MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades MidAmerican Energy and its US utility subsidiaries; outlooks stable

Global Credit Research - 30 Jan 2014

Approximately $24 billion of debt affected

New York, January 30, 2014 -- Moody's Investors Service upgraded the ratings of MidAmerican Energy Holdings Co. (MEHC, including its senior unsecured to A3 from Baa1) and its subsidiaries PacifiCorp (including its Issuer Rating to A3 from Baa1); MidAmerican Funding, LLC (its senior unsecured to A2 from A3); MidAmerican Energy Company (MEC, including its Issuer Rating to A1 from A2); NV Energy Inc. (NVE, including its senior unsecured to Baa2 from Baa3); Nevada Power Company (NPC, including its Issuer Rating to Baa1 from Baa2); and Sierra Pacific Power Company (SPPC, including its Issuer Rating to Baa1 from Baa2). These rating actions completes Moody's review of MEHC and its US utility subsidiaries initiated on November 8, 2013. The outlook for all these entities is stable.

RATING RATIONALE

The primary driver of today's rating action was Moody's more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in our September 2013 Request for Comment titled "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."

"MidAmerican Energy Holdings' credit quality has benefited from improvements in the regulatory environments throughout its many jurisdictions," said Moody's senior vice president Mihoko Manabe.

MEHC's A3 rating befits one of the largest, diversified portfolio of regulated assets among US utility holding companies. Moody's notes that just last month, MEHC closed on its $10 billion purchase of NVE, bolstering its position as a leading owner of regulated utilities. This acquisition adds NVE as MEHC's second-largest subsidiary (20% of pro forma EBITDA as of LTM September 30, 2013) behind PacifiCorp (33% of pro forma EBITDA) and Nevada to an already long list of regulatory jurisdictions in which it operates. Leverage will spike from the acquisition debt, but Moody's expects it will be managed back down over the next few years with the substantial free cash flow and tax credits that will be generated by MEHC's now expanded organization. This acquisition is also positive for MEHC's business risk profile as the company has lately focused on renewable investments that provide less durability than regulated assets. Still, unregulated businesses (8% of pro forma EBITDA) remain minor in the scheme of MEHC's large balance sheet.

For NVE and its subsidiaries NPC and SPPC, this merger is a credit-positive event as they become a part of a larger, well-capitalized organization that has a demonstrated track record within the regulated utility space of being a long-term investor, attentive to credit quality and able to strengthen regulatory and end-use customer relationships. Moreover, given NVE's service territory and the reliance on the gaming and mining sectors which can lead to boom-or-bust cycles, being a part of a deep-pocketed parent will be a favorable credit development.

NVE is an improving credit, having been upgraded three times over the last three years, the last time in May 2013 to investment-grade just before the merger with MEHC was announced. These upgrades were driven by a more credit-supportive regulatory environment in Nevada accompanying the company's improving financial position. The company generates healthy cash flow, but the disparity between the utility subsidiary ratings at NVE (NPC and SPPC both at Baa1) and MEHC's other utility subsidiaries PacifiCorp (A3) and MEC (A1) reflects NVE's still relatively high leverage. As of LTM September 2013, NPC and SPPC's cash flow pre-working capital-to-debt ratios were in the high 15% range, distinctly weaker than 20% at both PacifiCorp and MEC.

PacifiCorp's A3 rating is supported by the geographically diverse and relatively constructive regulatory environments in the six western states where it operates. In the context of Moody's more favorable view of US utility regulation, Moody's assesses PacifiCorp's overall regulatory treatment as average. Although PacifiCorp has been filing rate cases every year or so in its largest jurisdictions and getting reasonable outcomes, regulatory lag remains an ongoing challenge. The company however has made strides in obtaining multi-year rate increases, notably in Utah (by far its biggest jurisdiction comprising 44% of PacifiCorp's 2012 retail electricity volumes), and energy cost adjustment mechanisms in all its jurisdictions now except Washington (a minor jurisdiction at 7% of electricity volumes). Under MEHC's ownership since 2006, PacifiCorp's capital structure has strengthened organically as a result of both retained earnings and substantial equity contributions from MEHC.

