



Credit Opinion: PacifiCorp

Global Credit Research - 08 May 2012

Portland, Oregon, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured MTN	(P)Baa1
Pref. Stock	Baa3
Commercial Paper	P-2
Ult Parent: Berkshire Hathaway Inc.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
Parent: MidAmerican Energy Holdings Co.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1

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Key Indicators

[1]PacifiCorp	LTM 3/31/12	2011	2010	2009
Adj CFO (pre w/c) + Interest / Interest	5.2x	4.8x	5.3x	5.2x
Adj CFO (pre w/c) / Debt	23.6%	21.0%	25.7%	26.0%
Adj CFO (pre w/c) - Dividends / Debt	19.2%	13.5%	25.7%	26.0%
Debt / Capitalization	39.3%	39.8%	38.8%	42.4%

[1] All ratios are calculated using Moody's Standard Adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Reasonably supportive regulatory environment

Diversification to mitigate exposures to environmental spending, economic cycles

Solid credit metrics

Benefits from Berkshire Hathaway affiliation

Corporate Profile

PacifiCorp (Baa1 senior unsecured, stable) is a vertically integrated electric utility company headquartered in Portland, Oregon serving 1.8 million retail electric customers in six states, including Utah (43% of PacifiCorp's 2011 retail electricity volumes), Oregon (24%), Wyoming (18%), Washington (7%), Idaho (6%), and California (2%). PacifiCorp also has ancillary operations in wholesale power marketing (17% of electricity volumes, as a result of excess electricity generation or other system balancing activities) and coal mining services, both which support its core utility business.

PacifiCorp is the largest subsidiary of MidAmerican Energy Holdings Company (MEHC: Baa1 senior unsecured, stable), accounting for over 40% of MidAmerican's operating income in 2011. MEHC, in turn, is a consolidated subsidiary of Berkshire Hathaway Inc. (BRK: Aa2 Issuer Rating, stable).

SUMMARY RATING RATIONALE

PacifiCorp's ratings are supported by the stability of the utility's regulated cash flows, the geographically diverse and relatively constructive regulatory environments in which it operates, the diversification of its generation portfolio, and solid credit metrics. The rating also considers PacifiCorp's position as a subsidiary of MEHC, a holding company whose subsidiaries are primarily engaged in regulated activities, and the benefits from its affiliation with BRK.

DETAILED RATING CONSIDERATIONS

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 Moody's considers as average in terms of framework, consistency and predictability of decisions along with an expectation of timely recovery of costs and investments. This "average" assessment is in line with Moody's views of most U.S. state jurisdictions compared to regulatory environments elsewhere in the world.

Regulatory lag continues to be a challenge for PacifiCorp, which has long maintained large capital programs to meet load growth as well as regulatory requirements for emissions control, renewable standards, and reliability. Although PacifiCorp has been filing rate cases every year or so in its largest jurisdictions and getting reasonable outcomes (roughly \$700 million of rate increases granted over the past five years), the large capital investments it is making is causing its actual returns on equity to be in the 7%- 8% range compared to the roughly 10% that it is allowed.

The most material rate case on the horizon is the \$172 million request (a 10% rate increase) pending in Utah, which is expected to be concluded in October 2012.

The pace of rate filings is likely to continue with its \$6 billion Energy Gateway transmission program, with one segment currently under construction, and its Lake Side 2 gas plant, which is also under construction. Ability to use a forward test year in its rate requests helps to limit regulatory lag in Utah, Oregon, Wyoming, and California. The company has been successful in getting approvals for its major projects; however, it is exposed to some disallowances in most of its jurisdictions, where pre-approvals on projects or cash returns on construction work in progress are not granted.

Over the past two years, the company has now been granted energy cost adjustment mechanisms in all its jurisdictions except Washington. Such mechanisms to recover fuel and purchased power costs -- a large, volatile expense --are more established in other parts of the country. While this development is supportive of credit quality, there remains some lag in recovering portions of energy costs. For example, in Utah, Wyoming, and Idaho, the

majority of the difference between the actual power costs and costs established in its base rates is deferred. This difference is then recovered or refunded after an annual filing.

Diversification to mitigate exposures to environmental spending, economic cycles

PacifiCorp benefits from a well diversified generation portfolio. Its 10,597 MW generation fleet is comprised primarily of its low-cost base load coal plants (providing 61% of the company's energy supply), along with 11% from its gas assets and 6% from hydro. Approximately 20% of the remaining energy supply was purchased.

With coal accounting for 67% of its generation capacity in 2011, PacifiCorp is subject to numerous emissions standards, but the company is well positioned to comply with the vast majority of its plants already equipped with sulfur dioxide and nitrogen oxide controls.

Reflecting a common strategic imperative among MEHC affiliates, PacifiCorp has been investing heavily to increase its non-carbon generation resources, and in so doing has become the second-largest utility owner of wind generation facilities, with 1,031 MW. Owning this much wind capacity not only mitigates exposure to stricter environmental rules for coal plants, but also helps in meeting renewable portfolio standards in Oregon, Washington, and California.

The market diversity of PacifiCorp's six-state service territory is favorable from a credit perspective because it mitigates the economic and regulatory impacts of concentration in any one jurisdiction. This benefit is demonstrated by the recent economic impact on retail sales. After years of 2-3% annual load growth, volumes declined 3% in 2009 due to the recession but recovered by 2% in 2011. Recovery has been uneven, however, with Utah and Wyoming enjoying commercial and industrial growth from the oil and gas industry, while continuing weakness in the forest products and construction materials industries is keeping overall load down slightly in Oregon, Washington, and California.

