Exh. DCP-24
Dockets UE-230172 and UE-210852
Witness: David C. Parcell

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP d/b/a PACIFIC POWER AND LIGHT COMPANY,** **Respondent.**	**DOCKETS UE-230172 and UE-210852 (Consolidated)**
In the Matter of **ALLIANCE OF WESTERN ENERGY CONSUMERS'** **Petition for Order Approving Deferral of Increased Fly Ash Revenues**	

EXHIBIT TO TESTIMONY OF

DAVID C. PARCELL

ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Standard & Poor's June 20, 2023, Research Update on PacifiCorp

September 14, 2023

S&P Global
Ratings

RatingsDirect®

Research Update:

PacifiCorp Downgraded To 'BBB+', Outlook Revised To Negative; Berkshire Hathaway Energy Co. Outlook Also Negative

June 20, 2023

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Rating Action Overview

- Last week, a jury found PacifiCorp liable for damages in a class action lawsuit related to four wildfires in 2020. The 17 plaintiffs in the case were awarded $4 million in economic damages, $68 million in noneconomic damages, and $18 million in punitive damages. Additionally, the jury also found the absent class members could also bring claims against the company.
- As such, we downgraded the issuer credit rating (ICR) on PacifiCorp to 'BBB+' from 'A' and the short-term rating to 'A-2' from 'A-1'. We lowered the ratings on the company's first-mortgage bonds to 'A' from 'A+', senior unsecured debt to 'BBB+' from 'A', and preferred stock to 'BBB-' from 'BBB+'. We also revised the outlook on PacifiCorp to negative from stable.
- We affirmed our ratings on Berkshire Hathaway Energy Co. (BHE) and subsidiaries MidAmerican Energy Co., Nevada Power Co., and Sierra Pacific Power Co., but revised our outlooks on BHE and these subsidiaries to negative from stable.
- The negative outlook on PacifiCorp reflects the likelihood that we can lower ratings by one or more notches over the next 24 months if it receives materially adverse judgments regarding wildfires that occurred in its service territory.
- The negative outlook on BHE and its subsidiaries MidAmerican Energy, Nevada Power, and Sierra Pacific Power reflects the potential for BHE's business risk or financial risk to weaken over the next 24 months should wildfire liabilities related to PacifiCorp significantly increase.

Rating Action Rationale

The downgrade of PacifiCorp follows a Multnomah County jury's verdict that the company contributed to the Santiam Canyon, Echo Mountain Complex, South Obenchain, and Two Four Two wildfires that occurred in Oregon in September 2020, acting in a grossly negligent and reckless manner. The jury did not hold PacifiCorp liable for inverse condemnation, but we believe the operating risks for PacifiCorp have significantly increased. The jury's findings that the company acted in a grossly negligent manner reflects safety performance that does not meet stakeholder standards. To incorporate our assessment of this rising risk, we revised our assessment of the company's business risk downward to strong from excellent. Furthermore, to reflect our view that the company's business risk profile is at the lower end of the strong category, incorporating litigation risks, our negative comparable ratings analysis modifier is unchanged.

The jury award on a per-plaintiff basis was materially above our base-case assumptions. The jury awarded plaintiffs about $5.3 million each, on average. The 17 plaintiffs in this case were awarded $4 million in economic damages, $68 million in noneconomic damages, and $18 million in punitive damages. Our prior base case, as used in other wildfire scenarios, incorporated an approximate $1 million per structure (see "Credit FAQ: How are California's Wildfire Risks Affecting Utility Credit Quality?", June 3, 2021). The verdict in this case is materially above our base case, increasing risk for the company. Furthermore, the jury also found that a broader absent class affected by the fires could bring claims against the company. The number of potential claimants and the amount of their claims, if any, have not yet been determined. However, we believe the contingency risk that comes with being found liable for a much broader class of claimants' damages are now significantly higher. To incorporate the increasing event risk that may depress credit metrics over our forecasts associated with the potential litigations, we revised our financial policy modifier to negative from neutral. Overall, we assess PacifiCorp's stand-alone credit profile (SACP) at 'bb+', reflecting our revised view of PacifiCorp's business risk profile and financial policy modifier.

We expect a final judgment in the coming months and expect the company to appeal on multiple grounds, which will likely take several years to fully resolve. Furthermore, in addition to the absent class members, there is the potential for other legal challenges against PacifiCorp stemming from wildfires that occurred within its service territory between 2020 and 2022.

