

Exhibit No. ___ (PJM-7)
Docket No. UE-051090
MEHC Acquisition of PacifiCorp
Witness: Patrick J. Goodman

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**IN THE MATTER OF THE JOINT)
APPLICATION OF MIDAMERICAN)
ENERGY HOLDINGS COMPANY AND)
PACIFICORP DBA PACIFICORP POWER &)
LIGHT COMPANY FOR AN ORDER)
AUTHORIZING PROPOSED)
TRANSACTION)**

Docket No. UE-051090

**Exhibit to
Rebuttal Testimony of Patrick J. Goodman**

PacifiCorp Credit Rating Report

December 2005



Moody's Investors Service

Global Credit Research

Credit Opinion

27 MAY 2005

Save as PDF

Credit Opinion: PacifiCorp

PacifiCorp

Portland, Oregon, United States

Ratings

Category	Moody's Rating
Outlook	Developing
Issuer Rating	Baa1
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured MTN	Baa1
Subordinate Shelf	(P)Baa2
Preferred Stock	Baa3
Commercial Paper	P-2
Parent: Scottish Power plc	
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Utah Power & Light Co	
Outlook	Developing
Preferred Stock	Baa3
PacifiCorp Group Holdings Company	
Outlook	Stable
Bkd Commercial Paper	P-2

Contacts

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Key Indicators

PacifiCorp	Q3 2005 LTM	2004	2003	2002
Funds from Operations / Adjusted Debt [1]	16.1%	17.5%	14.6%	6.0%
Retained Cash Flow / Adjusted Debt [1]	11.9%	13.6%	14.6%	-0.7%
Common Dividends / Net Income Available for Common	81%	66%	0%	95%
Adjusted Funds from Operations + Adjusted Interest / Adjusted Interest [2]	3.53	3.63	3.09	2.00
Adjusted Debt / Adjusted Capitalization [1][3]	56.5%	55.4%	56.6%	60.3%
Net Income Available for Common / Common Equity	6.9%	7.5%	4.2%	10.9%

[1] Debt is adjusted for operating leases, guaranteed preferred beneficial interests in company's junior sub, and debentures & preferred stock subject to mandatory redemption. [2] Adjusted Interest reflects adjustments for operating leases and preferred stock dividends. [3] Adjusted Capitalization reflects the adjusted debt.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

PacifiCorp's credit strengths are:

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

Recent key regulatory decisions have been constructive

While credit metrics lag relative to similarly rated peers, recent rate increases are expected to improve credit metrics.

Financing plan contemplates substantial equity support

Credit Challenges

PacifiCorp's credit challenges are:

Regulatory uncertainty still remain due to numerous rate applications pending

Future capital expenditures will increase materially

Six state utility network creates regulatory challenges

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

Rating Rationale

The Baa1 senior unsecured rating of PacifiCorp reflects the relative predictability of cash flows expected from a well-positioned, vertically integrated utility, and an affiliation with parent, Scottish Power, plc, (SP) who has implemented operational efficiencies, and has fortified relations with the state regulators. The rating also considers the company's reasonably successful efforts to raise rates which improve regulated returns and sustainable cash flow and can support an increasing capital budget over the next several years. While regulatory challenges remain for PacifiCorp, the rating incorporates an expectation that the company will continue to maintain constructive regulatory relationships during this important period.

The rating also considers the announcement by MidAmerican Energy Holding Company (MEHC) to acquire PacifiCorp from SP for \$9.4 billion, including \$5.1 billion in cash and the assumption of around \$4.3 billion of PacifiCorp net debt. The rating considers the expected continuation of equity support from SP prior to the completion of the acquisition and factors in the belief that MEHC will manage PacifiCorp's business, including its future capital structure, in a way that is supportive to credit quality.

Rating Outlook

PacifiCorp's rating outlook is developing. While Moody's views the acquisition of PacifiCorp by MEHC to have long-term positive benefits, particularly given the size of the capital investment program, the developing rating outlook incorporates the near-term potential for new regulatory challenges for PacifiCorp 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 throughout the company's six state jurisdiction. 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, which is expected to take 12 to 15 months, 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 our belief that the potential new owners are likely to take a long-term view towards enhancing returns at PacifiCorp.

Moody's will 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.

What Could Change the Rating - DOWN

Given the size of PacifiCorp's capital program and the rating's reliance on ongoing regulatory support, the rating could be downgraded if timely regulatory support is delayed or materially affected due to the merger related regulatory approvals.

What Could Change the Rating - UP

While the size of the 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 in excess of 4.0x on a sustainable basis.

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Fitch : Info Center : Press Releases

Fitch Ratings Affirms PPW's Ratings; Rating Outlook Stable Ratings

24 May 2005 2:24 PM (EDT)

Fitch Ratings-New York-May 24, 2005: Fitch Ratings has affirmed PacifiCorp's (PPW) long- and short-term credit ratings as indicated below following the announcement of the proposed sale of the utility to MidAmerican Energy Holdings Company (MEHC; senior unsecured debt rated 'BBB' by Fitch) by PPW's corporate parent, Scottish Power plc. (SP; senior unsecured debt rated 'BBB+' by Fitch). The affirmation affects approximately \$4.5 billion of rated debt. The Rating Outlook is Stable. See separate commentary on MEHC 'Fitch Affirms MidAmerican Energy Holdings at 'BBB' After PacifiCorp Acquisition Announced,' for more information.

