Global Power
U.S. and Canada
Credit Analysis

PacifiCorp

A Subsidiary of MidAmerican Energy Holdings Company

Ratings

Security Class	Current Rating
Issuer Default Rating (IDR)	BBB
Senior Secured	A–
Senior Unsecured	BBB+
Preferred	BBB
Short-Term IDR	F2
Commercial Paper	F2

Outlook

Stable

Financial Data

PacifiCorp
($ Mil.)

	6/30/09	12/31/08
Revenue	4,480	4,498
Gross Margin	2,639	2,541
Cash Flow from Operations	1,247	992
Operating EBITDA	1,507	1,437
Total Debt	6,558	5,653
Total Capitalization	12,858	11,640
ROE (%)	7.7	8.3
Capex/Depreciation (%)	4.3	3.7

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Related Research

- *MidAmerican Energy Company and MidAmerican Funding LLC, Nov. 5, 2009*
- *Northern Natural Gas, Nov. 5, 2009*

Rating Rationale

- On Oct. 2, 2009, Fitch affirmed PacifiCorp's (PPW) ratings and Stable Rating Outlook, which reflect the utility's solid financial position, competitive resource base, relatively balanced regulation in its six-state service territory, and continued support from its ultimate corporate parent, Berkshire Hathaway Inc.(BRK; issuer default rating [IDR] 'AA+'; Rating Outlook Negative).
- The ratings assume recovery of capital and operating costs in rates will support credit metrics consistent with the company's 'BBB' IDR and Stable Rating Outlook.
- Fitch estimates that PPW's funds from operations to interest and debt to FFO will range from 4.5x–4.8x and 4.2x–4.8x, respectively, in 2009–2011, consistent with Fitch's target median for the 'BBB' rating category.
- Regulatory risk at PPW has been meaningfully reduced in recent years through the adoption of fuel adjustment clauses, forward test years, and single-issue rate cases.
- PPW's planned capital investment program is large, averaging $2 billion per annum through 2013. Unanticipated cost overruns or an inability to recover PPW's investment in base rates are primary concerns for investors.
- PPW's ratings consider corporate structures that insulate the operating utility from its intermediate corporate parent, MidAmerican Energy Holdings Company (MEHC), without impeding the parent's ability to infuse capital into PPW.

Key Rating Drivers

- Manageable debt leverage and solid coverage ratios.
- Timely execution and recovery of planned capital investment in rates.
- Regulatory relations across its six-state service territory.
- Continued support of ultimate parent, BRK.

Liquidity/Capital Structure

PPW had long-term debt outstanding of $6.6 billion at the end of second quarter 2009, including $143 million current portion of long-term debt. Total PPW debt outstanding represented 51.3% of the company's $12.8 billion capital structure. PPW's debt-to-EBITDA ratio was 4.4x for the 12 months ended June 30, 2009. Debt maturities are manageable in Fitch's view, with approximately $880 million of debt scheduled to mature over the remainder of 2009 through 2013, including $587 million in 2011, as indicated in the table on page 2

PPW issued $1 billion of senior secured debt in January 2009, comprised of $350 million of 10-year first mortgage bonds (FMBs) and $650 million of 30-year FMBs, with coupons of 5.5% and 6.0%, respectively. Proceeds from the offering were used to reduce short- and long-term debt, fund capex, and for general corporate purposes. Approximately $125 million of PPW FMBs matured in July 2009 and the remainder in October 2009. No further debt is scheduled to mature in 2009.

As of June 30, 2009, PPW had $552 million of cash and cash equivalents on its balance sheet and borrowing capacity of $1.1 billion under its $1.4 billion of existing revolving credit facilities. The credit facilities mature in 2012 and 2013.

PPW Long-Term Debt Maturities Schedule — 2009–2013

($ Mil.)

Year	Amount
2009	138
2010	15
2011	587
2012	17
2013	261
Total	**1,018**

Source: Company reports.

