression includes all deeds supplemental to such Trust Deed).

This Coupon is payable to bearer (subject to the Trust Deed, including the Conditions endorsed on the Certificate representing the Bonds to which this Coupon relates, which shall be binding upon the holder of this Coupon whether or not it is for the time being attached to such Certificate) at the specified offices of the Paying Agents set out on the reverse hereof (or any further or other Paying Agents or specified offices duly appointed or nominated from time to time and notified to the Bondholders).

Such interest is guaranteed by the Guarantor.

This Coupon is negotiable separately from the Bonds to which this Coupon relates.

This Coupon shall not be valid or become obligatory for any purpose until signed on behalf of the Company and authenticated by or on behalf of the Principal Paying Agent.

Dated:____________________

In witness whereof the Company and the Guarantor have caused this Coupon to be signed in facsimile on their respective behalves.

Northern Electric Finance plc	Northern Electric plc
By: ____________________ Director	By: ____________________ Director
By: ____________________ Director	By: ____________________ Director

Certificate of Authentication

This Coupon is authenticated by or on behalf of the Principal Paying Agent

By: ____________________
Authorised Signatory

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

[NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940.]

On the back:

Details of Paying Agents

Schedule 2

Terms and Conditions of Original Bonds 2005

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds which will be endorsed on each Bond in definitive form:

The (pound)100,000,000 8.625 per cent. Guaranteed Bonds due 2005 (the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of Northern Electric Finance plc (the "Issuer") are constituted by a master trust deed dated 16th October, 1995 (the "Trust Deed", which expression shall wherever the context so admits include any deed supplemental thereto) made between the Issuer, Northern Electric plc (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the "Bondholders") The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 9th October, 1995. The giving of the guarantee by the Guarantor was authorised by a written resolution of the board of directors of the Guarantor passed on 14th September, 1995 appointing a committee of the board for the purposes of the giving of the guarantee and by a resolution of such duly appointed committee of the board of directors of the Guarantor passed on 9th October, 1995. The Bonds are, on issue, listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange"). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and of an agency agreement dated 16th October, 1995 (the "Agency Agreement") made between the Issuer, the Guarantor, Barclays Bank PLC, as principal paying agent (the "Principal Paying Agent", which expression shall include any successor), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents) and the Trustee are available for inspection during normal business hours by the Bondholders and the holders of the interest coupons appertaining to the Bonds (respectively, the "Couponholders" and the "Coupons", at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

1. Form, Denominations and Title

The Bonds are in bearer form, serially numbered, in the denominations of (pound)1,000, (pound)10,000 and (pound)100,000 each with Coupons attached on issue. Title to the Bonds and to the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of another denomination.

The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond and the holder of any Coupon as the absolute owner thereof for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon).

2. Status and Guarantee

The Bonds and the Coupons are direct, unconditional and, subject to the provisions of Condition 3, unsecured obligations of the Issuer and, subject as aforesaid, rank and will rank pari passu, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency of the Issuer, only to the extent permitted by applicable laws relating to creditors' rights.

The Guarantor has, in the Trust Deed, unconditionally and irrevocably guaranteed the due and punctual payment of the principal of and interest on the Bonds as and when the same shall become due and payable together with any additional amounts payable pursuant to Condition 8 and all other moneys payable under the Trust Deed. The obligations of the Guarantor under the terms of such guarantee constitute direct, unconditional and, subject to the provisions of Condition 3, unsecured obligations of the Guarantor and such obligations rank and will rank pari passu with all other outstanding unsecured and unsubordinated obligations

of the Guarantor, present and future, but, in the event of insolvency of the Guarantor, only to the extent permitted by applicable laws relating to creditors' rights.

3. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed) each of the Issuer and the Guarantor will ensure that no Relevant Indebtedness of the Issuer, the Guarantor or any PES Subsidiary or of any other person and no guarantee by the Issuer, the Guarantor or any PES Subsidiary of any Relevant Indebtedness of any other person will be secured by a mortgage, charge, lien, pledge or other security interest (each a "Security Interest") upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer, the Guarantor or any PES Subsidiary unless the Issuer or the Guarantor, as the case may be shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:

(a) all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed or, as the case may be. the obligations of the Guarantor under the guarantee referred to in Condition 2 are secured to the satisfaction of the Trustee equally and rateably with the Relevant Indebtedness or guarantee of Relevant Indebtedness, as the case may be, by such Security Interest; or

(b) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed or, as the case may be, in respect of the obligations of the Guarantor under the guarantee referred to in Condition 2 either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders,

save that the Issuer, the Guarantor or any PES Subsidiary may create or have outstanding a Security Interest in respect of any of its Relevant Indebtedness and/or any guarantees given by the Issuer, the Guarantor or any PES Subsidiary in respect of any Relevant Indebtedness of any other person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Bonds, the Coupons and the Trust Deed or, as the case may be, the obligations of the Guarantor under the said guarantee as aforesaid) where such Relevant Indebtedness has an initial maturity falling not earlier than 31st December, 2005 and is of a maximum aggregate amount outstanding at any time not exceeding the greater of (pound)20,000,000 and 20 per cent, of the Consolidated Tangible Net Worth (as defined below).

For the purposes of these Terms and Conditions:

(a) "Consolidated Tangible Net Worth" means at any particular time the aggregate of the amount paid up on the Guarantor's issued share capital and the consolidated distributable - and non-distributable reserves of the Group (as shown in the most recently published audited consolidated financial statements of the Group), after:

(i) deducting the total of any debit balance on the profit and loss account and the book value of any intangible assets including but not limited to goodwill; and

(ii) excluding any minority interests in Subsidiary Undertakings;

but adjusted as may be necessary in respect of any variation in the paid-up share capital or share premium account of the Group since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group.

A report by the Auditors (as defined in the Trust Deed- as to the amount of the Consolidated Tangible Net Worth at any given time shall, in the absence of manifest error, be conclusive and binding on all parties.

(b) "Excluded Subsidiary" means any Subsidiary of the Issuer or the Guarantor (other than a Subsidiary which holds a public electricity supply licence granted under the Electricity Act 1989):

(i) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;

(ii) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than another Excluded Subsidiary) in respect of the repayment thereof; and

(iii) which has been designated as such by the Issuer or the Guarantor by written notice to the Trustee, provided that the Issuer or the Guarantor, as the case may be, may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;

(c) "Group" means the Guarantor, the Issuer and the Subsidiary Undertakings;

(d) "PES Subsidiary" means any Subsidiary of the Guarantor which holds a public electricity supply licence granted under the Electricity Act 1989;

(e) "Project Finance Indebtedness" means any present or future indebtedness (whether being principal, premium, interest or other amounts) to finance a project:

(i) which is incurred by an Excluded Subsidiary; or

(ii) in respect of which recourse to any member of the Group for the repayment or payment of any sum relating to such indebtedness is limited to:

(1) the assets of a single purpose company (other than a PES Subsidiary) the principal assets and business of which are constituted by such project and which was established for the purpose of incurring such indebtedness; or

(2) the assets of the project and the rights, revenues and insurance proceeds derived therefrom or related thereto,

with no recourse to any other assets of the Group (other than those of an Excluded Subsidiary);

(f) "Relevant Indebtedness" means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market, but shall not in any event include Project Finance Indebtedness;

(g) "Subsidiary" means a subsidiary within the meaning of Section 736 of the Companies Act 1985;

(h) "Subsidiary Undertaking" shall have the meaning given to it by Section 258 of the Companies Act 1985 (but shall exclude any undertakings (as defined in the Companies Act 1985) whose accounts are not included in the then latest published audited consolidated accounts of the Guarantor, nor (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would its accounts have been so included or consolidated if it had become so on or before that date); and

(i) any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of the obligation.

4. Interest

The Bonds bear interest from (and including) 16th October, 1995 at the rate of 8.625 per cent. per annum, payable annually in arrear on 16th October in each year (each an "Interest Payment Date"), the first such payment to be made on 16th October, 1996 and to amount to a full year's interest.

Each Bond will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of such payment, in which event interest shall continue to accrue as provided in the Trust Deed.

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. Payments

Payments of principal in respect of each Bond will only be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Bond at the specified office

of any of the Paying Agents. Payments of interest due on the Bonds on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupons at the specified office of any of the Paying Agents. Each such payment will be made at the specified office of any Paying Agent, at the option of the holder, by sterling cheque drawn on a town clearing branch of, or by transfer to a sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

Each Bond must be presented for payment together with all unmatured Coupons appertaining thereto failing which the full amount of any missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupons which the amount so paid bears to the total amount due) appertaining thereto will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of such missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bond (whether or not such Coupon would otherwise have become void pursuant to Condition 9), or, if later, five years after the date on which such Coupon would have become due, but not thereafter.

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 9):

(a) is or falls after the relevant due date but, if the due date is not or was not a Business Day in the City of London, is or falls after the next following such Business Day; and

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment and, in the case of payment by transfer to a sterling account in the City of London as referred to above, in the City of London.

"Business Day" means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in that place.

When making payments to Bondholders or Couponholders, fractions of one penny will be rounded down to the nearest whole penny.

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain at least two Paying Agents having specified offices in separate European cities previously approved in writing by the Trustee, one of which, so long as the Bonds are listed on the London Stock Exchange, shall be London or such other place as the London Stock Exchange may approve and one of which shall be outside the United Kingdom. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

6. Redemption and Purchase

(A) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 16th October, 2005.

(B) The Issuer may, at any time, having given notice to the Bondholders in accordance with this Condition 6(B) (which notice shall be irrevocable), redeem the Bonds in whole or in part (but if in part, in integral multiples of (pound) 1,000,000 in principal amount thereof), at the price which shall be the higher of the following, together with interest accrued up to the date of redemption:

(i) their principal amount; and

(ii) that price (the "Redemption Price"), expressed as a percentage rounded to three decimal places (0.0005 being rounded down), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption (or, in the case of a partial redemption, the first notice of redemption referred to below), would be equal to the Gross Redemption Yield on such dealing day of the 8 1/2 per cent. Treasury Stock 2005 or of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers operating in the

gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "Reference Stock") on the basis of the middle market price of the Reference Stock prevailing on such dealing day, as determined by Barclays de Zoete Wedd Limited (or such other person(s) as the Trustee may approve).

The Gross Redemption Yield on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part 1, 1978, page 18 or on such other basis as the Trustee may previously approve in writing.

In the case of a redemption of all of the Bonds pursuant to this Condition 6(B), notice will be given to the Bondholders by the Issuer in accordance with Condition 14 once not less than 30 nor more than 60 days before the date fixed for redemption and will specify the date fixed for redemption and the redemption price.

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected individually by lot in such place as the Trustee may previously approve in writing and in such manner as the Trustee shall deem to be appropriate and fair without involving any part of a Bond, not more than 65 days before the date fixed for redemption. In the case of a partial redemption of the Bonds pursuant to this Condition 6(B), notice will be so given to the Bondholders by the Issuer in accordance with Condition 14 twice, first not less than 80 nor more than 95 days, and secondly not less than 30 nor more than 60 days, before the date fixed for redemption. Each notice will specify the date fixed for redemption and the redemption price, the aggregate principal amount of the Bonds to be redeemed, the serial numbers of Bonds previously called (in whole or in part) for redemption and not presented for payment and the aggregate principal amount of Bonds which will be outstanding after the partial redemption. In addition the second such notice will specify the serial numbers of the Bonds called for redemption.

Upon the expiry of any such notice as is referred to in this Condition 6(B), the Issuer shall be bound to redeem the Bonds to which the notice refers at the relevant redemption price at the date of such redemption together with interest accrued to but excluding such date.

(C) If as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 10th October, 1995, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall, in the absence of manifest error, accept such certificate and opinion as sufficient evidence thereof) of (i) a certificate signed by two directors of the Issuer on behalf of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective)), the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all the Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 6(B) prior to any notice being given under this Condition 6(C)) but not some only, at their principal amount together with interest (if any) accrued to (but excluding) the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay such additional amounts were a payment in respect of the Bonds then due.

Upon expiry of any such notice as is referred to in this Condition 6(C) (and subject as provided above), the Issuer shall be bound to redeem all the Bonds at their principal amount together with interest accrued to (but excluding) the redemption date.

(D) The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds together with unmatured Coupons in any manner and at any price in the open market or by private treaty. If purchases are made by tender, tenders must be available to all Bondholders alike. Bonds purchased by the Issuer, the Guarantor or any of their respective Subsidiaries may be held or reissued or resold or surrendered for cancellation.

(E) All Bonds which are redeemed will forthwith be cancelled (together with all relative unmatured Coupons attached to or surrendered with the Bonds) and may not be reissued or resold.

(F) While any Bonds are held by the Issuer, the Guarantor or any of their respective Subsidiaries, such Bonds shall not entitle the holder to vote at, or to be counted in the quorum for, any meeting of Bondholders and, for the purposes of the provisions of the Trust Deed concerning meetings of Bondholders, will not be regarded as being in issue.

7. Redemption at the Option of Bondholders

(A) For the purposes of these Terms and Conditions:

(i) "independent financial adviser" means a financial adviser appointed by the Guarantor and previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed) or, if the Guarantor shall not have appointed such an adviser within 21 days of becoming aware of the occurrence of a Restructuring Event and the Trustee is indemnified to its satisfaction against the costs of such adviser, appointed by the Trustee following consultation with the Guarantor;

(ii) "Investment Grade Rating" means a rating of at least investment grade BBB- in the case of Standard & Poor's Corporation and Baa3 in the case of Moody's Investors Services Inc. or their respective equivalents for the time being; ~ "Negative Certification" means a certificate given in writing to the Trustee by an independent financial adviser that a Restructuring Event will be or is, in its opinion, materially prejudicial to the interests of the Bondholders;

(iv) A "Negative Rating Event" shall be deemed to have occurred if (X) the Guarantor does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds or any other unsecured and unsubordinated debt of the Guarantor (or of any Subsidiary of the Guarantor (including, without limitation, the Issuer) and which is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more from a Rating Agency or (Y) if the Guarantor does so seek and use such endeavours but it is unable, as a result of such Restructuring Event, to obtain the Investment Grade Rating (and, in this definition, "seek" shall include procuring the relevant Subsidiary to seek);

(v) "Pooling and Settlement Agreement" means the agreement dated 30th March, 1990 (as amended and restated up to 22nd April, 1994) made by the Guarantor with The National Grid Company plc and others setting out the rules and procedures for the operation of an electricity trading pool and of a settlement system as in force on 10th October, 1995 and, while the same has effect, the Initial Settlement Agreement also dated 30th March, 1990 and made between the same parties, as in force on 10th October, 1995;

(vi) A "Put Event" occurs on either (X) the date of the last to occur of all of the following (aa) a Restructuring Event, (bb) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (cc) the relevant Negative Certification or (Y) the date on which the Guarantor receives a notice from the Secretary of State as referred to in Article I 1(4)(a) of the Guarantor's Articles of Association as in effect on 10th October, 1995;

(vii) " Rating Agency" means Standard & Poor's Corporation or any of its subsidiaries and their successors or Moody's Investors Service Inc. or any of its subsidiaries and their successors or any rating agency substituted for either of them (or any permitted substitute of them) by the Guarantor from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed);

(viii) Following a Restructuring Event, a "Rating Downgrade" shall be deemed to have occurred in respect of that Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Guarantor or by its own volition) is withdrawn or reduced from the Investment Grade Rating or, if the Rating Agency shall then have already rated the Rated Securities below the Investment Grade Rating, the rating is lowered one full rating category;

(ix) "Rated Securities" means the Bonds, if at any time and for so long as they shall have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Guarantor (or of any Subsidiary of the Guarantor (including, without limitation, the Issuer) and which is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more which is rated by a Rating Agency;

(x) "Restructuring Event" means the occurrence of any one or more of the following events:

(A) (aa) the Secretary of State for Trade and Industry (or any successor) giving the Guarantor written notice of revocation of the public electricity supply licence (the "PES Licence") granted by the Secretary of State for Energy to the Guarantor under the Electricity Act 1989 in relation to its authorised area and excluding any second tier supply licence provided that the giving of notice pursuant to paragraph 3 of Part 1 of the PES Licence shall not be deemed to constitute the revocation of the PES Licence or (bb) the Guarantor agreeing in writing with the Secretary of State for Trade and Industry (or any successor) to any revocation or surrender of the PES Licence or (cc) any legislation (whether primary or subordinate) being enacted terminating or revoking the PES Licence, except in any such case in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Guarantor or a wholly-owned Subsidiary of the Guarantor (the "Relevant Subsidiary") and in the case of such Relevant Subsidiary at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Bonds in such form as the Trustee may previously approve in writing (such approval not to be unreasonably withheld or delayed) or becomes the principal debtor under the Bonds in accordance with Condition 12; or

(B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of the PES Licence on or after 10th October, 1995 unless the modified terms and conditions are certified by two directors of the Guarantor to be not materially less favourable to the business of the Guarantor; or

(C) (aa) the Pooling and Settlement Agreement being terminated under Clause 67.4 thereof and not being replaced by an agreement, commercial arrangement or open market mechanism or framework having substantially the same effect as the Pooling and Settlement Agreement, in each case on terms which two directors of the Guarantor certify to be not materially less favourable to the business of the Guarantor; or

(bb) the Guarantor being given notice pursuant to Clause 67.3.2 of the Pooling and Settlement Agreement requiring it to cease to be a party thereto; or

(cc) any notice declaring an event of default (as defined in the Pooling and Settlement Agreement) being given to the Guarantor under Clause 66.1.1 or 66.2 thereof and such default remaining unremedied or unwaived; or

(dd) any modification (other than a modification which is of a formal, minor or technical nature) being made to the Pooling and Settlement Agreement on or after 10th October, 1995, unless two directors of the Guarantor certify that any such modification has not had and will not have a materially adverse effect on the amount or nature of any payment made or to be made by or to the Guarantor pursuant to the Pooling and Settlement Agreement or a materially adverse effect on the financial rights or obligations of the Guarantor under the Pooling and Settlement Agreement, provided that any such modification shall, to the extent it grants or confers powers or discretions on the Director General of Electricity Supply (or any successor) under or in respect of the Pooling and Settlement Agreement, be deemed not to have a materially adverse effect as aforesaid, but for the avoidance of doubt any modification to the Pooling and Settlement Agreement made by the Director General of Electricity Supply (or any successor) by virtue of or pursuant to any such powers or discretions and which otherwise would have a materially adverse effect as provided above shall not by virtue of this subparagraph be deemed not to have such an effect; or

(ee) the Guarantor ceasing to be a party to the Pooling and Settlement Agreement for any reason (other than pursuant to (bb) and (cc) above), except where a licence is granted to a Relevant Subsidiary as contemplated by sub-paragraph (A) (X) (A) above and at or about the same time all rights and obligations of the Guarantor pursuant to the Pooling and Settlement Agreement are assigned and transferred to such Relevant Subsidiary in such manner as the Trustee may previously approve in writing (such approval not to be unreasonably withheld or delayed); or

(D) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Trade and Industry (or any successor) and/or the Director General of Electricity Supply (or any successor) under Section 3 of the Electricity Act 1989 as in force on 10th October, 1995, unless two directors of the Guarantor certify that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Guarantor.