Solid credit metrics

PacifiCorp's credit metrics in 2011 mapped to the low A, high Baa range in the Regulated Utilities Methodology, though off from the unusually strong results in 2010 and 2009. The ratio of cash from operations before changes in working capital (CFO pre-W/C) to Debt, calculated in accordance with Moody's standard adjustments was 21% in 2011, compared to 26% in both 2010 and 2009. Its CFO pre-W/C interest coverage was 4.8x in 2011 versus in the 5 times range in 2010 and 2009.

Some of this improvement from 2009 was derived from a fundamental increase in rates, but much of it was due to bonus depreciation, a temporary tax benefit which will extend through 2012. Without bonus depreciation, CFO pre-W/C to Debt would have been around 20% and CFO pre-W/C interest expense coverage would have been in the mid 4 times range during 2009-2010. After the bonus depreciation ends in 2012, Moody's anticipates that PacifiCorp's credit metrics will return to such levels that were typical before 2009.

Benefits from Berkshire Hathaway affiliation

PacifiCorp paid dividends of \$50 million to MEHC in February 2012, and \$550 million in 2011, which was its first since being acquired by MEHC in 2006. MEHC had made equity contributions in each of previous five years totaling \$1.1 billion to help PacifiCorp finance its capital expenditures during this period. The dividends were intended to manage PacifiCorp's equity ratio (as measured by unadjusted equity to equity plus debt) around 50% after it had accreted to 53% as of year-end 2010. PacifiCorp is not held to a regular dividend, but will likely make additional dividends periodically, depending on its capital requirements and equity ratio.

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. An additional tangible benefit from PacifiCorp's BRK affiliation is an equity commitment agreement, expiring on February 28, 2014, between MEHC and BRK, under which BRK has committed to provide up to \$2 billion through February 2014. Equity from this agreement may be requested to fund MEHC's debt obligations or to provide capital to MEHC's regulated subsidiaries, including PacifiCorp. This agreement thus provides PacifiCorp with an additional source of alternate liquidity.

Liquidity Profile

The upcoming reductions in revolver capacity over the coming year detracts from PacifiCorp's otherwise reasonable

liquidity position. In 2011, the company generated cash flow from operations before working capital changes of \$1.5 billion which will just cover the \$1.5 billion a year it plans on capital expenditures. PacifiCorp will likely meet debt maturities and any other cash needs with a combination of long- and short-term borrowings.

In January and February 2012, PacifiCorp has already issued \$750 million of bonds and retired early \$84 million of tax-exempt bonds. The company only has \$17 million of long debt maturing in 2012 and in 2013, \$261 million will mature.

PacifiCorp currently has \$1,355 million committed under two revolving credit facilities. As of March 31, 2012, PacifiCorp had \$916 million of available capacity, net of \$439 million of letters of credit to support variable-rate pollution control bonds and collateral requirements of commodity contracts, plus \$45 million of cash.

PacifiCorp's current revolver capacity is set to expire over the coming year. One \$635 million revolving credit facility expires in October 2012. The second revolver for \$720 million will be reduced to \$630 million in July 2012 until its expiration in July 2013. PacifiCorp uses these credit facilities to backstop its commercial paper program and to support its variable rate tax-exempt bonds.

These credit agreements do not require MAC representation for borrowings, which Moody's views positively. The sole financial covenant is a limitation on debt to 65% of total capitalization. As of March 31, 2012, PacifiCorp had ample headroom under that covenant with that ratio at 48% as defined in the agreement.

Rating Outlook

The stable outlook incorporates Moody's expectation that PacifiCorp will continue to receive reasonable regulatory treatment for the recovery of its high capital expenditures, and that the funding requirements will be financed in a manner consistent with management's commitment to maintain a healthy financial profile. After the bonus depreciation ends in 2012, Moody's anticipates that PacifiCorp's credit metrics will return to the levels more typical before 2009, with CFO pre-W/C to Debt around 20% and CFO pre-W/C interest expense coverage in the low to mid 4 times range.

What Could Change the Rating - Up

While the size of the company's capital expenditures limits the prospects for a rating upgrade in the near-term, the rating could be upgraded if reasonable regulatory support and a conservatively financed capital expenditure program results in a sustained improvement in credit metrics. This would include, for example, PacifiCorp's ratios of CFO pre-W/C to Debt remaining around the mid 20% range, and CFO pre-W/C interest expense coverage remaining in the upper 4 times range, on a sustainable basis.

What Could Change the Rating - Down

The ratings could be adjusted downward if PacifiCorp's planned capital expenditures are funded in a manner inconsistent with its current financial profile, or if there were to be adverse regulatory rulings on current and future rate cases such that we would anticipate a sustained deterioration in financial metrics as demonstrated, for example, by a ratio of CFO pre-W/C to Debt falling to the upper teens, and/or its CFO pre-W/C interest expense coverage being in the upper 3 times range over an extended period.

Rating Factors

PacifiCorp

Regulated Electric and Gas Utilities [1][2]	LTM Mar 31, 2012		Moody's 12-18 month Forward View As of May 9, 2012*	
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Regulatory framework		Baa		Baa

Factor 2: Ability to Recover Cost and Earn Returns (25%)				
a) Ability to recover Cost and Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position		A		A
b) Generation and Fuel Diversity		Baa		Baa
Factor 4: Financial Strength, Liquidity, & Metrics (40%)				
a) Liquidity		Baa		Ba
b) CFO (pre w/c) + Interest / Interest	5.2x	A	4.2-4.8x	Baa
c) CFO (pre w/c) / Debt	23.6%	A	18-25%	Baa
d) CFO (pre w/c) - Dividends / Debt	19.2%	A	13-19%	Baa
e) Debt / Capitalization	39.3%	A	36-42%	A
Rating:				
Indicated Rating from Grid		Baa1		Baa1
Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Source: Moody's Financial Metrics



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