We revised downward our assessment of PacifiCorp's group status to strategically important from core. Although we expect PacifiCorp to receive extraordinary support from the BHE group in most foreseeable circumstances, the potential for high contingent liabilities could erode the degree of such support. As such, we revised our assessment of PacifiCorp's group status downward, reflecting our view that we no longer believe BHE would support PacifiCorp under all foreseeable circumstances. Our revised assessment of PacifiCorp as a strategically important subsidiary of BHE raises our ICR on PacifiCorp by three notches above its SACP to 'BBB+'.

The affirmed ratings on BHE reflects its large multinational utility operations in constructive regulatory frameworks. Most of the regulatory jurisdictions in which BHE's utilities operate have stable and transparent regulatory frameworks. The company has been able to work constructively with regulators while also implementing utility rates below the U.S. national average in the U.S. (about 85% of utility operations are in the U.S.). The company also benefits from various regulatory mechanisms, including forward test years, fuel recovery, renewable investment riders, capital trackers, and revenue sharing amongst others. Moreover, the company's businesses, spread across 11 U.S. states, the U.K., and Canada, provide regulatory diversity that helps mitigate the impact of adverse regulatory decisions or litigation, weather events, and other regional challenges. Furthermore, we forecast funds from operations (FFO) to debt of about 17%-19%.

We revised our outlook on BHE to negative. The negative outlook incorporates PacifiCorp's weakening SACP and that PacifiCorp represents about 25% of BHE. Further weakening of PacifiCorp's credit quality could result in a weaker credit quality at BHE.

Outlook – PacifiCorp

The negative outlook on PacifiCorp reflects the likelihood that we can lower the ratings on PacifiCorp by one or more notches over the next 24 months if it receives materially adverse judgments regarding wildfires claims that occurred in its service territory.

Downside scenario

We could lower the ratings on PacifiCorp if it is found liable for further wildfire damages in its service territory, such that these damages materially weaken financial performance, increase business risk, or weakens the degree of group support PacifiCorp receives from BHE.

Upside scenario

We could affirm our ratings on PacifiCorp and revise the outlook to stable if its wildfire liabilities remain limited, such that it doesn't weaken our view of its business risk profile, financial measures, or the degree of group support it receives from BHE.

Outlook– BHE And Other U.S. Utility Subs

The negative outlook on BHE and subsidiaries MidAmerican Energy, Nevada Power, and Sierra Pacific Power reflects the potential for BHE's business risk to increase or financial measures to weaken over the next 24 months should wildfire liabilities related to PacifiCorp significantly increase.

Downside scenario

We could lower the ratings on BHE if its FFO to debt weakens to below 13%. We could also lower ratings if we determine that BHE's business risk has increased without offsetting financial improvement.

Upside scenario

We could affirm our ratings if BHE maintains current financial measures without any increase in business risk.

Liquidity- PacifiCorp

We assess PacifiCorp's liquidity as adequate, with sources covering uses by 1.1x over the coming 12 months. Furthermore, we expect its sources to cover uses even if consolidated EBITDA declines 10%. We believe the predictable regulatory framework for PacifiCorp provides cash flow stability even in economic stress, supporting our use of slightly lower thresholds to assess liquidity. In addition, PacifiCorp can absorb high-impact, low-probability events, with about $1.75 billion of credit facility availability committed to PacifiCorp (of which $800 million matures within the next year). We believe PacifiCorp can reduce its capital spending (averaging about $3.9 billion annually over the next five years) during periods of stress. This indicates a limited need for refinancing under such conditions. Furthermore, our assessment reflects its generally prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets (bond yields are in line with other investment-grade issuers). Overall, we believe PacifiCorp could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. In addition, its next large long-term debt maturity of about $425 million is due in 2024, and we expect it to proactively address debt maturities well in advance of their due dates.

Principal liquidity sources:

- Credit facility availability of about $951 million maturing beyond the next 12 months;
- Cash on hand of about $1.2 billion;
- Working capital inflows of about $600 million; and
- Cash FFO of about $1.6 billion.

Principal liquidity uses:

- Debt maturities of about $440 million; and
- Maintenance capital spending of about $2.1 billion.