(xi) "Restructuring Period" means:

(A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or

(B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (an) the date on which the Guarantor shall seek to obtain a rating pursuant to Condition 7(A)(iv) prior to the expiry of the 14 days referred to in the definition of Negative Rating Event and (bb) the date on which a Negative Certification shall have been given to the Guarantor in respect of that Restructuring Event; and

(xii) A Rating Downgrade or a Negative Rating Event or a non-Investment Grade Rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 7 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and until it shall have actual knowledge or express notice in accordance with the Trust Deed to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event or other such event has occurred.

(B) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and prior to the commencement of or during the Restructuring Period an independent financial adviser shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition 7 shall cease to have any further effect in relation to such Restructuring Event.

(C) If, at any time while any of the Bonds remains outstanding, either

(i) a Restructuring Event occurs and (subject to Condition 7(B)):

(X) within the Restructuring Period, either:

(i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade in respect of such Restructuring Event also occurs; or

(ii) if at such time there are no Rated Securities, a Negative Rating Event also occurs; and

(Y) an independent financial adviser shall have given a Negative Certification; or

(ii) the Guarantor receives a notice from the Secretary of State as referred to in Article 11 (4)(a) of the Guarantor's Articles of Association as in effect on 10th October, 1995,

then, unless, in the case of (ii) only, an independent financial adviser shall have certified in writing to the Trustee within 12 days of issue of such notice that neither the notice of the revocation of the Licence by the Secretary of State nor the redemption by the Guarantor of all of its preference shares will be or is, in its opinion, materially prejudicial to the interests of the Bondholders and unless, in the case of both (i) and (ii), at any time the Issuer shall have given a notice in respect of his Bond under Condition 6(B) or under Condition 6(C), in each case expiring prior to the Put Date (as defined below) each Bondholder shall have the option (the "Put Option") to require the Issuer or, failing the Issuer, the Guarantor, to redeem or, at the option of the Issuer or the Guarantor, as applicable, purchase (or procure the purchase

of that Bond on the Put Date at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Bondholders if, notwithstanding the occurrence of the Rating Downgrade, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to the Investment Grade Rating prior to any Negative Certification being given.

Any certification by an independent financial adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event will be or is materially prejudicial to the interests of the Bondholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer, the Guarantor, the Bondholders and the Couponholders.

(D) Promptly upon the Issuer or the Guarantor becoming aware that a Put Event, has occurred and in any event not later than 14 days after the occurrence of a Put Event, the Issuer or the Guarantor shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 14 specifying the nature of the Put Event, and the procedure for exercising the Put Option.

(E) To exercise the Put Option in respect of his Bond the Bondholder must deliver such Bond to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 5) in the City of London and in the place of such specified office falling within the period (the "Put Period") commencing on the date the Put Event Notice is given and expiring 45 days thereafter accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the Bondholder may specify a bank account complying with the requirements of Condition 5 to which payment is to be made under this Condition 7. Each Bond must be delivered together with all Coupons appertaining thereto maturing after the day (the "Put Date") being, in the case of a Put Event referred to in sub-clause (X) of the definition of Put Event, the fifteenth day after the date of expiry of the Put Period and, in the case of a Put Event referred to in sub-clause (Y) of the definition of Put Event, the day upon which such Bond is delivered at the specified office of any Paying Agent by the relevant Bondholder failing which the full amount of any such missing Coupon will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner provided in Condition 5 against presentation and surrender (or, in the case of part payment only, endorsement) of such missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made, on the Put Date, by transfer to that bank account and, in every other case, on or after the Put Date, but in each case against presentation and surrender (or, as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 1, 9, 10, 11, 13, and 15 and for certain other purposes specified in the Trust Deed, receipts issued pursuant to this Condition 7 shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date, unless such Bond has been previously redeemed or purchased in accordance with these Terms and Conditions.

8. Taxation

All payments in respect of the Bonds and the Coupons by the Issuer or, as the case may be, the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, the Coupons in the absence of the withholding or deduction except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

(a) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or

(b) presented for payment in the United Kingdom; or

(c) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days; or

(d) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

As used herein, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14.

Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9. Prescription

Bonds and Coupons will become void unless presented for payment within periods of 10 years and five years respectively from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 5.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, (but in the case of the happening of any of the events mentioned in sub-paragraphs (b), (c), (d), (e), (f), (g) and (h) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders and subject in each case to the Trustee being indemnified by, or on behalf of. Bondholders to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed) if any of the following events (each an "Event of Default") shall have occurred (unless such Event of Default has been remedied to the satisfaction of the Trustee):

(a) if default is made for a period of 7 days or more in the payment of any principal or the purchase price due in respect of any Bond pursuant to Condition 7 or 14 days or more in the payment of any interest due in respect of the Bonds or any of them; or

(b) if the Issuer or the Guarantor fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 30 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee on the Issuer or the Guarantor, as the case may be, of notice requiring the same to be remedied; or

(c) if (i) any other indebtedness for borrowed money of the Issuer, the Guarantor or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default (howsoever described) or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (iii) the Issuer, the Guarantor or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer, the Guarantor or any Principal Subsidiary for any indebtedness for borrowed money of any person or any

guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a bona fide dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds whichever is the greater of (pound)20,000,000 or its equivalent in other currencies (as determined by the Trustee) or two per cent. of the Consolidated Tangible Net Worth, and for the purposes of this sub-paragraph (c), "indebtedness for borrowed money" shall exclude Project Finance Indebtedness; or

(d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer or the Guarantor, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

(e) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Guarantor or any of its other Subsidiaries or (ii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

(f) if the Issuer, the Guarantor or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Issuer, the Guarantor or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member of the Group or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer, the Guarantor or a Principal Subsidiary on an arm's length basis or (iii) where the transferee is or immediately upon such transfer becomes a Principal Subsidiary or (iv) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, provided that if the Guarantor shall transfer the PES - Licence it shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and none of exceptions (i) to (iii) shall apply) unless the transferee assumes all the Issuer's obligations under the Bonds and the Trust Deed as primary obligor or gives a guarantee in substitution for the Guarantor in form and substance acceptable to the Trustee in respect of the obligations of the Issuer under the Bonds and the Trust Deed; or

(g) if the Issuer, the Guarantor or any Principal Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable or shall admit in writing its inability, to pay its debts (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under Section 1 of the Insolvency Act 1986; or

(h) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer, the Guarantor or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or an encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 60 days (or such longer period as the Trustee may in its absolute discretion permit).

For the purposes of sub-paragraph (g) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "(pound)750" there was substituted "(pound)250,000" or such higher figure as the Director (as defined in the PES Licence) may from time to time determine by notice in writing to the Secretary of State (as defined in the PES Licence) and the Guarantor.

Neither the Issuer, the Guarantor nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (g) above if any such demand as is mentioned in Section

123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be, with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Trustee under the first paragraph of this Condition 10. For the purposes of these Terms and Conditions:

(a) a "Principal Subsidiary" at any time shall mean a Subsidiary of the Issuer or the Guarantor (not being any Subsidiary of the Issuer or the Guarantor whose only indebtedness for borrowed money is Project Finance Indebtedness):

(A) whose (i) net profits before tax or (ii) gross assets represent 15 per cent. or more of the consolidated net profits before tax of the Group or consolidated gross assets of the Group respectively in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries and which, in the normal course, prepares consolidated accounts) and the then latest audited consolidated financial statements of the Group; or

(B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer or the Guarantor which immediately prior to such transfer is - a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall immediately become a Principal Subsidiary under the provisions of this sub-paragraph (B) (but without prejudice to the provisions of sub-paragraph (A) above);

all as more fully defined in the Trust Deed.

A report by the Auditors that in their opinion a Subsidiary of the Issuer or the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Guarantor, the Issuer, the Trustee, the Bondholders and the Couponholders; and

(b) "indebtedness for borrowed money" means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance credit, or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

11. Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer or the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons but it shall not be bound to take any proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

12. Substitution

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of the Guarantor or any Subsidiary or holding company (as defined in section 736 of the Companies Act 1985) of the Guarantor or any Subsidiary of such holding company, subject to (a) the Bonds continuing to be unconditionally and irrevocably guaranteed by the Guarantor (save where the Guarantor itself has been substituted for the Issuer (or any previous substitute) or where the Guarantor has transferred the PES Licence to the substituted party), (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Guarantor (or of any previous substitute under

this Condition) as the guarantor of the obligations of the Issuer (or of any previous substitute under this Condition) guaranteed by the Guarantor under the Bonds, the Coupons and the Trust Deed of any Subsidiary or holding company (as defined in section 736 of the Companies Act 1985) of the Guarantor or any subsidiary of such holding company, subject to (a) the PES Licence having been previously transferred to the substituted party; (b) the Trustee being satisfied that the interest of the Bondholders will not be materially prejudiced by the substitution; and (c) certain other conditions set out in the Trust Deed being complied with.

13. Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Paying Agent in London, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence, indemnity and security as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. Notices

Notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in ~Eur6pe as the Trustee may previously approve in writing. Any notice shall be deemed to have been given on the date of publication or, if so published more than once, on the date of the first publication. It is expected that publication will normally be made in the Financial Times. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may previously approve in writing.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition 14.

15. Meetings of Bondholders, Modification, Waiver and Authorisation

(a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting or voted thereat, and on all Couponholders.

(b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.

(c) In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(d) Any modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

17. Further Issues

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds or notes (whether in bearer or registered form) either (a) ranking pari passu in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds or notes may (with the prior written consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series in certain circumstances where the Trustee so decides.

18. Governing Law

The Trust Deed, the Bonds and the Coupons are governed by, and will be construed in accordance with, English law.

PRINCIPAL PAYING AGENT

Barclays Bank PLC
BGSS Depositary Services
8 Angel Court
Throgmorton Street
London EC2R 7HT

OTHER PAYING AGENT

Banque Lnternationale a Luxembourg S.A.
69 route d'Esch
L-1470 Luxembourg

Schedule 3

Part I

Form of individual Certificate for Original Bonds 2020

On the front:

ISIN: Serial No: Cert No:

NORTHERN ELECTRIC FINANCE plc

(Incorporated with limited liability in England and Wales - No. 3070482)

(pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020

guaranteed as to principal and interest by

NORTHERN ELECTRIC plc

(Incorporated with limited liability in England and Wales - No.2366942)

The Bonds in respect of which this Certificate is issued are in bearer form and form part of the series designated as specified in the title -the "Bonds") of Northern Electric Finance plc (the "Issuer") constituted by a Master Trust Deed dated 16th October, 1995 between the Issuer, Northern Electric plc (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. as the Trustee (the "Trust Deed", which expression includes all deeds supplemental to such Trust Deed). The Bonds are subject to, and have the benefit of, the Trust Deed and the Terms and Conditions (the "Conditions") set out on the reverse hereof.

The Issuer for value received hereby promises to pay to the bearer of this Certificate the principal amount of (pound)[1,000/10,000/100,000] [(One/Ten/One Hundred)] Thousand pounds sterling on 16th October, 2005 or on such earlier date as such principal amount may become payable in accordance with the Conditions and the Trust Deed together with interest thereon and any other moneys payable in respect of the Bonds in accordance with the Conditions and the Trust Deed.

The Bonds are guaranteed as to principal and interest by the Guarantor on the terms of the Trust Deed.

This Certificate shall not be valid or become obligatory for any purpose until signed on behalf of the Issuer and the Guarantor and authenticated by or on behalf of the Principal Paying Agent.

Dated ____________________

In witness whereof the Issuer and the Guarantor have caused this Certificate to be signed in facsimile on their respective behalves.

Northern Electric Finance plc	Northern Electric plc
By:__________________ Director	By:__________________ Director
By:__________________ Director	By:__________________ Director

Certificate of Authentication

This Certificate is authenticated by or on behalf of the Principal Paying Agent.

By: _______________________
Authorised Signatory

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 1650) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940.]

On the back:

Terms and Conditions

Details of Agents

Schedule 3

Part II

Form of Original Global Bond 2020

ISIN:

NORTHERN ELECTRIC FINANCE plc

(Incorporated with limited liability in England and Wales - No. 3070482)

(pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020

guaranteed as to principal and interest by

NORTHERN ELECTRIC plc

(Incorporated with limited liability in England and Wales - No. 2366942)

TEMPORARY GLOBAL BOND CERTIFICATE

The Bonds in respect of which this temporary Global Bond Certificate is issued are in bearer form and comprise the series of Bonds designated as specified in the title (the "Bonds") of Northern Electric Finance plc (the "Issuer") constituted by a Master Trust Deed dated 16th October, 1995 between the Issuer, Northern Electric plc (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. as the Trustee (the "Trust Deed", which expression includes all deeds supplemental to such Trust Deed). The Bonds are subject to, and have the benefit of, the Trust Deed including the Terms and Conditions set out on the reverse hereof.

The Issuer for value received hereby promises to pay to the bearer of this Certificate the principal amount of (pound)100,000,000 (or such lesser or greater amount as is duly endorsed in the third column of Schedule A to this Certificate) on 16th October, 2005 or on such earlier date as such principal amount may become payable in accordance with the Trust Deed together with interest thereon and any other moneys payable in respect of the Bonds in accordance with the Trust Deed.

The Bonds are guaranteed as to principal and interest by the Guarantor on the terms of the Trust Deed.

This temporary Global Bond Certificate is exchangeable for individual Certificates representing Bonds in bearer form with Coupons attached. The Issuer hereby irrevocably undertakes to deliver individual Certificates representing Bonds in exchange for this temporary Global Bond Certificate on and after 26th November, 1995 (the Exchange Date").

On or after the Exchange Date this temporary Global Bond Certificate may be exchanged in whole or in part for individual Certificates representing Bonds in an aggregate principal amount not exceeding the principal amount of this temporary Global

Bond Certificate by the submission of this temporary Global Bond Certificate to the Principal Paying Agent together with a certificate from Cedel Bank, societe anonyme ("Cedel") or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") substantially to the following effect:

CERTIFICATE OF CLEARING SYSTEM

NORTHERN ELECTRIC FINANCE plc

(pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020 (the "Bonds")

Common Code: ISIN:

This is to certify that, based solely on certificates we have received in writing, by tested telex or by electronic transmission, from member organisations appearing in our records as persons being entitled to a portion of the principal amount set forth below (our "Member Organisations") substantially in the form set out in the temporary Global Bond Certificate representing Bonds (the form of which is set out in Part II of Schedule 3 to the Master Trust Deed constituting the Bonds), as of the date hereof .... principal amount of the Bonds (i) is owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States federal income taxation regardless of its source ("United States persons"), (ii) is owned by United States persons that are (a) foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1. 165-12(c)(1)(v) ("financial institutions") purchasing for their own account or for resale, or (b) United States persons who acquired the Bonds through foreign branches of United States financial institutions and who hold the Bonds through such United States financial institutions on the date hereof (and, in either case (a) or (b), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and to the further effect that United States or foreign financial institutions described in (iii) above (whether or not also described in (i) or (ii) above) have certified that they have not acquired the Bonds for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

We further certify (i) that we are not making available herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) any portion of the Bonds represented by the temporary Global Bond Certificate excepted in such certificates and (ii) that as of the date hereof we have not received any notification from any of our Member Organisations to the effect that the statements made by such Member Organisation with respect to any portion of the part submitted herewith for exchange

(or, if relevant, exercise of any rights or collection of any interest) are no longer true and cannot be relied upon as of the date hereof.

We understand that this certificate is required in connection with certain tax laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorise you to produce this certificate to any interested party in such proceedings.

Dated: ____________________*

Yours faithfully,

[Cedel Bank, societe anonyme]

or

[MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

Brussels office,
as operator of the Euroclear System]

By:____________________

* To be dated no earlier than the Exchange Date.

Any person appearing in the records maintained by Cedel or Euroclear as entitled to any interest in Bonds represented by this temporary Global Bond Certificate shall be entitled to require the exchange of this temporary Global Bond Certificate for (an) individual Certificate(s) representing such Bonds in bearer form by delivering or causing to be delivered to Cedel or Euroclear a certificate in substantially the following form (copies of which certificate will be available at the office of Cedel in Luxembourg and Euroclear in Brussels and at the specified office of each of the Paying Agents):

"CERTIFICATE OF CLEARING SYSTEM PARTICIPANT

NORTHERN ELECTRIC FINANCE plc

(pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020 (the "Bonds")

Common Code: ISIN:

To: [Cedel Bank, societe anonyme] [Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System]

This is to certify that, as of the date hereof, and except as set forth below, the Bonds held by you for our account (i) are owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States federal income taxation regardless of its source ("United States persons"), (ii) are owned by United States persons that are (a) foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1. 165-12(c)(1)(v)) ("financial institutions") purchasing for their own account or for resale, or (b) United States persons who acquired the Bonds through foreign branches of United States financial institutions and who hold the Bonds through such United States financial institutions on the date hereof (and, in either case (a) or (b), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(,j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) are owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition, if an owner of Bonds is a United States or foreign financial institution described in (iii) above (whether or not also described in (i) or (ii) above), this is to certify further that such financial institution has not acquired the Bonds for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the States and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to that date on which you intend to submit your certificate relating to the Bonds held by you for our account in accordance with your documented procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certificate applies as of such date.

