



Pacific Power |  
Rocky Mountain Power |  
PacifiCorp Energy  
825 NE Multnomah, Suite 1900 LCT  
Portland, Oregon 97232

April 14, 2009

***VIA ELECTRONIC FILING  
AND OVERNIGHT DELIVERY***

Washington Utilities and Transportation Commission Staff  
P.O. Box 40128  
1300 S. Evergreen Park Dr. S.W.  
Olympia, WA 98504-0128  
Attn: Ken Elgin

and

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

**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 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 reports related to PacifiCorp.

Very truly yours,

Bruce N. Williams  
Vice President and Treasurer

Enclosure

March 27, 2009

**Research Update:**

# Various Rating Actions Taken On MidAmerican Energy And Units After Strategy Review

**Primary Credit Analyst:**

Anne Selting, San Francisco (1) 415-371-5009; anne\_selting@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Ratings List

## Research Update:

# Various Rating Actions Taken On MidAmerican Energy And Units After Strategy Review

## Rationale

On March 27, 2009, Standard & Poor's Ratings Services lowered its corporate credit rating on MidAmerican Energy Holdings Co. (MEHC) to 'BBB+' from 'A-' and affirmed the company's senior unsecured ratings at 'BBB+'. We also affirmed the 'A-' corporate credit ratings and long-term debt ratings of MEHC's regulated electric and gas utilities, PacifiCorp and MidAmerican Energy Co. (MEC), as well as the 'A-' corporate credit rating and 'BBB+' senior secured rating of MEC's intermediate holding company, MidAmerican Energy Funding LCC.

In addition, Standard & Poor's raised the senior secured debt rating for PacifiCorp one notch to 'A' from 'A-' and revised the recovery rating on that debt to '1+' from '1'. We lowered the short-term ratings of PacifiCorp and MEC to 'A-2' from 'A-1'. We also affirmed the 'A' corporate credit rating and senior unsecured rating assigned to Northern Natural Gas Co., MEHC's Midwest interstate FERC-regulated pipeline and the 'A-' senior secured project rating assigned to interstate pipeline Kern River Gas Transmission Co.

We removed all ratings from CreditWatch with negative implications, where we placed them on Sept. 18, 2008. The outlook for all entities is stable.

The CreditWatch resolution for the MidAmerican family completes our review of the firm's business and financial strategy. We note that our rating actions today are independent of Standard & Poor's March 24 announcement that placed MEHC's majority owner Berkshire Hathaway Inc.'s 'AAA'/'A-1+' ratings on negative outlook.

While the majority of MEHC's cash flows needed to service its debt stems from its regulated energy investments that are in the 'A' category, the insulation we accord those regulated entities constrains MEHC's ability to access cash flows from its regulated subsidiaries to service its own debt. For this reason, MEHC's debt ratings and the corporate credit rating are below the stand-alone credit quality of its regulated subsidiaries.

The one notch upgrade to 'A' for PacifiCorp's first mortgage bonds reflects our review of the company's unique indenture, which has both an earnings and bondable property test. The upgrade reflects that, consistent with our criteria, we expect that if a default occurs, PacifiCorp's collateral coverage available to first mortgage bondholders would be at least 1.5x.

The lower short-term credit ratings of PacifiCorp and MEC reflect our view that while MEHC and its subsidiaries are supported by a \$3.5 billion contingent equity agreement between MEHC and Berkshire, the agreement is not a source of instantaneous liquidity. The agreement allows Berkshire up to 180 days to fund MEHC's request. Given the recent turmoil in both liquidity and capital markets, we have taken a firmer view on the need to link PacifiCorp

and MEC's short-term ratings to their stand-alone credit quality, which supports an 'A-2' short-term rating. As per our criteria, we typically assign an 'A-2' short-term rating to companies with an 'A-' corporate credit rating. Despite this change, we would note that we continue to view PacifiCorp and MEC as having sound liquidity. And while Berkshire contractually has up to six months to respond to an MEHC call for liquidity, it has strong economic incentives to do so, given that Berkshire owns 88% of MEHC's common stock on an undiluted basis.

