825 N.E. Multnomah St.
Portland, OR 97232

PACIFICORP
PACIFIC POWER UTAH POWER

January 20, 2006

Judge Ann Rendahl
Commissioner Philip Jones
Carole Washburn
Executive Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive, SW
Olympia, WA 98504-7250

Re: Docket No. UE 050684
WUTC Bench Staff Data Requests 14-26

Please find enclosed one original and eighteen copies of PacifiCorp's response to WUTC Bench Data Requests 14.

If you have any questions, please call Shay LaBray at (503) 813-6176.

Sincerely,

Shay LaBray/p.a.

Shay LaBray
Regulation

Enclosure

cc: Donald T. Trotter/WUTC (3 copies)
Simon ffitch/Public Counsel
Steven Johnson/ATG
Melinda Davison/ICNU
Randall Falkenberg/ICNU
Ralph Cavanagh/NRDC
Brad Purdy/Energy Project
Jamie Van Nostrand/Stoel Rives

UE-050684/PacifiCorp
January 20, 2006
WUTC Bench Data Request 14

WUTC Bench Data Request 14

Please provide rating agency reports referred to by Mr. MacRitchie related to financial analysts' concerns with the Company's lack of an accepted allocation methodology for cost recovery in all of PacifiCorp's jurisdictions.

Response to WUTC Bench Data Request 14

Please see Attachment WUTC 14.

Responder: Andy MacRitchie
Witness: Andy MacRitchie

WASHINGTON

UE-505684

GENERAL RATE CASE

PACIFICORP

WUTC BENCH DATA REQUEST

ATTACHMENT WUTC BENCH 14

This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

UNITED STATES
Americas

June 2005

Contact	Phone
New York	
A.J. Sabatelle	1.212.553.1653
Daniel Gates	

PacifiCorp

PacifiCorp is a regulated utility serving retail customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho, and California. As a vertically integrated utility, PacifiCorp owns and has contracts for fuel sources including coal and natural gas and uses these fuel sources, as well as other fuel sources, including wind, geothermal, and hydro, to generate electricity at its power plants. PacifiCorp conducts its retail electric utility business under the names Pacific Power and Utah Power, and sells excess electricity generation in the wholesale power market. Sales to retail customers in Utah and Oregon represent about 70% of PacifiCorp's total retail revenues.

PacifiCorp's fiscal year ends on March 31st. During fiscal year 2005, the company's total revenues reached $3.048 Billion and its net income was $251.7 million. PacifiCorp is an indirect wholly-owned subsidiary of Scottish Power plc (SP: Baa1 senior unsecured).

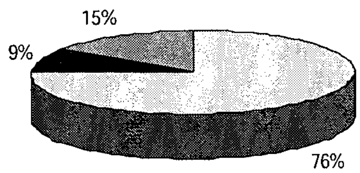
On March 23, 2005, SP executed a Stock Purchase Agreement with MidAmerican Energy Holdings Company (MEHC) providing for the sale of the common stock of PacifiCorp for approximately $9.4 Billion, consisting of $5.1 Billion in cash plus the assumption of approximately $4.3 Billion in net debt and preferred stock. The sale requires SP shareholder approval and will require numerous state and federal regulatory approvals. The company anticipates the sale will be completed during calendar year 2006.

Low-cost generating assets and extensive transmission network through the western US

PacifiCorp owns or has access to low cost generating assets, the bulk of which is coal-fired assets. Mines owned by PacifiCorp provide about 30% of PacifiCorp's coal needs, with the remainder being sourced by long-term and short term contracts. PacifiCorp's owned generation satisfied 79% of the utility's 2005 energy needs, with the remaining 21% being satisfied by short-term and long-term purchases.

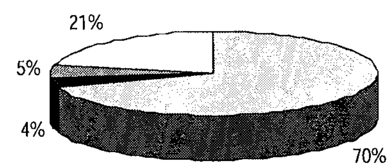
In addition to the company's low-cost generation resources, the company owns or has access to an extensive transmission system covering 15,530 miles throughout the Pacific Northwest. Access to this multi-state system favorably positions PacifiCorp in the wholesale power market to secure or to sell excess capacity as needed.

