



Pacific Power |  
Rocky Mountain Power |  
PacifiCorp Energy  
825 NE Multnomah, Suite 1900 LCT  
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October 24, 2008

***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  
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Attn: Simon ffitich

**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  
Vice President and Treasurer

Enclosure



**Credit Opinion:** PacifiCorp

**PacifiCorp**

Portland, Oregon, United States

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A3
Senior Secured	A3
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured MTN	Baa1
Preferred Stock	Baa3
Commercial Paper	P-2
<b>Ult Parent: Berkshire Hathaway Inc.</b>	
Outlook	Stable
Issuer Rating	Aaa
ST Issuer Rating	P-1
<b>Parent: MidAmerican Energy Holdings Co.</b>	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Preferred Shelf	(P)Baa3

**Contacts**

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**Key Indicators**

[1]

**PacifiCorp**

<b>ACTUALS</b>	<b>LTM 6/30/08</b>	<b>2007</b>	<b>LTM 12/31/06</b>	<b>[2]FY 2006</b>
(CFO Pre-W/C + Interest) / Interest Expense [3]	<b>4.3x</b>	<b>3.9x</b>	<b>4.1x</b>	<b>3.7x</b>
(CFO Pre-W/C) / Debt [3]	<b>20.7%</b>	<b>17.9%</b>	<b>17.8%</b>	<b>17.9%</b>
(CFO Pre-W/C - Dividends) / Debt [3][4]	<b>20.6%</b>	<b>17.9%</b>	<b>17.5%</b>	<b>14.3%</b>
(CFO Pre-W/C - Dividends) / Capex [3][4]	<b>73.7%</b>	<b>64.7%</b>	<b>65.1%</b>	<b>66.1%</b>
Debt / Book Capitalization	<b>42.0%</b>	<b>44.7%</b>	<b>45.9%</b>	<b>47.1%</b>
EBITA Margin %	<b>23.1%</b>	<b>23.0%</b>	<b>18.0%</b>	<b>21.8%</b>

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Fiscal Year End March 31 [3] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items. [4] CFO pre-W/C-Dividends, is also referred to as retained cash flow ("RCF") in the Global Regulated Electric Utilities Rating Methodology.

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

**Opinion**

**Corporate Profile**

PacifiCorp (Baa1 senior unsecured, stable outlook) is a vertically integrated electric utility headquartered in

Portland, Oregon. As a regulated utility, PacifiCorp serves more than 1.7 million customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. The company is also engaged in wholesale marketing of power and coal mining activities. In March 2006, PacifiCorp was acquired by MidAmerican Energy Holdings Company (MEHC: Baa1 senior unsecured, stable outlook), which is a consolidated subsidiary of Berkshire Hathaway Inc. (BRK: Aaa Issuer Rating, stable outlook).

## Recent Events

In September 2008, PacifiCorp's parent MEHC announced that it had reached a tentative agreement to acquire all of the outstanding shares of Constellation Energy Group, Inc. (Constellation: Baa2 senior unsecured, under review for possible downgrade) for cash consideration of \$26.50 per share, or approximately \$4.7 billion. The agreement was finalized upon the close of business Friday September 19, 2008. The companies anticipate the transaction could close within nine months and is subject to shareholder and regulatory approvals. The proposed acquisition will be funded via a capital contribution from BRK and is not anticipated to have any impact on the ratings or outlook of MEHC or PacifiCorp.

In August 2008, the Utah Public Service Commission (UPSC) authorized PacifiCorp an approximate \$36 million (2.6%) rate increase premised on a 10.25% ROE, a 50.4% equity ratio and a test year ended December 2008. PacifiCorp's original request, filed in December 2007 was for a \$161 million (11%) rate increase based on a 10.75% ROE, an equity ratio of approximately 52% using a test year ended June 2009. Through subsequent testimony and adjustments, PacifiCorp's request was adjusted downward to approximately \$75 million, based on a 10.75% ROE, an equity ratio of 50.4% and a test year ended December 2008. In July 2008, PacifiCorp filed a separate general rate case with the UPSC, requesting an increase of \$161 million (11%) over ordered rates from the December 2007 rate case. In September 2008, PacifiCorp filed supplemental testimony establishing the rate request at \$115 million. PacifiCorp anticipates rates resulting from the 2008 case would be implemented in May 2009.

On September 2, 2008, PacifiCorp filed for reconsideration of the August 2008 UPSC order asking for reconsideration of its order related to several items including the end-date for the forward test year, and various power cost recovery adjustments. According to Utah statute, if the UPSC does not grant a rehearing within 20 days of the request, the request is deemed denied. On September 22, the UPSC agreed to review the request.