The ability of MEHC to tap up to \$3.5 billion of equity through its agreement with Berkshire is an important source of ratings support to MEHC, and improves our view of MEHC's default risk given its debt leverage and aggressive financial profile. We continue to view Berkshire as a strong owner of MEHC, and consider its ability to meet any MEHC call on its equity as uncompromised. Our ratings also reflect confidence that the commitments MEHC and Berkshire have made to extend the agreement, which expires in February 2011, will be honored if MEHC's financial profile has not improved to warrant its stand-alone rating.

The resolution of the CreditWatch listing reflects the completion of our review of MEHC and its family of companies following MEHC's \$4.7 billion bid to purchase Constellation Energy Group (CEG; BBB/Watch Neg/A-2), which was terminated at the end of 2008. Despite the fact that the acquisition did not proceed, MEHC's decision to acquire CEG and its merchant assets triggered the need to reassess of MEHC's business strategy, given its willingness to acquire a company with substantially more business risk than its existing holdings.

Our view continues to be that MEHC's business risk is 'excellent.' About 95% of MEHC's 2008 EBITDA stems from regulated businesses. Still, we expect MEHC to continue with its strategy of growth through acquisitions. As evidenced by the company's bid for CEG, we no longer presume that future acquisitions will be confined to regulated energy assets. This has been an important underpinning to MEHC's credit ratings, which remain strongly investment grade despite MEHC's aggressive stance toward its financial policy. With debt to total capitalization of 64%, funds from operations (FFO) to interest coverage of 3.1x, and FFO to total debt of 13%, our opinion is that MEHC is not well positioned at the current rating level of 'BBB+' to add incremental business risk without a commensurate strengthening of its financial profile.

Ratings degradation at the MEHC level is highly likely if increased business risk is not offset by company efforts to insure that any acquisition improves its financial profile. We would expect that such improvements would require additional and direct equity investment from parent Berkshire or be achieved by other means that meaningfully shore up MEHC's financial profile. Assuming MEHC can't identify strategic assets that fit with its investment criteria and remains a company strictly devoted to managing regulated investments, we would expect the contingent equity arrangement to remain in place while MEHC slowly works toward paying down debt, particularly at the parent levels, where \$5.1 billion in debt resides, or about 25% of the consolidated debt outstanding. We think it is reasonable to assume this is occur, and point to the steady progress MEHC has made on this front over the years.

### **Short-term credit factors**

MEHC's liquidity is solid. Cash and cash equivalents were \$280 million at year-end 2008 on a consolidated basis. The parent maintains two credit facilities totaling \$835 million, \$250 million of which expires in November 2009. Borrowings against these facilities totaled \$216 million as of Dec. 31, 2008. These resources compare with expected 2009 parent debt and subordinated trust preferred interest payments of about \$400 million.

MEHC's subsidiaries maintain their own revolvers, with the exception of Northern Natural Gas and Kern River, which rely on operating cash flow to support their stand-alone debt obligations, which we view as adequate, given the stable operating cash flow the companies have consistently produced. On a consolidated basis, the company meets our credit and combined credit and market stress events, comfortably achieving more than 1.0x for each metric. PacifiCorp has the largest liquidity requirement to manage its collateral requirements under power purchase and sale agreements. MEHC's subsidiaries have maintained strong access to the bond financing market. PacifiCorp issued \$1 billion in notes in January 2009, and \$800 million in July 2008. Northern Natural Gas issued \$200 million in July 2008.

MEHC has no major maturities in 2009 and 2010 at the parent level. In the third quarter of 2008, MEHC sizably increased its subordinated debt obligations to Berkshire by \$1 billion, issuing 11% mandatory redeemable preferred securities to fund its investment in Constellation. But with the termination of the agreement, the company repaid one-half of the Berkshire note in December 2008 and the remaining balance in January 2009.

The company's liquidity position has been enhanced in 2009 by the CEG termination, which should help offset borrowing needs. Net of its initial \$1 billion investment, MEHC realized in 2008 \$593 million in pre-tax cash proceeds associated with a \$175 million termination fee and cash paid to it by CEG in lieu of shares. In 2009, it was repaid a \$1 billion loan from CEG, and to date has sold 5.1 million shares of CEG common stock of the 19.9 million shares it also received from the company.