PacifiCorp Owned Generation



Source: PacifiCorp 2005 10-K

PacifiCorp's Energy Requirements 2005



Source: PacifiCorp 2005 10-K

Recent key regulatory decisions have been constructive

For the past several years, PacifiCorp has been actively seeking regulatory support across the company's six-state jurisdiction in an effort to enhance returns at the utility. To date, PacifiCorp's efforts have been reasonably successful.

In Utah, which represents about 40% of total retail revenues, the Utah Public Service Commission (UPSC) approved, in February 2005, a stipulated settlement of the company's general rate case awarding an increase of $51 million annually, based upon a return on equity of 10.5%. Additionally, in October 2004, the UPSC approved the use of a forward-looking test year, which was implemented for the first time in the company's general rate case, and helps to support the company's credit fundamentals while it finances its large capital investment program. Also, in Utah, the state passed Senate Bill 26 in February 2005. Among other things, this bill provides PacifiCorp with the opportunity to obtain advance approval from the UPSC of resource decisions and an assurance of recovery of costs associated with the resource.

In Oregon, which represents slightly less than 30% of total retail revenues, the Oregon Public Utility Commission (OPUC) approved, in July 2002, recovery of the company's deferred accounting filing relating to excess net power costs. The order authorized recovery of $131.6 million, plus carrying costs, at a rate of $45.6 million annually.

Financing plan contemplates substantial equity support

PacifiCorp's capital expenditure program is expected to be more than $1 billion in each of the next two years. PacifiCorp intends to finance this program with a combination of internally generated funds, the issuance of long-term debt, and substantial equity support from indirect parent, SP. To that end and pursuant to the Stock Purchase Agreement, SP is required to contribute $125 million per quarter during 2006 and $131.25 million per quarter during fiscal year 2007. If the sale of PacifiCorp is completed, MEHC will refund to SP the amount of required fiscal 2007 common equity contributions as an increase to the purchase price. Moreover, pursuant to the Stock Purchase Agreement, SP has agreed to cause PacifiCorp to not pay dividends in excess of $53.7 million per quarter during 2006 and in excess of $60.575 million per quarter during 2007.

While credit metrics lag relative to similarly rated peers, rate increases have strengthened credit metrics

PacifiCorp's credit metrics, while improving since 2001 and 2002, continue to remain weak when compared to other similarly rated vertically integrated utilities. For example, funds from operations (FFO) to total adjusted debt averaged slightly less than 20% over the last two years, while PacifiCorp's FFO coverage of adjusted interest expense averaged near 4.0x. Given the size of the company's capital investment program along with the number of rate requests outstanding, reasonable regulatory support over the next several years coupled with a fairly conservative capital structure will be the two biggest drivers of PacifiCorp's near-term credit quality.

Six state utility network creates regulatory challenges

Among the largest challenges for PacifiCorp is managing the regulatory relationships of six different state commissions. Since 2002, the company has been involved in designing and implementing a cost allocation methodology that would achieve a more permanent consensus on the allocation of costs across the six state service territory. In March 2005, final ratification of the revised protocol for cost allocations was approved in four of the six states--Utah, Oregon, Wyoming, and Idaho. In Washington, the commission accepted the revised cost allocation protocol for reporting purposes and established a process for ongoing discussions that could lead to a permanent allocation methodology during fiscal 2006. In California, the revised protocol will be filed in the company's next general rate case.

Regulatory uncertainty still remains due to numerous rate applications pending

While PacifiCorp has achieved a reasonable level of success in obtaining important rate relief throughout the company's six state service territory, challenges remain given the number of pending requests outstanding.

In Oregon, PacifiCorp filed a general rate case in November 2004 with the OPUC related to increases in operating costs, including fuel, purchased power, and pension and health care costs. PacifiCorp is seeking an increase of $102.0 million annually. If approved by the OPUC, the increase would take effect in September 2005. Several parties have reached a partial stipulation with PacifiCorp that would reduce the proposed revenue requirement increase in the case from approximately $102 million to approximately $71 million. The partial stipulation covers many items including net power costs but certain items, including cost of capital, pensions and benefits are still being litigated. Hearings are scheduled to occur in July 2005.

