



Pacific Power |  
Rocky Mountain Power |  
PacifiCorp Energy  
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March 22, 2007

**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 attachments 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 the acquisition of PacifiCorp by MidAmerican Energy Holdings Company.

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 reports related to PacifiCorp.

Very truly yours,

Bruce Williams  
Vice President and Treasurer

Enclosures

BW:lb

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Fitch : Info Center : Press Releases

**Fitch Rates PacifiCorp's \$600MM Issuance of FMBs 'A-' Ratings**  
12 Mar 2007 9:08 AM (EDT)

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Fitch Ratings-New York-12 March 2007: Fitch Ratings has assigned a rating of 'A-' to PacifiCorp's (PPW) anticipated issuance of \$600 million 5.75% first mortgage bonds (FMBs), due April 1, 2037. Proceeds from the issuance will be used to repay short-term debt and for general corporate purposes. The Rating Outlook for PPW is Stable.

The ratings for PPW reflect the company's solid financial position, competitive resource base, and relatively low business risk profile. The ratings assume reasonable outcomes in pending and future rate proceedings to recover anticipated, significant capital investment. PPW appears to be making solid progress on the regulatory front, achieving commission approval of settlement agreements during 2006 related to general rate case proceedings in Utah, Oregon, Wyoming, Idaho and California. In addition, PPW recently received a staff recommendation in its pending Washington general rate case of \$12 million-\$16 million, in which the company requested a \$23 million (10%) rate increase. The rate case was filed in October 2006 and a final order is expected later this year.

Fitch's analysis also takes into account PPW's projected above-industry-average service territory growth, primarily in its Eastern service territory, significant planned investment in new plant including renewables and infrastructure to meet its load requirements, and its growing exposure to gas-fired generating capacity. PPW's capital investment is expected to increase to \$1.5 billion in 2007 from \$1 billion in 2006 and spending on new plant and equipment over the next 10 years is estimated to approximate \$16 billion.

The potential for unsupportive regulatory actions, especially in light of the company's large construction budget, is a primary source of concern for investors. Additionally, PPW faces growing reliance on gas-fired generation and exposure to high commodity costs in the event of a prolonged, unscheduled base-load plant outage during a period of high demand. Changes in utility tax policy mandated by Oregon Senate Bill 408 are also an ongoing source of uncertainty for PPW investors.

PPW, a wholly owned subsidiary of MidAmerican Energy Holdings Company, provides integrated electric service to approximately 1.7 million retail customers in parts of Utah, Oregon, Wyoming, Washington, Idaho and California.

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Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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**STANDARD  
& POOR'S**
**RatingsDirect**
**RESEARCH**
**Research Update:**
**PacifiCorp's \$600 Million Bonds Rated 'A-'**

**Publication date:** 14-Mar-2007  
**Primary Credit Analyst:** Swami Venkataraman, CFA, San Francisco (1) 415-371-5071;  
swami\_venkataraman@standardandpoors.com

**Rationale**

On March 14, 2007, Standard & Poor's Ratings Services assigned its 'A-' rating to PacifiCorp's \$600 million first mortgage bonds due 2037. At the same time, Standard & Poor's affirmed its 'A-' corporate credit rating on the company.

The outlook is stable. The proceeds from the offering will be used to repay short term debt and for general corporate purposes.

PacifiCorp serves 1.7 million customers in six western states and had about \$5.8 billion in outstanding debt and preferred stock as of Dec. 31, 2006. On March 21, 2006, MidAmerican Energy Holdings Co. (MEHC; A-/Stable/--) completed its purchase of PacifiCorp from Scottish Power plc.

The 'A-' corporate credit rating on PacifiCorp reflects MEHC's consolidated credit profile. The rating incorporates MEHC's strong business risk position, fairly aggressive financial profile, and both explicit and implicit support from Berkshire Hathaway. Explicit support from Berkshire Hathaway is in the form of a \$3.5 billion equity commitment agreement, which in our view would be called on, if necessary, to support the rating on MEHC. Neither MEHC nor PacifiCorp displays 'A-' credit metrics on a stand-alone basis. MEHC is expected to fund a significant portion of PacifiCorp's large upcoming capital program through equity. MEHC has contributed \$215 million in equity to date since acquiring PacifiCorp in March 2006.

MEHC's business profile score is strong at '4'. (Business profiles are categorized from '1' (excellent) to '10' (vulnerable)). This score incorporates the significant diversity of MEHC's businesses, limited exposure to unregulated ventures (less than 10% of operating income in future), and our expectation that MEHC's future acquisitions will be in the regulated utility segment and not in unregulated or commodity-exposed businesses. MEHC's strategy has been to acquire regulated utilities that can benefit from its established record of enhancing operational and financial performance through a mixture of improved regulatory relationships, cost reductions, and the funding of investment with the use of equity sufficient to maintain roughly a 50-50 capital structure.