- Senior secured 'A';
- Senior unsecured 'A-';
- Preferred 'BBB+';
- Short-term debt 'F2'.

The rating affirmation and Stable Rating Outlook assume that MEHC will implement structural ring-fencing at PPW consistent with the structures utilized at both Northern Natural Gas and Kern River Pipeline. The ratings and Stable Outlook also assume ongoing financial support from SP for PPW's capital spending program prior to close of the proposed merger. PPW's ratings incorporate reasonable outcomes in pending regulatory proceedings to recover capital spending to meet its load growth requirements. Fitch also recognizes PPW's recent progress in the multistate process, including stipulated agreements regarding interjurisdictional cost allocation issues in several key jurisdictions.

In the past, PPW has been challenged by a lack of regulatory support and low returns. Fitch continues to view regulation as a primary risk for PPW fixed-income investors. In particular, Fitch assumes that progress in this area made by incumbent management will continue under new ownership. This is especially important in light of PPW's significant capital requirements.

The acquisition is subject to approval by the shareholders of Scottish Power, as well as a number of state and federal regulatory commissions and is expected to take 12-15 months to consummate. In addition to regulatory reviews from FERC, FTC, NRC, and SEC, approvals from state regulators in Utah, Oregon, Wyoming, Washington, Idaho, and California are also required. If the merger is completed, Fitch believes that MEHC has the financial capability to provide equity financing for ongoing capital spending to support load growth

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Research:

Research Update: MidAmerican Ratings Put On Watch Pos, PacifiCorp Rtg's On Watch Neg Re Acquisition Announcement

Publication date: 25-May-2005
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Credit Rating: BBB-/Watch Pos/--

■ Rationale

On May 25, 2005, Standard & Poor's Ratings Services placed its 'A-/A-2' corporate credit rating on PacifiCorp on CreditWatch with negative implications and its 'BBB-' corporate credit rating on MidAmerican Energy Holdings Co. (MEHC) on CreditWatch with positive implications.

The rating actions follow the announcement by Scottish Power PLC (A-/Stable/A-2) that it has agreed to sell PacifiCorp to MEHC for \$9.4 billion, including \$5.1 billion in cash, and the assumption of \$4.3 billion in net debt and preferred stock.

In addition, Standard & Poor's placed its 'A-' rating on Northern Natural Gas Co. on CreditWatch with positive implications, reflecting the fact that Northern Natural's rating is capped at a level three notches above the rating on MEHC, and that it can support an 'A' rating on a stand-alone basis.

The CreditWatch listing reflects the fact that the current 'A-' corporate credit rating on PacifiCorp is based on ScottishPower's consolidated credit profile, whose solid financial performance has compensated for the U.S. utility's weaker stand-alone metrics. The positive CreditWatch listing for MEHC reflects Standard & Poor's expectation that the acquisition will be financed primarily with the infusion of equity from MEHC's ultimate parent, Berkshire Hathaway Inc. (AAA/Stable/A-1+), a practice consistent with past acquisitions.

If the transaction proceeds, Standard & Poor's will assess the financing structure of the acquisition, MEHC's resulting consolidated creditworthiness, the benefit of any ring-fencing mechanisms that MEHC structures around PacifiCorp, and the utility's stand-alone credit metrics. Standard & Poor's will also consider MEHC's history of strong operations and regulatory management at its only U.S.-based regulated utility, MidAmerican Energy Co. (A-/Stable/A-1), as well as any necessary support for PacifiCorp's sizable capital expenditures over the near term.

The acquisition will require regulatory approval from each of the six states that PacifiCorp operates, which will take at least a year. As details of the merger become clear, Standard & Poor's will update the CreditWatch listings as appropriate.

■ Ratings List

	To	From
Ratings Placed On CreditWatch Negative		
PacifiCorp		
Corp credit rating	A-/Watch Neg/A-2	A-/Stable/A-2

Senior secured debt	A-/Watch Neg	A-
Senior unsecured debt	BBB+/Watch Neg	BBB+
Subordinated debt	BBB+/Watch Neg	BBB+
Preferred stock	BBB/Watch Neg	BBB
Commercial paper	A-2/Watch Neg	A-2

Ratings Placed On CreditWatch Positive

MidAmerican Energy Holdings Co.

Corporate credit rating	BBB-/Watch Pos/--	BBB-/Positive/--
Senior unsecured	BBB-/Watch Pos	BBB-
Preferred stock	BB/Watch Pos	BB

Northern Natural Gas Co.

Corporate credit rating	A-/Watch Pos/--	A-/Positive/--
Senior unsecured debt	A-/Watch Pos	A-

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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