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March 31, 2006

ELECTRONIC FILING

PUC Filing Center
Oregon Public Utility Commission
PO Box 2148
Salem, OR 97308-2148

Re: Application of PacifiCorp for Approval of the Intercompany Administrative Services Agreement with MidAmerican Energy Holdings Company

Enclosed for filing are the original and three copies of PacifiCorp's Application for Approval of the Intercompany Administrative Services Agreement with MidAmerican Energy Holdings Company.

Very truly yours,

A handwritten signature in black ink, appearing to read "James M. Van Nostrand".

James M. Van Nostrand

JMV:jlf
Enclosures

cc: Natalie Hocken
Andrea Kelly

Oregon
Washington
California
Utah
Idaho

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

DOCKET _____

**In the Matter of the Application of
PACIFICORP for Approval of the
Intercompany Administrative Services
Agreement with MidAmerican Energy
Holdings Company**

APPLICATION OF PACIFICORP

Pursuant to ORS 757.495, OAR 860-027-0040 and OAR 860-027-0041, PacifiCorp requests approval from the Oregon Public Utility Commission (the "Commission") of the Intercompany Administrative Services Agreement ("IASA") between MidAmerican Energy Holdings Company ("MEHC") and its subsidiaries. Following the acquisition of PacifiCorp by MEHC on March 21, 2006, PacifiCorp became an MEHC subsidiary and will be subject to the IASA. This filing is also made in compliance with recent Commission orders approving the acquisition.

1. Background

In its Order No. 06-082 issued February 24, 2006 in Docket UM 1209, the Commission approved the acquisition of PacifiCorp by MEHC, subject to a Consolidated List of Commitments specified in a stipulation among several parties to the proceeding. In Order No. 06-121 issued March 14, 2006, the Commission adopted an amended Consolidated List of Commitments. Included in this Consolidated List is MEHC's and PacifiCorp's commitment regarding the filing of the IASA. Specifically, Commitment 13 provides that:

The Inter-company Administrative Services Agreement (IASA) will include the corporate and affiliate cost allocation methodologies. The IASA will be filed with the Commission as soon as practicable after the closing of the transaction. Approval of the IASA will be requested if required by law or rule, but approval for ratemaking purposes will not be requested in such filing. Refer to Commitment 14 (f). Amendments to the IASA will also be filed with the Commission.

1 Commitment O 3 also pertains to the IASA. It provides that:

2 MEHC and PacifiCorp commit that they will interpret Oregon Revised Statutes
3 Sections 757.015 and 757.495 to require Commission approval of any contract
4 between PacifiCorp and (i) any affiliate of MEHC or (ii) any affiliate of Berkshire
5 Hathaway. This shall include the IASA. MEHC and PacifiCorp intend that by
6 obtaining Commission approval of the IASA, PacifiCorp will avoid the need to
7 seek individual approval of affiliate transactions which are subject to that
8 agreement. The IASA is expected to address the provision of electric service to
9 affiliates of MEHC or Berkshire Hathaway under tariffs approved by state or
10 federal authorities.¹

7 Commitment O 6 also pertains to the IASA. It provides that:

8 MEHC and PacifiCorp will request Commission approval, for cost allocation and
9 affiliate transaction purposes, of the IASA and any amendments filed pursuant to
10 Commitment 13.

10 Thus, in accordance with Commitments 13, O 3, and O 6, and as required by ORS 757.495 and
11 OAR 860-027-0040 and OAR 860-027-0041, the IASA is submitted herewith for Commission
12 approval. A copy of the IASA is included as Exhibit A. Consistent with Commitments 13 and
13 14(f),² approval for ratemaking purposes is not requested in this filing. The reasonableness of
14 payments under the IASA by PacifiCorp to MEHC and its subsidiaries will be considered in
15 subsequent rate proceedings.

16 **2. Oregon Affiliated Interest Application Filing Requirements**

17 **A. Address**

18 The applicant's exact name and address are:

19 PacifiCorp
20 Lloyd Center Tower
21 825 NE Multnomah Street
22 Portland, OR 97232

22 ¹ This is addressed in Article 21 of the IASA, which provides that such sales are
23 governed by tariffs. According to Article 21, "relationships not addressed or governed by this
24 Agreement will be governed and controlled by a separate agreement or tariff specifically
25 addressing and governing those relationships."

26 ² Commitment 14(f) provides that "[a]ny 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."

