MOODY'S
INVESTORS SERVICE

Credit Opinion: PacifiCorp

Global Credit Research - 06 Aug 2010

Portland, Oregon, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured MTN	Baa1
Preferred Stock	Baa3
Commercial Paper	P-2
Ult Parent: Berkshire Hathaway Inc.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
Parent: MidAmerican Energy Holdings Co.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1

Contacts

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Key Indicators

[1]**PacifiCorp**

ACTUALS	1Q10 LTM	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	**5.1x**	**5.3x**	**4.0x**	**3.9x**
(CFO Pre-W/C) / Debt	**24.3%**	**26.0%**	**18.7%**	**17.9%**
(CFO Pre-W/C - Dividends) / Debt	**24.2%**	**26.0%**	**18.7%**	**17.9%**
Debt / Book Capitalization	**42.1%**	**42.4%**	**43.2%**	**44.7%**

[1] All ratios are calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

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

Opinion

Rating Drivers

Supportive regulatory environment

Metrics well positioned within rating ranges

Reasonably diverse generating capacity

Moderate growth in service territory

Corporate Profile

PacifiCorp (Baa1 senior unsecured, stable) is a vertically integrated electric utility headquartered in Portland, Oregon serving 1.7 million customers in portions of the states of Utah (42% of 2009 retail electricity volumes), Oregon (25%), Wyoming (17%), Washington (8%), Idaho

(6%) and California (2%) and also engaging in wholesale power marketing (as a result of excess electricity generation or other system balancing activities) and coal mining activities. PacifiCorp is an indirect wholly-owned subsidiary of MidAmerican Energy Holdings Company (MEHC: Baa1 senior unsecured, stable), which is a consolidated subsidiary of Berkshire Hathaway Inc. (BRK: Aa2 Issuer Rating, stable).

SUMMARY 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, credit metrics that are within the ranges appropriate for a regulated utility rated Baa1. The rating also considers PacifiCorp's position as a subsidiary of MEHC, a holding company whose subsidiaries are primarily engaged in regulated activities.

DETAILED RATING CONSIDERATIONS

Reasonably supportive regulatory environment

PacifiCorp's rating recognizes the regulated nature of its businesses and acknowledges the relative stability and predictability of cash flows associated with these operations. The majority of PacifiCorp's regulated operations are conducted in states that Moody's considers average for U.S. regulatory jurisdictions in terms of framework, consistency and predictability of decisions and an expectation of timely recovery of costs and investments.

In Utah, Oregon and California, PacifiCorp is able to utilize a forward test year which limits regulatory lag. While in Washington and Idaho, PacifiCorp utilizes a historic test year with known adjustments and in Wyoming, PacifiCorp uses a historic test year with known and measurable adjustments or a forecast test year based on circumstances. In an attempt to minimize regulatory lag and earn its allowed ROEs, PacifiCorp is expected to file frequent rate cases in all its jurisdictions.

In Idaho, Oregon, California and Wyoming, regulators have authorized adjustment mechanisms to recover changes in the costs of fuel and purchased power. In Utah, Oregon, Washington, California and Idaho, PacifiCorp has regulatory tools to recover or defer recovery of the revenue requirement associated with new renewable resource additions and, in some cases, other new significant investments outside of traditional rate cases. In Utah, legislation passed in March 2009 also authorized the commission to approve energy cost adjustment mechanisms. Subsequently, PacifiCorp requested approval for an energy adjustment mechanism (ECAM). The request which is currently before regulators has passed the first phase of the review which was to determine if use of an ECAM was in the public interest, the utility and interveners are now addressing rate design considerations. Moody's views fuel and purchased power adjustment provisions as supportive to credit quality as they add predictability to utility cash flows and reduce implementation lag.

Oregon SB 408 authorizes the Oregon Public Utility Commission (OPUC) to separately evaluate the difference between utilities' income taxes paid and the amounts collected from customers and requires the company to adjust rates for the differences. In October 2009, PacifiCorp indicated that it is in a $38 million under-collected position for the 2008 tax year. In April 2010, the OPUC approved a stipulation reached with PacifiCorp and OPUC Staff allowing PacifiCorp to recover $2 million for the 2008 tax year.

Within the framework of Moody's August 2009 Rating Methodology for Regulated Electric and Gas Utilities (the Methodology), for Factor 1: Regulatory Framework, PacifiCorp maps to a rating factor in the Baa range. The Baa rating reflects regulatory environments which are generally supportive though PacifiCorp needs on-going rate relief. For Factor 2: Ability to Recover Costs and Earn Returns - PacifiCorp has energy adjustment mechanisms in most of its jurisdictions and maps to a rating factor in the Baa range.