This certificate excepts and does not relate to .... principal amount of the Bonds in respect of which we are not able to certify and as to which we understand exchange and delivery of individual Certificates representing Bonds (or, if relevant, exercise of any rights or collection of any interest) cannot be made until we do so certify.

We understand that this certificate is required in connection with certain tax laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorise you to produce this certificate to any interested party in such proceeding.

Dated: ____________________ *

By: ______________________

[Name of person giving certificate] as, or as agent for, the beneficial owner(s) of the Bonds in respect of which this certificate is issued.

* To be dated no earlier than the fifteenth day prior to the Exchange Date."

Until the exchange of this temporary Global Bond Certificate for individual Certificates representing Bonds pursuant to the foregoing provisions, no person as aforesaid shall (except as stated herein) be entitled to receive any payment by way of principal or interest in respect of the Bonds represented by this temporary Global Bond Certificate (unless, upon due presentation of this temporary Global Bond Certificate for exchange, delivery of any individual Certificate representing Bonds shall be improperly withheld or- refused) or to receive (an) individual Certificate(s) representing Bonds which he would otherwise be entitled to receive.

Upon any exchange of this temporary Global Bond Certificate for individual Certificates representing Bonds the portion of the principal amount represented by this temporary Global Bond Certificate in respect of which such exchange shall be effected shall be endorsed by the Principal Paying Agent on the Schedule of exchanges for individual Certificates hereon, whereupon the principal amount represented by this temporary Global Bond Certificate shall be reduced for all purposes by the amount of such portion.

Subject to the second preceding paragraph, no provisions of this temporary Global Bond Certificate shall alter or impair the obligation of the Issuer to pay the principal and interest in respect of the Bonds when due in accordance with the Trust Deed or the obligations of the Guarantor under the Trust Deed.

This temporary Global Bond Certificate is governed by and shall be construed in accordance with English law.

This temporary Global Bond Certificate shall not be valid or become obligatory for any purpose until signed on behalf of the Issuer and the Guarantor and authenticated by or on behalf of the Principal Paying Agent.

Dated ______________________

In witness whereof the Issuer and the Guarantor have caused this temporary Global Bond Certificate to be signed in facsimile on their respective behalves.

Northern Electric Finance plc	Northern Electric plc
By: ______________________ Director	By: ______________________ Director
By: ______________________ Director	By: ______________________ Director

Certificate of Authentication

This temporary Global Bond Certificate is authenticated by or on behalf of the Principal Paying Agent.

By: ______________________
Authorised Signatory

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

[NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940.]

Schedule of exchanges for individual Certificates

The principal amount of the Bonds represented by this temporary Global Bond Certificate has been reduced as a result of the issue of individual Certificates representing Bonds in respect of a portion of such principal amount in exchange as follows:

Date of exchange	Amount of decrease in principal amount of Bonds represented by Global Bond Certificate	Principal amount of Bonds represented by Global Bond Certificate following such decrease	Notation made by or on behalf of Principal Paying Agent

Schedule of interest paid

Date of payment	Amount of interest	Notation made

Schedule 3

Part III

Form of Original Coupon 2020

On the front:

ISIN: Serial No: Coupon No:

NORTHERN ELECTRIC FINANCE plc

(Incorporated with limited liability in England and Wales - No. 3070482)

(pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020

guaranteed as to principal and interest by

NORTHERN ELECTRIC plc
(Incorporated with limited liability in England and Wales - No. 2366942)

Coupon for.................. due on 199[6/7/8/9/2000/1/2/3/4/5/6/7/8/9/10/11/12/13/14/15/16/17/18/19/20].

This Coupon relates to interest payable on (pound)[1,000/10,000/100,000] [(One/Ten/One Hundred Thousand)] principal amount of the Bonds designated as specified in the title (the "Bonds") of Northern Electric Finance plc (the "Issuer") constituted by a Master Trust Deed dated 16th October, 1995 between the Issuer, Northern Electric plc (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. as the Trustee (the "Trust Deed", which expression includes all deeds supplemental to such Trust Deed).

This Coupon is payable to bearer (subject to the Trust Deed, including the Conditions endorsed on the Certificate representing the Bonds to which this Coupon relates, which shall be binding upon the holder of this Coupon whether or not it is for the time being attached to such Certificate) at the specified offices of the Paying Agents set out on the reverse hereof (or any further or other Paying Agents or specified offices duly appointed or nominated from time to time and notified to the Bondholders).

Such interest is guaranteed by the Guarantor.

This Coupon is negotiable separately from the Bonds to which this Coupon relates.

This Coupon shall not be valid or become obligatory for any purpose until signed on behalf of the Company and authenticated by or on behalf of the Principal Paying Agent.

Dated: ________________________

In witness whereof the Company and the Guarantor have caused this Coupon to be signed in facsimile on their respective behalves.

Northern Electric Finance plc

By: ____________________
Director

By: ____________________
Director

Northern Electric plc

By: ____________________
Director

By: ____________________
Director

Certificate of Authentication

This Coupon is authenticated by or on behalf of the Principal Paying Agent

By: ____________________
Authorised Signatory

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

[NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940.]

On the back:

Details of Paying Agents

Schedule 3

Part IV

Form of Original Talon 2020

On the front:

NORTHERN ELECTRIC FINANCE plc

(Incorporated with limited liability in England and Wales - No. 3070482)

(pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020
guaranteed as to principal and interest by
NORTHERN ELECTRIC plc
(Incorporated with limited liability in England and Wales - No. 2366942)

Talon relating to (pound)[1,000/10,000/100,000] principal amount of Bonds

On and after ......, 200. further Coupons will be issued at the specified office of any of the Paying Agents set out on the reverse hereof (and/or any other or further Paying Agents and/or specified offices as may from time to time be duly appointed and notified to the Bondholders) upon production and surrender Of this Talon.

If the Bond to which this Talon appertains shall become due and payable or shall have been redeemed or cancelled before the date for presentation of this Talon, this Talon shall be void and no further Coupons will be issued in respect thereof.

[This Talon shall not be valid or become obligatory for any purpose until signed on behalf of the Company and the Guarantor and authenticated by or on behalf of the Principal Paying Agent.

Dated: ______________________

In witness whereof the Company and the Guarantor have caused this Talon to be signed in facsimile on their respective behalves.

Northern Electric Finance plc	Northern Electric plc
By: ______________________ Director	By: ______________________ Director
______________________ Director	______________________ Director

Certificate of Authentication

This Talon is authenticated by or on behalf of the Principal Paying Agent

By: ______________________
Authorised Signatory]

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS. INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(A) OF THE UNITED STATES INTERNAL REVENUE CODE.

[NEITHER THE ISSUER NOR THE GUARANTOR HAS BEEN OR WILL BE REGISTERED AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940.]

On the back: ______________________

Details of Paying Agents

Schedule 4

Terms and Conditions of Original Bonds 2020

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds which will be endorsed on each Bond in definitive form:

The (pound)100,000,000 8.875 per cent. Guaranteed Bonds due 2020 (the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of Northern Electric Finance plc (the "Issuer") are constituted by a master trust deed dated 16th October, 1995 (the "Trust Deed", which expression shall wherever the context so admits include any deed supplemental thereto) made between the Issuer, Northern Electric plc (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 9th October, 1995. The giving of the guarantee by the Guarantor was authorised by a written resolution of the board of directors of the Guarantor passed on 14th September, 1995 appointing a committee of the board for the purposes of the giving of the guarantee and by a resolution of such duly appointed committee of the board of directors of the Guarantor passed on 9th October, 1995. The Bonds are, on issue, listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange"). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and of an agency agreement dated 16th October, 1995 (the "Agency Agreement") made between the Issuer, the Guarantor, Barclays Bank PLC, as principal paying agent (the "Principal Paying Agent", which expression shall include any successor), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents) and the Trustee are available for inspection during normal business hours by the Bondholders and the holders of the interest coupons appertaining to the Bonds (respectively, the "Couponholders" and the "Coupons", which latter expression shall, unless the context otherwise requires, include the Talons referred to below) at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Princes House, 95 Gresharn Street, London EC2V 7LY and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

1. Form, Denominations and Title

The Bonds are in bearer form, serially numbered, in the denominations of (pound)1,000, (pound)10,000 and (pound)100,000 each with Coupons and one Talon for further Coupons (a "Talon") attached on issue. Title to the Bonds and to the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of another denomination.

The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond and the holder of any Coupon as the absolute owner thereof for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon).

2. Status and Guarantee

The Bonds and the Coupons are direct, unconditional and, subject to the provisions of Condition 3, unsecured obligations of the Issuer and, subject as aforesaid, rank and will rank pari passu, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency of the Issuer, only to the extent permitted by applicable laws relating to creditors' rights.

The Guarantor has, in the Trust Deed, unconditionally and irrevocably guaranteed the due and punctual payment of the principal of and interest on the Bonds as and when the same shall become due and payable together with any additional amounts payable pursuant to Condition 8 and all other moneys payable under the Trust Deed. The obligations of the Guarantor under the terms of such guarantee constitute direct, unconditional and, subject to the provisions of Condition 3, unsecured obligations of the Guarantor and such obligations rank and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but, in the event of insolvency of the Guarantor, only to the extent permitted by applicable laws

relating to creditors' rights.

3. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed) each of the Issuer and the Guarantor will ensure that no Relevant Indebtedness of the Issuer, the Guarantor or any PES Subsidiary or of any other person and no guarantee by the Issuer, the Guarantor or any PES Subsidiary of any Relevant Indebtedness of any other person will be secured by a mortgage, charge, lien, pledge or other security interest (each a "Security Interest") upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer, the Guarantor or any PES Subsidiary unless the Issuer or the Guarantor, as the case may be shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:

(a) all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed or, as the case may be, the obligations of the Guarantor under the guarantee referred to in Condition 2 are secured to the satisfaction of the Trustee equally and rateably with the Relevant Indebtedness or guarantee of Relevant Indebtedness, as the case may be, by such Security Interest; or

(b) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed or, as the case may be, in respect of the obligations of the Guarantor under the guarantee referred to in Condition 2 either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders,

save that the Issuer, the Guarantor or any PES Subsidiary may create or have outstanding a Security Interest in respect of any of its Relevant Indebtedness and/or any guarantees given by the Issuer, the Guarantor or any PES Subsidiary in respect of any Relevant Indebtedness of any other person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Bonds, the Coupons and the Trust Deed or, as the case may be, the obligations of the Guarantor under the said guarantee as aforesaid) where such Relevant Indebtedness h4s an initial maturity falling not earlier than 31st December, 2020 and is of a maximum aggregate amount outstanding at any time not exceeding the greater of (pound)20,000,000 and 20 per cent. of the Consolidated Tangible Net Worth (as defined below).

For the purposes of these Terms and Conditions:

(a) "Consolidated Tangible Net Worth" means at any particular time the aggregate of the amount paid up on the Guarantor's issued share capital and the consolidated distributable and non-distributable reserves of the Group (as shown in the most recently published audited consolidated financial statements of the Group), after:

(i) deducting the total of any debit balance on the profit and loss account and the book value of any intangible assets including but not limited to goodwill; and

(ii) excluding any minority interests in Subsidiary Undertakings;

but adjusted as may be necessary in respect of any variation in the paid-up share capital or share premium account of the Group since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group.

A report by the Auditors (as defined in the Trust Deed) as to the amount of the Consolidated Tangible Net Worth at any given time shall, in the absence of manifest error, be conclusive and binding on all parties.

(b) "Excluded Subsidiary" means any Subsidiary of the Issuer or the Guarantor (other than a Subsidiary which holds a public electricity supply licence granted under the Electricity Act 1989):

(i) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;

(ii) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than another Excluded Subsidiary) in respect of the repayment thereof; and

(iii) which has been designated as such by the Issuer or the Guarantor by written notice to the Trustee, provided that the Issuer or the Guarantor, as the case may be, may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;

(c) "Group" means the Guarantor, the Issuer and the Subsidiary Undertakings;

(d) "PES Subsidiary" means any Subsidiary of the Guarantor which holds a public electricity supply licence granted under the Electricity Act 1989;

(e) "Project Finance Indebtedness" means any present or future indebtedness (whether being principal, premium, interest or other amounts) to finance a project:

(i) which is incurred by an Excluded Subsidiary; or

(ii) in respect of which recourse to any member of the Group for the repayment or payment of any sum relating to such indebtedness is limited to:

(1) the assets of a single purpose company (other than a PES Subsidiary) the principal assets and business of which are constituted by such project and which was established for the purpose of incurring such indebtedness; or

(2) the assets of the project and the rights, revenues and insurance proceeds derived therefrom or related thereto, with no recourse to any other assets of the Group (other than those of an Excluded Subsidiary);

(f) "Relevant Indebtedness" means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market, but shall not in any event include Project Finance Indebtedness;

(g) "Subsidiary" means a subsidiary within the meaning of Section 736 of the Companies Act 1985;

(h) "Subsidiary Undertaking" shall have the meaning given to it by Section 258 of the Companies Act 1985 (but shall exclude any undertakings (as defined in the Companies Act 1985) whose accounts are not included in the then latest published audited consolidated accounts of the Guarantor, nor (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would its accounts have been so included or consolidated if it had become so on or before that date); and

(i) any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of the obligation.

4. Interest

The Bonds bear interest from (and including) 16th October, 1995 at the rate of 8.875 percent. per annum, payable annually in arrear on 16th October in each year (each an "Interest Payment Date"), the first such payment to be made on 16th October, 1996 and to amount to a full year's interest.

Each Bond will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of such payment, in which event interest shall continue to accrue as provided in the Trust Deed.

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. Payments and exchange of Talons

Payments of principal in respect of each Bond will only be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Bond at the specified office

of any of the Paying Agents. Payments of interest due on the Bonds on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupons at the specified office of any of the Paying Agents. Each such payment will be made at the specified office of any Paying Agent, at the option of the holder, by sterling cheque drawn on a town clearing branch of, or by transfer to a sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

Each Bond must be presented for payment together with all unmatured Coupons appertaining thereto failing which the full amount of any missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupons which the amount so paid bears to the total amount due) appertaining thereto will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of such missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bond (whether or not such Coupon would otherwise have become void pursuant to Condition 9), or, if later, five years after the date on which such Coupon would have become due, but not thereafter.

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 9):

(a) is or falls after the relevant due date but, if the due date is not or was not a Business Day in the City of London, is or falls after the next following such Business Day; and

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment and, in the, case of payment by transfer to a sterling account in the City of London as referred to above, in the City of London.

"Business Day" means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in that place.

When making payments to Bondholders or Couponholders, fractions of one penny will be rounded down to the nearest whole penny.

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet relating to a Bond matures, the Talon comprised in the Coupon Sheet relating to a Bond may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 9. Each Talon shall, for the purpose of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet relating to the relevant Bond matures.

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain at least two Paying Agents having specified offices in separate European cities previously approved in writing by the Trustee, one of which, so long as the Bonds are listed on the London Stock Exchange, shall be London or such other place as the London Stock Exchange may approve and one of which shall be outside the United Kingdom. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

6. Redemption and Purchase

(A) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 16th October, 2020.

(B) The Issuer may, at any time, having given notice to the Bondholders in accordance with this Condition 6(B) (which notice shall be irrevocable), redeem the Bonds in whole or in part (but if in part, in integral multiples of (pound)1,000,000 in principal amount thereof), at the price which shall be the higher of the following, together with interest accrued up to the date of redemption:

(i) their principal amount; and

(ii) that price (the "Redemption Price"). expressed as a percentage rounded to three decimal places (0.0005 being rounded down), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption (or, in the case of a partial redemption, the first notice of redemption referred to below), would be equal to the Gross Redemption Yield on such dealing day of the 8 3/4 per cent. Treasury Stock 2017 or of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "Reference Stock") on the basis of the middle market price of the Reference Stock prevailing on such dealing day, as determined by Barclays de Zoete Wedd Limited (or such other person(s) as the Trustee may approve).

The Gross Redemption Yield on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part 1, 1978, page 18 or on such other basis as the Trustee may previously approve in writing.

In the case of a redemption of all of the Bonds pursuant to this Condition 6(B), notice will be given to the Bondholders by the Issuer in accordance with Condition 14 once not less than 30 nor more than 60 days before the date fixed for redemption and will specify the date fixed for redemption and the redemption price.

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected individually by lot in such place as the Trustee may previously approve in writing and in such manner as the Trustee shall deem to be appropriate and fair without involving any part of a Bond, not more than 65 days before the date fixed for redemption. In the case of a partial redemption of the Bonds pursuant to this Condition 6(B), notice will be so given to the Bondholders by the Issuer in accordance with Condition 14 twice, first not less than 80 nor more than 95 days, and secondly not less than 30 nor more than 60 days, before the date fixed for redemption. Each notice will specify the date fixed for redemption and the redemption price, the aggregate principal amount of the Bonds to be redeemed, the serial numbers of Bonds previously called (in whole or in part) for redemption and not presented for payment and the aggregate principal amount of Bonds which will be outstanding after the partial redemption. In addition the second such notice will specify the serial numbers of the Bonds called for redemption.

Upon the expiry of any such notice as is referred to in this Condition 6(B), the Issuer shall be bound to redeem the Bonds to which the notice refers at the relevant redemption price at the date of such redemption together with interest accrued to but excluding such date.

(C) If as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 10th October, 1995, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall, in the absence of manifest error, accept such certificate and opinion as sufficient evidence thereof) of (i) a certificate signed by two directors of the Issuer on behalf of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective)), the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all the Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 6(B) prior to any notice being given under this Condition 6(C)) but not some only, at their principal amount together with interest (if any) accrued to (but excluding) the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay such additional amounts were a payment in respect of the Bonds then due.

Upon expiry of any such notice as is referred to in this Condition 6(C) (and subject as provided above), the Issuer shall be bound to redeem all the Bonds at their principal amount together with interest accrued to (but excluding) the redemption date.