1 **B. Communications and Notices**

2 All notices and communications with respect to this application should be addressed to:

3 Andrea Kelly
4 Vice President, Regulation
5 PacifiCorp
6 825 NE Multnomah Street, Suite 2000
7 Portland, OR 97232
8 Tel. (503) 813-6043
9 Fax (503) 813-6060
10 andrea.kelly@pacificorp.com

 Katherine A. McDowell
 Stoel Rives LLP
 900 SW Fifth Avenue, Suite 2600
 Portland, OR 97204-1268
 Tel. (503) 294-9602
 Fax (503) 220-2480
 kamcdowell@stoel.com

 Natalie Hocken
 Assistant General Counsel
 Pacific Power
 825 NE Multnomah Street, Suite 1800
 Portland, OR 97232
 Tel. (503) 813-7205
 Fax (503) 813-7252
 natalie.hocken@pacificorp.com

12 In addition, PacifiCorp respectfully requests that all data requests regarding this matter be
13 addressed to:

14 By e-mail (preferred)	datarequest@pacificorp.com
15 By regular mail	Data Request Response Center 16 PacifiCorp 17 825 NE Multnomah St., Suite 800 18 Portland, Oregon 97232
By facsimile	(503) 813-6060

19 Informal inquires may also be directed to Laura Beane, Manager, Regulation at
20 (503) 813-5542.

21 **C. Relationship Between PacifiCorp and MEHC**

22 PacifiCorp is a wholly owned subsidiary of MEHC. The parties to the IASA are MEHC,
23 PPW Holdings LLC,³ and the other wholly owned subsidiaries of MEHC, including

24 _____
25 ³ PPW Holdings LLC, a direct subsidiary of MEHC, owns 100% of the common stock of
26 PacifiCorp and is a party to the IASA. *Page 9, IASA.*

1 MidAmerican Energy Company, CalEnergy Generation, Kern River Gas Transmission
2 Company, Northern Natural Gas Company, CE Electric UK Funding plc, and HomeServices of
3 America, Inc.⁴ The parties to the IASA are “affiliated interests” of PacifiCorp as defined in
4 ORS 757.015.

5 **D. Voting Securities**

6 PPW Holdings LLC is wholly owned by MEHC. PPW Holdings LLC, in turn, owns
7 100% of the common stock of PacifiCorp, which represents 99.76% of the voting securities of
8 PacifiCorp.⁵

9 **E. Common Officers and Directors**

10 The following officers or directors of PacifiCorp hold positions as officers or directors of
11 the affiliates that are parties to the IASA:

12	NAME	POSITION WITH PACIFICORP
13		CHIEF EXECUTIVE OFFICER,
14	GREGORY E. ABEL	CHAIRMAN OF THE BOARD OF DIRECTORS
15	PATRICK J. GOODMAN	MEMBER, BOARD OF DIRECTORS
16	DOUGLAS L. ANDERSON	MEMBER, BOARD OF DIRECTORS
17	BRENT E. GALE	MEMBER, BOARD OF DIRECTORS
18		
19		
20		
21		

22 ⁴ The signatories to the IASA are the ownership entities for these respective subsidiaries
23 (MidAmerican Funding LLC, CalEnergy International Services, Inc., KR Holding, LLC, NNGC
24 Acquisition, LLC, CE Electric UK Funding Company, and CE Casecan Water and Energy
25 Company, Inc.)

26 ⁵ In addition to the 357,060,915 shares of PacifiCorp common stock held by PPW
Holdings LLC, there are 126,243 shares of 5% preferred stock, 288,390 shares of serial preferred
stock, and 450,000 shares of no par preferred stock.

1 **F. Pecuniary Interest**

2 No officer or director of either MEHC or its wholly owned subsidiaries is a party to or
3 has a pecuniary interest in the Agreement.

4 **G. Description of Goods and Services Provided**

5 The IASA governs the provision of administrative services between and among MEHC
6 and its subsidiaries, and includes administrative services that are provided by: MEHC to its
7 subsidiaries, the subsidiaries to MEHC, and MEHC subsidiaries to other MEHC subsidiaries.
8 *Article 1 of the IASA (page 2)*. Administrative services to be provided under the IASA include,
9 but are not limited to:

- 10 • Services by executive, management, professional, technical and clerical
11 employees;
- 12 • Financial services, payroll processing services, employee benefits participation,
13 supply chain and purchase order processing services, tax and accounting services,
14 contract negotiation and administration services, risk management services,
15 environmental services and engineering and technical services;
- 16 • The use of office facilities, including but not limited to office space, conference
17 rooms, furniture, equipment, machinery, supplies, computers and computer
18 software, insurance policies and other personal property; and
- 19 • The use of automobiles, airplanes, other vehicles and equipment.

20 *Article 1 of the IASA (page 1)*.

21 **1. Tracking Costs for Administrative Services**

22 Common costs of MEHC will primarily originate in two entities: in MEHC itself, and in
23 MidAmerican Energy Company (“MEC”).⁶ Costs and billings originating at MEHC will be

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25 ⁶ MEC, a vertically integrated utility owned by MEHC, serves regulated and unregulated
26 electric and gas customers primarily in Iowa, Illinois, South Dakota and Nebraska.