Environmental, Social, And Governance- PacifiCorp

ESG credit indicators: E-5, S-2, G-2

Climate change has increased the frequency of wildfires in PacifiCorp's service territory and has led to the company becoming subject to various lawsuits and litigation, including a recent one where a jury found the company was grossly negligent in managing its grid during four wildfires in Oregon. As such, environmental factors are now a very negative consideration in our ratings analysis for PacifiCorp.

Environmental, Social, And Governance- BHE

ESG credit indicators: E-3, S-2, G-2

Environmental factors are a moderately negative consideration in our credit rating analysis of BHE. The risk of wildfire related liabilities at its PacifiCorp subsidiary is a direct result of the impact of climate change on its operations. Furthermore, BHE's current generation capacity of about 35,500 MW consists of 41% renewables, 23% coal, 31% natural gas, 4% hydroelectric and geothermal, and 1% nuclear. Although the company currently relies on fossil fuel for most of its electricity production, BHE has been making large investments in renewable generation including wind generation.

Issue Ratings - Subordination Risk Analysis

Capital structure

BHE's capital structure consists of about $54.2 billion of consolidated debt, of which roughly $14.5 billion is senior unsecured debt issued at BHE and $39.7 billion is subsidiary debt, including secured and unsecured debt.

Furthermore PacifiCorp's capital structure includes about $10.9 billion of debt of which most are first-mortgage bonds.

Analytical conclusions

We rate the unsecured debt at BHE one notch below the issuer credit rating because priority debt exceeds 50% of the company's consolidated debt, after which BHE's debt could be considered structurally subordinated. Furthermore, we base the A-1 short-term rating on the company's ICR.

We rate PacifiCorp's senior unsecured debt at the same level as the issuer credit rating because it is unsecured debt of a qualifying investment-grade utility. We rate the preferred stock two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if bankruptcy occurs. Furthermore, we base the A-2 short-term rating on the company's ICR.

Issue Ratings - Recovery Analysis

Key analytical factors

PacifiCorp's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a '1+' recovery rating and an issue rating two notches above the issuer credit rating.

Ratings Score Snapshot– PacifiCorp

Issuer Credit Rating: BBB+/Negative/A-2

Business risk: Strong

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bbb

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Negative (-1 notch)
- Liquidity: Adequate (no impact)

- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bb+

- Group credit profile: a
- Entity status within group: Strategically important (+3 notches from SACP)

Ratings Score Snapshot– BHE

Issuer Credit Rating: A/Negative/A-1

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: a-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Negative (-1 notch)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bbb

- Group credit profile: aa
- Entity status within group: Strategically important (+3 notches from SACP)

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Climate transition risks
- Physical risks

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Corporates | Industrials: Key Credit Factors For The Midstream Energy Industry, Nov. 15, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded; Outlook Action

	To	From
PacifiCorp		
Issuer Credit Rating	BBB+/Negative/A-2	A/Stable/A-1

Ratings Affirmed; Outlook Action

	To	From
Berkshire Hathaway Energy Co.		
Sierra Pacific Power Co.		
MidAmerican Energy Co.		
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
MidAmerican Funding LLC		
Issuer Credit Rating	A/Negative/--	A/Stable/--
Nevada Power Co.		
Issuer Credit Rating	A/Negative/NR	A/Stable/NR
Issue-Level Ratings Lowered		
PacifiCorp		
Senior Secured	**A/A-2**	**A+/A-1**
Recovery Rating	**1+**	**1+**
Senior Secured	**A**	**A+**
Recovery Rating	**1+**	**1+**
Senior Unsecured	**BBB+/A-2**	**A/A-1**
Preferred Stock	**BBB-**	**BBB+**
Commercial Paper	**A-2**	**A-1**
Issue-Level Ratings Affirmed		
Berkshire Hathaway Energy Co.		
Senior Unsecured	A-	A-
Commercial Paper	A-1	A-1
MidAmerican Energy Co.		
Senior Secured	A+	A+
Recovery Rating	1+	1+
Commercial Paper	A-1	A-1
MidAmerican Funding LLC		
Senior Secured	A-	A-
Nevada Power Co.		
Senior Secured	A+	A+
Recovery Rating	1+	1+
Sierra Pacific Power Co.		
Senior Secured	A+	A+
Recovery Rating	1+	1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.