

revenue for each affiliate and transactions with each affiliate. (Witness Specketer)

- G. PacifiCorp and MEHC will not cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and shall comply with the Commission's then-existing practice with respect to such matters. (Witness Specketer)
- H. Due to PUHCA repeal, neither Berkshire Hathaway nor MEHC will be registered public utility holding companies under PUHCA. Thus, no waiver by Berkshire Hathaway or MEHC of any defenses to which they may be entitled under *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir.), *cert. denied sub nom. Arcadia v. Ohio Power Co.*, 506 U.S. 981 (1992) ("*Ohio Power*"), is necessary to maintain the Commission's regulation of MEHC and PacifiCorp. However, while PUHCA is in effect, Berkshire Hathaway and MEHC waive such defenses. (Witness Specketer)
- I. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of MEHC and PacifiCorp following approval of the transaction will be held in a separate company(ies) other than PacifiCorp, the entity for utility operations. Ring-fencing provisions (i.e., measures providing for separate financial and accounting treatment) will be provided for each of these diversified activities, including but not limited to provisions protecting the regulated utility from the liabilities or financial distress of MEHC. This condition will not prohibit the holding of diversified businesses. (Witness Goodman)
- J. PacifiCorp or MEHC will notify the Commission subsequent to MEHC's board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of MEHC; or (2) the change in effective control or acquisition of any material part or all of PacifiCorp by any other firm, whether by merger, combination, transfer of stock or assets.
- K. Within 30 days of receiving all necessary state and federal regulatory approvals of the final corporate and affiliate cost allocation methodology, a written document setting forth the final corporate and affiliate cost methodology will be submitted to the Commission. On an on-going basis, the Commission will also be notified of anticipated or mandated changes to the corporate and affiliate cost allocation methodologies. (Witness Specketer)
- L. Any proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads, required by law or rule to be submitted to the Commission for approval, will comply with the following principles:
 - (a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by MEHC or any of its affiliates, MEHC must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its

- regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent.
- (b) Cost allocations to PacifiCorp and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to specific subsidiaries whenever possible and shared or indirect costs will be allocated based upon the primary cost-driving factors.
 - (c) MEHC will have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp.
 - (d) An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.
 - (e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the MEHC group.
 - (f) Any corporate cost allocation methodology used for rate setting, and subsequent changes thereto, will be submitted to the Commission for approval if required by law or rule. (Witness Specketer)

Financial Integrity

- A. PacifiCorp will maintain separate debt and, if outstanding, preferred stock ratings. PacifiCorp will maintain its own corporate credit rating, as well as ratings for each long-term debt and preferred stock (if any) issuance. (Witness Goodman)
- B. MEHC and PacifiCorp will exclude all costs of the transaction from PacifiCorp's utility accounts. Within 90 days following completion of the transaction, MEHC will provide a preliminary accounting of these costs. Further, MEHC will provide the Commission with a final accounting of these costs within 30 days of the accounting close. (Witness Goodman)
- C. The premium paid by MEHC for PacifiCorp will be recorded in the accounts of the acquisition company and not in the utility accounts of PacifiCorp. MEHC and PacifiCorp will not propose to recover the acquisition premium in PacifiCorp's regulated retail rates; provided, however, that if the Commission in a rate order issued subsequent to the closing of the transaction reduces PacifiCorp's retail revenue requirement through the imputation of benefits (other than those benefits committed to

in this transaction) accruing from the acquisition company (PPW Holdings LLC), Berkshire Hathaway or MEHC, MEHC and PacifiCorp will have the right to propose upon rehearing and in subsequent cases a symmetrical adjustment to recognize the acquisition premium in retail revenue requirement. (Witness Goodman)

- D. MEHC and PacifiCorp will provide the Commission with unrestricted access to all written information provided to credit rating agencies that pertains to PacifiCorp. (Witness Goodman)
- E. PacifiCorp will not make any distribution to PPW Holdings LLC or MEHC that will reduce PacifiCorp's common equity capital below 40 percent of its total capital without Commission approval. PacifiCorp's total capital is defined as common equity, preferred equity and long-term debt. Long-term debt is defined as debt with a term of one year or more. The Commission and PacifiCorp may reexamine this minimum common equity percentage as financial conditions or accounting standards change, and may request that it be adjusted. (Witness Goodman)
- F. The capital requirements of PacifiCorp, as determined to be necessary to meet its obligation to serve the public, will be given a high priority by the Board of Directors of MEHC and PacifiCorp. (Witness Goodman)
- G. PacifiCorp will not, without the approval of the Commission, assume any obligation or liability as guarantor, endorser, surety or otherwise for MEHC or its affiliates, provided that this condition will not prevent PacifiCorp from assuming any obligation or liability on behalf of a subsidiary of PacifiCorp. MEHC will not pledge any of the assets of the regulated business of PacifiCorp as backing for any securities which MEHC or its affiliates (but excluding PacifiCorp and its subsidiaries) may issue. (Witness Goodman)

Revenue Requirement Impacts

- A. MEHC and PacifiCorp, in future Commission proceedings, will not seek a higher cost of capital than that which PacifiCorp would have sought if the transaction had not occurred. Specifically, no capital financing costs should increase by virtue of the fact that PacifiCorp was acquired by MEHC.
- B. MEHC and PacifiCorp guarantee that the customers of PacifiCorp will be held harmless if the transaction between MEHC and PacifiCorp results in a higher revenue requirement for PacifiCorp than if the transaction had not occurred. However, this hold harmless provision shall not apply to incremental costs associated with cost-effective investments in renewable and thermal generation, energy efficiency programs, demand-side management programs, environmental measures, and transmission and distribution facilities approved by the Commission.

Environment

- A. PacifiCorp will continue its Blue Sky tariff offering in all states.
- B. PacifiCorp will continue its commitment to gather outside input on environmental matters, such as through the Environmental Forum.
- C. PacifiCorp will continue to have environmental management systems in place that are self-certified to ISO 14001 standards at all PacifiCorp operated thermal generation plants.

Communities

- A. MEHC will maintain the existing level of PacifiCorp's community-related contributions, both in terms of monetary and in-kind contributions.
- B. MEHC will continue to consult with regional advisory boards to ensure local perspectives are heard regarding community issues.

Employees

- A. MEHC will honor existing labor contracts with all levels of staff.
- B. MEHC and PacifiCorp will make no changes to employee benefit plans for at least two (2) years following the effective date of the Stock Purchase Agreement.

Planning

- A. PacifiCorp will continue to produce Resource Plans every two years, according to the then current schedule and the then current Commission rules.
- B. When acquiring new generation resources in excess of 100 MW, PacifiCorp and MEHC will issue Requests for Proposals (RFPs) or otherwise comply with state laws, regulations and orders that pertain to procurement of new generation resources.