1 accounted for using MEHC's existing system of accounts. The MEHC system of accounts
2 provides details on the type of cost activity involved and the area responsible for the charge. As
3 a regulated public utility, MEC is required to use and account for costs using the FERC uniform
4 system of accounts. In addition to the FERC primary accounts, MEC utilizes an additional three-
5 digit "sub-account" field to provide more descriptive detail of the type of cost activity involved.
6 Both MEHC and MEC utilize a responsibility center field in the code block to establish
7 budgetary control of amounts charged and provide an audit trail to the department originally
8 incurring the charges. Other segments of the code block used by MEC capture cost elements
9 (descriptive of the nature of costs, e.g., labor, payables, etc.) and project numbers. Both the
10 MEHC and MEC code blocks accommodate a high degree of flexibility and capability in
11 tracking and reporting costs.

12 **2. Charges for Administrative Services**

13 Shared services, whether directly billed or allocated, will be charged at fully loaded
14 actual cost by the entity providing the service ("Providing Party"). This means that only the
15 actual cost of providing the service, with no markup for profit, will be charged. Labor, for
16 example, will include such items as loadings for benefits, paid absences and payroll taxes
17 attributable to such labor for actual time spent providing the service. Non-labor costs will be
18 directly billed or allocated at actual amounts incurred by the Providing Party. MEHC and its
19 subsidiaries will not earn profits on such services. All such shared services costs incurred by the
20 Providing Party will be directly charged when the benefiting organization can be specifically
21 identified, and any residual indirect amounts will be allocated each month to all benefiting
22 subsidiaries.

23 The IASA provides that charges for administrative services will be calculated on the
24 basis of direct charges, service charges, or pursuant to an allocation methodology (in the case of
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1 costs incurred for the general benefit of the entire corporate group). *Article 4 of the IASA (pages*
2 2-3). These methods of determining charges are described briefly as follows:

3 Direct Charges: The Party receiving the benefit of Administrative Services
4 (“Recipient Party”) is charged for the operating costs incurred by the Providing
5 Party, including, but not limited to, allocable salary and wages, incentives, paid
6 absences, payroll taxes, payroll additives (insurance premiums, health care and
7 retirement benefits and the like), direct non-labor costs, if any, and similar
8 expenses, and reimbursement of out-of-pocket third party costs and expenses.

9 Service Charges: These are costs that are impractical to charge directly but for
10 which a cost/benefit relationship can be reasonably identified. A practical
11 allocation method will be established by Providing Party that allocates the cost of
12 this service equitably and consistently to the Recipient Party.

13 Allocations: These are costs incurred for the general benefit of the entire
14 corporate group for which direct charging and service charges are not practical.
15 An allocation methodology will be established and used consistently from year to
16 year. The cost allocation methodology is discussed in the next section.

12 3. Cost Allocation Methodology

13 The IASA identifies the principles that will be followed in any cost allocation
14 methodology used for assigning corporate and affiliate costs. *Article 4 of the IASA (page 3)*.
15 These principles are consistent with the principles to which MEHC and PacifiCorp committed in
16 Commitment 14, which states that:

17 Any proposed cost allocation methodology for the allocation of corporate and
18 affiliate investments, expenses, and overheads, required by law or rule to be
19 submitted to the Commission for approval, will comply with the following
20 principles:

- 21 a) For services rendered to PacifiCorp or each cost category subject to allocation to
22 PacifiCorp by MEHC or any of its affiliates, MEHC must be able to demonstrate
23 that such service or cost category is necessary to PacifiCorp for the performance
24 of its regulated operations, is not duplicative of services already being performed
25 within PacifiCorp, and is reasonable and prudent.
- 26 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.

- 1 c) MEHC and its subsidiaries will have in place positive time reporting systems
adequate to support the allocation and assignment of costs of executives and other
2 relevant personnel to PacifiCorp.
- 3 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
4 audit trail must be adequately supported. Failure to adequately support any
allocated cost may result in denial of its recovery in rates.
- 5 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
6 allocated directly or indirectly through subsidiaries in the MEHC group.
- 7 f) Any corporate cost allocation methodology used for rate setting, and subsequent
8 changes thereto, will be submitted to the Commission for approval if required by
law or rule.

9 A two-factor formula will be used for purposes of billing indirect costs of MEHC and
10 MEC allocable to MEHC and all subsidiaries. The two factors are assets and payroll, each
11 equally weighted. On an ongoing basis, PacifiCorp will notify the Commission of anticipated or
12 mandated changes to this cost allocation methodology. Consistent with Commitment 14(f), the
13 Commission will determine the appropriate corporate cost allocation for establishing rates.

14 4. Other Provisions of the IASA

15 The IASA also includes requirements regarding payment arrangements (*Article 4(b)*), the
16 maintenance of books and records necessary to support the charges for administrative services
17 (*Article 7*), and the treatment of confidential information (*Articles 15 and 16*).