In August, 2008, PacifiCorp reached a settlement agreement with the Washington Utilities and Transport Commissions (WUTC) staff, Public Counsel of the Attorney General's office and other intervenors for an approximately \$20 million (9%) rate increase comprised of an approximate \$18 million base increase and a \$2 million annual surcharge for approximately three years designed to recover higher energy procurement costs incurred in 2005 due to poor hydroelectric conditions. The settlement specified an 8.06% overall return on rate base and PacifiCorp agreed not to file a rate case prior to January 31, 2009. The utility also agreed not to request a generation cost adjustment clause until after its next general rate case. PacifiCorp's original request was filed in February 2008 and was for a \$35 million (15%) rate increase predicated on a 10.75% ROE and 50.1% equity ratio (8.47% return on rate base). The WUTC approved the settlement on October 8, 2008. New rates are to become effective October 15, 2008.

In April 2008, the Wyoming Public Service Commission (WPSC) approved a settlement between PacifiCorp, the Office of Consumer Advocate and other intervenors for an approximate \$23 million (5%) electric rate increase premised on a 10.25% ROE and 50.8% equity ratio. PacifiCorp filed its rate increase request in June 2007 asking for a \$36.1 million (8%) rate increase premised on a 10.75% ROE and 50.8% equity ratio and measuring a test year ending August 31, 2008. As part of the settlement, the parties agreed to modify, by April 2011, the current power cost mechanism to use forecasted power costs. In July 2008, PacifiCorp filed a new base rate increase request with the WPSC for a \$33.5 million (7%) increase based on upon a 10.75% ROE and 51.9% equity ratio. A WPSC decision is expected mid-2009.

On April 11, 2008, the Oregon Public Utility Commission (OPSC) ruled PacifiCorp could recover \$34.5 million from customers to make up the difference between income taxes paid and collected from customers in 2006. The decision reflected the implementation of Oregon Senate Bill 408 (SB 408).

On December 28, 2007, the Idaho Public Utilities Commission (IPUC) approved an \$11.5 million (6.4%) electric rate increase settlement between PacifiCorp, staff and other intervenors premised on a 10.25% ROE and 50.4% equity ratio. PacifiCorp filed in June 2007 for a \$18.6 million (10.4%) rate increase premised on a 10.75% ROE and 50.4% equity ratio using a December 31, 2006 test year. On September 19, 2008, PacifiCorp filed for an approximate \$5.9 million (4%) base rate increase, based upon a 10.75% ROE and 50.4% equity ratio. An IPUC decision could occur by mid-2009.

## Rating Rationale

PacifiCorp's Baa1 rating for its senior unsecured obligations is driven by the stability of its regulated cash flows, the geographically diverse and relatively constructive regulatory environments in which it operates, the diversification of its generation portfolio, financial credit metrics that are within the ranges demonstrated by U.S. integrated electric utilities rated Baa, and its position as the largest subsidiary of MEHC. The rating also considers PacifiCorp's plans for significant capital investment in generation and transmission and for environmental compliance. The stable outlook incorporates Moody's expectation that PacifiCorp will continue to receive generally

supportive regulatory treatment to recover its increased costs and that capital expenditures will be financed in a manner that is consistent with its current credit profile.

Key drivers of PacifiCorp's rating and outlook are as follows:

#### Reasonably Supportive Regulatory Environment

PacifiCorp's rating recognizes that the regulated nature of its businesses and acknowledges the relative stability and predictability of cash flows associated with these operations. The rating also considers PacifiCorp's specific regulatory relationships. In 2007, approximately 72% of PacifiCorp's retail revenues were subject to regulatory oversight in Utah and Oregon which Moody's generally ranks as average among U.S. regulatory jurisdictions in terms of framework development, consistency and predictability of decisions, and expectation of timely recovery of costs and investments. In Oregon, California and Wyoming (44% of 2007 revenues) regulators have authorized adjustment mechanisms to recover changes in the costs of fuel and purchased power. Such provisions add predictability to utility returns and reduce implementation lag. In an attempt to minimize regulatory lag and earn its allowed ROEs, PacifiCorp is filing more frequent rate cases in all its jurisdictions.

In Utah (43% of 2007 revenues) PacifiCorp does not enjoy an automatic recovery mechanism for fuel and purchased power; however, traditional rate cases may be filed on the basis of a forward test year and the commission must act on rate increase requests within 240 days of the initial filing. PacifiCorp is also allowed to file for temporary rate increases to recover purchased power costs not currently part of rates.