Consolidated maturities for the remainder of this year are modest at about \$480 million. MEHC parent debt and the debt of its regulated subsidiaries are eligible for support from the Berkshire contingent equity agreement. Under the agreement, proceeds may only be used to pay when due MEHC debt obligations and fund the general corporate purposes of MEHC's regulated subsidiaries. MEHC cannot call upon the contingent equity to support mergers or acquisitions.

### **Outlook**

The stable outlook for MEHC and its subsidiaries incorporates our expectations of steady progress toward paying down debt and improving its cash flow metrics. The explicit \$3.5 billion in contingent equity available to MEHC from Berkshire also buoys credit quality. Upside ratings momentum could occur if MEHC's regulated subsidiaries' financial performance improves. As the company's largest holding, we look to PacifiCorp to bolster its credit profile while completing a large capital program and also will examine MEC's ability

to realize cash flows needed to repay the \$525 million debt of MidAmerican Energy Funding LLC. Ratings would be clearly pressured at the MEHC level if the company's business risk goes up without a corresponding change in financial policy; also, a change in Berkshire's attitude toward its energy investments, in the form of reduction, expiration, or termination of the contingent equity commitment would also meaningfully strain ratings.

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
MidAmerican Energy Holdings Co. Corporate Credit Rating	BBB+/Stable/--	A-/Watch Neg/--

MidAmerican Energy Co.

PacifiCorp Commercial Paper Local Currency	A-2	A-1/Watch Neg
--	-----	---------------

Ratings Affirmed; CreditWatch/Outlook Action; Downgraded

	To	From
MidAmerican Energy Co. PacifiCorp Corporate Credit Rating	A-/Stable/A-2	A-/Watch Neg/A-1

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Northern Natural Gas Co. Corporate Credit Rating	A/Stable/--	A/Watch Neg/--

MidAmerican Energy Holdings Co.

Senior Unsecured	BBB+	BBB+/Watch Neg
------------------	------	----------------

CalEnergy Capital Trust II

Preferred Stock	BBB-	BBB-/Watch Neg
-----------------	------	----------------

CalEnergy Capital Trust III

Preferred Stock	BBB-	BBB-/Watch Neg
-----------------	------	----------------

Kern River Funding Corp.

Senior Secured	A-/Stable	A-/Watch Neg
----------------	-----------	--------------

MidAmerican Energy Co.

Senior Unsecured	A-	A-/Watch Neg
Preferred Stock	BBB+	BBB+/Watch Neg

MidAmerican Funding LLC

Senior Secured	BBB+	BBB+/Watch Neg
----------------	------	----------------

*Research Update: Various Rating Actions Taken On MidAmerican Energy And Units After Strategy Review*

Northern Natural Gas Co.		
Senior Unsecured	A	A/Watch Neg
PacifiCorp		
Senior Unsecured	A-	A-/Watch Neg
Preferred Stock	BBB	BBB/Watch Neg
Upgraded; CreditWatch/Outlook Action		
	To	From
PacifiCorp		
Senior Secured	A	A-/Watch Neg
Recovery Rating	1+	1
Utah Power & Light Co.		
Senior Secured	A	A-/Watch Neg

Complete ratings information is available to RatingsDirect subscribers 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); select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).



April 1, 2009

# PacifiCorp

**Primary Credit Analyst:**

Anne Selting, San Francisco (1) 415-371-5009; [anne\\_selting@standardandpoors.com](mailto:anne_selting@standardandpoors.com)

## Table Of Contents

---

Major Rating Factors

Rationale

Outlook

# PacifiCorp

## Major Rating Factors

### Strengths:

- Market and regulatory diversity afforded by PacifiCorp's electric utility business, which serves portions of six western U.S. states;
- Retail electric rates compare favorably with those of other electric suppliers operating in the states PacifiCorp serves, suggesting that the company may be able to maintain its competitive advantage despite its ongoing need for rate relief in the coming years to support a large capital program;
- The approval of a power cost adjuster in Wyoming (which is in place until April 2011), combined with the use of a forward mechanism to set base fuel and power costs in Oregon, as well as an existing mechanism in California have improved the company's exposure to fluctuations in natural gas and purchased power costs;
- The completion of 1,068 MW of new natural gas plants, along with wind farm investment, is reducing the company's reliance on purchased power; and
- A tentative resolution in the contentious Klamath hydro re-licensing case has the potential to adequately address the company's financial exposure if the project is decommissioned, as is now envisioned.