18 H. Estimate of Amount PacifiCorp Will Pay Annually For Services

19 Shared services charges to PacifiCorp are expected to decrease from historical amounts
20 billed to PacifiCorp from ScottishPower. Exhibit B, which was included as Exhibit PPL/502 in
21 Docket UM 1209, presents an analysis of historical shared services costs from ScottishPower and
22 expected shared services costs after MEHC's acquisition of PacifiCorp. Net cross-charges to be
23 paid by PacifiCorp to ScottishPower for the fiscal year ending March 31, 2006, were projected to
24 be \$15.0 million. MEHC estimates that the shared costs allocated to PacifiCorp under the IASA
25 would have totaled \$9.6 million for the same period, as shown in Exhibit B. This comprises
26

1 about \$5.9 million in costs from MEHC, and about \$3.7 million in costs from MEC. These costs
2 are identified in greater detail in Exhibit B.

3 **I. Reasons Relied Upon for Procuring the Proposed Services, and Benefits**
4 **to the Public**

5 The costs directly assigned or allocated to PacifiCorp involve corporate functions that
6 must be undertaken by any owner of a utility business. As stated in the IASA, securing the
7 proposed services through the IASA will allow PacifiCorp to obtain specialized expertise or to
8 achieve efficiencies. *Article 2 of the IASA (page 2).*

9 **J. Description of the Procurement Process and Why No Competitive Bid Was**
10 **Utilized**

11 Ownership of PacifiCorp requires the undertaking of activities such as strategic and
12 financial planning, the shouldering of costs associated with human resources, risk analysis,
13 accounting and other corporate activities associated with the utility. No outside entity can be
14 entrusted with these oversight responsibilities. Ownership generates responsibilities to
15 shareholders, employees and the public, and some responsibilities simply cannot be assumed by
16 outside entities. Competitive bidding allowing outside entities to perform corporate ownership
17 services is simply not a viable option.

18 **K. Relationship of Cost of Provision of Services and Market Value**

19 As noted above, shared services, whether directly billed or allocated, will be charged at
20 fully loaded actual cost by the Providing Party, which means that only the actual cost of
21 providing the service, with no markup for profit, will be charged. The determination of a market
22 price for many services, particularly corporate services, can be difficult and expensive. For the
23 type of general services to be provided to PacifiCorp in accordance with the provisions of the
24 IASA, including executive management and oversight, there is no comparable market.

25 Statutes and regulations governing affiliate interest transactions are intended to prevent
26 “cross-subsidization” of nonutility assets by utility ratepayers. *See GTE Northwest, Inc. v. Pub.*

1 *Util. Comm'n of Oregon*, 12 Or. App. 401, 852 P2d 918 (1993) (interpreting accounting statute
2 applicable to affiliate transactions by telecommunication utilities). Charges for administrative
3 services resulting from implementation of the IASA would not cross-subsidize MEHC or its
4 other subsidiaries to the detriment of PacifiCorp's customers. In Commitment 9, PacifiCorp and
5 MEHC expressly commit not to "cross-subsidize between the regulated and non-regulated
6 businesses or between any regulated businesses," and to "comply with the Commission's
7 applicable orders and rules with respect to such matters." This commitment is incorporated as a
8 general obligation of the parties in Article 5 of the IASA (*page 4*).

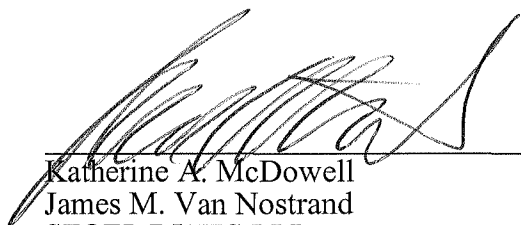
9 **L. Copy of Board Resolutions**

10 Not applicable; the officers executing the IASA on behalf of their organizations were
11 authorized to do so without separate board resolutions.

12 WHEREFORE, for the reasons set forth above, PacifiCorp respectfully requests that the
13 Commission issue an order approving the IASA pursuant to the provisions of ORS 757.495,
14 OAR 860-027-0040 and OAR 860-027-0041.

15 DATED: March 31, 2006.

16 Respectfully submitted,

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19 

20 Katherine A. McDowell
21 James M. Van Nostrand
22 STOEL RIVES LLP
23 900 SW Fifth Avenue, Suite 2600
24 Portland, OR 97204-1268
25 Of Attorneys for PacifiCorp
26

**OREGON
AFFILIATED INTEREST FILING**

EXHIBIT A

Intercompany Administrative Services Agreement

INTERCOMPANY ADMINISTRATIVE SERVICES AGREEMENT

BETWEEN

MIDAMERICAN ENERGY HOLDINGS COMPANY

AND

ITS SUBSIDIARIES

This Intercompany Administrative Services Agreement ("Agreement") is entered into as of March 31, 2006 by and between MidAmerican Energy Holdings Company (hereinafter the "Company") and its direct and indirect subsidiaries (hereinafter the "Subsidiaries") (each a "Party" and together the "Parties").