MEHC owns PacifiCorp through PPW Holdings LLC, a special-purpose entity that ring-fences PacifiCorp from MEHC as required by the Oregon Public Utilities Commission. The ring-fencing includes structural protections, covenants, a pledge of stock, and an independent director. PacifiCorp also agreed to refrain from making dividends to MEHC unless it maintains a common equity ratio of 48.25% through 2008, decreasing annually to 44% by 2012. These factors serve to protect PPW Holdings LLC and PacifiCorp from an MEHC bankruptcy. Due to the ring-fencing, PacifiCorp's corporate credit rating could potentially be as high as three notches above MEHC's rating, provided its stand-alone credit quality supported such an elevation. Currently, the utility's stand-alone credit metrics are in the 'BBB' category and do not warrant a rating above MEHC's.

PacifiCorp's business profile is a satisfactory '5', reflecting a predominantly coal-fired generation base that produces competitive, low cost power; average markets, which by virtue of their disparate locations provide a degree of economic and geographical diversity; and the potential for improved operating efficiencies through MEHC's ownership. Challenges that are reflected in PacifiCorp's business risk include its exposure to wholesale purchases and hydro variability (about 70% of PacifiCorp's 2005 energy requirements came

from owned coal, 21% from purchases, 5% from hydro, and 4% from natural gas), limited fuel and purchased power adjustment mechanisms, and the sometimes-difficult regulatory environments where the company operates.

The company has been consistently unable to earn its authorized return on equity, which ranges from 10%-10.5%, depending on the state. In 2006, PacifiCorp settled rate cases, originally filed under the ownership of Scottish Power, in all its jurisdictions but for Washington. Although settlements provide PacifiCorp with revenues lower than requested, sometimes substantially so as in Oregon, and generally prevent the company from going back for rate increases for at least another year, these are largely in line with assumptions in our forecasts. MEHC, through PacifiCorp and MidAmerican Energy Co., has 10 state regulators, which presents unique logistical and performance challenges.

Finally, Senate Bill 408 in Oregon will continue to remain a moderate risk for PacifiCorp. Although the tax apportionment rule based on property, sales and payroll appears fairly neutral to PacifiCorp, there is potential that, in a bad year, PacifiCorp's stand-alone tax bill would be lower than what it collects from customers and that may require a refund under the second of the three rules of SB408. The third rule, namely the prospect that Berkshire Hathaway as a whole would pay less in taxes than PacifiCorp alone collects from its ratepayers, is extremely unlikely to occur.

We expect that MEHC will contribute substantial equity to fund PacifiCorp's \$6.4 billion capital program over the next five years and that a combination of cost reductions and improved regulatory relationships will eventually enable PacifiCorp to improve its financial performance to achieve returns closer to its authorized ROE. This is something PacifiCorp wasn't able to do in recent years under Scottish Power's ownership. These factors should result in an overall improvement in PacifiCorp's credit metrics.

Under the consolidated rating methodology, we focus primarily on MEHC's consolidated financial profile. While MEHC's credit metrics are improving, ratios are clearly weak for the 'A-' rating, which benefits from Berkshire Hathaway's support. During 2006, funds from operations coverage (FFO) of interest and debt stood at 3.4x and 11.7%, respectively. Debt to total capital had shown a substantial improvement from 77.8% as of Dec. 31, 2005 to approximately 69% as of Dec. 31, 2006, mainly reflecting the equity infusion for the acquisition of PacifiCorp. Credit metrics should continue to improve over the next few years as MEHC deleverages PacifiCorp through substantial equity infusions and reinvestment of operating cash flow.

### Short-term credit factors

PacifiCorp's 'A-1' short-term rating benefits from the explicit and implicit support that MEHC receives from Berkshire Hathaway. We assume that Berkshire Hathaway's extremely strong liquidity would be available to PacifiCorp via MEHC in the unlikely event that PacifiCorp could not repay its CP obligations. Explicit support exists in the form of a \$3.5 billion equity commitment agreement between Berkshire Hathaway and MEHC that could be called on to support the liquidity requirements of MEHC's regulated subsidiaries, including PacifiCorp.

PacifiCorp had cash of \$59 million as of Dec. 31, 2006 and an \$800 million revolving credit agreement that expires in July 2011. There were no borrowings under the revolver but it supports \$79.7 million of commercial paper and various pollution control revenue bonds. Current maturities of long-term debt are manageable at \$325.5 million. PacifiCorp's large capital expenditure program will require substantial external funding, including equity contributions from and zero dividends to MEHC to maintain financial ratios.

### Outlook

The stable outlook reflects our expectation that MEHC will deleverage PacifiCorp through equity infusions and reinvestment of cash flow into its extensive capital expenditure program and work to improve PacifiCorp's regulatory relationships and operating efficiency. We also assume that Berkshire Hathaway will provide credit support and future investment capital

as needed to PacifiCorp. PacifiCorp's rating could fall to a level commensurate with its stand-alone credit quality if MEHC's rating is lowered. PacifiCorp's rating has limited near-term upside, as its credit metrics on a stand-alone basis fall well short of the 'A' category.

## Ratings List

### New Rating

PacifiCorp  
\$600 mil 1st mortg bonds due 2037      A-

Rating Affirmed  
Corporate credit rating      A-/Stable/A-1

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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