### Corporate Credit Rating

A-/Stable/A-2

### Weaknesses:

- The absence of fuel and purchased power adjusters in Utah, Washington, and Idaho is material for the company given that these states together provide about 55% of revenues; near-term prospects for obtaining one appear limited in Washington and Utah. In October 2008, PacifiCorp filed for an adjuster in Idaho that is pending;
- Despite recent rate relief in nearly all states PacifiCorp serves, regulatory lag continues to allow only modest improvement in the company's financial profile; its returns on equity (ROE) remain under authorized levels and while leverage has improved since it was acquired by MidAmerican Energy Holdings Co. (MEHC) in 2006, cash flow metrics continue to be weak;
- Regulators will need to consistently support retail rate increases to recover PacifiCorp's planned capital investments, although the recessionary environment has caused some scaling back of some capital plans;
- Growth in the percentage of generation provided by natural gas costs mitigates some of the company's potential exposure to carbon regulation, but introduces greater potential for cost volatility, a credit consideration given that the company lacks power adjusters in three of the six states it serves.

## Rationale

The 'A-' corporate credit rating (CCR) on PacifiCorp reflects its 'excellent' business profile, evidenced by a diverse and growing service territory, and an 'aggressive' financial profile that reflects a large capital program and the need to shore up its cash flow metrics. While the ring-fenced utility's credit metrics are more consistent on a standalone basis with a 'BBB' category rating, Standard & Poor's Ratings Services expects that management will achieve cash

flow metrics more consistent with an 'A' category rating over the next several years. PacifiCorp is owned by parent MidAmerican Energy Holdings Co. (MEHC; BBB+/Stable/--). In turn, MEHC is privately held and majority owned by Berkshire Hathaway (AAA/Stable/A-1+), which at year-end had an 87.4% interest in MEHC on an undiluted basis. (MEHC's remaining common equity is owned by Walter Scott [10.9%] and two members of MEHC's executive management, Chairman of the Board David Sokol [0.7%] and President and Chief Executive Officer Greg Abel [1.0%]). MEHC has demonstrated a willingness to deploy equity to support the utility's large capital program, providing the utility with \$865 million in equity contributions since it purchased the company in March 2006.

MEHC's credit profile is supported by Berkshire, which has in place through February 2011 a \$3.5 billion equity commitment agreement between itself and MEHC in which MEHC can unilaterally call upon to support either its debt repayment or the capital needs of its regulated subsidiaries, including PacifiCorp. We view this agreement between PacifiCorp's parent and a 'AAA' rated entity to reduce the likelihood of a PacifiCorp default.

Nevertheless, we expect PacifiCorp to have a standalone credit profile consistent with its 'A-' rating. We take this view because the utility has no right to cause MEHC to make an equity contribution, either from MEHC or via Berkshire through an MEHC board request. While MEHC would typically have strong incentives to support the utility by tapping the Berkshire contingent equity, we would note that in a catastrophic utility event, MEHC would be expected to do so only if it were in the economic best interests of the parent. Such a scenario is remote and would require an unprecedented event such as what occurred during the western energy crisis, when regulators refused to allow utilities to recover power procurement costs.

PacifiCorp serves 1.7 million customers in portions of six western states: Utah, Oregon, Wyoming, Washington, Idaho, and California. The company operates as Pacific Power in Oregon, Washington, and California, and as Rocky Mountain Power in Utah, Wyoming, and Idaho. The company's two largest markets, Utah and Oregon, comprised about 68% of the company's retail electric sales in 2008, with Wyoming and Washington at 24%, and the balance being sold to customers in Idaho and California. As of Dec. 31, 2008, the utility's long-term debt was \$5.5 billion. Consolidated long-term debt at MEHC (which includes PacifiCorp's debt) was nearly \$20 billion as of the same date.