MidAmerican Funding (A2), MEHC's third-largest US utility platform (pro forma 14% LTM September 2013 EBITDA), is rated the highest among them. MidAmerican Funding's utility subsidiary MEC is the largest utility in Iowa, where Moody's views it receives above-average regulatory treatment compared to its peers. The features of its regulatory scheme, such as an earnings sharing mechanism and pre-authorization of capital projects at higher than industry-average ROEs result in stronger credit metrics than those of its sister companies. MEC is in midst of its first base rate case in nearly 20 years, in which it has reached a two-year settlement with most of its intervenors, and which is expected be approved this quarter. This settlement, as proposed, will bring visibility to future revenues during its term, maintain many of the positive features in its current regulatory scheme, and importantly, introduce an energy adjustment clause which will be a significant improvement in its cost recovery mechanism.

The ratings of intermediate holding companies MidAmerican Funding and NVE are notched off those of its operating subsidiaries to reflect structural subordination.

WHAT COULD CHANGE RATINGS -- UP

MEHC's ratings are unlikely to be upgraded again in the foreseeable future given that the holding company's leverage has increased with the NVE acquisition. For its US utility subsidiaries, upgrades are possible if their regulatory treatment improves much more, enabling them to sustain stronger credit metrics. For example, the following levels of cash flow from operations pre-working capital-to-debt ratios could indicate upgrades: around 20% for MEHC, above 18% for NVE and its subsidiaries, the mid-20% range for PacifiCorp, and the 30% range for MEC.

WHAT COULD CHANGE RATING -- DOWN

MEHC's ratings could be downgraded if business risk increases materially; major investments are financed with excessive leverage; and credit metrics sustain a decline. For example, the following levels of cash flow from operations pre-working capital-to-debt ratios could indicate downgrades: in the low teens for MEHC, below 15% for NVE, the mid-teens for PacifiCorp, and the low 20% range for MEC.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Des Moines, Iowa, MidAmerican Energy Holdings Co. is a diversified utility holding company privately owned by Berkshire Hathaway Inc.

Actions Taken:

MidAmerican Energy Holdings Co. :

Senior Unsecured Rating to A3 from Baa1

Senior Unsecured Bank Credit Facility to A3 from Baa1

Outlook to Stable from Under Review for Upgrade

MidAmerican Funding, LLC :

Senior Unsecured Rating to A2 from A3

Outlook to Stable from Under Review for Upgrade

MidAmerican Energy Company:

Long Term Issuer Rating to A1 from A2

First Mortgage Bonds to Aa2 from Aa3

Senior Secured to Aa2 from Aa3

Senior Secured Shelf to (P)Aa2 from (P)Aa3

Senior Unsecured Shelf to (P)A1 from (P)A2

Subordinate Shelf to (P)A2 from (P)A3

Outlook to Stable from Under Review for Upgrade

PacifiCorp:

Long Term Issuer Rating to A3 from Baa1

Senior Unsecured MTN to (P)A3 from (P)Baa1

Senior Unsecured Bank Credit Facility to A3 from Baa1

Preferred Stock to Baa2 from Baa3

First Mortgage Bonds to A1 from A2

Senior Secured to A1 from A2

Senior Secured MTN to (P)A1 from (P)A2

Outlook to Stable from Under Review for Upgrade

NV Energy Inc. :

Long Term Issuer Rating to Baa2 from Baa3

Senior Unsecured to Baa2 from Baa3

Outlook to Stable from Under Review for Upgrade

Sierra Pacific Power Company:

Long Term Issuer Rating to Baa1 from Baa2

First Mortgage Bonds to A2 from A3

Outlook to Stable from Under Review for Upgrade

Nevada Power Company:

Long Term Issuer Rating to Baa1 from Baa2

First Mortgage Bonds to A2 from A3

Senior Secured to A2 from A3

Outlook to Stable from Under Review for Upgrade

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Mihoko Manabe
Senior Vice President
Infrastructure Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

William L. Hess
MD - Utilities
Infrastructure Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE