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Draft Provided to Berkshire Hathaway's David Sokol and Warren Buffett for Review

SOURCE: Parish & Company

Portland, Oregon, October 17, 2005 -- Warren Buffett and Berkshire Hathaway's Plan to Dupe Intel, Oregon's Largest Electric Utility Customer, Via an Ingenious Tax Scheme

In 2005 the Oregon Legislature passed and Governor signed a new law, Senate Bill 408, prohibiting utilities from billing utility customers for federal and state taxes that are never remitted to the appropriate government taxing authorities. Remarkably, more than $100 million was being collected annually in federal and state taxes that was never remitted due to the parent company's ability to offset these taxes with losses in other subsidiaries.

This cash flow from non-payment of federal and state taxes could indeed add more than 25 percent to the annual return, well in excess of the maximum allowed by Oregon law for monopoly based regulated electric utilities. Intel, whose electric bill increased more than $10 million in the last year alone, has been the biggest loser due to its reliance on an ineffective industry lobbying group, the Industrial Customers of Northwest Utilities (ICNU). Although Intel is technically a customer of PGE rather than PacifiCorp, Buffett's scheme will likely be identically applied to whomever owns PGE, Oregon's largest electric utility.

The genius of Buffett's tax scheme has two-parts, the first being related to tax deductions and the second tax credits. It is the second part that Intel clearly does not yet understand, that is the tax credits that are completely independent of taxes calculated based upon net income and collected from ratepayers. Note that tax credits are accounted for on the "balance sheet" and are never reflected on the "income statement." Consider the following example:

Example:

Power sales	100
Expenses	50
Income before taxes	50
Taxes at 30 percent	15
Net Income	35

This is Part I, taxes computed and chargd to ratepayers that are never remitted to state and federal tax authorities Since Berkshire will be making loans from its parent company to PacifiCorp for capital expansion, i.e. wind farms, as was done at MidAmerica, it can set an interest rate to maximize the interest deductions and eliminate all reported income, for tax purposes, at PacifiCorp. Again, this is only part one of the scheme

Note again that Part II, the tax credits, do not appear anywhere on the income statement for accounting purposes. This is because such tax credits are not a revenue or expense but rather a balance sheet transaction. Senate Bill 408 clearly indicates that both the taxes computed and charged to ratepayers based upon income and expenses and relevant "tax credits" should be considered in determining the gap between taxed billed and those actually paid.

Buffett Strategy Regarding Part I: This includes continuing the practice of charging ratepayers for federal and state taxes that are never remitted by attempting to overturn the new Oregon law in either the courts or legislature. Berkshire Hathaway's capacity to pocket this cash flow from not remitting taxes collected was an important consideration in its proposed acquisition of PacifiCorp, Oregon's second largest utility. See attached Forbest article regarding another Berkshire Hathaway company, McLane, in which Buffett is quoted as claiming he can earn a 13 percent return on investment when McLane's profit margin is only one percent.

Buffett Strategy Regarding Part II: The second more significant aspect involves tax credits. Buffett's subsidiary Mid America is currently trying to argue that the new Oregon law prohibiting billing ratepayers for taxes never remitted to state and federal governments does not apply to tax credits or total tax benefits but rather simply the taxes calculated based upon income and expenses. To any tax professional, this argument is simply ludicrous.

The likely specific structure of Buffett's scheme is as follows:

1) Berkshire Hathaway invests in upgrading PacifiCorps physical infrastructure, focusing on areas that provide federal and state energy tax credits via the recently passed energy bill, i.e. wind, etc. The objective here is not the best use of capital but rather to go directly after the tax credits. Berkshire Hathaway will likely finance the capital improvements via an above market rate interest loan from the Berkshire Hathaway holding company to PacifiCorp, as is commonly done with other Berkshire Hathaway subsidiaries. This will maximize the loss to PacifiCorp and maximize the gain to the Berkshire Hathaway holding company.

2) Intel and other ratepayers essentially get stuck with the debt and operating costs associated with the new improvements, which may not even be the best use of capital, while Berkshire Hathaway gets to pocket the tax credits immediately, creating a cash flow windfall that allows it to profit far in excess of the maximum allowed by the Oregon Public Utility Commission. Unfortunately, neither the Oregon Public Utility Commission not the Oregon Attorney General's office appears to have the accounting expertise to understand these tax issues.

3) Over time PacifiCorp essentially becomes the tax credit machine that keeps on giving while Intel and other users get stuck with more debt and higher operating costs that combine to act as an impediment to their overall competitiveness.

Parish & Company estimates that this scheme will cost Intel at least $10 million annually, perhaps at much as $20 million. Intel is a great company yet periodically is challenged by a short-sighted focus on its core processor business due to the rapid obsolescence of its products. Perhaps this is a great opportunity to help orchestrate the creation of a public electric corporation, similar to what Warren Buffett enjoys in his home town of Omaha, Nebraska, with the specific goal of decreasing power rates at least 20 percent. This would not only improve manufacturing cost efficiency yet also provide an extraordinary public service to other power users ranging from schools and churches to other major local employers.

Another Warren Buffett company, Sees Candy, recently had its CEO appear on the cover of a major local community newspaper based upon his pledging to contribute $25,000 to the Chapman grade school foundation, where he attended in 1939. Although admirable, the Portland Public Schools did also have an electric bill totalling $3.1 million for the most recent year and it is somewhat ironic that Buffett is simultaneously planning to fleece both Intel and the school district while Sees Candy CEO Charles Hugguns appears on the front page of the NW Examiner with a broad smile while sampling a chocolate.

The proposed public electric corporation would not be controlled by the City of Portland but rather work with the City in conjunction with major power users. Parish & Company would be glad to help achieve this objective by bringing together significant local power users to make this a reality, beginning with recommending a specific change that would bolster Intel and other power user's representation before the Oregon Public Utility Commission.

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