(D) The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds together with unmatured Coupons and Talons in any manner and at any price in the open market

or by private treaty. If purchases are made by tender, tenders must be available to all Bondholders alike. Bonds purchased by the Issuer, the Guarantor or any of their respective Subsidiaries may be held or reissued or resold or surrendered for cancellation.

(E) All Bonds which are redeemed will forthwith be cancelled (together with all relative unmatured Coupons and Talons attached to or surrendered with the Bonds) and may not be reissued or resold.

(F) While any Bonds are held by the Issuer, the Guarantor or any of their respective Subsidiaries, such Bonds shall not entitle the holder to vote at, or to be counted in the quorum for, any meeting of Bondholders and, for the purposes of the provisions of the Trust Deed concerning meetings of Bondholders, will not be regarded as being in issue.

7. Redemption at the Option of Bondholders (A) For the purposes of these Terms and Conditions:

(i) "independent financial adviser" means a financial adviser appointed by the Guarantor and previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed) or, if the Guarantor shall not have appointed such an adviser within 21 days of becoming aware of the occurrence of a Restructuring Event and the Trustee is indemnified to its satisfaction against the costs of such adviser, appointed by the Trustee following consultation with the Guarantor;

(ii) "Investment Grade Rating" means a rating of at least investment grade BBB- in the case of Standard & Poor's Corporation and Baa3 in the case of Moody's Investors Services Inc. or their respective equivalents for the time being;

(iii)" Negative Certification" means a certificate given in writing to the Trustee by an independent financial adviser that a Restructuring Event will be or is, in its opinion, materially prejudicial to the interests of the Bondholders;

(iv) A "Negative Rating Event" shall be deemed to have occurred if (X) the Guarantor does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds or any other unsecured and unsubordinated debt of the Guarantor (or of any Subsidiary of the Guarantor (including, without limitation, the Issuer) and which is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more from a Rating Agency or (Y) if the Guarantor does so seek and use such endeavours but it is unable, as a result of such Restructuring Event, to obtain the Investment Grade Rating (and, in this definition, "seek" shall include procuring the relevant Subsidiary to seek);

(v) "Pooling and Settlement Agreement" means the agreement dated 30th March, 1990 (as amended and restated up to 22nd April, 1994) made by the Guarantor with The National Grid Company plc and others setting out the rules and procedures for the operation of an electricity trading pool and of a settlement system as in force on 10th October, 1995 and, while the same has effect, the Initial Settlement Agreement also dated 30th March, 1990 and made between the same parties, as in force on 10th October, 1995;

(vi) A "Put Event" occurs on either (X) the date of the last to occur of all of the following (an) a Restructuring Event, (bb) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (cc) the relevant Negative Certification or (Y) the date on which the Guarantor receives a notice from the Secretary of State as referred to in Article 1 1(4)(a) of the Guarantor's Articles of Association as in effect on 10th October, 1995;

(vii) "Rating Agency" means Standard & Poor's Corporation or any of its subsidiaries and their successors or Moody's Investors Service Inc. or any of its subsidiaries and their successors or any rating agency substituted for either of them (or any permitted substitute of them) by the Guarantor from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed);

(viii) Following a Restructuring Event, a "Rating Downgrade" shall be deemed to have occurred in respect of that Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Guarantor or by its own volition) is withdrawn or reduced from the Investment Grade

Rating or, if the Rating Agency shall then have already rated the Rated Securities below the Investment Grade Rating, the rating is lowered one full rating category;

(ix) "Rated Securities" means the Bonds, if at any time and for so long as they shall have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Guarantor (or of any Subsidiary of the Guarantor (including, without limitation, the Issuer) and which is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more which is rated by a Rating Agency;

(x) "Restructuring Event" means the occurrence of any one or more of the following events:

(A (aa) the Secretary of State for Trade and Industry (or any successor) giving the Guarantor written notice of revocation of the public electricity supply licence (the "PES Licence") granted by the Secretary of State for Energy to the Guarantor under the Electricity Act 1989 in relation to its authorised area and excluding any second tier supply licence provided that the giving of notice pursuant to paragraph 3 of Part 1 of the PES Licence shall not be deemed to constitute the revocation of the PES Licence or (bb) the Guarantor agreeing in writing with the Secretary of State for Trade and Industry (or any successor) to any revocation or surrender of the PES Licence or (cc) any legislation (whether primary or subordinate) being enacted terminating or revoking the PES Licence, except in any such case in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Guarantor or a wholly-owned Subsidiary of the Guarantor (the "Relevant Subsidiary") and in the case of such Relevant Subsidiary at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Bonds in such form as the Trustee may previously approve in writing (such approval not to be unreasonably withheld or delayed) or becomes the principal debtor under the Bonds in accordance with Condition 12; or

(B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of the PES Licence on or after 10th October, 1995 unless the modified terms and conditions are certified by two directors of the Guarantor to be not materially less favourable to the business of the Guarantor; or

(C) (aa) the Pooling and Settlement Agreement being terminated under Clause 67.4 thereof and not being replaced by an agreement, commercial arrangement or open market mechanism or framework having substantially the same effect as the Pooling and Settlement Agreement, in each case on terms which two directors of the Guarantor certify to be not materially less favourable to the business of the Guarantor; or

(bb) the Guarantor being given notice pursuant to Clause 67.3.2 of the Pooling and Settlement Agreement requiring it to cease to be a party thereto; or

(cc) any notice declaring an event of default (as defined in the Pooling and Settlement Agreement) being given to the Guarantor under Clause 66.1.1 or 66.2 thereof and such default remaining unremedied or unwaived; or

(dd) any modification (other than a modification which is of a formal, minor or technical nature) being made to the Pooling and Settlement Agreement on or after 10th October, 1995, unless two directors of the Guarantor certify that any such modification has not had and will not have a materially adverse effect on the amount or nature of any payment made or to be made by or to the Guarantor pursuant to the Pooling and Settlement Agreement or a materially adverse effect on the financial rights or obligations of the Guarantor under the Pooling and Settlement Agreement, provided that any such modification shall, to the extent it grants or confers powers or discretions on the Director General of Electricity Supply (or any successor) under or in respect of the Pooling and Settlement Agreement, be deemed not to have a materially adverse effect as aforesaid, but for the avoidance of doubt any modification to the Pooling and Settlement Agreement made by the Director General of Electricity Supply (or any successor) by virtue of

or pursuant to any such powers or discretions and which otherwise would have a materially adverse effect as provided above shall not by virtue of this subparagraph be deemed not to have such an effect; or

(ee) the Guarantor ceasing to be a party to the Pooling and Settlement Agreement for any reason (other than pursuant to (bb) and (cc) above), except where a licence is granted to a Relevant Subsidiary as contemplated by sub-paragraph (A)(X)(A) above and at or about the same time all rights and obligations of the Guarantor pursuant to the Pooling and Settlement Agreement are assigned and transferred to such Relevant Subsidiary in such manner as the Trustee may previously approve in writing (such approval not to be unreasonably withheld or delayed); or

(D) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Trade and Industry (or any successor) and/or the Director General of Electricity Supply (or any successor) under Section 3 of the Electricity Act 1989 as in force on 10th October, 1995, unless two directors of the Guarantor certify that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Guarantor.

(xi) "Restructuring Period" means:

(A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or

(B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date on which the Guarantor shall seek to obtain a rating pursuant to Condition 7(A)(iv) prior to the expiry of the 14 days referred to in the definition of Negative Rating Event and (bb) the date on which a Negative Certification shall have been given to the Guarantor in respect of that Restructuring Event; and

(xii) A Rating Downgrade or a Negative Rating Event or a non-Investment Grade Rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 7 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and until it shall have actual knowledge or express notice in accordance with the Trust Deed to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event or other such event has occurred.

(B) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and prior to the commencement of or during the Restructuring Period an independent financial adviser shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition 7 shall cease to have any further effect in relation to such Restructuring Event.

(C) If, at any time while any of the Bonds remains outstanding. either

(i) a Restructuring Event occurs and (subject to Condition 7(B)):

(X) within the Restructuring Period, either:

(i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade in respect of such Restructuring Event also occurs; or

(ii) if at such time there are no Rated Securities, a Negative Rating Event also occurs; and

(Y) an independent financial adviser shall have given a Negative Certification; or

(ii) the Guarantor receives a notice from the Secretary of State as referred to in Article 11 (4)(a) of the Guarantor's Articles of Association as in effect on 10th October, 1995,

then, unless, in the case of (ii) only, an independent financial adviser shall have certified in writing to the Trustee within 12 days of issue of such notice that neither the notice of the revocation of the Licence by the Secretary of State nor the redemption by the Guarantor of all of its preference shares will be or is, in its opinion, materially prejudicial to the interests of the Bondholders and unless, in the case of both (i) and (ii), at any time the Issuer shall have given a notice in respect of his Bond under Condition 6(B) or under Condition 6(C), in each case expiring prior to the Put Date (as defined below) each Bondholder shall have the option (the "Put Option") to require the Issuer or, failing the Issuer, the Guarantor, to redeem or, at the option of the Issuer, or the Guarantor, as applicable, purchase (or procure the purchase of) that Bond on the Put Date at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Bondholders if, notwithstanding the occurrence of the Rating Downgrade, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to the Investment Grade Rating prior to any Negative Certification being given.

Any certification by an independent financial adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event will be or is materially prejudicial to the interests of the Bondholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer, the Guarantor, the Bondholders and the Couponholders.

(D) Promptly upon the Issuer or the Guarantor becoming aware that a Put Event, has occurred and in any event not later than 14 days after the occurrence of a Put Event, the Issuer or the Guarantor shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of We Bonds then outstanding shall, give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 14 specifying the nature of the Put Event, and the procedure for exercising the Put Option.

(E) To exercise the Put Option in respect of his Bond the Bondholder must deliver such Bond to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 5) in the City of London and in the place of such specified office falling within the period (the "Put Period") commencing on the date the Put Event Notice is given and expiring 45 days thereafter accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the Bondholder may specify a bank account complying with the requirements of Condition 5 to which payment is to be made under this Condition 7. Each Bond must be delivered together with all Coupons appertaining thereto maturing after the day (the "Put Date") being, in the case of a Put Event referred to in sub-clause (X) of the definition of Put Event, the fifteenth day after the date of expiry of the Put Period and, in the case of a Put Event referred to in sub-clause (Y) of the definition of Put Event, the day upon which such Bond is delivered at the specified office of any Paying Agent by the relevant Bondholder failing which the full amount of any such missing Coupon will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner provided in Condition 5 against presentation and surrender (or, in the case of part payment only, endorsement) of such missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made, on the Put Date, by transfer to that bank account and, in every other case, on or after the Put Date, but in each case against presentation and surrender (or, as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 1, 9, 10, 11, 13, and 15 and for certain other purposes specified in the Trust Deed, receipts issued pursuant to this Condition 7 shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date, unless such Bond has been previously redeemed or purchased in accordance with these Terms and Conditions.

8. Taxation

All payments in respect of the Bonds and the Coupons by the Issuer or, as the case may be, the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, the Coupons in the absence of the withholding or deduction except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

(a) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or

(b) presented for payment in the United Kingdom; or

(c) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days; or

(d) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

As used herein, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14.

Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9. Prescription

Bonds and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years and five years respectively from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 5. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition or Condition 5.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, (but in the case of the happening of any of the events mentioned in sub-paragraphs (b), (c), (d), (e), (f), (g) and (h) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders and subject in each case to the Trustee being indemnified by, or on behalf of, Bondholders to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed) if any of the following events (each an "Event of Default") shall have occurred (unless such Event of Default has been remedied to the satisfaction of the Trustee):

(a) if default is made for a period of 7 days or more in the payment of any principal or the purchase price due in respect of any Bond pursuant to Condition 7 or 14 days or more in the payment of any interest due in respect of the Bonds or any of them; or

(b) if the Issuer or the Guarantor fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be

incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 30 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee on the Issuer or the Guarantor, as the case may be, of notice requiring the same to be remedied; or

(c) if (i) any other indebtedness for borrowed money of the Issuer, the Guarantor or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default (howsoever described) or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (iii) the Issuer, the Guarantor or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer, the Guarantor or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a bona fide dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds whichever is the greater of (pound)20,000,000 or its equivalent in other currencies (as determined by the Trustee) or two per cent. of the Consolidated Tangible Net Worth, and for the purposes of this sub-paragraph (c), "indebtedness for borrowed money" shall exclude Project Finance Indebtedness; or

(d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer or the Guarantor, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

(e) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Guarantor or any of its other Subsidiaries or (ii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

(f) if the Issuer, the Guarantor or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Issuer, the Guarantor or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member of the Group or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer, the Guarantor or a Principal Subsidiary on an arm's length basis or (iii) where the transferee is or immediately upon such transfer becomes a Principal Subsidiary or (iv) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, provided that if the Guarantor shall transfer the PES Licence it shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and none of exceptions (i) to (iii) shall apply) unless the transferee assumes all the Issuer's obligations under the Bonds and the Trust Deed as primary obligor or gives a guarantee in substitution for the Guarantor in form and substance acceptable to the Trustee in respect of the obligations of the Issuer under the Bonds and the Trust Deed; or

(g) if the Issuer, the Guarantor or any Principal Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable or shall admit in writing its inability, to pay its debts (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under Section 1 of the Insolvency Act 1986; or

(h) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer, the Guarantor or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or an encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 60 days (or such longer period as the Trustee may in its absolute discretion permit).

For the purposes of sub-paragraph (g) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "(pound)750" there was substituted "(pound)250,000" or such higher figure as the Director (as defined in the PES Licence) may from time to time determine by notice in writing to the Secretary of State (as defined in the PES Licence) and the Guarantor.

Neither the Issuer, the Guarantor nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (g) above if any such demand as is mentioned in Section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be, with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Trustee under the first paragraph of this Condition 10.

For the purposes of these Terms and Conditions:

(a) a "Principal Subsidiary" at any time shall mean a Subsidiary of the Issuer or the Guarantor (not being any Subsidiary of the Issuer or the Guarantor whose only indebtedness for borrowed money is Project Finance Indebtedness):

 (A) whose (i) net profits before tax or (ii) gross assets represent 15 per cent. or more of the consolidated net profits before tax of the Group or consolidated gross assets of the Group respectively in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries and which, in the normal course, prepares consolidated accounts) and the then latest audited consolidated financial statements of the Group; or

 (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer or the Guarantor which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall immediately become a Principal Subsidiary under the provisions of this sub-paragraph (B) (but without prejudice to the provisions of sub-paragraph (A) above);

 all as more fully defined in the Trust Deed.

 A report by the Auditors that in their opinion a Subsidiary of the Issuer or the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Guarantor, the Issuer, the Trustee, the Bondholders and the Couponholders; and

(b) "indebtedness for borrowed money" means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance credit, or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

11. Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer or the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons but it shall not be bound to take any proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

12. Substitution

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of the Guarantor or any Subsidiary or holding company (as defined in section 736 of the Companies Act 1985) of the Guarantor or any Subsidiary of such holding company, subject to (a) the Bonds continuing to be unconditionally and irrevocably guaranteed by the Guarantor (save where the Guarantor itself has been substituted for the Issuer (or any previous substitute) or where the Guarantor has transferred the PES Licence to the substituted party), (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Guarantor (or of any previous substitute under this Condition) as the guarantor of the obligations of the Issuer (or of any previous substitute under this Condition) guaranteed by the Guarantor under the Bonds, the Coupons and the Trust Deed of any Subsidiary or holding company (as defined in section 736 of the Companies Act 1985) of the Guarantor or any subsidiary of such holding company, subject to (a) the PES Licence having been previously transferred to the substituted party; (b) the Trustee being satisfied that the interest of the Bondholders will not be materially prejudiced by the substitution; and (c) certain other conditions set out in the Trust Deed being complied with.

13. Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Paying Agent in London, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence, indemnity and security as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. Notices

Notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may previously approve in writing. Any notice shall be deemed to have been given on the date of publication or, if so published more than once, on the date of the first publication. it is expected that publication will normally be made in the Financial Times. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may previously approve in writing.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition 14.

15. Meetings of Bondholders, Modification, Waiver and Authorisation

(a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting or voted thereat, and on all Couponholders.

(b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.

(c) In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in- addition to, or -in substitution for, Condition 8 pursuant to the Trust Deed.

(d) Any modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by .the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

17. Further Issues

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds or notes (whether in bearer or registered form) either (a) ranking pari passu in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds or notes may (with the prior written consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series in certain circumstances where the Trustee so decides.

18. Governing Law

The Trust Deed, the Bonds and the Coupons are governed by, and will be construed in accordance with, English law.

PRINCIPAL PAYING AGENT

Barclays Bank PLC
BGSS Depositary Services
8 Angel Court
Throgmorton Street
London EC2R 7HT

OTHER PAYING AGENT
Banque Internationale a Luxembourg S.A.
69 route d'Esch
L-1470 Luxembourg

Schedule 5

Provisions for meetings of Bondholders

1 The following expressions shall have the following meanings:

"voting certificate" means a certificate in the English language issued by a Paying Agent and dated in which it is stated:

(a) that on that date Bonds (not being Bonds in respect of which a block voting instruction has been issued and is outstanding in respect of the meeting specified in such voting certificate or any adjournment of such meeting) bearing specified serial numbers were deposited with such Paying Agent (or to its order at a bank or other depositary) and that such Bonds will not be released until the earlier of:

(i) the conclusion of the meeting specified in such certificate or any adjournment of it whichever is the later; and

(ii) the surrender of the certificate to the Paying Agent which issued it; and

(b) that its bearer is entitled to attend and vote at such meeting or any adjournment of it in respect of the Bonds represented by such certificate;

"block voting instruction" means a document in the English language issued by a Paying Agent and dated in which:

(a) it is certified that Bonds (not being Bonds in respect of which a voting certificate has been issued and is outstanding in respect of the meeting specified in such block voting instruction or any adjournment of it) have been deposited with such Paying Agent (or to its order at a bank or other depositary) and that such Bonds will not be released until the earlier of:

(i) the conclusion of the meeting specified in such document or any adjournment of it whichever is the later; and

(ii) the surrender, not less than 48 hours before the time fixed for such meeting or adjournment, of the receipt for each such deposited Bond which is to be released to the Paying Agent which issued it and the notification of such surrender by such Paying Agent to the Company;

(b) it is certified that each depositor of such Bonds or a duly authorised agent on his behalf has instructed such Paying Agent that the votes attributable to his Bonds so deposited should be cast in a particular way in relation to each resolution to be put to such meeting or any adjournment of it and that all such instructions are, during the period of

48 hours before the time fixed for such meeting or adjourned meeting, neither revocable nor subject to amendment;

(c) the total number and the serial numbers of the Bonds so deposited are listed, distinguishing with regard to each such resolution between those in respect of which instructions have been so given (i) to vote for, and (ii) to vote against, the resolution; and

(d) any person named in such document (a "proxy") is authorised and instructed by such Paying Agent to vote in respect of the Bonds so listed in accordance with the instructions referred to in sub-paragraph (c) above as set out in such document.

