



Pacific Power |
Rocky Mountain Power |
PacifiCorp Energy
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September 15, 2006

**Via Electronic Filing
and Overnight Delivery**

Washington Utilities and Transportation Commission Staff
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Olympia, WA 98504-0128
Attn: Ken Elgin

and

Office of Attorney General
900 Fourth Avenue, Suite 2000
Seattle, WA 98164-1012
Attn: Steve Johnson

Re: Washington Docket No. UE-051090 Compliance Filing

PacifiCorp hereby submits an original and two (2) copies of the attachment in compliance with the Commission's Order in this case issued on February 22, 2006 and amended on March 10, 2006. The Order approved the Stipulation supporting MEHC's acquisition of PacifiCorp from ScottishPower.

Commitment Wa21 of the Stipulation provides that, PacifiCorp will provide to Staff and Public Counsel, on an informational basis, credit rating agency news releases and final reports regarding PacifiCorp when such reports are known to PacifiCorp and are available to the public.

Therefore, in compliance with Commitment Wa21 of the Stipulation, please find the attached report related to PacifiCorp.

Very truly yours,

Bruce Williams
Treasurer

Enclosure

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COMMUNICATIONS SECTION

Global Power/North America
Credit Analysis

PacifiCorp

(Subsidiary of MidAmerican Energy Holdings Co.)

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
IDR	BBB	BBB+	1/31/06
Senior Secured	A-	A	1/31/06
Sr. Unsecured	BBB+	A-	1/31/06
Preferred Stock	BBB	BBB+	1/31/06
Short-Term IDR	F2	NR	12/6/05

IDR – Issuer default rating. NR – Not rated.

Rating Watch..... None
Rating Outlook..... Stable

Analysts

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Profile

PPW is an indirect operating utility subsidiary of MidAmerican Energy Holdings Co., which is 88% owned by Berkshire Hathaway Inc. PPW provides integrated electric service to 1.6 million retail customers in parts of six Western states: Utah, Oregon, Wyoming, Washington, Idaho and California.

Related Research

- Credit Analysis: March 7, 2006.
- Credit Update: April 14, 2005.

Key Credit Strengths

- Solid operating cash flow and financial position.
- Relatively low-cost energy resource base.

Key Credit Concerns

- Ongoing negative free cash flow due to high capital expenditure requirements.
- Growing reliance on natural gas-fired generation.
- Adverse Oregon tax ruling in GRC may signal deterioration in the state's regulatory climate.

Rating Rationale

PacifiCorp's (PPW) ratings and Stable Rating Outlook reflect the company's solid operating cash flow and financial position, competitive resource base, and relatively low business risk profile. The ratings assume reasonable outcomes in pending and future rate proceedings. Fitch Ratings' analysis also takes into account the utility's projected above-industry-average service territory growth (primarily in its Eastern service territory), significant planned investment in new plant and infrastructure to meet its load requirements, and its growing exposure to gas-fired generating capacity.

Capital expenditures for the nine months ended Dec. 31, 2006, are expected to approximate \$945 million. The primary credit concern is the potential for unsupportive regulatory actions, especially in light of the company's large construction budget and historically low earned returns. Additionally, PPW faces growing exposure to gas-fired generation and potentially high commodity costs in the event of a prolonged, unscheduled, base-load plant outage during a period of high demand. Recent unfavorable regulatory developments in Washington and uncertainty regarding utility tax policy in Oregon are sources of concern for investors.

Fitch views recent general rate case (GRC) settlements in PPW's two largest jurisdictions, Utah and Oregon, favorably. In addition, PPW recently implemented rate increases consistent with the terms of its commission-approved stipulation in its Wyoming GRC (see the Recent Developments section for further information). However, regulators and policy makers in Oregon continue to send mixed signals to investors. The Oregon Public Utility Commission's (OPUC) anticipated September 2006 final order in a proceeding to establish permanent rules implementing Senate Bill No. 408 (SB 408) could have an adverse effect on PPW. Fitch notes that the OPUC reduced PPW's revenue requirement by \$26.6 million in its 2005 GRC to reflect the provisions of SB 408, which was enacted in September 2005.

Recent Developments

PPW recently reached settlement agreements in its pending GRCs in Utah and Oregon, which, if approved by regulators, would result in base-rate increases of \$115 million and \$43 million, respectively.

Under the terms of the settlement agreement in Utah, the \$115 million (10%) rate increase will be phased in, with the rates scheduled to increase of \$85 million (7.4%) initially on Dec. 11, 2006. The second-phase rate increase of \$30 million (2.6%) is to be implemented on

June 1, 2007. PPW agreed not to file another GRC until after Dec. 11, 2007. In addition, PPW agreed to withdraw its petition to implement a fuel-adjustment mechanism in Utah. Hearings on the proposed settlement are scheduled to begin later this month, and a final order is expected in the fall of 2006.

The \$43 million rate increase included in the settlement of PPW's 2006 Oregon GRC, if approved by the commission, would be effective on Jan. 1, 2007. Under the terms of the agreement, PPW will not file a new rate case prior to Sept. 1, 2007. A final OPUC ruling is expected in December 2006.

Earlier this year, PPW received approval from the Wyoming Public Service Commission for a total annual rate increase of \$25 million, a power cost-adjustment mechanism and an agreement to utilize a forward test year in its next GRC. The rate increase was phased in under the terms of the settlement, with the initial \$15 million rate increase effective on March 1, 2006, and the remaining \$10 million on July 1, 2006.

In addition, settlements have been reached with parties in Idaho and California that would permit annual rate increases of \$8.2 million and \$7.3 million, respectively.