Large Capital Investment Program

PPW's capital investment is expected to approximate $10 billion during 2009–2013, reaching its apex in 2012, when capex is expected to approximate $2.21 billion, 23% above the $1.79 billion invested in 2008 and 45% higher than the $1.52 billion invested in 2007. See the Capital Expenditure Summary table below for further detail.

PPW Capital Expenditure Summary — 2007–2013

($ Mil.)

	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2009–2013 Total
Capital Expenditures	1,519	1,789	2,160	2,039	1,985	2,209	1,980	10,373
Year-to-Year Change	—	17.7	20.7	(5.6)	(2.6)	11.3	(10.4)	—

A – Actual. E – Estimate.
Source: Company reports.

Fitch estimates that PPW's 2009–2013 operating cash flow will fund approximately three-quarters of projected capex, with the remainder financed via a balanced mix of new debt and equity infusions from MEHC. Fitch projects that the ratio of equity to total capitalization will remain in the low 50s during the same period.

PPW's capital spending program is comprised of wind, transmission, environmental remediation, and generation projects, as well as system overhauls to maintain reliability and serve new load. Among PPW's largest expansion projects is the $6.1 billion Energy Gateway transmission project.

Energy Gateway contemplates the addition of approximately 2,000 miles of high-voltage transmission lines primarily in Utah, Wyoming, Idaho, Oregon, and the desert Southwest during 2010–2018. The first phase of the project, from Populus (located in southern Idaho) to Terminal (located near Salt Lake City, UT), is underway and expected to be completed in 2010. Phase I is a 135-mile double circuit 345-kV line, which is expected to cost approximately $900 million.

In 2008, PPW placed in commercial operation 382 MW of wind generation and acquired the 520-MW Chehalis combined-cycle-combustion turbine for $308 million ($592 per kWh). Future demand growth is expected to be met through a mix of efficient wind and fossil generation as well as demand-side management and energy efficiency programs. Although the risk of cost overrun and significant delay to PPW's capex program are potential concerns for investors, Fitch notes that management has compiled a solid record of executing its investment plans.

Regulatory Developments

Given the size of its planned capital investment, timely recovery of capital and related operating and maintenance costs is crucial for PPW's creditworthiness. Therefore, an adverse change to PPW's regulatory compact leading to greater regulatory lag or recoveries that result in weaker coverage ratios compared with Fitch's projections would likely lead to future deterioration in PPW's creditworthiness and lower credit ratings.

However, PPW management remains keenly focused on managing the regulatory process through effective communication with regulators, frequent rate case filings, and working closely with policy makers and intervener groups to implement effective rate mechanisms and policies. Indeed, PPW has compiled a track record of settled general rate case (GRC) proceedings with balanced outcomes across its service territory in recent years, most recently reaching settlement agreements ultimately approved by regulators in Utah, Wyoming, and Idaho.

In addition, PPW has worked with regulators and other relevant parties to implement regulatory mechanisms to reduce risk exposures, significantly improving the utility's business risk profile in Fitch's view. Such measures include adoption of a forward-looking test year in Utah GRC filings, as well as adoption of fuel/net power supply cost adjustment mechanisms in Oregon, California, Idaho, and Wyoming. Earlier this year, PPW filed a request to implement a fuel adjustment clause in Utah that is now pending before state regulators.

Legislation enacted in Utah (Senate Bill 75) clarifies the authority of the Utah Public Service Commission to create energy-balancing accounts, granting recovery of major plant additions outside of GRC filings, and authority to approve an energy cost adjustment mechanism.

Corporate Structure

Berkshire Hathaway

PPW's affiliation with intermediate holding company, MEHC, and its ultimate parent, BRK, provides two unique, specific financial advantages that confer, in Fitch's view, a measure of incremental financial flexibility to PPW.

First, unlike most utility holding companies, MEHC benefits significantly from capital retained as the direct result of BRK's financial strength, which obviates the need for MEHC to upstream dividends, in turn lowering dividend requirements from its operating subsidiaries.

