MOODY'S INVESTORS SERVICE

Credit Opinion: PacifiCorp

Global Credit Research - 09 May 2011

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	(P)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

Reasonably supportive regulatory environment

Well diversified generation portfolio and service territory

Solid credit metrics

Benefits from Berkshire Hathaway affiliation

Corporate Profile

PacifiCorp (Baa1 senior unsecured, stable) is an electric utility holding company headquartered in Portland, Oregon serving 1.7 million retail electric customers in six states. It owns vertically integrated electric utilities serving Utah (42% of PacifiCorp's 2010 retail electricity volumes), Oregon (24%), Wyoming (18%), Washington (8%), Idaho (6%), and California (2%). PacifiCorp also has minor operations in wholesale power marketing (as a result of excess electricity generation or other system balancing activities) and coal mining, both which support its core utility business.

PacifiCorp is the largest subsidiary of MidAmerican Energy Holdings Company (MEHC: Baa1 senior unsecured, stable),accounting for over 40% of MidAmerican's EBITDA in 2010. MEHC, in turn, is a consolidated subsidiary of Berkshire Hathaway Inc. (BRK: Aa2 Issuer Rating, stable).

SUMMARY RATING RATIONALE

PacifiCorp's ratings are supported by the stability of the utility's regulated cash flows, the geographically diverse and relatively constructive regulatory environments in which it operates, the diversification of its generation portfolio, and solid credit metrics. The rating also considers PacifiCorp's position as a subsidiary of MEHC, a holding company whose subsidiaries are primarily engaged in regulated activities, and the benefits from its affiliation with BRK.

Recent Developments

- PacifiCorp has filed for a $232 million base rate increase in Utah (its largest jurisdiction by far) and a $80 million increase in Wyoming. Any rate changes are expected to be effective in September 2011.

- PacifiCorp was granted its first energy cost adjustment mechanism in Utah in February 2011 and a revised mechanism in Wyoming in March 2011.

- In May 2011, the company obtained a $34 million base rate increase (70% of its request) in Washington, which was based on a 9.8% return on equity.

DETAILED RATING CONSIDERATIONS

Reasonably supportive regulatory environment

PacifiCorp's rating recognizes the rate-regulated nature of its electric utilities which generate stable and predictable cash flows. PacifiCorp operates in regulatory jurisdictions that Moody's considers as average in terms of framework, consistency and predictability of decisions along with an expectation of timely recovery of costs and investments. This "average" assessment is in line with Moody's views of most U.S. state jurisdictions compared to regulatory environments elsewhere in the world.

Regulatory lag continues to be a challenge for PacifiCorp, which has long maintained large capital programs to meet load growth as well as regulatory requirements for emissions control, renewable standards, and reliability. Although PacifiCorp has been filing rate cases every year or so in its largest jurisdictions and getting reasonable outcomes (roughly $700 million of rate increases granted over the past five years), it is still earning returns on equity of about 8% compared to roughly 10% that it is allowed.

The pace of rate filings is likely to continue with its $6 billion Energy Gateway transmission project and its Lakeside II gas plant which are both currently being constructed. Ability to use a forward test year in its rate requests helps to limit regulatory lag in Utah, Oregon, Wyoming, and California. The company has been successful in getting approvals for its major projects; however, it is exposed to some disallowances in most of its jurisdictions, where pre-approvals on projects or cash returns on construction work in progress are not granted.

Some states where PacifiCorp operates have historically not been amenable to power cost adjustment mechanisms, although that is improving from a credit standpoint. 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. Notably, earlier this year, PacifiCorp was approved to implement a form of fuel cost adjustment for the first time in Utah, its largest jurisdiction, along with a revised mechanism in Wyoming, its third largest. Washington is now the only jurisdiction where PacifiCorp does not have a power cost adjustment, but it is only a minor part of its overall sales.

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 although 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.

Well diversified generation portfolio and service territory

PacifiCorp benefits from a well diversified generation portfolio. Its 10,623 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 2008-2010, coal fired capacity contributed 62-65% and hydro contributed 5% of PacifiCorp's energy supply. Natural gas fired capacity supplied much of the remainder. In addition, PacifiCorp has 1,032 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.

PacifiCorp's retail sales volumes appeared to be recovering from the recession, as indicated by a nominal increase in 2010 after declining 3% in 2009. Considering that the demographic trends in its service areas are better than the U.S. average, PacifiCorp's load growth could return to more historical ranges of 2-3% annually over the next few years.

Within the framework of the Methodology, for Factor 3: Diversification - Market Position, PacifiCorp's six-state service territory results in a rating factor score in the A range.

Solid credit metrics

In 2009 and 2010, PacifiCorp's credit metrics have mapped to A ranges indicated in the Methodology. The ratio of cash from operations before changes in working capital (CFO pre-W/C) to Debt, calculated in accordance with Moody's standard adjustments, have been around 26% (compared to 19% in 2008) and its CFO pre-W/C interest coverage, in the low 5 times range (up from 4.2 times in 2008). Some of this improvement was derived from a fundamental increase in rates, but much of it was due to bonus depreciation, a temporary benefit which will extend through 2012.