2 A holder of a Bond may obtain a voting certificate from a Paying Agent or require a Paying Agent to issue a block voting instruction by depositing his Bond with such Paying Agent not later than 48 hours before the time fixed for any meeting. Voting certificates and block voting instructions shall be valid until the relevant Bonds are released pursuant to paragraph 1 of this Schedule and until then the holder of any such voting certificate or (as the case may be) the proxy named in any such block voting instruction shall, for all purposes in connection with any meeting or proposed meeting of Bondholders, be deemed to be the holder of the Bonds to which such voting certificate or block voting instruction relates and the Paying Agent with which (or to the order of which) such Bonds have been deposited shall be deemed for such purposes not to be the holder of those Bonds.

3 Each of the Company and the Trustee at any time may, and the Trustee (subject to its being indemnified to its satisfaction against all costs and expenses thereby occasioned) upon a request in writing of Bondholders holding not less than one-tenth in principal amount of the Bonds for the time being outstanding shall, convene a meeting of Bondholders. Whenever any such party is about to convene any such meeting it shall forthwith give notice in writing to the other parties of the day, time and place of the meeting and of the nature of the business to be transacted at it. Every such meeting shall be held at such time and place as the Trustee may previously approve in writing.

4 At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the day, time and place of meeting shall be given to the Bondholders. A copy of the notice shall in all cases be given by the party convening the meeting to the other parties. Such notice shall also specify, unless in any particular case the Trustee otherwise agrees, the nature of the resolutions to be proposed and shall include a statement to the effect that Bonds may be deposited with (or to the order of) any Paying Agent for the purpose of obtaining voting certificates or appointing proxies not later than 48 hours before the time fixed for the meeting.

5 A person (who may, but need not, be a Bondholder) nominated in writing by the Trustee may take the chair at every such meeting but if no such nomination is

made or if at any meeting the person nominated shall not be present within 15 minutes after the time fixed for the meeting the Bondholders present shall choose one of their number to be chairman, failing which the Company or, failing which, the Guarantor may appoint a chairman. The chairman of an adjourned meeting need not be the same person as was chairman of the original meeting.

6 At any such meeting any one or more persons present in person holding Bonds or voting certificates or being proxies and holding or representing in the aggregate not less than one-tenth in principal amount of the Bonds for the .time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. The quorum at any such meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more persons present in person holding Bonds or voting certificates or being proxies and holding or representing in the aggregate a clear majority in principal amount of the Bonds for the time being outstanding, provided that at any meeting the business of which includes the consideration of an Extraordinary Resolution to effect any of the matters specified in the proviso to paragraph 19 of this Schedule the quorum shall be one or more persons present in person holding Bonds or voting 9ertificates or being proxies and holding or representing in the aggregate not less than two-thirds in principal amount of the Bonds for the time being outstanding.

7 If within 15 minutes from the time fixed for any such meeting a quorum is not present the meeting shall, if convened upon the requisition of Bondholders, be dissolved. In any other case it shall stand adjourned (unless the Company and the Trustee agree that it be dissolved) for such period, not being less than 14 days nor more than 42 days, and to such place, as may be decided by the chairman. At such adjourned meeting one or more persons present in person holding Bonds or voting certificates or being proxies (whatever the principal amount of the Bonds so held or represented) shall form a quorum and may pass any resolution and decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had a quorum been present at such meeting, provided that at any adjourned meeting the business of which includes the consideration of an Extraordinary Resolution to effect any of the modifications specified in the proviso to paragraph 19 the quorum shall be one or more persons present in person holding Bonds or voting certificates or being proxies and holding or representing in the aggregate not less than one-third in principal amount of the Bonds for the time being outstanding.

8 The chairman may with the consent of (and shall if directed by) any meeting adjourn such meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

9 At least 10 days' notice of any meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting and such notice shall state the quorum required at such adjourned meeting. It shall not, however, otherwise be necessary to give any notice of an adjourned meeting.

10 Every question submitted to a meeting shall be decided in the first instance by a show of hands and in case of equality of votes the chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) which he may have as a Bondholder or as a holder of a voting certificate or as a proxy.

11 At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman, the Company, the Guarantor, the Trustee or by one or more persons holding one or more Bonds or voting certificates or being proxies and holding or representing in the aggregate not less than one-fiftieth in principal amount of the Bonds for the time being outstanding, a declaration by the chairman that a resolution has been carried or carried by a particular majority or lost or not carried by any particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

12 If at any meeting a poll is so demanded, it shall be taken in such manner and (subject as provided below) either at once or after such an adjournment as the chairman directs and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuation of the meeting for the transaction of any business other than the question on which the poll has been demanded.

13 Any poll demanded at any meeting on the election of a chairman or on any question of adjournment shall be taken at the meeting without adjournment.

14 The Company, the Guarantor and the Trustee (through their respective representatives) and their respective financial and legal advisers may attend and speak at any meeting of Bondholders. No one else may attend at any meeting of Bondholders or join with others in requesting the convening of such a meeting unless he is the holder of a Bond or a voting certificate or is a proxy.

15 At any meeting on a show of hands every person who is present in person and who produces a Certificate in respect of a Bond or a voting certificate shall have one vote and on a poll every such person and every person present in person who is a proxy shall have one vote in respect of each such principal amount as is equal to the lowest common denomination of the Bonds forming a particular series. Without prejudice to the obligations of proxies named in any block voting instruction, any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

16 The proxy named in any block voting instruction need not be a Bondholder.

17 Each block voting instruction shall be deposited at the registered office of the Company, or at such other place as the Trustee shall designate or approve, not less than 24 hours before the time appointed for holding the meeting or adjourned meeting at which the proxy named in the block voting instruction proposes to vote and in default the block voting instructions shall not be treated as valid unless the chairman of the meeting decides otherwise before such meeting or adjourned meeting proceeds to business. A notarially certified copy of each such block voting instruction and, if required by the Trustee, proof satisfactory to the Trustee of its due execution on behalf of the relevant Paying Agent shall be produced by the proxy at the meeting or adjourned meeting but the Trustee shall not thereby be obliged to investigate or be concerned with the validity of, or the authority of, the proxy named in any such block voting instruction.

18 Any vote given in accordance with the terms of a block voting instruction shall be valid even if the block voting instruction or any of the Bondholders' instructions pursuant to which it was executed has been previously revoked or amended, provided that no intimation in writing of such revocation or amendment shall have been received from the relevant Paying Agent by the Company or the Trustee at its registered office or by the chairman of the meeting in each case not less than 24 hours before the time fixed for the meeting or adjourned meeting at which the block voting instruction is used.

19 A meeting of Bondholders shall, subject to the Conditions, in addition to the powers given above, but without prejudice to any powers conferred on other persons by these presents, have power exercisable by Extraordinary Resolution:

(a) to sanction any proposal by the Company or the Guarantor for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Bondholders and/or the Couponholders against the Company or the Guarantor or against any of its property whether such rights shall arise under these presents or otherwise;

(b) to sanction any scheme or proposal for the exchange, substitution or sale of the Bonds for, or the conversion of the Bonds into, or the cancellation of the Bonds in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Company, the Guarantor or any other body corporate formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash;

(c) to assent to any modification of these presents which shall be proposed by the Company, the Guarantor or the Trustee;

(d) to authorise anyone to concur in and do all such things as may be necessary to carry out and give effect to any Extraordinary Resolution;

(e) to give any authority, direction or sanction which under these presents is required to be given by Extraordinary Resolution;

(f) to appoint any persons (whether Bondholders or not) as a committee or committees to represent the interests of the Bondholders and to confer upon such committee or committees any powers or discretions which the Bondholders could themselves exercise by Extraordinary Resolution;

(g) to approve a person proposed to be appointed as a new Trustee and to remove any Trustee;

(h) to approve the substitution of any entity for the Company (or any previous substitute) as principal debtor under these presents;

(i) to approve the substitution of any entity for the Guarantor (or any previous substitute) as the guarantor under these presents; and

(j) to discharge or exonerate the Trustee from any liability in respect of any act or omission for which it may become responsible under these presents,

provided that the special quorum provisions contained in the proviso to paragraph 6 of this Schedule and, in the case of an adjourned meeting, in the proviso to paragraph 7 of this Schedule shall apply in relation to any Extraordinary Resolution for the purpose of paragraph 19(b) or (h) of this Schedule or for the purpose of making any modification to the provisions contained in these presents which would have the effect of:

(i) postponing the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds; or

(ii) modifying the status of the Bonds; or

(iii) reducing or cancelling the principal amount of, or interest on, or other amounts in respect of or reducing the rate of interest on, the Bonds; or

(iv) changing the currency of payment of the Bonds; or

(v) modifying the provisions contained in this Schedule concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution; or

(vi) amending this proviso.

20 An Extraordinary Resolution passed at a meeting of Bondholders duly convened and held in accordance with these presents shall be binding upon all the Bondholders, whether or not present at such meeting and whether or not they vote in favour, and upon all the Couponholders and each of the Bondholders and

Couponholders shall be bound to give effect to it accordingly. The passing of any such resolution shall be conclusive evidence that the circumstances of such resolution justify the passing of it. The Company shall give notice of the passing of an Extraordinary Resolution to Bondholders within 14 days but failure to do so shall not invalidate the resolution.

21 The expression "Extraordinary Resolution" means a resolution passed at a meeting of Bondholders duly convened and held in accordance with these presents by a majority consisting of not less than three-quarters of the votes cast.

22 Minutes of all resolutions and proceedings at every such meeting shall be made and entered in the books to be from time to time provided at the expense of the Company for that purpose by the Company or the Trustee and any such minutes, if purporting to be signed by the chairman of the meeting at which such resolutions were passed or proceedings transacted or by the chairman of the next succeeding meeting of Bondholders, shall be conclusive evidence of the matters contained in them and until the contrary is proved every such meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

23 Subject to all other provisions contained in these presents the Trustee may without the consent of the Bondholders prescribe such further regulations regarding the holding of meetings of Bondholders and attendance and voting at them as the Trustee may in its sole discretion determine, including in particular (but without prejudice to the generality of the foregoing) such regulations and requirements as the Trustee thinks reasonable:

(a) so as to satisfy itself that persons who purport to requisition a meeting in accordance with paragraph 3 of this Schedule or who purport to make any requisition to the Trustee in accordance with these presents are in fact Bondholders; and

(b) as to the form of voting certificates or block voting instructions to be issued pursuant to paragraph 1 of this Schedule so as to satisfy itself that persons who purport to attend or vote at any meeting of Bondholders are entitled to do so in accordance with these presents.

24 (a) If and whenever the Company shall have issued and have outstanding any Bonds which are not identical and do not form one single series then those Bonds which are in all respects identical shall be deemed to constitute a separate series of the Bonds and the foregoing provisions of this Schedule shall have effect subject to the following modifications:

(i) a resolution which in the opinion of the Trustee affects one series only of the Bonds shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Bonds of that series;

(ii) a resolution which in the opinion of the Trustee affects more than one series of the Bonds but does not give rise to a conflict of interest between the holders of Bonds of any of the series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Bonds of all the series so affected;

(iii) a resolution which in the opinion of the Trustee affects more than one series of the Bonds and gives or may give rise to a conflict of interest between the holders of the Bonds of any of the series so affected shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the holders of the Bonds of each series so affected; and

(iv) to all such meetings as aforesaid all the preceding provisions of this Schedule shall mutatis mutandis apply as though references therein to Bonds and holders were references to the Bonds of the series or group of series in question and to the holders of such Bonds respectively.

(b) If the Company shall have issued and have outstanding (a) Bonds which are not denominated in sterling or (b) more than one series of Bonds denominated in sterling but in differing denominations, the following provisions shall apply. In the case of any meeting of holders of Bonds of more than one currency the principal amount of such Bonds not denominated in sterling shall (i) for the purposes of paragraph 3 of this Schedule be the equivalent in sterling at the spot rate of a bank nominated by the Trustee for the conversion of the relevant currency or currencies into sterling on the seventh dealing day (being a day (other than a Saturday or a Sunday) on which banks in London are open for normal banking business) prior to the day on which the request in writing is received by the Trustee and (ii) for the purposes of paragraphs 6, 7, 11 and 15 of this Schedule (whether in respect of the meeting, or any adjourned such meeting or any poll resulting therefrom) be the equivalent in pounds sterling at such spot rate on the seventh dealing day (as defined above) prior to the day of such meeting or, if applicable, the taking of such poll. In such circumstances, and where separate series of Bonds denominated in sterling but of different denominations are to be treated together for the purposes of this Schedule, on any poll each person present shall have one vote for every complete one pound of Bonds (converted as above) which he holds.

25 Nothing in these presents shall prevent any of the proxies named in any block voting instruction or form of proxy from being a director, managing director, officer or representative of, or otherwise connected with, the Company, the Guarantor, the Subsidiaries or any of their respective holding and associated companies.

THE COMMON SEAL of)
NORTHERN ELECTRIC FINANCE plc)
was hereunto affixed)
in the presence of:)

/s/ John Edwards

JOHN EDWARDS
Director

VALERIE GILES
Secretary

THE COMMON SEAL of)
NORTHERN ELECTRIC plc)
was hereunto affixed)
in the presence of:)

/s/ Ron Dixon

RON DIXON
Director

/s/ Valerie Giles

VALERIE GILES
Secretary

THE COMMON SEAL of THE LAW)
DEBENTURE TRUST CORPORATION p.l.c.)
was hereunto affixed)
in the presence of:)

/s/ Julian Mason-Jebb

JULIAN MASON-JEBB
Director

/s/ Clive Rakestrow

CLIVE RAKESTROW
Assistant Trust Manager

</TEXT>
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EXHIBIT 10.71

MidAmerican Energy Holdings Company

LONG–TERM INCENTIVE PARTNERSHIP PLAN

As Amended and Restated January 1, 2004

PLAN DOCUMENT

MIDAMERICAN ENERGY HOLDINGS COMPANY

LONG–TERM INCENTIVE PARTNERSHIP PLAN

ARTICLE I – PURPOSE AND EFFECTIVE DATE

1.1 Purpose. The purpose of this Long–Term Incentive Partnership Plan (the "Plan") is to permit a select group of management employees of MidAmerican Energy Holdings Company and its subsidiaries to share in significant increases in the value of the Company realized through the efforts of these individuals. It is intended that the Plan, by providing this award and deferral opportunity (U.S. only), will assist the Company in retaining and attracting individuals of exceptional ability and will act as an incentive to align their interests with those of the Company.

1.2 Effective Date. The Plan was effective as of March 14, 2000, subsequently restated effective as of January 1, 2003, with the current Plan effective as of January 1, 2004.

ARTICLE II – DEFINITIONS

For the purpose of the Plan, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise:

2.1 Base Salary. "Base Salary" means the annual base salary rate payable to a Participant effective January 1 of the calendar year unless the Participant is a part of the CE U.K. pay review, in which case it is the annual base salary rate effective April 1 of the calendar year. For purposes of the Plan, Base Salary shall be calculated before reduction for any amounts deferred by the Participant pursuant to the Company's tax qualified plans which may be maintained under Section 401(k) or Section 125 of the Internal Revenue Code of 1986, as amended (the "Code"), or pursuant to the MidAmerican Energy Holdings Company Executive Voluntary Deferred Compensation Plan or any other non–qualified plan which permits the voluntary deferral of compensation. Inclusion of any forms of compensation other than such "wages" and deferred "wages" is subject to approval of the Chairman & CEO and the President.

2.2 Beneficiary. "Beneficiary" means the person, persons or entity, as designated by the Participant, entitled under Article VII to receive any Plan benefits payable after the Participant's death.

2.3 Board. "Board" means the Board of Directors of the Company or any duly authorized committee.

2.4 Company. "Company" means MidAmerican Energy Holdings Company, a Des Moines Iowa based corporation, and any directly or indirectly affiliated subsidiary corporations, any other affiliate designated by the Board, or any predecessor or successor to the business of any thereof.

2.5 Determination Date. "Determination Date" means each business day on which the New York Stock Exchange is open for business.

2.6 Disability. "Disability" means a physical or mental condition that prevents the Participant from satisfactorily performing the Participant's usual duties for the Company. The Chairman & CEO and the President shall determine the existence of Disability, in their sole reasonable discretion, and may rely on advice from a medical examiner satisfactory to them in making the determination.

2.7 Incentive Account(s). "Incentive Account(s)" means the account or accounts maintained on the books of the Company with respect to each Incentive Award and used solely to calculate the amount which may be payable to each Participant under the Plan and shall not constitute a separate fund of assets. Participants may have more than one Incentive Account maintained on their behalf.

2.8 Incentive Award(s). "Incentive Award(s)" means the award determined and allocated under the terms of the Plan. Each Incentive Award(s) shall be designated by the year to which the award relates (the "Award Year") even though the value of the award may be determined and credited to a Participant's Incentive Account in a subsequent year. An example: The Year 2003 Incentive Award may relate to the performance of the Company over the calendar year 2003 (the Award Year), even though the Incentive Award will only be determinable in 2004.