Supportive rate case outcomes continue to be key to maintaining and improving upon the company's financial performance. When MEHC purchased PacifiCorp in 2006 from ScottishPower, the utility had consistently been unable to earn its authorized return on equity (ROE), which varies by jurisdiction but ranges from 10.0% to 10.6%. Management has focused on improving its returns, with some success. In 2008, our calculations suggest that the consolidated ROE for PacifiCorp was 8.3%. Regulatory lag remains an issue for the company, although the company is permitted under state regulation to use forward test years for rate cases in Utah, Oregon, Wyoming, and California. (Idaho and Washington require historical test years.)

PacifiCorp has power and fuel cost adjusters in Wyoming and California that allow for the deferral of these costs for later collection. In Oregon, fuel and purchased power costs are updated in rates every January based on forecast power prices, but there is no true-up to reconcile these projected costs with actuals. The company has pending before the Idaho Public Utilities Commission a request to establish an energy cost adjustment mechanism to recover the difference between base power costs set in a general rate case and actual power costs incurred.

Recent rate case activity includes a settlement reached in Utah in the company's 2008 general rate case for \$45.0 million, relative to the \$57.4 million sought. The Utah Public Service Commission has not yet ruled on the proposed

settlement. Retail rate adjustments have been proposed to take effect in early May. In Wyoming, the commission there recently approved the company's \$18.0 million settlement over its 2008 general rate case, relative to the \$28.8 million sought, with rates proposed to be effective in late May. In Idaho, the company received authorization to implement its \$4.4 million rate case settlement, relative to the \$5.9 million it sought. The company did not have a 2008 general rate case in Oregon, but is expected to file its 2009 general rate case in Oregon in the first half of this year. The company has submitted a 2009 general rate case request for \$38.5 million in Washington, which is pending. Pro forma rate adjustments in California were made in January 2009 to address energy cost adjustments and attrition adjustments.

In September 2008 the company purchased for \$308 million the Chehalis plant, a 520 MW combined-cycle plant that will now have to be authorized for recovery in current or future rate cases in all the states PacifiCorp serves but California. The investment will be part of the Washington and Oregon 2009 general rate cases and is part of pending cases in Wyoming and Utah, which has pre-approved the purchase. The company also brought online 382 MW of new wind generation in 2008. Nevertheless, the company's supply portfolio continues to be predominately coal, supplying about 65% of all requirements in 2008.

PacifiCorp completed \$1.8 billion in capital expenditures in 2008, up from \$1.5 billion spent in 2007. The company is projected to spend \$6.1 billion in 2009 through 2011, excluding non-cash allowance for funds used during construction. The largest component of PacifiCorp's capital program is the construction of the Gateway transmission project, an estimated \$6.1 billion, 2,000-mile transmission line connecting portions of Wyoming, Utah, Idaho, Oregon, and the southwestern U.S. The project is being completed in phases, with initial portions of new lines being placed in service as early as 2010 and a completion date scheduled for 2018. About 38% of the company's total capital budget over the next three years is devoted to transmission investment, of which Gateway is a component. In 2008, the Federal Energy Regulatory Commission awarded the company incentive rate treatment of 200 basis points for seven of the eight project segments.

High fuel prices impacted PacifiCorp's 2008 results, as did hydro conditions that were about 90% of normal, but nevertheless gross margins per megawatt hour sold remained roughly consistent relative to 2007, as did the company's earnings before interest and taxes. Operating income increased about 7% due in large part to retail revenues increases provided by regulatory rate relief and lower operations and maintenance expense. (Of the \$198 million in increased revenues in 2008 relative to 2007, about \$102 million was due to higher prices approved by regulators, with most of the balance attributable to customer growth.) Cash flow from operations was greatly boosted by deferred income taxes. For 2008, cash flows from operations rose \$168 million to \$992 million relative to 2007, but the majority of this was attributable to the deferred income taxes. As a result, the company was able to reflect a \$308 million add-back to cash flows. Retail and wholesale sales were roughly flat in 2008 relative to 2007, and in late 2008 the company experienced declining sales volumes. Approximately 30%-32% of PacifiCorp's total electric sales are to industrial customers. As a result, we would expect sales contraction could be a drag on 2009 performance, as industrial sales are more sensitive to the business cycle than is residential electric consumption.