Also, in Oregon, PacifiCorp filed an application in February 2005 for deferral of higher power costs in calendar 2005 due to continuing poor hydroelectric conditions. On May 25, 2005, this deferral application was suspended to allow the parties to focus on the power cost adjustment mechanism filed by PacifiCorp in April 2005. If approved, the proposed power cost adjustment mechanism will address Oregon's share of PacifiCorp's total net power cost volatility resulting from such factors as hydroelectric, natural gas and load variability. The proposed power cost adjustment mechanism is designed to be a longer-term, ongoing mechanism that passes through to customers a portion of excess net power costs or returns to customers a portion of over-collected net power costs, keeping rates more closely aligned with PacifiCorp's actual costs.

In Wyoming, the Wyoming Public Service Commission (WPSC) approved a joint stipulation increasing rates by $9.3 million annually, effective September 15, 2004. As part of this stipulation, PacifiCorp agreed not to file a general rate application until at least September 30, 2005. Further, the parties agreed to hold discussions on the development of a commodity cost recovery mechanism and alternative forms of regulation. Discussions on both topics are underway.

In Washington, PacifiCorp filed an application in March 2005 for the deferral of higher power costs in 2005 due to poor hydroelectric conditions. PacifiCorp requested that the deferral continue through the conclusion of the general rate proceeding. As part of that proceeding, PacifiCorp expects to address the rate treatment of the current low hydroelectric trend and power cost volatility through a proposed power cost adjustment mechanism.

Also, in Washington, PacifiCorp, on May 5, 2005, filed a general rate case request with the Washington Utilities and Transportation Commission (WUTC) for approximately $39.2 million related to increases in operating costs, including fuel, purchased power, pension and other employee benefit costs. The rate increase also addresses investment in new generation, the implementation of a power cost adjustment mechanism and ratification of the multi-state process protocol discussed above that has been adopted by four other states served by PacifiCorp. PacifiCorp is seeking an allowed rate of return on equity of 11.125%.

In Idaho, PacifiCorp, on January 14, 2005, filed a general rate case with the Idaho Public Utility Commission (IPUC) related to continuing investment to serve Idaho load, increases in employee-related costs and general inflation impacts. PacifiCorp is seeking an increase of $15.1 million annually. If approved by the IPUC, new rates would take effect September 16, 2005.

While the potential acquisition of PacifiCorp by MEHC has long-term benefits, near-term regulatory challenges could surface as the merger-related approval process could affect the timing and the outcome of a number of existing rate cases

Following the announcement that MEHC would purchase the stock of PacifiCorp from SP, Moody's changed the rating outlook for PacifiCorp to developing from stable. The change in rating outlook incorporates the view that, while the acquisition of PacifiCorp by MEHC may have long-term positive benefits, particularly given the size of the capital investment program, new near-term regulatory challenges may surface as the merger-related approval process in each of the six states could affect the timing and the outcome of a number of important rate cases that are underway. As discussed above, most of the current rate cases have the potential for PacifiCorp to obtain some form of rate increase, which collectively will enhance the company's returns and cash flow as the utility increases its capital investment. To the extent that the merger approval process substantially affects the timeliness or the amount of rate recovery currently being pursued by PacifiCorp, the company's credit quality could, in the near-term, be negatively affected.

This near-term concern is balanced against the longer-term benefits to PacifiCorp's bondholders of ownership by MEHC, which is 80.5% owned by Berkshire Hathaway, and considers MEHC's successful track record in operating other regulated utility businesses as well as Moody's belief that the potential new owners are likely to take a long-term view towards enhancing returns at PacifiCorp.

Moody's intends to monitor the merger approval process at the state and federal level and assess the impact, if any, on PacifiCorp's existing regulatory filings, as well as the final form in which MEHC intends to finance this acquisition. To the extent that the merger related regulatory proceedings do not meaningfully affect the timeliness or the outcome of state regulatory proceedings currently underway, the PacifiCorp rating outlook could stabilize.