WHEREAS, the Company provides senior management, executive oversight and other administrative services that provide value to and benefit the Subsidiaries as entities in the consolidated group;

WHEREAS, the Subsidiaries have access to professional, technical and other specialized resources that the Company may wish to utilize from time to time in the provision of such administrative services; and

WHEREAS, the Company and Subsidiaries may desire to utilize the professional, technical and other specialized resources of certain Subsidiaries;

NOW, THEREFORE, in consideration of the premises and mutual agreements set forth herein, the Company and Subsidiaries agree as follows:

ARTICLE 1. PROVISION OF ADMINISTRATIVE SERVICES

Upon and subject to the terms of this Agreement, services will be provided between and among the Company and its Subsidiaries that are not directly applicable to the production, distribution or sale of a product or service available to customers of the Company or its subsidiaries ("Administrative Services"). For purposes of this Agreement, Administrative Services shall include, but not be limited to the following:

- a) services by executive, management, professional, technical and clerical employees;
- b) financial services, payroll processing services, employee benefits participation, supply chain and purchase order processing services, tax and accounting services, contract negotiation and administration services, risk management services, environmental services and engineering and technical services;
- c) the use of office facilities, including but not limited to office space, conference rooms, furniture, equipment, machinery, supplies, computers and computer software, insurance policies and other personal property;
- d) the use of automobiles, airplanes, other vehicles and equipment;

To obtain specialized expertise or to achieve efficiencies, the following situations may arise under this Agreement whereby Administrative Services may be provided between and among the Company and its Subsidiaries:

- a) The Company may directly assign or allocate common costs to the Subsidiaries,
- b) The Company may procure Administrative Services from the Subsidiaries for its own benefit,
- c) The Company may procure Administrative Services from the Subsidiaries for subsequent allocation to some or all Subsidiaries commonly benefiting, or
- d) The Subsidiaries may procure Administrative Services from each other.

ARTICLE 2. DEFINITIONS

For purposes of this Agreement these terms shall be defined as follows:

- (a) "Laws" shall mean any law, statute, rule, regulation or ordinance.
- (b) "State Commissions" shall mean any state public utility commission or state public service commission with jurisdiction over a rate-regulated Party.
- (c) "Subsidiaries" shall mean current and future direct and indirect majority-owned subsidiaries of the Company.

ARTICLE 3. EFFECTIVE DATE

This Agreement shall be effective as of the date set forth above; provided, however, that in those jurisdictions in which regulatory approval is required before the Agreement becomes effective, the effective date shall be as of the date of such approval.

ARTICLE 4. CHARGES AND PAYMENT

- (a) CHARGES.

Parties shall charge for Administrative Services on the following basis:

- (i) **Direct Charges:** The Party receiving the benefit of Administrative Services ("Recipient Party") will be charged for the operating costs incurred by the Party providing the Administrative Services ("Providing Party"), including, but not limited to, allocable salary and wages, incentives, paid absences, payroll taxes, payroll additives (insurance premiums, health care and retirement benefits and the like), direct non-labor costs, if any, and similar expenses, and reimbursement of out-of-pocket third party costs and expenses.
- (ii) **Service Charges:** Costs that are impractical to charge directly but for which a cost/benefit relationship can be reasonably identified. A practical allocation method will be established by Providing Party that allocates the cost of this service equitably and consistently to the Recipient Party. Any changes in the methodology will be communicated in writing to rate-regulated subsidiaries at least 180 days before the implementation of the change.
- (iii) **Allocations:** Costs incurred for the general benefit of the entire corporate group for which direct charging and service charges are not practical. An allocation methodology will be established and used consistently from year to year. Any changes to the methodology will be communicated

in writing to rate-regulated subsidiaries at least 180 days before the implementation of the change.

The charges constitute full compensation to the Providing Party for all charges, costs and expenses incurred by the Providing Party on behalf of the Recipient Party in providing the Administrative Services, unless otherwise specifically agreed to in writing between the Parties.

If events or circumstances arise which, in the opinion of the Parties, render the costs of providing any Administrative Services materially different from those charged under a specific rate or formula then in effect, the specific rate or formulas shall be equitably adjusted to take into account such events or changed circumstances.

Providing Parties will bill each and all Recipient Parties, as appropriate, for Administrative Services rendered under this Agreement in as specific a manner as practicable. To the extent that direct charging for services rendered is not practicable, the Providing Party may utilize allocation methodologies to assign charges for services rendered to the Recipient Party, reflective of the drivers of such costs. Such allocation methodologies may utilize allocation bases that include, but are not limited to: employee labor, employee counts, assets, and multi-factor allocation formulae.