Year-end leverage for the company was 53% and reflects new long-term borrowing in 2008 of \$800 million in July 2008, net of maturities, which resulted in total borrowing increasing about \$469 million, including short-term balances. This was offset by \$450 million of equity contribution from MEHC. These equity investments will be key to maintaining a balanced capital structure throughout the company's capital program. Debt to total capitalization reflects several adjustments we make, the largest of which include adding \$424 million for power purchase obligations and \$379 million for post-retirement obligations. We expect that PacifiCorp will not be in a position to

make distributions to its parent while it is executing its capital program and that MEHC will manage PacifiCorp's debt leverage downward to the range of 50% in the next several years.

Cash flow metrics continue to be weak for the rating but are improving modestly. Funds from operations (FFO) to total debt was nearly 18% in 2008, up from 17% in 2007. FFO interest coverage was 4.0x, versus 3.5x over the same period. Going forward, we would expect PacifiCorp to produce FFO interest coverage in the range of 4.0x-4.5x and achieve FFO to total debt in the range of 20%.

### Short-term credit factors

The company's liquidity position is strong. PacifiCorp's 'A-2' short-term rating considers our view that while MEHC and its subsidiaries are supported by a \$3.5 billion contingent equity agreement between MEHC and Berkshire, the agreement is not a source of instantaneous liquidity. The agreement allows Berkshire up to 180 days to fund MEHC's request. Given the recent turmoil in both liquidity and capital markets, we have taken a firmer view on the need to link PacifiCorp's short-term ratings to its stand-alone credit quality, which supports an 'A-2' short-term rating. However, we would note that while Berkshire contractually has up to six months to respond to an MEHC call for liquidity, it has strong economic incentives to do so.

PacifiCorp's cash and cash equivalents totaled \$59 million as of Dec. 31, 2008. In addition, the company has \$1.395 billion in unsecured revolving credit structured in two separate agreements: an \$800 million line expiring July 2013 and a \$700 million line extending through the end of October 2012. The company had borrowed \$85 million in short-term commercial paper at year-end and had letters of credit in place for \$258 million, leaving \$1.0 billion under its revolvers available. PacifiCorp's single largest exposure to any banks under its revolver as a percentage of total commitments is 15%, which is manageable. Regulators limit PacifiCorp to having no more than \$1.5 billion in debt outstanding.

In September 2008, due to the significant reduction in its market liquidity, PacifiCorp acquired \$216 million of its insured variable-rate pollution control bonds, which it is currently holding on its balance sheet. These bonds are a small component of the company's overall debt profile, and PacifiCorp can utilize its ample liquidity facility to continue to keep the obligations until market conditions support the company placing the debt back with investors.

## Outlook

The stable outlook for PacifiCorp incorporates our expectation that MEHC will continue to support the utility by contributing equity sufficient to ensure that our fully adjusted debt to total capitalization is managed over the next few years to an adjusted level of closer to 50% and that FFO to total debt and interest coverage will be 20% or better and in the range of 4.0x-4.5x, respectively. Given that PacifiCorp's financial profile is weak for the current ratings, we do not anticipate near-term upward ratings momentum for the utility, which would require the company to sustain metrics above these levels. PacifiCorp's ring-fenced structure insulates it from some MEHC credit deterioration, to an extent. Specifically, our criteria provides that PacifiCorp's CCR can be no more than three notches above the MEHC CCR. The company is currently comfortably within this range, and as a result we do not see significant prospects for the utility's rating to fall as a result of adverse rating changes at MEHC, which also enjoys a stable outlook.