While the size of the company's capital expenditures limit the prospects for a rating upgrade at PacifiCorp in the near-term, the rating could be upgraded over the intermediate term if the company's capital expenditure program continues to be financed conservatively and if reasonably regulatory support is secured on a timely basis resulting in an improvement in credit metrics. This would include PacifiCorp's funds from operations (FFO) to total adjusted debt being in excess of 20% on a sustainable basis and its FFO to adjusted interest expense being comfortably in excess of 4.0x on a sustainable basis.

Future capital expenditures will increase materially

Depicted below are the actual capital expenditures for the year ended March 31, 2005, as well as PacifiCorp's estimated capital expenditures for the years ending March 31, 2006 and 2007.

(Millions of dollars)	Actual Year Ended Years Ending March 31,	Estimated Years Ending March 31,	
	2005	2006	2007
Distribution and Transmission	$324.2	$369.5	$436.8
Generation and Mining	482.6	634.7	497.9
Other	44.8	78.2	124.5
Total	$851.6	$ 1,082.4	$1,059.2

Source: PacifiCorp 2005 10-K

Actual and estimated future capital expenditures include upgrades to distribution and transmission lines, upgrades of generating plant equipment, connections for new customers, facilities to accommodate load growth, coal mine investments, air-quality and environmental expenditures, hydroelectric relicensing costs and information technology systems. In addition, these estimates include the remaining costs related to the Currant Creek Power Plant (Currant Creek) and the costs to have the Lake Side Power Plant (Lake Side) developed and constructed to meet customer resource needs in summer 2007.

Financial performance can be affected by hydro levels in the Pacific Northwest

Like other utilities in the Pacific Northwest that rely upon hydroelectric energy, PacifiCorp's year-to-year financial results can be impacted. The current lower than normal hydro levels have caused PacifiCorp to become more dependent on higher costs alternatives, including wholesale purchases or generation from its own fossil fuel resources. PacifiCorp is addressing this issue on two fronts. For one, the company is building two natural gas-fired power plants, Currant Creek and Lake Side, which when completed, will better balance loads and resources, particularly during peak periods of the year. Additionally, the company is seeking a permanent commodity adjustment clause in a number of its state jurisdictions, which if obtained, would strengthen the predictability of year-over-year cash flow currently caused, in part, by changes in hydroelectric conditions.

Related Research

Industry Outlook:

U.S. Electric Utilities, May 2005 (92520)

Rating Methodology:

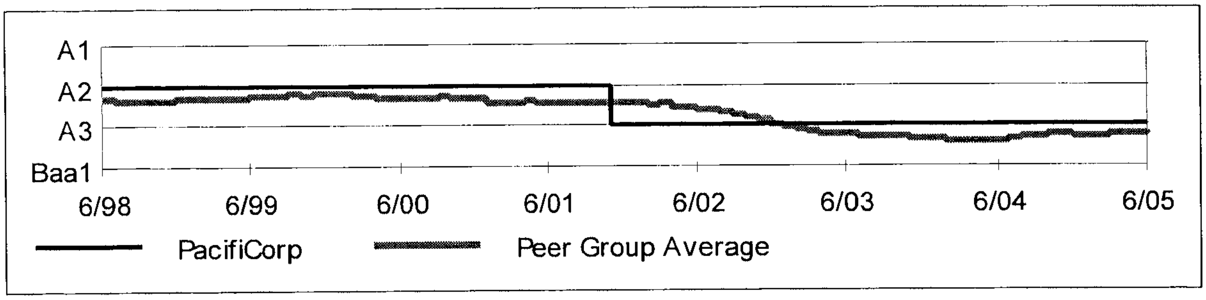
Rating Methodology: Global Regulated Electric Utilities, March 2005 (91730)

Credit Opinion:

PacifiCorp, May 2005

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Rating History Peer **First Mortgage Bonds**



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Author	Associate Analyst	Production Associate
A.J. Sabatelle	*Effie Han*	*Wing Chan*