Multi-state service territory

In 2009, PacifiCorp's retail sales declined by 3% relative to 2008 retail sales. Over the medium term, PacifiCorp is expected to experience reasonable growth of 2-3% annually over the near-term. Within the framework of the Methodology, for Factor 3: Diversification - Market Position, PacifiCorp's multi-state service territory with an improving economic environment results in a rating factor score in the A range.

Well diversified generation portfolio

PacifiCorp benefits from a well-diversified generation portfolio. Its 10,483 MW generation fleet is comprised primarily of low-cost base load coal and hydro assets, supporting its position as a low cost energy supplier. In 2007-2009, coal fired capacity contributed 63-65% and hydro contributed 5% of PacifiCorp's energy supply. Natural gas fired capacity supplied much of the remainder. In addition, PacifiCorp has 921 MW of wind capacity which mitigates some of its exposure to volatile natural gas prices. Due to the balanced fuel-mix including an average level of coal generation, within the framework of the Methodology, for Factor 3: Diversification - Generation and Fuel Diversity, PacifiCorp maps to a rating factor in the Baa range.

Credit metrics consistent with Baa ranges

PacifiCorp's credit metrics are toward the upper end of the ranges indicated in the Methodology for utilities rated Baa, which is consistent with PacifiCorp's Baa1 rating. Through 2008, PacifiCorp's ratio of cash from operations before changes in working capital (CFO pre-W/C) to Debt, calculated in accordance with Moody's standard adjustments, were in the range of 18-19% and its CFO pre-W/C interest coverage were in the range of 3.8-4.1x range. In 2009, metrics improved significantly with CFO pre-W/C to Debt of 26% and CFO pre-W/C interest coverage of 5.3x. Cash flow improved due to rate increases, improved margins on wholesale power transactions and increased deferred taxes due to bonus depreciation. Over the near-to-medium term, Moody's anticipates PacifiCorp's credit metrics will remain comparable to pre-2009 levels with CFO pre-W/C to Debt above 18% and CFO pre-W/C interest coverage of around 4.0x. Moody's anticipates the company will proactively seek rate relief for increased costs related to its investment program and that any potential dividend policy will be established in a manner that is supportive of the company's current credit profile.

Liquidity

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 2009, cash from operations of $1.5 billion covered approximately 64% of PacifiCorp's outlays including $2.3 billion of capital expenditures and plant acquisitions. The cash shortfall was funded via a combination of internal and external sources of cash, including $125 million of capital contributions from the parent and approximately $1 billion of first mortgage bond issuance in January 2009. In 2010, capital expenditures are projected to be approximately $1.7 billion. In 2010, Moody's does not expect PacifiCorp to need significant financing due to the significant decline in its capital expenditures and limited amounts of maturing debt. Over the next few years, future cash shortfalls are expected to be funded from a combination of internal and external sources of cash including capital contributions from the parent and debt financing.

PacifiCorp's liquidity profile is further supported by an equity commitment agreement, expiring February 28, 2014, between MEHC, PacifiCorp's parent, and BRK, PacifiCorp's ultimate parent, under which BRK has committed to provide up to $3.5 billion in equity to MEHC through February 28, 2011 reducing to $2 billion through February 2014. Equity from this agreement may be requested to fund MEHC's debt obligations or to provide capital to MEHC's regulated subsidiaries, including PacifiCorp.

PacifiCorp's liquidity position is supported by a $635 million revolving credit facility available through October 2012, and by a second $760 million revolving credit agreement available through July 2011 after which availability is reduced to $720 million for the year ending July 2012 and to $630 million for the year ending July 2013. PacifiCorp relies on these revolving credit facilities to backstop its commercial paper program and to support its variable rate tax-exempt bonds. As of March 31, 2010, PacifiCorp had no short term debt or commercial paper outstanding and $258 million of the facilities were used for letters of credit and to support variable-rate pollution control bonds. 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. The facilities do contain a rating sensitive pricing grid and a financial covenant that limits debt to 65% of total capitalization. As of March 31, 2010, PacifiCorp's debt to capitalization ratio as defined in the agreement was 48%.

PacifiCorp's near-term maturities include $500 million of first mortgage bonds due November 2011 and $87 million of other first mortgage bonds maturing throughout 2011. 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 ratios of CFO pre-W/C to Debt remaining in excess of 22%, and CFO pre-W/C + interest expense coverage remaining above 4.5x, 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 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 19%, and/or its CFO pre-W/C interest expense coverage being less than 3.9x over an extended period.

Rating Factors

PacifiCorp

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)			X			
b) Generation and Fuel Diversity (5%)				X		
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Interest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)			X			
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)			X			
Rating:						
a) Methodology Implied Senior Unsecured Rating				**Baa1**		
b) Actual Senior Unsecured Rating				**Baa1**		