2.9 Interest. "Interest" means the amount credited to each Participant's Incentive Account(s) on each Determination Date, which shall be based on the Valuation Funds chosen by the Investment Committee as provided in Section 2.16, below and in a manner consistent with Section 5.2. Such credits to a Participant's Incentive Account(s) may be either positive or negative to reflect the increase or decrease in value of the Incentive Account(s) in accordance with the provisions of this Plan.

2.10 Investment Committee. "Investment Committee" means the Participants of the Plan in the current Award Year. The Investment Committee shall designate the investment of the entire balance of all awards in one or more of the Valuation Funds for the sole purpose of determining the amount of Interest to be credited or debited to each Incentive Account(s).

2.11 Net Income. "Net Income" means the definition as applied under Generally Accepted Accounting Principles. The Chairman & CEO and the President may adjust Net Income for extraordinary and non–recurring events, when appropriate.

2.12 Nomination Committee. "Nomination Committee" means a group of Participants appointed by the Chairman & CEO and the President each plan year for the purposes of recommending the Initial and Performance Allocations.

2.13 Participant. "Participant" means any employee who is eligible, pursuant to Article III, below, to participate in this Plan, and who has been so notified by the Chairman & CEO and the President. Such employee shall remain a Participant in this Plan for any award that has been made until such time as all benefits payable for that specific Award Year have been paid in accordance with the provisions hereof. A Participant may have an Incentive Account(s) and not be chosen to participate in a subsequent Award Year. In addition, a Participant may be designated as an Associate Participant under the terms of this Plan, and the rights and benefits attributable to these Associate Participants shall be those attributable to Participants under this Plan, unless clearly set forth otherwise. An Associate Participant may also be referred to as an "Associate" which term shall have the same meaning in all respects as Associate Participant. Likewise, a Participant may alternatively be referred to as a "Partner" which term shall have the same meaning in all respects as Participant. The use of the term "Partner" is not intended to, and does not convey any additional rights or responsibilities to a Participant.

2.14 Plan. "Plan" means this Long–Term Incentive Partnership Plan as amended from time to time.

2.15 Retirement. "Retirement" means the termination of employment with the Company of the Participant after attaining age fifty–five (55) and five (5) years of service.

2.16 Valuation Funds. "Valuation Funds" means one or more of the independently established funds or indices that are identified and listed in Exhibit A. These Valuation Funds are used solely to calculate the Interest that is credited to each Incentive Account(s) in accordance with Article V, and does not represent, nor should it be interpreted to convey any beneficial interest on the part of the Participant in any specific asset or other property of the Company. The determination of the increase or decrease in the performance of each Valuation Fund shall be made by the Chairman & CEO and the President in their reasonable discretion by reference to the performance of such Valuation Funds. The Chairman & CEO and the President shall select the various Valuation Funds available to the Investment Committee pursuant to the Plan and shall set forth a list of these Valuation Funds attached hereto as Exhibit A, which may be amended from time to time at the discretion of the Chairman & CEO and the President.

ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.1 Eligibility. Eligibility to participate in the Plan shall be limited to those select key employees of the Company who are designated by the Chairman & CEO and the President from time to time. The Chairman & CEO and the President of the Company may designate certain key employees of the Company as Associate Participants to reflect their contributions to the success of the Company. Such Associate Participant may later be designated as a full Participant, in which event, the benefits due under this Plan, including any Allocations, shall be determined as set forth for a full Participant from the date specified.

3.2 Participation. An employee's participation in the Plan for any Award Year shall be effective upon notification to the employee by the Chairman & CEO and the President.

ARTICLE IV – INCENTIVE AWARD

4.1 Annual Award. Prior to the beginning of each year, the Chairman & CEO and the President shall determine whether an Incentive Award shall be granted for the current plan year. If an Incentive Award is granted, the Chairman & CEO and the President will establish the award categories based upon Net Income target goals or such other criteria, as they deem appropriate for the plan year. The amount of the Incentive Award shall be determined as described in the Plan Summary each plan year.

4.2 Allocation of Points. The amount of each Incentive Award shall be allocated among the eligible Participants in the following manner:

a) Initial Point Allocation. The Nomination Committee shall make recommendations to the Chairman & CEO and the President to allocate initial points among participants for that year. The Chairman & CEO and the President shall either accept these recommendations or make adjustments that may increase, decrease or eliminate any initial point allocation to any individual Participant. Any points that are not allocated to Participants may be either refunded to the Company or reallocated at a later date as initial points or performance points at the discretion of the Chairman & CEO and the President.

b) Performance Point Allocation. The Nomination Committee shall make recommendations to the Chairman & CEO and the President to allocate all, or a portion of, the remaining points for the Award Year, among the eligible Participants. The Chairman & CEO and the President shall either accept these recommendations or make adjustments that may increase, decrease or eliminate any such remaining point allocation to any individual Participant. Any award that is not allocated to Participants will be returned to the Company as an offset to Plan expenses.

c) Maximum Allocation. Notwithstanding the above, the dollar value of the sum of the Initial and Performance Allocations made on behalf of any Participant for any single Award Year shall not exceed one hundred fifty percent (150%) of that Participant's Base Salary for that Award Year.

4.3 Determination of Annual Awards. The dollar value of any Incentive Award shall be determined by the Chairman & CEO and the President as soon as practical after the close of the Award Year, but in no event shall the dollar value of the Award be determined later than March 1 of the year following the Award Year. The value of a Participant's share of any Incentive Award shall be credited to a Participant's Incentive Account(s) as of the day determined by the Chairman & CEO and the President but in no event shall the date be later than March 1 of the year following the Award Year. Interest shall be credited (or debited) on each Determination Date. Any distributions to a Participant shall reduce the Participant's Incentive Account(s) as of the date of such distribution.

4.4 Reduction of Awards. The Chairman & CEO and the President may, in their sole discretion, establish certain criteria that must be met for an Incentive Award to become effective. These criteria may include the achievement of certain safety performance goals, environmental, risk management or other goals established by the Chairman & CEO and the President. The determination of whether any applicable goals have been achieved with respect to an Incentive Award shall be determined by the Chairman & CEO and the President, as of the time that the dollar value of that Incentive Award is determined in Section 4.3 above.

ARTICLE V – INCENTIVE ACCOUNT(S)

5.1 Accounts. The Company shall maintain a separate bookkeeping account on behalf of each Participant in the Plan for each Incentive Award. The value of any Incentive Award(s) allocated to each Participant plus any Interest earned thereon shall be added to such Participant's Incentive Account(s). These Incentive Accounts shall be used solely to calculate the amount payable to each Participant under the Plan and shall not constitute a separate fund of assets.

5.2 Timing of Credits. The value of a Participant's share of any Incentive Award shall be credited to a Participant's Incentive Account as of the day determined by the Chairman & CEO and the President but in no event shall the date be later than March 1st of the year following the Award Year. Each Incentive Account(s) shall be increased or decreased by the Interest credited on each Determination Date as though the balance of that Incentive Account(s) as of the date Incentive Awards are credited to a Participant's Incentive Account, had been invested in the applicable Valuation Funds chosen by the Investment Committee. Any distributions to a Participant shall reduce the Participant's Incentive Account(s) as of the date of such distribution.

5.3 Vesting of Accounts. Each Participant shall be twenty percent (20%) vested in his or her Incentive Account at December 31st of the Award Year and an additional twenty percent (20%) for each subsequent year. Participants must be employed on December 31st to vest for the year. The Participant shall be considered to be one hundred percent (100%) vested in the event of termination of service as a result of a Disability or death, and shall be considered to be one hundred percent (100%) vested in the event of Retirement, but only with respect to Incentive Awards granted for years prior to 2004.

5.4 Statement of Accounts. The Company shall give to each Participant a statement showing the balances in the Participant's Incentive Account(s) no less frequently than on an annual basis.

ARTICLE VI – PLAN BENEFITS

6.1 Normal Benefit. The balance of each Participant's Incentive Account(s) shall be paid no earlier than four (4) years, eleven (11) months from beginning of the Award Year and no later than the fifth anniversary of the beginning of the Award Year. Unless modified pursuant to Section 6.3 below, such amount shall be paid in the form of a lump sum.

6.2 Early Termination Benefit. In the event that a Participant terminates service with the Company prior to the fifth anniversary of an Award Year, the Participant shall receive the vested portion of the Incentive Account(s) as of the most recent Determination Date, payable in a lump sum. The amount shall be paid as soon as practical after the termination of service, but in no event later than thirty (30) days from the date of termination.

6.3 Deferred Benefit (U.S. only). With respect to any Incentive Account, the Participant may elect, in a manner acceptable to the Company, to defer the receipt of certain benefits due under this Plan by filing an election to do so no later than December 15th after the third anniversary of the beginning of the Award Year relating to the Incentive Account to be deferred:

a) Such election must be accepted by the Administrative Committee of the MidAmerican Energy Holdings Company Executive Voluntary Deferred Compensation Plan;

b) The balance of the Incentive Account as of the fifth anniversary of the Award Year shall be transferred to the MidAmerican Energy Holdings Company Executive Voluntary Deferred Compensation Plan as of that date and shall thereafter be subject to the terms and conditions of that plan;

c) Such an election shall only permit the deferral of benefits payable under Section 6.1 above, and shall not defer the receipt of benefits payable under any other provision of the Plan; and

d) The acceptance of such an election shall completely satisfy and discharge all obligations on the part of the Company to the Participant (and the Participant's Beneficiary) with respect to such Incentive Account, and the Participant's (and Participant's Beneficiary's) rights under the Plan with respect to such Incentive Account shall terminate.

An example: A Participant may elect to defer the receipt of his Year 2003 Incentive Account by filing an election to do so prior to December 15, 2006. If such election is in a form acceptable to the Company and the election is accepted by the Administrative Committee of the MidAmerican Energy Holdings Company Executive Voluntary Deferred Compensation Plan, the balance of the vested portion of that plan year Incentive Account as of December 31, 2007, shall be considered to be transferred to the MidAmerican Energy Holdings Company Executive Voluntary Deferred Compensation Plan as of that date, and all obligations with respect to the Year 2003 Incentive Account for that Participant shall be deemed to be satisfied.

6.4 Death Benefit. In the event of the death of a Participant prior to complete payment of any Incentive Account(s), the Participant's Beneficiary shall receive the remaining, vested balance of the Incentive Account(s) determined as if the Participant had terminated service as of the date of death. Such amounts shall be paid in a lump sum as soon as practical after the death of the Participant, but in no event later than thirty (30) days from the date of the Participant's death.

6.5 Withholding and Payroll Taxes. The Company shall withhold from any payment made pursuant to the Plan any taxes required to be withheld from such payments under law. A Beneficiary, however, may elect not to have withholding of federal income tax pursuant to Section 3405(a)(2) of the Code, or any successor provision thereto (U.S. only).

6.6 Payment to Guardian. If a Plan benefit is payable to a minor, a person declared incompetent or a person incapable of handling the disposition of the property, the Company may direct payment to the guardian, legal representative or person having the care and custody of such minor or person. The Company may require proof of incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

6.7 Effect of Payment. The full payment of the applicable benefit under this Article VI shall completely discharge all obligations on the part of the Company to the Participant (and the Participant's Beneficiary) with respect to the operation of the Plan, and the Participant's (and Participant's Beneficiary's) rights under the Plan shall terminate.

ARTICLE VII – BENEFICIARY DESIGNATION

7.1 Beneficiary Designation. Each Participant shall have the right, at any time, to designate one (1) or more persons or entities as Beneficiary (both primary as well as secondary) to whom benefits under the Plan shall be paid in the event of Participant's death prior to complete distribution of the Participant's Incentive Account(s) balance. Each Beneficiary designation shall be in a written form prescribed by the Company and shall be effective only when filed with the Company during the Participant's lifetime.

7.2 Changing Beneficiary. Any Beneficiary designation may be changed by a Participant without the consent of the previously named Beneficiary by the filing of a new Beneficiary designation with the Company. The filing of a new designation shall cancel all designations previously filed.

7.3 Change in Marital Status. If the Participant's marital status changes after the Participant has designated a Beneficiary, the following shall apply until such time as the Participant submits a revised Beneficiary form.

a) If the Participant is married at death but was unmarried when the designation was made, the designation shall be void.

b) If the Participant is unmarried at death but was married when the designation was made:

i) The designation shall be void if the former spouse was named as Beneficiary.

ii) The designation shall remain valid if the spouse was not named and a non-spouse Beneficiary was named.

c) If the Participant was married when the designation was made and is married to a different spouse at death:

i) The designation shall be void if the former spouse was named as Beneficiary.

ii) The designation shall remain valid if the former spouse was not named and a non-spouse Beneficiary was named.

7.4 No Beneficiary Designation. If any Participant fails to designate a Beneficiary in the manner provided above, if the designation is void, or if the Beneficiary designated by a deceased Participant dies before the Participant or before complete distribution of the Participant's benefits, the Participant's Beneficiary shall be the person in the first of the following classes in which there is a survivor:

a) The Participant's surviving spouse;

b) The Participant's children (including stepchildren) in equal shares, except if any of the children predeceases the Participant but leaves surviving issue, then such issue shall take by right of representation the share the deceased child would have taken if living;

c) The Participant's estate.

7.5 Effect of Payment. Payment to Beneficiary shall completely discharge the Company's obligations under the Plan and the Company may require a release to that effect from the Beneficiary prior to the distribution.

ARTICLE VIII – ADMINISTRATION

8.1 Binding Effect of Decisions. The decision or action of the Chairman & CEO and the President with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan.

ARTICLE IX – CLAIMS PROCEDURE

9.1 Claim. Any person or entity claiming a benefit, requesting an interpretation or ruling under the Plan (hereinafter referred to as "Claimant"), or requesting information under the Plan shall present the request in writing to the Chairman & CEO and the President, who shall respond in writing as soon as practical. The decision shall be in writing and shall state the reasons and the relevant Plan provisions. All decisions on review shall be final and bind all parties concerned.

9.2 Denial of Claim. If the claim or request is denied, the written notice of denial shall state:

a) The reasons for denial, with specific reference to the Plan provisions on which the denial is based;

b) A description of any additional material or information required and an explanation of why it is necessary; and

c) An explanation of the Plan's claim review procedure.

9.3 Final Decision. The decision on review shall normally be made within sixty (60) days after receipt of Claimant's claim or request. If an extension of time is required for a hearing or other special circumstances, the Claimant shall be notified and the time limit shall be one hundred twenty (120) days.

ARTICLE X – AMENDMENT AND TERMINATION OF PLAN

10.1 Amendment. The Board may at any time amend the Plan by written instrument, notice of which is given to all Participants and to any Beneficiary receiving payments, except that no amendment shall reduce any vested benefit or the amount accrued in any Incentive Account(s) or any deferral election as of the date such notice of the amendment is given.

10.2 Company's Right to Terminate. The Board may at any time partially or completely terminate the Plan by written instrument, notice of which is given to all Participants and to any Beneficiary receiving payments if, in its judgment, the tax, accounting or other effects of the continuance of the Plan, or potential payments would not be in the best interests of the Company provided that no such termination shall reduce any vested benefit and the amount accrued in any Incentive Account(s) or any deferral election as of the date such notice of termination is given.

10.3 Partial Termination. The Board may partially terminate the Plan and if such a partial termination occurs, the Plan shall continue to operate and be effective with regard to Incentive Awards allocated prior to the effective date of such partial termination.

10.4 Payment on Termination. In the event of a complete or partial termination hereunder, the Plan shall cease to operate or as to a partial termination, the Plan shall cease only with respect to the part terminated and the Company shall distribute each Incentive Account(s) to the appropriate Participant or Beneficiary. Payment shall be made as a lump sum within thirty (30) days of Plan termination unless deferral elections are effective, in which case payments shall be made to a Participant's (or Beneficiary's) account in such deferral plan.

ARTICLE XI – MISCELLANEOUS

11.1 Unfunded Plan. The Plan is an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly–compensated employees" within the meaning of Sections 201, 301 and 401 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and therefore is exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Accordingly, the Board may terminate the Plan and make no further benefit payments or remove certain employees as Participants if it is determined by the United States Department of Labor, a court of competent jurisdiction, or an opinion of counsel that the Plan constitutes an employee pension benefit plan within the meaning of Section 3 (2) of ERISA (as currently in effect or hereafter amended) which is not so exempt.

11.2 Company Obligation. The obligation to make benefit payments to any Participant under the Plan shall be an obligation solely of the Company.

11.3 Unsecured General Creditor. Notwithstanding any other provision of the Plan, Participants and Participants' Beneficiaries shall be unsecured general creditors, with no secured or preferential rights to any assets of the Company or any other party for payment of benefits under the Plan. Any property held by the Company for the purpose of generating the cash flow for benefit payments shall remain its general, unpledged and unrestricted assets. The Company's obligation under the Plan shall be an unfunded and unsecured promise to pay money in the future.

11.4 Trust Fund. The Company shall be responsible for the payment of all benefits provided under the Plan. At its discretion, the Company may establish one (1) or more trusts for the purpose of assisting in the payment of such benefits. Although such a trust shall be irrevocable, its assets shall be held for payment of all the Company's general creditors in the event of insolvency. To the extent any benefits provided under the Plan are paid from any such trust, the Company shall have no further obligation to pay them. If not paid from the trust, such benefits shall remain the obligation of the Company.

11.5 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt of the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non–transferable except only pursuant to the designated Beneficiary in the event of death or Disability or pursuant to a legal will or the laws of intestate succession. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

11.6 Not a Contract of Employment. The Plan shall not constitute a contract of employment between the Company and the Participant. Nothing in the Plan shall give a Participant the right to be retained in the service of the Company or to interfere with the right of the Company to discipline or discharge a Participant at any time.

11.7 Protective Provisions. A Participant will cooperate with the Company by furnishing any and all information requested by the Company, in order to facilitate the payment of benefits hereunder.

11.8 Governing Law. The provisions of the Plan shall be construed and interpreted according to the laws of the State of Iowa, except as preempted by federal law.

11.9 Validity. If any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

11.10 Notice. Any notice required or permitted under the Plan shall be sufficient if in writing and hand delivered or sent by registered or certified mail. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Mailed notice to the Chairman & CEO and the President shall be directed to the Company's address. Mailed notice to a Participant or Beneficiary shall be directed to the individual's last known address in the Company's records.