Any cost allocation methodology for the assignment of corporate and affiliate costs will comply with the following principles:

- i) For Administrative Services rendered to a rate-regulated subsidiary of the Company or each cost category subject to allocation to rate-regulated subsidiaries by the Company, the Company must be able to demonstrate that such service or cost category is reasonable for the rate-regulated subsidiary for the performance of its regulated operations, is not duplicative of Administrative Services already being performed within the rate-regulated subsidiary, and is reasonable and prudent.
- ii) The Company and Providing Parties will have in place positive time reporting systems adequate to support the allocation and assignment of costs of executives and other relevant personnel to Recipient Parties.
- iii) Parties must maintain records sufficient to specifically identify costs subject to allocation, particularly with respect to their origin. In addition, the records must be adequately supported in a manner sufficient to justify recovery of the costs in rates of rate-regulated subsidiaries.
- iv) It is the responsibility of rate-regulated Recipient Parties to this Agreement to ensure that costs which would have been denied recovery in rates had such costs been directly incurred by the regulated operation are appropriately identified and segregated in the books of the regulated operation.

(b) PAYMENT.

(i) Each Providing Party shall bill the Recipient Party monthly for all charges pursuant to this Agreement via billings to the Company. The Company, in its capacity as a clearinghouse for

intercompany charges within the Company shall aggregate all charges and bill all Recipient Parties in a single bill. Full payment to or by the Company for all Administrative Services shall be made by the end of the calendar month following the intercompany charge. Charges shall be supported by reasonable documentation, which may be maintained in electronic form.

(ii) The Parties shall make adjustments to charges as required to reflect the discovery of errors or omissions or changes in the charges. The Parties shall conduct a true-up process at least quarterly and more frequently if necessary to adjust charges based on reconciliation of amounts charged and costs incurred. It is the intent of the Parties that such true-up process will be conducted using substantially the same process, procedures and methods of review as have been in effect prior to execution of this Agreement by the Parties.

ARTICLE 5. GENERAL OBLIGATIONS; STANDARD OF CARE

Rate-regulated Parties will comply with all applicable State and Federal Laws regarding affiliated interest transactions, including timely filing of applications and reports. The Parties agree not to cross-subsidize between the rate-regulated and non-rate-regulated businesses or between any rate-regulated businesses, and shall comply with any applicable State Commission Laws and orders. Subject to the terms of this Agreement, the Parties shall perform their obligations hereunder in a commercially reasonable manner.

ARTICLE 6. TAXES

Each Party shall bear all taxes, duties and other similar charges except taxes based upon its gross income (and any related interest and penalties), imposed as a result of its receipt of Administrative Services under this Agreement, including without limitation sales, use, and value-added taxes.

ARTICLE 7. ACCOUNTING AND AUDITING

Providing Parties and the Company shall maintain such books and records as are necessary to support the charges for Administrative Services, in sufficient detail as may be necessary to enable the Parties to satisfy applicable regulatory requirements ("Records"). All Parties:

- (a) shall provide access to the Records at all reasonable times;
- (b) shall maintain the Records in accordance with good record management practices and with at least the same degree of completeness, accuracy and care as it maintains for its own records; and
- (c) shall maintain its own accounting records, separate from the other Party's accounting records.

Subject to the provisions of this Agreement, Records supporting intercompany billings shall be available for inspection and copying by any qualified representative or agent of either Party or its affiliates, at the expense of the inquiring Party. In addition, State Commission staff or agents may audit the accounting records of Providing Parties that form the basis for charges to rate-regulated subsidiaries, to determine the reasonableness of allocation factors used by the Providing Party to assign costs to the Recipient Party and amounts subject to allocation or direct charges. All Parties agree to cooperate fully with such audits.

ARTICLE 8. BUDGETING

In advance of each budget year, Providing Parties shall prepare and deliver to the Recipient Parties, for their review and approval, a proposed budget for Administrative Services to be performed during that year. The approved schedule of budgeted Administrative Services shall evidence the base level of Administrative Services. The schedule shall be updated at least annually. Each Party shall promptly notify the other Party in writing of any requested material change to the budget costs for any service being provided.

ARTICLE 9. COOPERATION WITH OTHERS

The Parties will use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Administrative Services. Such good faith cooperation will include providing electronic access in the same manner as provided other vendors and contractors to systems used in connection with Administrative Services and using commercially reasonable efforts to obtain all consents, licenses, sublicenses or approvals necessary to permit each Party to perform its obligations. Each Party shall make available to the other Party any information required or reasonably requested by the other Party regarding the performance of any Administrative Service and shall be responsible for timely providing that information and for the accuracy and completeness of that information; provided, however, that a Party shall not be liable for not providing any information that is subject to a confidentiality obligation owed by it to a person or regulatory body other than an affiliate of it or the other Party. Either Party shall not be liable for any impairment of any Administrative Service caused by it not receiving information, either timely or at all, or by it receiving inaccurate or incomplete information from the other Party that is required or reasonably requested regarding that Administrative Service. The Parties will cooperate with each other in making such information available as needed in the event of any and all internal or external audits, utility regulatory proceedings, legal actions or dispute resolution. Each Party shall fully cooperate and coordinate with each other's employees and contractors who may be awarded other work. The Parties shall not commit or permit any act, which will interfere with the performance of or receipt of Administrative Services by either Party's employees or contractors.