Without bonus depreciation, CFO pre-W/C to Debt would have been around 20% and CFO pre-W/C interest expense coverage would have been in the mid 4 times range during 2009-2010. After the bonus depreciation ends in 2012, Moody's anticipates that PacifiCorp's credit metrics will return to such levels that were typical before 2009.

Benefits from Berkshire Hathaway affiliation

Moody's notes that PacifiCorp upstreamed dividends totaling $550 million to MEHC earlier this year, its first since being acquired by MEHC in 2006. MEHC had made equity contributions in each of the last five years totaling $1.1 billion to help PacifiCorp finance its capital expenditures during this period. As a result, PacifiCorp's equity ratio (as measured by unadjusted equity to equity plus debt) accreted to 53% as of year-end 2010. This year's dividends are intended to manage PacifiCorp's equity ratio at around 50% which is more in line with the capital structures approved by its regulators. In future years, PacifiCorp is likely to make additional dividends periodically, depending on its capital requirements and equity ratio.

From a credit perspective, the company's ability to retain its earnings as an entity that is privately held, particularly by a deep-pocketed sponsor like BRK, is an advantage over most other investor owned utilities that are typically held to a regular dividend to their shareholders. An additional tangible benefit from PacifiCorp's BRK affiliation is an equity commitment agreement, expiring on February 28, 2014, between MEHC and BRK, under which BRK has committed to provide up 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. This agreement thus provides PacifiCorp with an additional source of alternate liquidity.

Liquidity Profile

PacifiCorp's liquidity position appears sufficient to meet its foreseeable capital needs over the next four quarters. Large ongoing capital expenditures for its Energy Gateway transmission projects, new generation capacity, and environmental equipment will keep PacifiCorp in a cash shortfall. PacifiCorp's near-term internally generated cash flow of over $1.4 billion (assuming 2010 cash flow as a baseline) and a $345 million tax refund related to 2010 bonus depreciation will not fully cover its 2011 $1.6 billion capital budget, $550 million of dividends, and $533 million of various first mortgage bonds coming due in the second half of 2011. Consequently, Moody's expects PacifiCorp will refinance its first mortgage bonds and meet its remaining cash needs with a combination of long- and short-term borrowings.

PacifiCorp currently has $1,395 million committed under two revolving credit facilities. As of March 31, 2011, PacifiCorp had $821 million of available capacity, net of $270 million of short-term borrowings and $304 million of letters of credit to support variable-rate pollution control bonds.

One $635 million revolving credit facility expires in October 2012. The second revolver currently has $760 million of availability, which will be reduced to $720 million in July 2011, then to $630 million in July 2012 until its expiration in July 2013. PacifiCorp relies on these credit facilities to backstop its commercial paper program and to support its variable rate tax-exempt bonds.

These credit agreements do not a require MAC representation for borrowings, which Moody's views positively. The sole financial covenant is a limitation on debt to 65% of total capitalization. As of March 31, 2011, PacifiCorp had ample headroom under that covenant with that ratio at 49% as defined in the agreement.

PacifiCorp's most significant near-term debt maturity is $500 million of first mortgage bonds due on November 15, 2011. Other upcoming first mortgage bond maturities are small and numerous, totaling $87 million in the second half of 2011 and $17 million in 2012.

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. After the bonus depreciation ends in 2012, Moody's anticipates that PacifiCorp's credit metrics will return to the levels more typical before 2009, with CFO pre-W/C to Debt around 20% and CFO pre-W/C interest expense coverage in the low to mid 4 times range.

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 around the mid 20% range, and CFO pre-W/C interest expense coverage remaining in the upper 4 times range, 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 to the upper teens, and/or its CFO pre-W/C interest expense coverage being in the upper 3 times range over an extended period.

Rating Factors

PacifiCorp

Regulated Electric and Gas Utilities [1][2]	**Dec-31-2010**		**Moody's 12-18 month Forward View As of May 9, 2011***	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory framework		Baa		Baa
Factor 2: Ability to Recover Cost and Earn Returns (25%)				
a) Ability to recover Cost and Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position		A		A
b) Generation and Fuel Diversity		Baa		Baa
Factor 4: Financial Strength, Liquidity, & Metrics (40%)				
a) Liquidity		Baa		Baa
b) CFO (pre w/c) + Interest / Interest	5.3x	A	4x-5x	A
c) CFO (pre w/c) / Debt	25.7%	A	20-25%	A
d) CFO (pre w/c) - Dividends / Debt	25.7%	Aa	15-20%	A
e) Debt / Capitalization	38.9%	A	39-42%	A
Rating:				
Indicated Rating from Grid		Baa1		Baa1
Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2010; Source: Moody's Financial Metrics