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INVESTORS SERVICE

CREDIT OPINION
7 April 2017

Update

Rate this Research

RATINGS

PacifiCorp

Domicile	Portland, Oregon, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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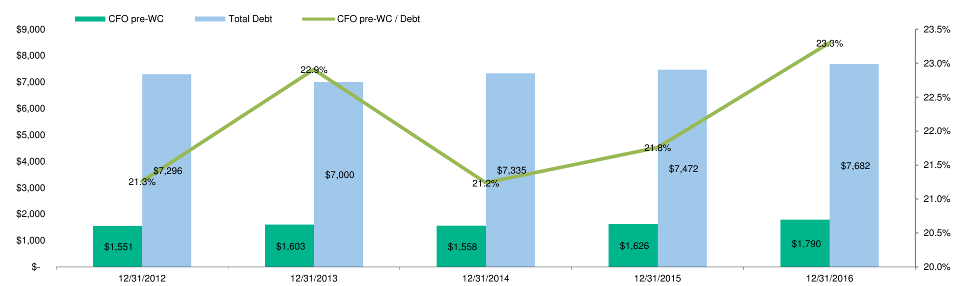
PacifiCorp

Largest Subsidiary of Berkshire Hathaway Energy

Summary Rating Rationale

PacifiCorp's ratings are supported by the stability of the utility's regulated cash flows, the geographically diverse and reasonably supportive regulatory environments in which it operates, the diversification of its generation portfolio, and stable credit metrics. The company has the capacity to generate free cash flow. The rating also takes into account PacifiCorp's position as the largest subsidiary of Berkshire Hathaway Energy Company (BHE, A3 stable), a holding company whose subsidiaries are primarily engaged in regulated activities, and the benefits from its affiliation with Berkshire Hathaway Company (BRK, Aa2 stable).

Exhibit 1
Historical CFO pre-W/C, Total Debt, and ratio of CFO pre-W/C to Debt 1
($ in Millions)



Source: Moody's Investors Service

Credit Strengths

» Regulated rates that sustain stable credit metrics

» Geographic diversity

» Benefits from Berkshire Hathaway affiliation

Credit Challenges

» Flat sales growth

» Shifting energy supply from coal to renewables

Rating Outlook

The stable outlook incorporates our expectation that PacifiCorp will continue to receive reasonable regulatory treatment, and that the funding requirements will be financed in a manner consistent with management's commitment to maintain a healthy financial profile. We anticipate that PacifiCorp's credit metrics will be sustained at about current levels, for example, CFO pre-W/C/Debt in the low 20% range.

Factors that Could Lead to an Upgrade

Although its flat financial outlook limits the prospects for a rating upgrade in the foreseeable future, the rating could be upgraded longer term if a more favorable regulatory environment and a conservatively financed capital expenditure program result in a sustained improvement in credit metrics. This would include, for example, PacifiCorp's ratios of CFO pre-W/C/Debt sustained in the mid 20% range.

Factors that Could Lead to a Downgrade

The ratings could be downgraded if PacifiCorp's capital expenditures are funded in a manner inconsistent with its current financial profile, or if adverse regulatory rulings lower its credit metrics, as demonstrated for example, by a ratio of CFO pre-W/C/Debt sustained below 20%.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

PacifiCorp

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
CFO pre-WC + Interest / Interest	4.9x	5.1x	5.1x	5.4x	5.8x
CFO pre-WC / Debt	21.3%	22.9%	21.2%	21.8%	23.3%
CFO pre-WC – Dividends / Debt	18.5%	15.7%	11.4%	9.0%	11.9%
Debt / Capitalization	38.2%	36.6%	37.3%	37.9%	38.5%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Detailed Rating Considerations

GEOGRAPHICALLY DIVERSE UTILITY ASSETS

PacifiCorp conducts business through two utility divisions: Rocky Mountain Power (Utah, 44% of PacifiCorp's 2016 retail electricity sales; Wyoming, 17% of sales; Idaho, 7%) and Pacific Power (Oregon, 24% of retail sales; Washington, 7%; California, 1%). The company also sells power in the wholesale market (11% of 2016 total electricity sales).