Second, MEHC and BRK have entered into an equity commitment agreement (ECA). The ECA provides equity capital of up to $3.5 billion at the request of MEHC to be used for the purpose of paying MEHC debt obligations when due, and funding the general corporate purposes and capital requirements of MEHC's regulated subsidiaries. The ECA expires Feb. 28, 2011.

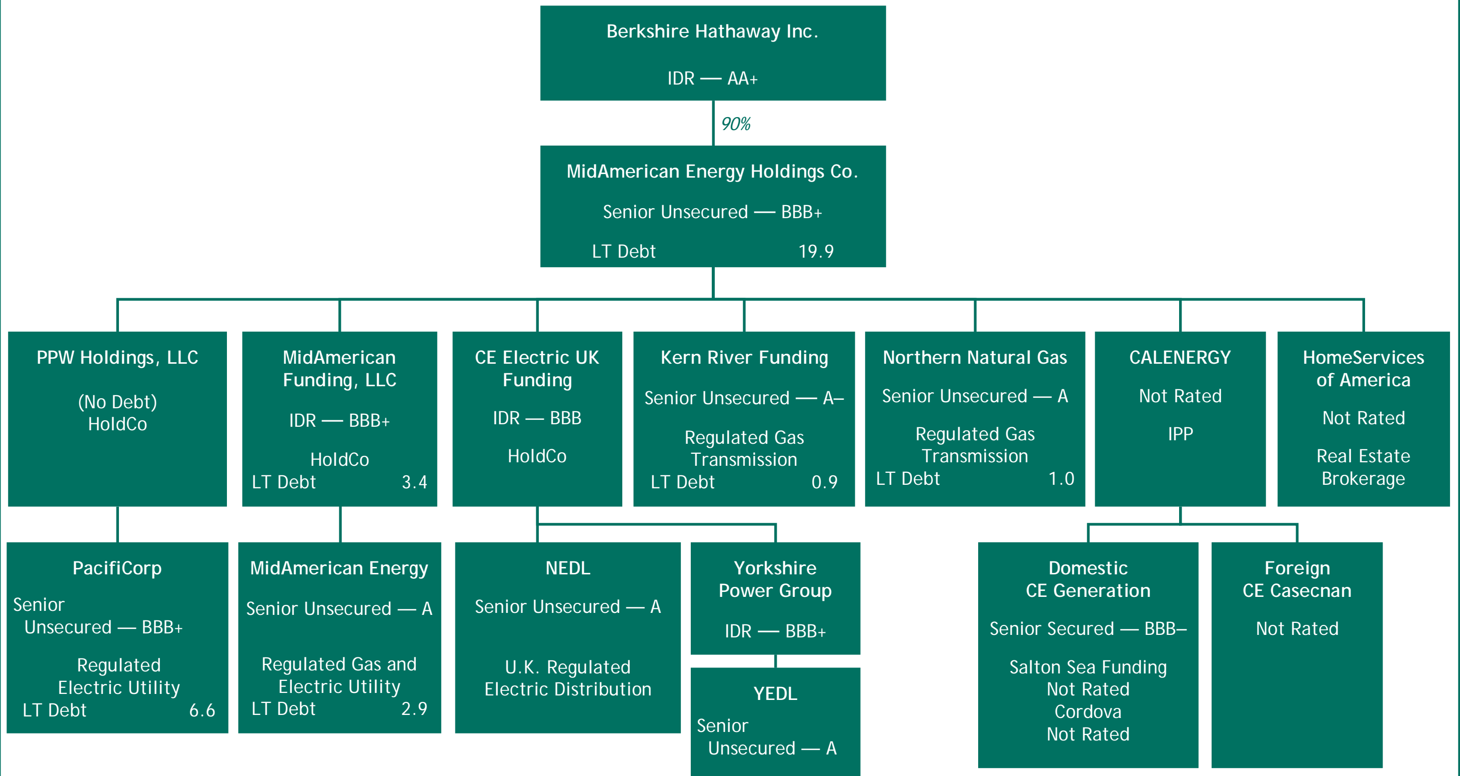
PPW's ratings benefit from the strong financial position of BRK, its ultimate corporate parent, and BRK's strategy to invest in utility assets for the long term.