ARTICLE 10. COMPLIANCE WITH ALL LAWS

Each Party shall be responsible for (i) its compliance with all laws and governmental regulations affecting its business, including but not limited to, laws and governmental regulations governing federal and state affiliate transactions, workers' compensation, health, safety and security, and (ii) any use it may make of the Administrative Services to assist it in complying with such laws and governmental regulations.

ARTICLE 11. LIMITATION OF LIABILITY

Notwithstanding any other provision of this Agreement and except for (a) rights provided under Article 12 in connection with Third-Party Claims, (b) direct or actual damages as a result of a breach of this Agreement, and (c) liability caused by a Party's negligence or willful misconduct, no Party nor their respective directors, officers, employees and agents, will have any liability to any other Party, or their respective directors, officers, employees and agents, whether based on contract, warranty, tort, strict liability, or any other theory, for any indirect, incidental, consequential, special damages, and no Party, as a result of providing a Service pursuant to this Agreement, shall be liable to any other Party for more than the cost of the Administrative Service(s) related to the claim or damages.

ARTICLE 12. INDEMNIFICATION

Each of the Parties will indemnify, defend, and hold harmless each other Party, members of its Board of Directors, officers, employees and agents against and from any third-party claims resulting from any negligence or willful misconduct of a Party's employees, agents, representatives or subcontractors of any tier, their employees, agents or representatives in the performance or nonperformance of its obligations under this Agreement or in any way related to this Agreement. If a Third-Party claim arising out of or in connection with this Agreement results from negligence of multiple Parties (including their employees, agents, suppliers and subcontractors), each Party will bear liability with respect to the Third-Party Claim in proportion to its own negligence.

ARTICLE 13. DISPUTE RESOLUTION

The Parties shall promptly resolve any conflicts arising under this Agreement and such resolution shall be final. If applicable, adjustments to the charges will be made as required to reflect the discovery of errors or omissions in the charges. If the Parties are unable to resolve any service, performance or budget issues or if there is a material breach of this Agreement that has not been corrected within ninety (90) days, representatives of the affected Parties will meet promptly to review and resolve those issues in good faith.

ARTICLE 14. TERMINATION FOR CONVENIENCE

A Party may terminate its participation in this Agreement either with respect to all, or with respect to any one or more, of the Administrative Services provided hereunder at any time and from time to time, for any reason or no reason, by giving notice of termination at least sixty (60) days in advance of the effective date of the termination to enable the other Party to adjust its available staffing and facilities. In the event of any termination with respect to one or more, but less than all, Administrative Services, this Agreement shall continue in full force and effect with respect to any Administrative Services not terminated hereby. If this Agreement is terminated in whole or in part, the Parties will cooperate in good faith with each other in all reasonable respects in order to effect an efficient transition and to minimize the disruption to the business of all Parties, including the assignment or transfer of the rights and obligations under any contracts. Transitional assistance service shall include organizing and delivering records and documents necessary to allow continuation of the Administrative Services, including delivering such materials in electronic forms and versions as reasonably requested by the Party.

ARTICLE 15. CONFIDENTIAL INFORMATION/NONDISCLOSURE

To the fullest extent allowed by law, the provision of any Administrative Service or reimbursement for any Administrative Service provided pursuant to this Agreement shall not operate to impair or waive any privilege available to either Party in connection with the Administrative Service, its provision or reimbursement for the Administrative Service.

All Parties will maintain in confidence Confidential Information provided to each other in connection with this Agreement and will use the Confidential Information solely for the purpose of carrying out its obligations under this Agreement. The term Confidential Information means any oral or written information, (including without limitation, computer programs, code, macros or instructions) which is made available to the Company, its

Subsidiaries or one of its representatives, regardless of the manner in which such information is furnished. Confidential Information also includes the following:

a. All Information regarding the Administrative Services, including, but not limited to, price, costs, methods of operation and software, shall be maintained in confidence.

b. Systems used to perform the Administrative Services provided hereunder are confidential and proprietary to the Company, its Subsidiaries or third parties. Both Parties shall treat these systems and all related procedures and documentation as confidential and proprietary to the Company, its Subsidiaries or its third party vendors.

c. All systems, procedures and related materials provided to either Party are for its internal use only and only as related to the Administrative Services or any of the underlying systems used to provide the Administrative Services.

Notwithstanding anything in this Article 15 to the contrary, the term "Confidential Information" does not include any information which (i) at the time of disclosure is generally available to and known by the public (other than as a result of an unpermitted disclosure made directly or indirectly by a Party), (ii) was available to a Party on a non-confidential basis from another source (provided that such source is not or was not bound by a confidentiality agreement with a Party or had any other duty of confidentiality to a Party), or (iii) has been independently acquired or developed without violating any of the obligations under this Agreement.

The Parties shall use good faith efforts at the termination or expiration of this Agreement to ensure that all user access and passwords are cancelled.

All Confidential Information supplied or developed by a Party shall be and remain the sole and exclusive property of the Party who supplied or developed it.