The geographic diversity of PacifiCorp's six-state service territory is favorable, because it mitigates the economic and regulatory impacts in any one jurisdiction. We expect sales to remain flat, with organic growth from economic expansion in most of its jurisdictions (including its two largest, Utah and Oregon) being offset by recession in the energy sector dependent areas (Wyoming, its third largest jurisdiction).

SHIFTING FROM COAL TO RENEWABLES

PacifiCorp's generation portfolio consists of coal (55% net owned capacity), gas (25%), hydro (10%), and wind and other sources (10%). The company has spent most of the past decade investing in retrofitting its coal fleet to meet a series of stringent environmental regulations. Over the next several years, PacifiCorp will be increasing renewable resources while reducing its coal fleet, driven by BHE's strategic priorities (see Climate Pledge below), customer preferences, and the improving economics of wind generation from better technology and the extension of federal production tax credits.

In 2015, BHE signed the American Business Act on Climate Pledge to add more than 1,000 megawatts (MW) of incremental solar and wind capacity at PacifiCorp through long-term power purchase agreements. Since then, PacifiCorp has obtained sufficient additional resources to bring its non-carbon generating capacity to satisfy about a fifth of its retail load.

PacifiCorp filed its biennial Integrated Resource Plan in April 2017 that set forth its energy resources for the next 20 years. Subject to regulatory approvals, the company has proposed a preferred portfolio that includes the repowering of 905 MW of existing wind facilities and the addition of 1,100 MW of new wind capacity by year-end 2021 to meet the deadline to fully utilize available production tax credits. In addition, the draft preferred portfolio assumes retirement of 667 MW of coal capacity at its Naughton 3 and Cholla 4 units by 2021, which would obviate installing costly pollution control equipment.

INTEGRATING THE WESTERN POWER GRID: MORE RENEWABLES AND RELIABILITY, LOWER COSTS

PacifiCorp is advancing the development of a coordinated western power grid. It is well positioned to do so, as the owner of the second-largest wind fleet among US utilities and the largest transmission system in the western US. It will be maintaining its commanding position with its plan to increase wind capacity and to continue its decade-long series of Energy Gateway transmission projects.

In late 2014, PacifiCorp launched an energy imbalance market (EIM) with the California Independent System Operator Corporation (CAISO). EIM is an automated system that matches least-cost electricity supply with demand every five minutes. This real-time dispatching system replaced a less efficient hourly, manual process and integrated PacifiCorp's large, disperse Rocky Mountain and Pacific Power networks with the California grid. Other western utilities are joining this grid, further diversifying available resources and enhancing reliability and access to lower cost and renewable power. During 2016, CAISO estimated that PacifiCorp derived about $46 million of such benefits from EIM, including lower costs of supply and environmental compliance. The pooling of existing resources with other participating utilities could also reduce PacifiCorp's need the invest in reserves and more infrastructure.

REASONABLY SUPPORTIVE REGULATORY ENVIRONMENT

PacifiCorp's rating recognizes the rate-regulated nature of its electric utility operations which generate stable and predictable cash flows. PacifiCorp operates in regulatory jurisdictions that are reasonably supportive in terms of rate decisions and cost recovery. The ability to use a forward test year in its rate requests helps to limit regulatory lag in Utah, Oregon, Wyoming, and California. The company benefits from energy cost adjustment mechanisms in all its jurisdictions, but in most, some lag remains in recovering portions of the energy costs. PacifiCorp's allowed ROEs (mostly in the mid to high 9% range) have tended to be lower than the industry average, but rate relief has steadily improved its reported ROEs over the past five years to 10.2% in 2016.

We assume that PacifiCorp will continue to get reasonable recovery of its costs as its generation mix shifts. For example, the Washington commission approved accelerated depreciation on the company's Jim Bridger and Colstrip coal plants which would avoid stranded costs in retiring them as required by regional environmental legislation. Another issue is net metering reform, particularly in Utah, where rooftop solar customers have grown by twelve-fold to 18,100 (almost 2% of customers) over the last five years. PacifiCorp is proposing to modify rates for net metered customers that reduce the credits they get for the power they provide to the grid while increasing their fixed service charges. PacifiCorp is preparing for a more interactive power grid and declining load by building advanced metering infrastructure in Oregon and Idaho.