Structural Protections

MEHC has implemented policies and procedures, including the creation of a special purpose entity, PacifiCorp Holdings, LLC (PPWH), designed to insulate PPW from MEHC and its affiliates. PPW has received a non-consolidation opinion from independent counsel.

Among other things, ring-fence provisions include: an independent director; non-recourse structure; dividend restrictions; a prohibition against the use of PPWH's credit or pledge of its assets for the benefit of any other company; and the maintenance of separate books, financial records, and employees.

Long-Term Debt Organizational Chart
($ Bil., as of June 30, 2009)



Note: Ratings reflect senior unsecured or issuer default rating (IDR).
Source: Company reports.

Financial Summary — PacifiCorp

($ Mil., Fiscal Years Ended Dec. 31)

	LTM Ended 6/30/09	2008	2007	2006	2005
Fundamental Ratios (x)					
FFO/Interest Expense	4.5	4.3	4.0	3.9	4.2
CFO/Interest Expense	4.3	3.9	3.6	3.0	3.8
Debt/FFO	4.9	5.0	5.5	7.0	5.4
Operating EBIT/Interest Expense	2.6	2.8	2.8	1.9	2.6
Operating EBITDA/Interest Expense	4.0	4.2	4.4	3.5	4.3
Debt/Operating EBITDA	4.4	3.9	3.7	5.9	4.0
Common Dividend Payout (%)	—	—	—	—	77.2
Internal Cash/Capex (%)	55.9	55.3	54.1	40.9	60.7
Capex/Depreciation (%)	429.1	365.1	305.6	296.1	195.0
Profitability					
Adjusted Revenues	4,480	4,498	4,258	2,924	3,049
Net Revenues	2,639	2,541	2,490	1,627	2,101
Operating and Maintenance Expense	1,011	992	1,004	780	913
Operating EBITDA	1,507	1,437	1,385	770	1,094
Depreciation and Amortization Expense	519	490	497	355	437
Operating EBIT	988	947	888	415	657
Gross Interest Expense	378	343	314	220	253
Net Income for Common	484	458	439	159	250
Operating Maintenance Expense % of Net Revenues	38.3	39.0	40.3	47.9	43.5
Operating EBIT % of Net Revenues	37.4	37.3	35.7	25.5	31.3
Cash Flow					
Cash Flow from Operations	1,247	992	824	432	712
Change in Working Capital	(91)	(142)	(115)	(213)	(103)
Funds from Operations	1,338	1,134	939	645	815
Dividends	(2)	(2)	(2)	(2)	(195)
Capital Expenditures	(2,227)	(1,789)	(1,519)	(1,051)	(852)
Free Cash Flow	(982)	(799)	(697)	(621)	(335)
Net Other Investment Cash Flow	2	6	8	9	(7)
Net Change in Debt	1,539	469	669	350	479
Net Equity Proceeds	250	450	162	207	(8)
Capital Structure					
Short-Term Debt	—	85	—	397	469
Long-Term Debt	6,568	5,578	5,177	4,114	3,899
Total Debt	**6,568**	**5,663**	**5,177**	**4,511**	**4,368**
Total Hybrid Equity and Minority Interest	113	31	31	59	—
Common Equity	6,177	5,946	5,039	4,386	3,336
Total Capital	**12,858**	**11,640**	**10,247**	**8,956**	**7,704**
Total Debt/Total Capital (%)	51.1	48.7	50.5	50.4	56.7
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.9	0.3	0.3	0.7	—
Common Equity/Total Capital (%)	48.0	51.1	49.2	49.0	43.3

Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.

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