11.11 Successors. The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns. The term successors as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of the Company, and successors of any such corporation or other business entity.

11.12 Taxing Authority. If a Participant is subject to a taxing authority or jurisdiction which would cause an Incentive Account to be recognized and taxed as income by that authority or jurisdiction prior to the time it would otherwise be payable under the terms of the Plan, then the provisions of the Plan, as applied to that Participant, shall be modified such that if the Participant is terminated for cause, as defined by the Chairman & CEO and the President, prior to the time an Incentive Account is payable, the Participant shall be considered zero percent (0%) vested in such award and the entire Incentive Account shall be forfeited.

MidAmerican Energy Holdings Company

Date: January 30, 2004

By: /s/ Greg Abel
Greg Abel

MIDAMERICAN ENERGY HOLDINGS COMPANY
LONG–TERM INCENTIVE PARTNERSHIP PLAN

EXHIBIT A

Following are the Valuation Funds as of January 1, 2003:

- Russell 1000 Value (Large Cap Value)
- S&P 500 Index [dividends reinvested] (Large Cap Core)
- Russell 1000 Growth Index (Large Cap Growth)
- Russell 2000 Value Index (Small Cap Value)
- Russell 2000 Growth Index (Small Cap Growth)
- Morgan Stanley EAFE Index (International)
- Lehman Brothers Aggregate Bond Index (Core Bond)
- Average of the one–year Treasury Bill constant maturity each October 15 (or the preceding business day if a holiday or weekend) of the prior year. (Stable Value)

The Company reserves the right to change the Valuation Funds at any time pursuant to the Plan.

Exhibit 21.1

MIDAMERICAN ENERGY HOLDINGS COMPANY

SUBSIDIARIES AND JOINT VENTURES

Pursuant to Item 601(b)(21)(ii) of Regulation S–K, we have omitted dormant subsidiaries (all of which, when considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of the end of our last fiscal year).

MidAmerican Funding, LLC	Iowa
MHC Inc.	Iowa
MidAmerican Energy Company	Iowa
CBEC Railway Inc.	Iowa
InterCoast Capital Company	Delaware
Cimmred Leasing Company	South Dakota
InterCoast Energy Company	Delaware
InterCoast Power Company	Delaware
IWG Co. 8	Delaware
MHC Investment Company	South Dakota
MWR Capital Inc.	South Dakota
TTP, Inc. of South Dakota	South Dakota
Midwest Capital Group, Inc.	Iowa
Dakota Dunes Development Company	Iowa
Two Rivers Inc.	South Dakota
MidAmerican Services Company	Iowa
MEC Construction Services Co.	Iowa
CE Electric UK Funding Company	England
CalEnergy Gas (Holdings) Limited	England
CalEnergy Gas Limited	England
CalEnergy Gas (Australia) Limited	England
CalEnergy Gas (Polska) sp. z.o.o.	Poland
CalEnergy Resources Limited	England
CalEnergy Resources (Poland) sp.z.o.o.	Poland
CE Electric (Ireland) Ltd.	Republic of Ireland
CE Electric UK Holdings	England
CE Electric UK Ltd.	England
CE UK Gas Holdings Limited	England
Electralink Limited	England
Integrated Utility Services Limited	England
Integrated Utility Services Limited	Republic of Ireland
Kings Road Developments Limited	England
Northern Electric plc	England
Northern Electric Distribution Limited	England
Northern Electric Finance plc	England
Northern Electric & Gas Limited	England
Northern Electric GenCo Limited	England
Northern Electric (Overseas Holdings) Limited	England
Northern Electric Generation (Peaking) Limited	England
Northern Electric Generation (TPL) Limited	England
Northern Electric Properties Limited	England
Northern Infocom Limited	England
Northern Transport Finance Limited	England
Selectusonline Limited	England
Stamfordham Road Developments Ltd.	England
Teesside Power Limited	England
Vehicle Lease and Service Limited	England
Yorkshire Cayman Holding Limited	Cayman Islands
Yorkshire Electricity Distribution plc	England
Yorkshire Electricity Distribution Services Limited	England
Yorkshire Electricity Group plc	England
Yorkshire Holdings plc	England
Yorkshire Power Finance Limited	Cayman Islands
Yorkshire Power Finance 2 Limited	Cayman Islands

Yorkshire Power Group Limited	England
YPG Holdings LLC	Delaware
HomeServices of America, Inc.	Delaware
Allied Title Services, LLC	Nebraska
Arizona Home Services, LLC	Arizona
Caldwell Mill, LLP	Alabama
California Title Company	California
Capitol Intermediary Company	Nebraska
Capitol Land Exchange, Inc.	Nebraska
Capitol Title Company	Nebraska
CBSHOME Real Estate Company	Nebraska
CBSHOME Real Estate of Iowa, Inc.	Delaware
CBSHOME Relocation Services, Inc.	Nebraska
Champion Realty, Inc.	Maryland
Chancellor Title Services, Inc.	Maryland
Columbia Title of Florida, Inc.	Florida
Cornerstone Title Company, L.L.C.	Georgia
Edina Financial Services, Inc.	Minnesota
Edina Realty, Inc.	Minnesota
Edina Realty Title, Inc.	Minnesota
Embassy Financial Services, Inc.	Florida
Esslinger-Wooten-Maxwell Inc.	Florida
First Capital Enterprises, LP	California
First Capital Group, LP	California
First Realty, Ltd.	Iowa
First Reserve Insurance, Inc.	Florida
FMLC Mortgage, LLC	Delaware
HMSV Financial Services, Inc.	Delaware
HMSV-USB Lending, LLC	Delaware
Home Real Estate, Inc.	Nebraska
Home Services Referral Network, LLC	Indiana
HomeServices Financial, LLC	Delaware
HomeServices Financial Holdings, Inc.	Delaware
HomeServices Financial-Iowa, LLC	Delaware
HomeServices Lending, LLC	Delaware
HomeServices Insurance, Inc.	Nebraska
HomeServices of California, Inc.	Delaware
HomeServices of Florida, Inc.	Florida
HomeServices of Kentucky, Inc.	Delaware
HomeServices of Nebraska, Inc.	Delaware
HomeServices of the Carolinas, Inc.	Delaware
HomeServices Relocation, LLC	Delaware
IMO Co., Inc.	Missouri
Iowa Realty Co., Inc.	Iowa
Iowa Realty Insurance Agency, Inc.	Iowa
Iowa Title Company	Iowa

Iowa Title Linn County LLC	Iowa
Iowa Title Linn County II, LLC	Iowa
J.D. Reece Mortgage Company	Kansas
Jenny Pruitt & Associates, Inc.	Georgia
Jenny Pruitt Insurance Services, LLC	Georgia
JRHBW Realty, Inc.	Alabama
J. S. White & Associates, Inc.	Alabama
Kansas City Title, Inc.	Missouri
Kentucky Residential Referral Service, LLC	Kentucky
Larabee School of Real Estate and Insurance, Inc.	Nebraska
Lincoln Title Company, LLC	Nebraska
Long Title Agency, LLC	Arizona
Meridian Title Services, LLC	Georgia
Midland Escrow Services, Inc.	Iowa
MortgageSouth, LLC	Alabama
Nebraska Land Title and Abstract Company	Nebraska
Pickford Escrow Company	California
Pickford Golden State Member, LLC	California
Pickford Holdings, LLC	California
Pickford North County, LP	California
Pickford Real Estate, Inc.	California
Pickford Realty Ltd.	California
Pickford Services Company	California
Piedmont Financial Capital Corporation	North Carolina
Piedmont Relocation Management Center, Inc.	North Carolina
Plaza Financial Services, LLC	Kansas
Preferred Carolinas Realty, Inc.	North Carolina
Preferred Carolinas Title Agency, L.L.C.	North Carolina
Professional Home Mortgage Lenders, LLC	North Carolina
Professional Referral Organization, Inc.	Maryland
Property I.D. Golden State, LLC	California
Real Estate Links, LLC	Illinois
Reece & Nichols Alliance, Inc.	Kansas
Reece & Nichols Realtors Inc.	Kansas
Referral Company of North Carolina, Inc.	North Carolina
RHL Referral Company, LLC	Arizona
Roy H. Long Realty Co., Inc.	Arizona
San Diego PCRE, Inc.	California
Semonin Realtors, Inc.	Delaware
Seward Title, LLC	Nebraska
Shelter Mortgage Company, L.L.C.	Delaware
Southwest Relocation, LLC	Arizona
The Escrow Firm, Inc.	California
The Piedmont Triad Mortgage Group, LLC	North Carolina
The Referral Company	Iowa
TITLE INFO NOW, LLC	Minnesota
TitleSouth, LLC	Alabama
Trinity Mortgage Affiliates	Georgia
Trinity Mortgage Partners, Inc.	Georgia
United Settlement Services, LC	Iowa
Woods Bros. Realty, Inc.	Nebraska
CE Generation, LLC	Delaware

CalEnergy Operating Corporation	Delaware
California Energy Development Corporation	Delaware
California Energy Yuma Corporation	Utah
CE Salton Sea Inc.	Delaware
CE Texas Energy LLC	Delaware
CE Texas Fuel, LLC	Delaware
CE Texas Gas LP	Delaware
CE Texas Pipeline, LLC	Delaware
CE Texas Power, LLC	Delaware
CE Texas Resources, LLC	Delaware
CE Turbo LLC	Delaware
Conejo Energy Company	California
Del Ranch, L. P.	California
Desert Valley Company	California
Elmore, L.P.	California
Falcon Power Operating Company	Texas
Falcon Seaboard Oil Company	Texas
Falcon Seaboard Pipeline Corporation	Texas
Falcon Seaboard Power Corporation	Texas
Fish Lake Power LLC	Delaware
FSRI Holdings, Inc	Texas
Imperial Magma LLC	Delaware
Leathers, L.P.	California
Magma Land Company I	Nevada
Magma Power Company	Nevada
Niguel Energy Company	California
North Country Gas Pipeline Corporation	New York
Power Resources, Ltd.	Texas
Salton Sea Brine Processing L. P.	California
Salton Sea Funding Corporation	Delaware
Salton Sea Power Company	Nevada
Salton Sea Power Generation L. P.	California
Salton Sea Power LLC	Delaware
Salton Sea Royalty LLC	Delaware
San Felipe Energy Company	California
Saranac Energy Company, Inc.	Delaware
Saranac Power Partners, LP	Delaware
SECI Holdings, Inc.	Delaware
VPC Geothermal LLC	Delaware
Vulcan Power Company	Nevada
Vulcan/BN Geothermal Power Company	Nevada
Yuma Cogeneration Associates	Arizona
American Pacific Finance Company	Delaware
CalEnergy Capital Trust II	Delaware
CalEnergy Capital Trust III	Delaware
CalEnergy Company Inc.	Delaware
CalEnergy Generation Operating Company	Delaware
CalEnergy Holdings, Inc.	Delaware
CalEnergy International Ltd.	Bermuda
CalEnergy International Services, Inc.	Delaware
CalEnergy Investments C.V.	Netherlands
CalEnergy Minerals Development LLC	Delaware
CalEnergy Minerals, LLC	Delaware
CalEnergy Pacific Holdings Corp.	Delaware

CalEnergy U.K. Inc.	Delaware
CE Casecnan Ltd.	Bermuda
CE Casecnan II, Inc.	Philippines
CE Casecnan Water and Energy Company, Inc.	Philippines
CE Cebu Geothermal Power Company, Inc.	Philippines
CE Electric (NY), Inc.	New York
CE Electric, Inc.	Delaware
CE Exploration Company	Delaware
CE Geothermal LLC	Delaware
CE Geothermal, Inc.	Delaware
CE Insurance Services Limited	Isle of Man
CE International Investments, Inc.	Delaware
CE Luzon Geothermal Power Company, Inc.	Philippines
CE Mahanagdong II, Inc.	Philippines
CE Mahanagdong Ltd.	Bermuda
CE Obsidian Energy LLC	Delaware
CE Obsidian Holdings, LLC	Delaware
CE Philippines II, Inc.	Philippines
CE Philippines Ltd.	Bermuda
CE Power LLC	Delaware
CE Power, Inc.	Delaware
CE Resource LLC	Delaware
Cordova Energy Company, LLC	Delaware
Cordova Funding Corporation	Delaware
Intermountain Geothermal Company	Delaware
Kern River Funding Corporation	Delaware
Kern River Gas Transmission Company	Texas
KR Acquisition 1, LLC	Delaware
KR Acquisition 2, LLC	Delaware
KR Holding, LLC	Delaware
Magma Netherlands B.V.	Netherlands
MEHC Investment, Inc.	South Dakota
MidAmerican Capital Trust I	Delaware
MidAmerican Capital Trust II	Delaware
MidAmerican Capital Trust III	Delaware
MidAmerican Energy Machining Services, LLC	Delaware
NNGC Acquisition, LLC	Delaware
Northern Natural Gas Company	Delaware
Quad Cities Energy Company	Iowa
Salton Sea Minerals Corp.	Delaware
Tongonan Power Investment, Inc.	Philippines
Visayas Geothermal Power Company	Philippines

EXHIBIT 24.1

POWER OF ATTORNEY

The undersigned, a member of the Board of Directors or an officer of MIDAMERICAN ENERGY HOLDINGS COMPANY, an Iowa corporation (the "Company"), hereby constitutes and appoints Douglas L. Anderson and James D. Stallmeyer and each of them, as his/her true and lawful attorney–in–fact and agent, with full power of substitution and resubstitution, for and in his/her stead, in any and all capacities, to sign on his/her behalf the Company's Form 10–K Annual Report for the fiscal year ending December 31, 2004 and to execute any amendments thereto and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission and applicable stock exchanges, with the full power and authority to do and perform each and every act and thing necessary or advisable to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that said attorney–in–fact and agent, or his/her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Executed as of February 28, 2005

/s/ David L. Sokol
DAVID L. SOKOL

/s/ Patrick J. Goodman
PATRICK J. GOODMAN

/s/ Edgar D. Aronson
EDGAR D. ARONSON

/s/ Richard R. Jaros
RICHARD R. JAROS

/s/ Marc D. Hamburg
MARC D. HAMBURG

/s/ John K. Bower
JOHN K. BOYER

/s/ Gregory E. Abel
GREGORY E. ABEL

/s/ Stanley J. Bright
STANLEY J. BRIGHT

/s/ Walter Scott, Jr.
WALTER SCOTT, JR.

/s/ Warren E. Buffett
WARREN E. BUFFETT

/s/ W. David Scott
W. DAVID SCOTT

EXHIBIT 31.1

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES–OXLEY ACT OF 2002**

I, David L. Sokol, certify that:

1. I have reviewed this annual report on Form 10–K of MidAmerican Energy Holdings Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2005

/s/ David L. Sokol
David L. Sokol
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick J. Goodman, certify that:

1. I have reviewed this annual report on Form 10-K of MidAmerican Energy Holdings Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2005

/s/ Patrick J. Goodman
Patrick J. Goodman
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE
SARBANES–OXLEY ACT OF 2002**

I, David L. Sokol, Chairman and Chief Executive Officer of MidAmerican Energy Holdings Company (the "Company"), certify, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) the Annual Report on Form 10–K of the Company for the annual period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: February 28, 2005

/s/ David L. Sokol
David L. Sokol
Chairman and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE
SARBANES–OXLEY ACT OF 2002

I, Patrick J. Goodman, Senior Vice President and Chief Financial Officer of MidAmerican Energy Holdings Company (the "Company"), certify, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) the Annual Report on Form 10–K of the Company for the annual period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: February 28, 2005

/s/ Patrick J. Goodman
Patrick J. Goodman
Senior Vice President and Chief Financial

EXHIBIT E

List of Officers and Directors of MidAmerican

Exhibit E

Officers and Directors of MidAmerican[1]

Name and Address	Title	Director Status
David L. Sokol 302 South 36th Street Suite 400 Omaha, NE 68131	Chairman of the Board, Chief Executive Officer	Director
Gregory E. Abel[2] 666 Grand Avenue Des Moines, IA 50309	President, Chief Operating Officer	Director
Patrick J. Goodman 666 Grand Avenue Des Moines, IA 50309	Senior Vice President and Chief Financial Officer	
Douglas L. Anderson 302 South 36th Street Suite 400 Omaha, NE 68131	Senior Vice President and General Counsel and Corporate Secretary	
Keith D. Hartje 666 Grand Avenue Des Moines, IA 50309	Senior Vice President, Communications, General Services, and Safety Audit and Compliance	
Maureen E. Sammon 666 Grand Avenue Des Moines, IA 50309	Senior Vice President, Human Resources, Information Technology and Insurance	
Brian K. Hankel 666 Grand Avenue Des Moines, IA 50309	Vice President and Treasurer	

Exhibit E

Officers and Directors of MidAmerican[1]

Wayne F. Irmiter 666 Grand Avenue Des Moines, IA 50309	Vice President and Chief Accounting Officer	
Steven R. Evans 666 Grand Avenue Des Moines, IA 50309	Vice President, Taxation	
Jonathan M. Weisgall 1200 New Hampshire Avenue NW Suite 300 Washington, D.C. 20036	Vice President, Legislative and Regulatory Affairs	
Cathy S. Woollums One RiverCenter Place 106 E. Second Street Davenport, IA 52801	Vice President, Environmental Services and Chief Environmental Counsel	
Paul B. Priest 666 Grand Avenue Des Moines, IA 50309	Vice President, Employee, Labor Relations and HR Compliance	
Mark C. Moench 2755 East Cottonwood Parkway, Suite 300 Salt Lake City, UT 84121	Senior Vice President, Legal	
James D. Stallmeyer 302 South 36th Street Suite 400 Omaha, NE 68131	Senior Vice President, General Counsel CE Electric UK	

Exhibit E

Officers and Directors of MidAmerican[1]

Garry Osborn 666 Grand Avenue Des Moines, IA 50309	Vice President, Financial Services	
Edgar D. Aronson EDACO, Inc. 551 Fifth Ave., Suite 512 New York, NY 10176		Director
John Boyer Fraser, Stryker, Meusey, Olson, Boyer & Bloch 409 South 17th St., Suite 500 Omaha, NE 68102		Director
Stanley J. Bright PO Box 410 4549 Bachelors Point Court Oxford. MD 27154		Director
Warren Buffett Berkshire Hathaway Inc. 1440 Kiewit Plaza 3555 Farnam Street Omaha, NE 68131		Director
Marc D. Hamburg Berkshire Hathaway Inc. 1440 Kiewit Plaza 3555 Farnam Street Omaha, NE 68131		Director

Exhibit E

Officers and Directors of MidAmerican[1]

Walter Scott, Jr. Level 3 Communications Inc. 3555 Farnam Street Omaha, NE 68131-3374		Director
W. David Scott Magnum Resources, Inc. 11422 Miracle Hills Drive, Suite 400 Omaha, NE 68154		Director
Richard R. Jaros 1160 North Green Bay Road Lake Forest, IL 60045		Director

1 The Directors and Officers of NWQ, LLC have not been finalized; however, it is expected that the officers and directors will be selected from the list set forth herein.
2 All of the Directors and Officers of MidAmerican are U.S. citizens with the exception of Gregory E. Abel. Mr. Abel is a citizen of Canada and has permanent resident status in the U.S.