In Oregon (29% of 2007 revenues) forward test years are allowed for rate making and PacifiCorp benefits from a fuel and power purchase cost adjustment mechanism based on forecasted net power costs, as well as automatic recovery of costs to implement Oregon's Renewable Portfolio Standard. The company received somewhat less favorable regulatory treatment in its last general rate case. In September 2006, PacifiCorp was authorized to increase revenues by \$43 million, \$33 million in base rates and \$10 million for increased power costs, which was less than half of the approximately \$112 million increase originally requested in February 2006. However, a significant portion of the disallowance related to the recovery of taxes, which was the focus of Oregon SB 408. In 2008, the OPSC authorized the recovery (with interest) of approximately \$35 million of PacifiCorp taxes paid in 2006 but not collected.

Oregon SB 408 was enacted in 2005 and authorizes the OPUC to separately evaluate the difference between utilities' income taxes paid and collected by customers and requires the company to flow through consolidated tax savings to ratepayers. The law also authorizes the OPUC to implement, upon request, an automatic rate adjustment clause to flow back any differences in utilities' taxes after a 180 day review period.

In Wyoming (13% of revenues in 2007), the WPSC uses a historic test year in its rate cases and is required to act within a ten month period of the original filing date. PacifiCorp currently has a power cost adjustment clause which adjusts rates based on prior period over or under-recoveries. Based on its most recent rate case settlement, the current adjustment mechanism will be replaced with a forward power cost mechanism by April 2011.

#### Well Diversified Generation Portfolio

PacifiCorp benefits from a well-diversified generation portfolio. Its 9,286 MW (year-end 2007) generation fleet is comprised primarily of low-cost base load coal and hydro assets, supporting its position as a low cost energy supplier. In 2007, PacifiCorp's owned generation supplied approximately 81% of its energy requirements. In 2008, PacifiCorp added approximately 520 MW of additional gas generating capacity, 164 MW of wind capacity and plans on adding an additional 356 MW of wind capacity by the end of the year. Additional modest wind capacity is planned to be added in 2009 and 2010. These additional resources will reduce PacifiCorp's exposure to volatile purchased power costs. PacifiCorp manages its exposure to natural gas price volatility through hedging. Currently, approximately all of its financial exposure is hedged through 2008 with approximately 84% hedged for 2009. PacifiCorp also controls 232 million tons of recoverable coal reserves located adjacent to PacifiCorp's coal-fired plants in Utah, Wyoming and Colorado. These mines provide low cost fuel for roughly 30% of PacifiCorp's annual coal needs.

#### Existence of Ring-Fencing Provisions

PacifiCorp is ring-fenced via a special purpose entity structure, which preserves its credit profile as an independent operating company, separate from its ultimate parent company. The structure includes typical ring-fencing provisions such as an independent director, separate books and records, restrictions on affiliate transactions (arm's length), prohibitions on collateralizing or guaranteeing affiliate debt, and restrictions on dividend distributions. PacifiCorp's dividend distributions are subject to compliance with certain financial tests, including a minimum interest coverage ratio of 2.5 times and minimum equity ratio in the range of 44-48.25%. Despite sufficient headroom in the current ratios, Moody's does not expect substantial dividend distributions over the next few years, while PacifiCorp embarks on a significant capital spending program.

#### Financial Metrics

The cash flow metrics for PacifiCorp are toward the middle of the ranges identified for integrated electric utility companies in the U.S. rated in the Baa range and comparable to those of integrated electric utilities rated Baa1. For example, over the last three years, PacifiCorp's ratio of cash from operations before changes in working capital (CFO pre-W/C) to Debt, adjusted in accordance with Moody's standard analytical adjustments, has been in the range of 16-18% which is similar to the median range for Baa1 electric utilities. PacifiCorp's interest coverage ratio, as measured by CFO pre-W/C interest coverage has been in the range of 3.5-4.5 times which is also similar to the median range of 3.5 -5.0 times for Baa1 rated electric utilities.

PacifiCorp's cash flow metrics are expected to remain fairly stable over the near-to-medium term as the company continues with its significant capital expenditure program. Moody's anticipates the company will proactively seek additional rate recovery for increased costs and investments, and that dividend policy will continue to be established in a manner that is supportive of the company's current credit profile. Over the next few years, Moody's anticipates PacifiCorp's ratio of CFO pre-W/C to Debt will remain in the range of 17-19% and that its interest coverage ratio will be in a range of 4.0-5.0 times.