STABLE CREDIT METRICS

The company is increasing its 2017-19 capital budget by $0.9 billion from the prior three-year plan to add 1 gigawatts of wind generation capacity, most of it to be spent on repowering existing wind turbines in 2019-20. This level of capital investment is slightly above $0.8 in annual depreciation and will moderately grow its rate base.

PacifiCorp's credit metrics are stable, and we expect they will remain consistent with those of the last several years. In 2016, cash from operations before changes in working capital (CFO pre-W/C)/Debt was 23%, Debt/Book Capitalization was 39% and CFO pre-W/C – Dividends/Debt was 12%. We expect the company to size debt issuances and dividends to maintain its current capital structure

BENEFITS FROM BERKSHIRE HATHAWAY AFFILIATION

PacifiCorp benefits from its affiliation with BRK, which requires no regular dividends from PacifiCorp or BHE. From a credit perspective, the company's ability to retain its earnings as an entity that is privately held, particularly by a deep-pocketed sponsor like BRK, is an advantage over most other investor owned utilities that are typically held to a regular dividend to their shareholders.

As an example, PacifiCorp did not pay dividends for the first five years after being acquired by BHE in 2006, and during that time received equity contributions totaling $1.1 billion from BHE to help PacifiCorp finance its capital expenditures. Its balance sheet has strengthened from this financial policy, and PacifiCorp now pays dividends that are sized to manage PacifiCorp's equity ratio (as measured by unadjusted equity to equity plus debt) around its allowed levels of about 50% (regulations restrict dividends if this ratio falls below 44%). Furthermore, BHE has placed PacifiCorp in a ringfencing structure that restricts dividends if PacifiCorp's ratings fall to non-investment grade.

Liquidity Analysis

PacifiCorp has adequate near-term liquidity, with the capacity to generate excess cash flow and sufficient bank lines. Last three years' reported cash flow from operations averaged at $1.6 billion. Deducting the roughly $0.9 billion of capital expenditures estimated for 2017-18 would result in excess cash flow of about $0.7 billion annually before financing activities.

As of 31 December 2016, the company had $17 million in cash and $588 million available under its two revolvers totaling $1.0 billion, of which $600 million expires on 27 March 2018 and $400 million expires in 30 June 2019. PacifiCorp uses its credit facilities to backstop its commercial paper program and to support its variable rate tax-exempt bonds. These credit agreements do not require a MAC representation for borrowings, which we view positively. The sole financial covenant is a limitation on debt to 65% of total capitalization. As of 31 December 2016, PacifiCorp was in compliance with that covenant at 50% as defined in the agreement.

PacifiCorp has approximately $342 million of variable rate tax-exempt bonds that it remarkets periodically. Material issues coming due over the next 12 months are $86 million of tax-exempt bonds that mature in January 2018. The company can repay these maturities using its excess cash flow and has no foreseeable need to issue long-term debt this year. It will likely dividend its remaining cash flow to BHE.

Profile

PacifiCorp is a vertically integrated electric utility company serving 1.8 million retail electric customers in six western states. PacifiCorp is the largest subsidiary of Berkshire Hathaway Energy Company (BHE), comprising 34% of BHE's 2016 operating income. BHE, in turn, is a consolidated subsidiary of Berkshire Hathaway Inc.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
PacifiCorp				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current FY 12/31/2016**		**Moody's 12-18 Month Forward View As of Date of Publication [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.4x	A	5.2x - 5.4x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.1%	A	22% - 23%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	10.8%	Baa	11% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	37.9%	A	37% - 38%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2016
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 4

Category	Moody's Rating
PACIFICORP	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Pref. Stock	Baa2
Commercial Paper	P-2
ULT PARENT: BERKSHIRE HATHAWAY INC.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
PARENT: BERKSHIRE HATHAWAY ENERGY COMPANY	
Outlook	Stable
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Commercial Paper	P-2

Source: Moody's Investors Service

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