ARTICLE 16. PERMITTED DISCLOSURE

Notwithstanding provisions of this Agreement to the contrary, each Party may disclose Confidential Information (i) to the extent required by a State Commission, a court of competent jurisdiction or other governmental authority or otherwise as required by law, including without limitation disclosure obligations imposed under the federal securities laws, provided that such Party has given the other Party prior notice of such requirement when legally permissible to permit the other Party to take such legal action to prevent the disclosure as it deems reasonable, appropriate or necessary, or (ii) on a "need-to-know" basis under an obligation of confidentiality to its consultants, legal counsel, affiliates, accountants, banks and other financing sources and their advisors.

ARTICLE 17. SUBCONTRACTORS

To the extent provided herein, the Parties shall be fully responsible for the acts or omissions of any subcontractors of any tier and of all persons employed by such subcontractors and shall maintain complete

control over all such subcontractors. It being understood and agreed that not anything contained herein shall be deemed to create any contractual relation between the subcontractor of any tier and the Parties.

ARTICLE 18. NONWAIVER

The failure of a Party to insist upon or enforce strict performance of any of the terms of this Agreement or to exercise any rights herein shall not be construed as a waiver or relinquishment to any extent of its right to enforce such terms or rights on any future occasion.

ARTICLE 19. SEVERABILITY

Any provision of this Agreement prohibited or rendered unenforceable by operation of law shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement.

ARTICLE 20. ENTIRE AGREEMENT/DOCUMENTS INCORPORATED BY REFERENCE


All understandings, representations, warranties, agreements and any referenced attachments, if any, existing between the Parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the Parties with respect to the subject matter hereof.

ARTICLE 21. OTHER AGREEMENTS

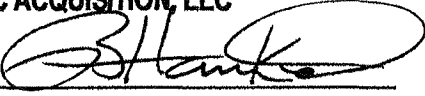
This Agreement does not address or govern the Parties' relationship involving: (a) the tax allocation agreement nor (b) any other relationships not specifically identified herein. All such relationships not addressed or governed by this Agreement will be governed and controlled by a separate agreement or tariff specifically addressing and governing those relationships or by applicable Laws or orders.

This Agreement has been duly executed on behalf of the Parties as follows:

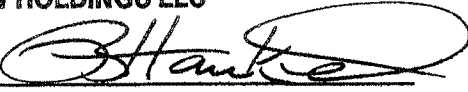
MIDAMERICAN ENERGY HOLDINGS COMPANY

By: 
Patrick J. Goodman
Title: Sr. Vice President & Chief Financial Officer


NNGC ACQUISITION, LLC

By: 
Brian K. Hankel
Title: Vice President & Treasurer


PPW HOLDINGS LLC

By: 
Brian K. Hankel
Title: Vice President & Treasurer

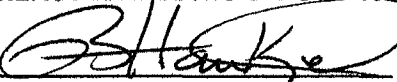
KR HOLDING, LLC

By: 
Patrick J. Goodman
Title: Vice President & Treasurer

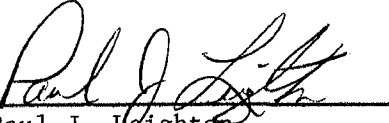
CE ELECTRIC UK FUNDING COMPANY

By: 
Patrick J. Goodman
Title: Director

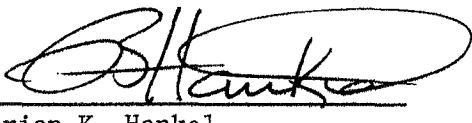
CALENERGY INTERNATIONAL SERVICES, INC.

By: 
Brian K. Hankel
Title: Vice President & Treasurer

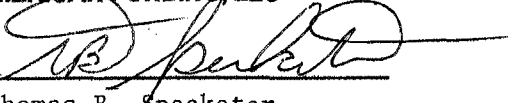
HOME SERVICES OF AMERICA, INC.

By: 
Paul J. Leighton
Title: Asst Secretary

CE CASECNAN WATER AND ENERGY COMPANY, INC.

By: 
Brian K. Hankel
Title: Vice President & Treasurer

MIDAMERICAN FUNDING, LLC

By: 
Thomas B. Specketer
Title: Vice President & Controller

**OREGON
AFFILIATED INTEREST FILING**

EXHIBIT B

Analysis of Shared Services Cost

MidAmerican Energy Holdings Company
Projected Shared Services Costs to PacifiCorp
(000's)

<u>Description</u>	<u>MEHC</u>	<u>MEC</u>	<u>Total</u>
Salaries, benefits and bonuses	\$ 3,057	\$ 1,220	\$ 4,277
Other employee compensation	1,933	655	2,587
Outside services	453	715	1,168
Travel costs, incl. corporate aircraft	420	983	1,403
Other	51	80	131
Total	<u>\$ 5,913</u>	<u>\$ 3,652</u>	<u>\$ 9,566</u>

Expected Net Scottish Power charges for Fiscal Year 2006

\$ (5,434) _____