Table 1

<b>PacifiCorp -- Financial Summary*</b>			
<b>Industry Sector: Integrated</b>			
	<b>--Fiscal year ended Dec. 31--</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Rating history	A-/Stable/A-1	A-/Stable/A-1	A-/Stable/A-1
(Mil. \$)			
Revenues	4,498.0	4,258.0	4,154.1
Net income from cont. oper.	458.0	439.0	307.9
Funds from oper. (FFO)	1,190.1	994.8	927.6
Capital expenditures (capex)	1,757.0	1,496.4	1,375.0
Cash and investments	59.0	228.0	59.0
Debt	6,687.3	5,945.0	5,473.6
Preferred stock	41.0	41.0	41.3
Common equity	5,987.0	5,080.0	4,426.8
Total capital	12,674.3	11,025.0	9,900.4
Adjusted ratios			
EBIT interest coverage (x)	2.8	2.8	2.5
FFO interest coverage (x)	4.0	3.5	3.8
FFO/debt (%)	17.8	16.7	16.9
Discretionary cash flow/debt (%)	(10.6)	(10.4)	(10.7)
Net cash flow/capex (%)	67.6	66.3	66.1
Debt/total capital (%)	52.8	53.9	55.3
Return on common equity (%)	6.8	7.8	6.2
Common dividend payout ratio (un-adj.) (%)	--	--	5.2

\*Fully adjusted (including postretirement obligations)

Table 2

<b>PacifiCorp -- Peer Comparison*</b>			
<b>Industry Sector: Integrated</b>			
	<b>--Average of past three fiscal years--</b>		
	<b>PacifiCorp</b>	<b>Portland General Electric Co.</b>	<b>Pacific Gas &amp; Electric Co.</b>
Rating as of March 31, 2009	A-/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2
(Mil. \$)			
Revenues	4,303.4	1,669.3	12,827.1
Net income from cont. oper.	401.6	101.0	1,069.3
Funds from oper. (FFO)	1,037.5	310.7	2,530.0
Capital expenditures (capex)	1,542.8	402.5	2,969.9
Cash and investments	115.3	31.7	559.3
Debt	6,035.3	1,620.3	10,854.7
Preferred stock	41.1	--	258.0
Common equity	5,164.6	1,298.0	9,037.3
Total capital	11,199.9	2,918.3	19,892.0
Adjusted ratios			

Table 2

<b>PacifiCorp -- Peer Comparison* (cont.)</b>			
EBIT interest coverage (x)	2.7	2.3	2.8
FFO interest coverage (x)	3.8	3.7	3.5
FFO/debt (%)	17.2	19.2	23.3
Discretionary cash flow/debt (%)	(10.6)	(15.2)	(12.9)
Net cash flow/capex (%)	66.8	65.1	67.5
Debt/total capital (%)	53.9	55.5	54.6
Return on common equity (%)	7.0	6.2	11.4
Common dividend payout ratio (un-adj.) (%)	2.0	48.5	48.5

\*Fully adjusted (including postretirement obligations)

Table 3

**Reconciliation Of PacifiCorp Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)\***

--Fiscal year ended Dec. 31, 2008--

**PacifiCorp reported amounts**

	<b>Debt</b>	<b>Operating income (before D&amp;A)</b>	<b>Operating income (before D&amp;A)</b>	<b>Operating income (after D&amp;A)</b>	<b>Interest expense</b>	<b>Cash flow from operations</b>	<b>Cash flow from operations</b>	<b>Capital expenditures</b>
Reported	5,653.0	1,437.0	1,437.0	947.0	309.0	992.0	992.0	1,789.0
Standard & Poor's adjustments								
Operating leases	35.1	7.0	2.3	2.3	2.3	4.7	4.7	2.0
Postretirement benefit obligations	379.0	20.0	20.0	20.0	--	50.7	50.7	--
Accrued interest not included in reported debt	89.0	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	34.0	(34.0)	(34.0)	(34.0)
Power purchase agreements	424.0	53.8	53.8	26.9	26.9	26.9	26.9	--
Asset retirement obligations	107.3	10.0	10.0	10.0	10.0	7.8	7.8	--
Reclassification of nonoperating income (expenses)	--	--	--	58.0	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	142.0	--
Total adjustments	1,034.3	90.8	86.1	117.2	73.2	56.1	198.1	(32.0)
Standard & Poor's adjusted amounts								
	<b>Debt</b>	<b>Operating income (before D&amp;A)</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Cash flow from operations</b>	<b>Funds from operations</b>	<b>Capital expenditures</b>
Adjusted	6,687.3	1,527.8	1,523.1	1,064.2	382.2	1,048.1	1,190.1	1,757.0