In April 2006, the Washington Utilities and Transportation Commission (WUTC) issued an order in response to PPW's GRC filed in May 2005. The order denied the utility's \$30 million rate increase request. The WUTC also rejected PPW's subsequent petition for reconsideration and a limited rate increase of not less than \$11 million. In Fitch's view, the WUTC's rejection of PPW's rate increase request is a setback for the interjurisdictional cost allocation method under the revised protocol and is a hurdle to improved earned returns. The company is evaluating its legal and regulatory options to recover prudently incurred costs in Washington.

■ Liquidity and Debt Structure

At June 30, 2006, PPW had approximately \$304 million of short-term debt outstanding and cash and equivalents of \$73 million on its balance sheet. On Aug. 7, 2006, PPW issued \$350 million 6.10% of its first mortgage bonds, due in 2036. Proceeds from the issuance will be used to repay short-term debt and for general corporate purposes.

PPW's total long- and short-term debt was \$4.3 billion, and its debt-to-total capital ratio was 51% at June 30, 2006. Debt-to-funds from operations, at the end of the second quarter of 2006 was 5.1 times (x). PPW received a \$74 million capital infusion in the second quarter from its direct parent, PacifiCorp Holdings, Inc.

During July 2006, PPW renegotiated its committed \$800 million revolving credit facility, extending the maturity date to July 2011 from August 2010. The credit agreement contains a maximum debt-to-total capitalization covenant of 65%.

Rating Outlook Rationale

The Stable Rating Outlook assumes balanced regulatory outcomes in response to pending and prospective rate filings. However, recent regulatory developments have been mixed.

PPW recently filed proposed settlement agreements with regulators in its respective GRC filings in Oregon and Utah. The filing of the proposed settlements, along with the implementation of higher rates and adoption of a fuel-adjustment mechanism in Wyoming, are constructive events, in Fitch's view.

Less favorable regulatory events include the rejection of PPW's proposed rate increase in its 2005 GRC in Washington, the 2005 rate cut related to implementation of SB 408 in its 2005 Oregon GRC and continuing uncertainty regarding final SB 408 rules, which are expected to be issued by September 2006.

What Could Lead to Positive Rating Action?

- Greater than anticipated relative debt reduction.

What Could Lead to Negative Rating Action?

- Adverse regulatory developments, especially in light of the company's large capital expenditures program.
- A major, extended generating plant outage.

Financial Summary — PacifiCorp

(\$ Mil., Fiscal Years Ended March 31)

	LTM 6/30/06	2006	2005	2004	2003	2002
Fundamental Ratios (x)						
Funds from Operations/Interest Expense	4.0	4.1	4.2	4.2	4.3	2.5
Cash from Operations/Interest Expense	3.9	4.3	3.8	4.1	4.0	2.6
Debt/Funds from Operations	5.1	5.0	5.4	4.6	5.2	12.7
Operating EBIT/Interest Expense	2.8	3.0	2.6	2.3	2.1	2.8
Operating EBITDA/Interest Expense	4.4	4.6	4.3	3.9	4.1	4.6
Debt/Operating EBITDA	3.5	3.4	4.0	3.8	4.2	4.1
Common Dividend Payout (%)	35.0	65.6	65.6	0.0	94.9	98.6
Internal Cash/Capital Expenditures (%)	62.3	76.9	74.7	121.2	133.4	6.4
Capital Expenditures/Depreciation (%)	244.5	190.0	158.0	128.3	116.3	125.4
Profitability						
Revenues	3,875	3,897	3,049	3,195	3,082	3,354
Net Revenues	2,347	2,352	2,101	2,038	1,902	1,888
O&M Expense	1,016	1,015	913	896	885	781
Operating EBITDA	1,232	1,240	1,093	1,047	923	1,017
Depreciation and Amortization Expense	453	448	437	429	434	403
Operating EBIT	779	792	656	618	489	614
Interest Expense	279	267	257	270	228	221
Net Income for Common	355	359	250	245	133	315
O&M % of Net Revenues	43.3	43.1	43.5	44.0	46.5	41.4
Operating EBIT % of Net Revenues	33.2	33.7	31.2	30.3	25.7	32.5
Cash Flow						
Cash Flow from Operations	817	895	711	832	682	343
Change in Working Capital	(19)	55	(103)	(28)	(75)	10
Funds from Operations	836	840	814	860	756	333
Dividends	(126)	(177)	(195)	(165)	(7)	(310)
Capital Expenditures	(1,108)	(852)	(690)	(550)	(505)	(505)
Free Cash Flow	(418)	(134)	(175)	117	169	(473)
Net Other Investment Cash Flow	19	25	5	(13)	25	(63)
Net Change in Debt	(138)	(266)	472	(57)	(297)	668
Net Change in Equity	433	485	0	0	143	(100)
Capital Structure						
Short-Term Debt	659	405	742	369	162	322
Long-Term Debt	3,620	3,762	3,678	3,577	3,759	3,895
Total Debt	4,278	4,167	4,420	3,945	3,921	4,217
Preferred and Minority Equity	41	41	41	41	108	116
Common Equity	4,121	4,011	3,336	3,279	3,194	2,892
Total Capital	8,441	8,219	7,797	7,265	7,224	7,225
Total Debt/Total Capital (%)	50.7	50.7	56.7	54.3	54.3	58.4
Preferred and Minority Equity/Total Capital (%)	0.5	0.5	0.5	0.6	1.5	1.6
Common Equity/Total Capital (%)	48.8	48.8	42.8	45.1	44.2	40.0

LTM – Latest 12 months. Operating EBIT – Operating income before nonrecurring items. Operating EBITDA – Operating income before nonrecurring items plus depreciation and amortization expense. O&M – Operations and maintenance. Note: Numbers may not add due to rounding and are adjusted for interest and principal payments on transition property securitization certificates. Long-term debt includes trust preferred securities. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, Va.

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