EXHIBIT F

(i) List of Current Officers and Directors of PacifiCorp

(ii) Description of Proposed Directors of PacifiCorp following the Transaction

PacifiCorp Directors and Officers
As of June 29, 2005

DIRECTORS

Director	Address	From	To
Barry G. Cunningham	201 South Main Suite 2300 Salt Lake City, Utah 84111	4/18/2002	
Andrew P. Haller	825 NE Multnomah Suite 2000 Portland, Oregon 97232	5/23/2003	
Judith A. Johansen	825 NE Multnomah Suite 2000 Portland, Oregon 97232	12/1/2000	
Nolan E. Karras	4695 South 1900 West #3 Roy, Utah 84067	2/17/1993	
Andrew N. MacRitchie*	825 NE Multnomah Suite 2000 Portland, Oregon 97232	5/15/2000	
Richard D. Peach*	825 NE Multnomah Suite 2000 Portland, Oregon 97232	5/23/2003	
Michael J. Pittman	825 NE Multnomah Suite 2000 Portland, Oregon 97232	5/15/2000	
Ian M. Russell*	Scottish Power 1 Atlantic Quay Glasgow, Scotland G28FP	1/1/2002	
A. Richard Walje	201 South Main Suite 2300 Salt Lake City, Utah 84111	7/2/2001	
Matthew R. Wright*	825 NE Multnomah Suite 2000 Portland, Oregon 97232	7/2/2001	

* Denotes British Citizen

OFFICERS

Title	Officer	Address	From	To
President	Judith A. Johansen	825 NE Multnomah Suite 2000 Portland, Oregon 97232	6/4/2001	
Chief Executive Officer	Judith A. Johansen	825 NE Multnomah Suite 2000 Portland, Oregon 97232	6/4/2001	
Chief Financial Officer	Richard D. Peach	825 NE Multnomah Suite 2000 Portland, Oregon 97232	1/1/2003	
General Counsel	Andrew P. Haller	825 NE Multnomah Suite 2000 Portland, Oregon 97232	12/11/2000	
Executive Vice President	Andrew N. MacRitchie	825 NE Multnomah Suite 2000 Portland, Oregon 97232	6/4/2001	
Executive Vice President	A. Richard Walje	201 South Main Suite 2300 Salt Lake City, Utah 84111	4/1/2004	
Executive Vice President	Matthew R. Wright	825 NE Multnomah Suite 2000 Portland, Oregon 97232	1/1/2002	

Title	Officer	Address	From	To
Senior Vice President	Barry G. Cunningham	201 South Main Suite 2300 Salt Lake City, Utah 84111	2/11/2002	
Senior Vice President	Andrew P. Haller	825 NE Multnomah Suite 2000 Portland, Oregon 97232	6/4/2001	
Senior Vice President	Robert A. Klein	1125 NW Couch, Suite 700 Portland, Oregon 97209	8/6/2001	
Senior Vice President	Michael J. Pittman	825 NE Multnomah Suite 2000 Portland, Oregon 97232	5/15/2000	
Senior Vice President	Stan K. Watters	825 NE Multnomah Suite 2000 Portland, Oregon 97232	6/3/2003	
Vice President	Donald (Doug) D. Larson	201 South Main Suite 2300 Salt Lake City, Utah 84111	7/2/2001	
Vice President	Ernest E. Wessman	201 South Main Suite 2300 Salt Lake City, Utah 84111	5/19/1993	
Secretary	Andrew P. Haller	825 NE Multnomah Suite 2000 Portland, Oregon 97232	12/11/2000	
Assistant Secretary	Jeffery B. Erb	825 NE Multnomah Suite 1800 Portland, Oregon 97232	3/13/2002	
Assistant Secretary	Michael G. Jenkins	201 South Main Suite 2100 Salt Lake City, Utah 84111	5/12/1999	
Assistant Secretary	Douglas A. Kusyk	825 NE Multnomah Suite 1900 Portland, Oregon 97232	4/1/2005	
Assistant Secretary	Larry O. Martin	825 NE Multnomah Suite 1900 Portland, Oregon 97232	6/4/2001	
Treasurer	Bruce N. Williams	825 NE Multnomah Suite 1900 Portland, Oregon 97232	2/16/2000	
Assistant Treasurer	Tanya S. Sacks	825 NE Multnomah Suite 1900 Portland, Oregon 97232	6/4/2001	

Exhibit F(ii)

List of Proposed Directors of PacifiCorp Following the Transaction

Following the closing of the Transaction, it is expected that the directors of PacifiCorp will be selected from the list of current PacifiCorp Directors (see Exhibit F(i)) and from the list of current MidAmerican Senior Officers (i.e., the current President and Senior Vice Presidents listed in Exhibit E). All of these persons (both the current PacifiCorp Directors and the MidAmerican Senior Officers) are U.S. citizens, except for Mr. Abel, of MidAmerican; and Mr. MacRitchie, Mr. Peach, and Mr. Wright, current Directors of PacifiCorp, who are British citizens and may continue as directors following closing of the transaction. Mr. Russell, a current director and also a British citizen, is not expected to continue as director following closing of the transaction.

EXHIBIT G

Directors' Resolutions Approving the Transaction

RESOLUTIONS OF THE
BOARD OF DIRECTORS
OF
MIDAMERICAN ENERGY HOLDINGS COMPANY
ADOPTED ON MAY 10, 2005

WHEREAS, the Board of Directors (the "Board") of MidAmerican Energy Holdings Company (the "Company"), a company organized and existing under the laws of the State of Iowa, believes that it is advisable and in the best interest of the Company and its shareholders that the Company enter into a Purchase Agreement (the "Purchase Agreement"), pursuant to which the Company will purchase 100% of the outstanding common stock of PacifiCorp ("PacifiCorp") and certain related entities and assets from subsidiaries of Scottish Power plc ("Parent"), for an aggregate cash purchase price equal to the difference between $[redacted] billion and the aggregate amount of PacifiCorp's indebtedness for borrowed money, including preferred stock, as at March 31, 2005, on the terms and subject to the conditions substantially as described to the Board, with such additions, changes and other terms as may be set forth in the Purchase Agreement (the "Acquisition"); and

WHEREAS, the Board believes that it is advisable and in the best interest of the Company and its shareholders to finance all or a portion of the Acquisition by means of the offering and sale of equity and/or debt securities of the Company on the terms and subject to the conditions as the Authorized Officers shall determine, including, without limitation, (i) through an offering of senior notes of the Company in one or more series in a private placement transaction pursuant to Rule 144A and Section 4(2) under the Securities Act of 1933, as amended (the "Securities Act"), to "qualified institutional buyers" (as such term is defined in Rule 144A) and pursuant to Regulation S of the Securities Act to certain persons in "offshore transactions" (as such term is defined in Regulation S), and/or (ii) by entering into a subscription agreement with Berkshire Hathaway Inc. for the sale and purchase, respectively, of Trust Issued Preferred Securities to be issued by a Delaware business trust or trusts formed by the Company pursuant to Title 12, Chapter 38 of the Delaware Code, and/or (iii) any other financing determined to be in the best interest of the Company and its shareholders (a "Financing" and, together with the Acquisition, the "Transactions"); provided, however, that it is understood that the Company's obligations under the Purchase Agreement will not be conditioned upon the ability of the Company to consummate any such Financing.

NOW THEREFORE, BE IT RESOLVED, that David L. Sokol, Gregory E. Abel, Douglas L. Anderson and Patrick J. Goodman (collectively, the "Authorized Officers") of the Company be, and each of them hereby is, authorized and directed in the name of and on behalf of the Company to negotiate with Parent, determine the final terms of and execute the Purchase Agreement having substantially the terms and conditions as described at this meeting, and all other documents necessary in order to consummate the Acquisition, with the execution of such documentation and the taking of such action by any such Authorized Officer to constitute conclusive evidence of such determination; and be it

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized and directed in the name and on behalf of the Company to negotiate with the applicable parties and determine the terms of and execute all documents necessary in order to consummate a Financing, with the execution of such documentation and the taking of such action by any such Authorized Officer to constitute conclusive evidence of such determination; and be it

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized to prepare, execute and cause to be filed with the United States Department of Justice, the Federal Trade Commission, the United States Securities and Exchange Commission, and the Federal Energy Regulatory Commission, and any applicable state or foreign securities commissions, state public service commissions or other applicable regulatory authorities in the name and on behalf of the Company or any subsidiary any and all notifications, reports, petitions, applications, agreements, forms or other papers as may be necessary or advisable with respect to the Transactions, such notifications, reports, petitions, applications, agreements, forms or other papers to be in such form as may be approved by the Authorized Officer executing the same, the execution thereof by such Authorized Officer to be conclusive evidence of such approval; and be it

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized and directed to prepare for filing all such additional documents as such Authorized Officers deem necessary or desirable in connection with the Transactions, including without limitation, such documents and filings as may otherwise be required by any United States federal or state regulatory authority or agency or other entity or third party; and be it

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized and directed in the name and on behalf of the Company and its subsidiaries, agents, officers, directors, employees, affiliates and shareholders, to cause to be prepared and filed any and all regulatory proceedings litigation, whether as plaintiff or defendant, that is necessary, appropriate or desirable to implement and effectuate the Transactions and in order to give effect to these resolutions; and be it

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is authorized and directed in the name and on behalf of the Company or other subsidiary to take all such further action as may be necessary, appropriate or desirable to implement and to effectuate the Transactions and in order to give effect to and carry out the foregoing resolutions, including, without limitation, to make all necessary or appropriate governmental filings, make all expenditures and incur all expenses, and execute and deliver all instruments which they in their discretion deem necessary to carry out the purposes and intent of the foregoing resolutions.

[End]

CORPORATE SECRETARY'S CERTIFICATE

I, Douglas L. Anderson, do hereby certify that I am the Senior Vice President, General Counsel and Secretary of MidAmerican Energy Holdings Company ("Company"), an Iowa corporation, that the resolutions attached hereto are a true and correct copy of the resolutions adopted by the Board of Directors of the Company on May 10, 2005, and that such resolutions have not in any respect been altered, amended or repealed.

IN WITNESS WHEREOF, I have signed this Certificate on this 28th day of June, 2005.

Douglas L. Anderson
Senior Vice President, General
Counsel and Secretary

Subscribed and sworn to before me this 28th day of June 2005.

Notary Public, State of Nebraska

GENERAL NOTARY - State of Nebraska
MITCHELL L. PIRNIE
My Comm. Exp. April 21, 2008

PRIVATE

SCOTTISH POWER plc

YEAR 2005

EXTRACT FROM MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF SCOTTISH POWER plc HELD BY TELEPHONE CONFERENCE ON 23 MAY 2005 AT 11.00 P.M.

Corporate Strategy

Reference was then made to the Stock Purchase Agreement for the sale and purchase of all of the common stock of PacifiCorp proposed to be made between Scottish Power plc ("the Company"), PacifiCorp Holdings, Inc. and MidAmerican Energy Holdings Company ("the Stock Purchase Agreement"). The terms and conditions of the Stock Purchase Agreement were summarised, with particular regard to changes made since the Board Meeting held on 22 May 2005.

After due and careful consideration, it was RESOLVED

(1) THAT entry into the Stock Purchase Agreement and the transactions contemplated thereby are in the best interests of the Company and the same be submitted for consideration by the Company's shareholders;

(2) THAT the terms of the Stock Purchase Agreement be approved subject to such amendments as Mr R J Stanley, Group Legal, Commercial & Compliance Director may approve, and that Mr R J Stanley be and is hereby authorised and instructed to approve the final form of the Stock Purchase Agreement and to execute it on behalf of the Company; and

(3) THAT Mr R J Stanley (or, in the case of a document to be executed as a deed, Mr R J Stanley together with any director or the company secretary of the Company) be and is or are hereby authorised to approve, execute and deliver any document, certificate, notice, announcement or deed as he or they (as the case may be) in his or their absolute discretion consider necessary or desirable to be approved, executed and delivered in relation to or in connection with the execution and delivery of the Stock Purchase Agreement and to do all other acts or things as he or they consider in his or their absolute discretion to be necessary or desirable in connection therewith.

Certified a true copy

Secretary
Scottish Power plc

28 June 2005

EXHIBIT H

The ISFSI Funding Letter issued April 25, 2005

April 25, 2005

Mr. Stephen M. Quennoz
Vice President, Generation
Portland General Electric Company
Trojan Nuclear Power Plant
71760 Columbia River Highway
Rainier, OR 97048

SUBJECT: DECOMMISSIONING FUNDING INFORMATION AS REQUIRED BY NUCLEAR REGULATORY COMMISSION LETTER APPROVING PARTIAL EXEMPTION FROM 10 CFR 72.30(c)(5)

Dear Mr. Quennoz:

By letter dated March 31, 2005, Portland General Electric (PGE) submitted decommissioning funding information to fulfill Condition 1 of the financial assurance exemption issued in the Federal Register on March 25, 2005, (70 FR 15371). The Condition required PGE to submit documentation demonstrating that the funding for the Trojan Independent Spent Fuel Storage Installation was approved for recovery in rates by a competent ratemaking authority.

PGE submitted Oregon Public Utilities Commission (OPUC) Order No. 95-322, issued March 29, 1995, to the Nuclear Regulatory Commission (NRC), which stated on page 60 that the OPUC approved PGE's funding plan for inclusion in the rate base. PGE submitted to the NRC additional OPUC Orders to demonstrate that co-licensee PacifiCorp also has approval to collect its share of decommissioning funds from the rate base, and that the authorizations for both licensees remain in force. PGE stated that it understood the exemption to be applicable to PacifiCorp, although the co-licensee was not explicitly named in the exemption.

The NRC has concluded that (1) PGE has satisfied Condition 1 of the exemption grant, and is authorized to use the exemption, and (2) the exemption applies to co-licensee PacificCorp.

Please reference Docket No. 72-17 in any future correspondence related to this action. If you have any questions regarding this matter, you may contact me or Christopher Regan of my staff at (301) 415-8500.

Sincerely,

/RA/

Robert J. Lewis, Chief
Licensing Section
Spent Fuel Project Office
Office of Nuclear Material Safety
and Safeguards

Docket No.: 07200017
License No.: SNM-2509

April 25, 2005

Mr. Stephen M. Quennoz
Vice President, Generation
Portland General Electric Company
Trojan Nuclear Power Plant
71760 Columbia River Highway
Rainier, OR 97048

SUBJECT: DECOMMISSIONING FUNDING INFORMATION AS REQUIRED BY NUCLEAR REGULATORY COMMISSION LETTER APPROVING PARTIAL EXEMPTION FROM 10 CFR 72.30(c)(5)

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The NRC has concluded that (1) PGE has satisfied Condition 1 of the exemption grant, and is authorized to use the exemption, and (2) the exemption applies to co-licensee PacificCorp.

Please reference Docket No. 72-17 in any future correspondence related to this action. If you have any questions regarding this matter, you may contact me or Christopher Regan of my staff at (301) 415-8500.

Sincerely,
/RA/
Robert J. Lewis, Chief
Licensing Section
Spent Fuel Project Office
Office of Nuclear Material Safety
and Safeguards

Docket No.: 0720017
License No.: SNM

DISTRIBUTION:
SBaggett VEverett, RIV BSpitzburg, RIV SFPO R/F SHom, NRR
CHaney, NRR Njensen, OGC
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OFC:	SFPO		SFPO		SFPO	
NAME:	CRegan		EZiegler		RLewis	
DATE:	04/20/05		04 /22/05		04/25/05	

C = COVER E = COVER & ENCLOSURE N = NO COPY
OFFICIAL RECORD COPY

cc: Mailing List

Chairman of the Board of County
Commissioners
Columbia County
St. Helens, OR 97501

Mr. David Stewart-Smith
Oregon Office of Energy
625 Marion Street, N.E.
Salem, OR 97301

Regional Administrator, Region IV
U.S. Nuclear Regulatory Commission
Harris Tower and Pavilion
611 Ryan Plaza Drive, Suite 400
Arlington, TX 76011-8064

Mr. Jay P. Fischer, ISFSI Manager
Portland General Electric Company
Trojan Independent Spent Fuel Storage
Company
71760 Columbia River Highway
Rainier, OR 97048

Mr. Jerry D. Reid, Manager
Licensing
Portland General Electric Company
Trojan Nuclear Plant
71760 Columbia River Highway
Rainier, OR 97048

Mr. Lloyd K. Marbet
19142 S.E. Bakers Ferry Road
Boring, OR 97009

Mr. Jerry Wilson
Do It Yourself Committee
570 N.E. 53rd
Hillsboro, OR 97124

Mr. Eugene Rosolie
Northwest Environmental Advocates
302 Haseltine Building
133 S.W. 2nd Avenue
Portland, OR 97204

Douglas Nichols, Esq.
Vice President, General Counsel and
Secretary
Portland General Electric Company
121 S.W. Salmon Street
Portland, OR 97204

Mr. Stephen B. Nichols
General Manager, Trojan
Portland General Electric Company
Trojan Nuclear Plant
71760 Columbia River Highway
Rainier, OR 97048