\*PacifiCorp reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

**Ratings Detail** (As Of April 1, 2009)\***PacifiCorp**

Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (43 Issues)	A
Senior Secured (7 Issues)	A/Negative
Senior Secured (4 Issues)	AA-/Watch Dev
Senior Unsecured (1 Issue)	A-
Senior Unsecured (3 Issues)	A-/A-2
Senior Unsecured (2 Issues)	AA-/Watch Dev

**Corporate Credit Ratings History**

27-Mar-2009	A-/Stable/A-2
18-Sep-2008	A-/Watch Neg/A-1
22-Mar-2006	A-/Stable/A-1
06-Mar-2006	A-/Stable/A-2
25-May-2005	A-/Watch Neg/A-2
18-Aug-2004	A-/Stable/A-2

**Related Entities****CE Casecnan Water and Energy Co. Inc.**

Senior Secured (1 Issue)	BB-/Stable
--------------------------	------------

**CE Electric U.K. Funding Co.**

Issuer Credit Rating	BBB+/Watch Neg/A-2
Senior Unsecured (1 Issue)	A/Negative

**CE Generation LLC**

Senior Secured (1 Issue)	BB+/Stable
--------------------------	------------

**Cordova Energy Co. LLC**

Senior Secured (1 Issue)	BB/Stable
--------------------------	-----------

**Iowa-Illinois Gas & Electric Co.**

Senior Unsecured (5 Issues)	A-/A-2
-----------------------------	--------

**Kern River Gas Transmission Co.**

Senior Secured (2 Issues)	A-/Stable
---------------------------	-----------

**MidAmerican Energy Co.**

Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Preferred Stock (1 Issue)	BBB+
Senior Unsecured (9 Issues)	A-
Senior Unsecured (2 Issues)	A-/A-2

**MidAmerican Energy Holdings Co.**

Issuer Credit Rating	BBB+/Stable/--
Preferred Stock (2 Issues)	BBB-
Senior Unsecured (7 Issues)	BBB+



**Ratings Detail (As Of April 1, 2009)\*(cont.)****MidAmerican Funding LLC**

Senior Secured (2 Issues) BBB+

**Midwest Power Systems Inc.**

Senior Unsecured (1 Issue) A-/A-2

**Northern Electric Distribution Ltd.**

Issuer Credit Rating A-/Watch Neg/--

Senior Unsecured (1 Issue) A-

**Northern Electric Finance PLC**

Senior Unsecured (1 Issue) A/Negative

**Northern Electric PLC**

Issuer Credit Rating BBB+/Watch Neg/A-2

Senior Unsecured (1 Issue) A-

**Northern Natural Gas Co.**

Issuer Credit Rating A/Stable/--

Senior Unsecured (5 Issues) A

**Salton Sea Funding Corp.**

Senior Secured (3 Issues) BBB-/Stable

**Utah Power & Light Co.**

Senior Secured (1 Issue) AAA/Watch Neg

**Yorkshire Electricity Distribution PLC**

Issuer Credit Rating A-/Watch Neg/A-2

Senior Unsecured (1 Issue) A-/Watch Neg

Senior Unsecured (1 Issue) A/Negative

**Yorkshire Electricity Group PLC**

Issuer Credit Rating BBB+/Watch Neg/--

**Yorkshire Power Group Ltd.**

Issuer Credit Rating BBB+/Watch Neg/A-2

Senior Unsecured (1 Issue) BBB+/Watch Neg

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Copyright © 2009 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).