### **Liquidity Profile**

PacifiCorp's Prime-2 short term rating for commercial paper reflects the relatively stable and predictable cash flows provided by its operations as a regulated vertically integrated electric utility.

In 2007, cash flow from operations of \$824 million covered approximately 54% of PacifiCorp's outlays including \$1.5 billion of capital expenditures. The cash shortfall was funded via a combination of internal and external sources of cash, including \$270 million of capital contributions from the parent and approximately \$1.2 billion of first mortgage bond issuance. In 2008, capital expenditures are projected to be approximately \$2.1 billion. Approximately half of the spending is for normal maintenance expenditures and to meet customer growth, including the acquisition of a 520 MW natural gas fired plant in Chehalis, Washington. Approximately \$787 million is for generation projects including 519 MW of new wind capacity and the remaining spending is environmental and transmission expenditures. In 2008, Moody's expects cash shortfalls to be funded from a combination of internal and external sources of cash including capital contributions from the parent and debt financing. In July 2008, PacifiCorp issued \$800 million of first mortgage bonds and it received \$200 million of parent contributions in May 2008.

Over the next few years, PacifiCorp's annual outlays for capital expenditures are projected to exceed cash flow from operations by approximately \$1 - 2 billion per year. Moody's anticipates this shortfall will continue to be funded via a combination of internal and external sources including debt and equity contributions from its parent. Under the terms of an equity commitment agreement, expiring February 28, 2011, BRK has a commitment to provide up to \$3.5 billion to MEHC, PacifiCorp's parent. Equity may be requested to fund MEHC's debt obligations coming due or other capital requirements of MEHC's regulated subsidiaries.

PacifiCorp's liquidity position is supported by a \$700 million revolving credit facility available through 2012, and by a second \$800 million revolving credit agreement available through July 2011 after which availability is reduced to \$760 million for the year ending July 2012 and to \$670 million for the year ending July 2013. A subsidiary of Lehman Brothers is a lender under these facilities so the size of the facilities may be modestly reduced by Lehman's approximate \$65 million and \$40 million commitments under the two facilities. PacifiCorp relies on these revolving credit facilities to backstop its commercial paper program of \$1.5 billion. As of June 30, 2008, PacifiCorp had \$35 million of commercial paper outstanding and \$38 million reserved as a backstop for its variable-rate pollution control bonds, with no other borrowings under the revolver. The facilities do not contain rating triggers that would cause acceleration or make the facilities unavailable and also don't require MAC representation for borrowings. However, the facilities do contain a rating sensitive pricing grid and a financial covenant that limits debt to 65% of total capitalization. As of June 30, 2008, PacifiCorp's debt to capitalization ratio as defined in the agreement was 48%.

PacifiCorp's financing arrangements also include \$518 million of standby letters of credit and related standby bond purchase agreements that provide credit support for PacifiCorp's variable-rate pollution-control revenue bonds, and \$18 million of standby letters of credit that provide credit support for certain transactions as requested by third parties. These financing agreements expire periodically through the period ending May 2012.

PacifiCorp's near-term maturities include approximately \$125 million of senior secured notes due July 15, 2009 and \$13 million of first mortgage bonds due October 1, 2009. Overall, PacifiCorp's liquidity position is felt to be sufficient to meet the company's capital needs over the next four quarters.

### **Rating Outlook**

The stable outlook incorporates Moody's expectation that PacifiCorp will continue to receive reasonable regulatory treatment for the recovery of its higher capital expenditures, and that the funding requirements will be financed in a manner consistent with management's commitment to maintain a healthy financial profile.

### **What Could Change the Rating - Up**

While the size of the company's capital expenditures limits the prospects for a rating upgrade in the near-term, the

rating could be upgraded if reasonable regulatory support and a conservatively financed capital expenditure program results in a sustained improvement in credit metrics. This would include, for example, PacifiCorp's CFO pre-W/C to Debt, calculated in accordance with Moody's standard analytical adjustments, being in excess of 20% on a sustainable basis.

### What Could Change the Rating - Down

The ratings could be adjusted downward if PacifiCorp's planned capital expenditures are funded in a manner inconsistent with its current financial profile, or if there were to be adverse regulatory rulings on current and future distribution rate cases such that we would anticipate a sustained deterioration in financial metrics as demonstrated, for example, by a ratio of CFO pre-W/C to Debt falling below 17%, and/or its interest expense coverage being less than 4.0x over an extended period.

### Rating Factors

#### PacifiCorp

590000

Select Key Ratios for Global Regulated Electric

Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	Medium	Low	Medium	Low	Medium	Low	Medium	Low
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-75	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

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