FitchRatings

Tagging Info

Fitch Rates PacifiCorp's Offering of First Mortgage Bonds 'A-'

Ratings Endorsement Policy

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Fitch Ratings-New York-10 March 2014: Fitch Ratings has assigned an 'A-' rating to PacifiCorp's (PPW) offering of First Mortgage Bonds. Proceeds will be used to repay short-term debt and for general corporate purposes. The notes will rank equally and ratably with all other debt issued under the Mortgage. The Rating Outlook is Stable.

Stable Outlook: PPW's rating and Stable Outlook reflect its solid financial position, competitive resource base and balanced regulatory treatment.

KEY RATING DRIVERS:
--Solid financial position;
--Balanced rate treatment diversified across six state regulatory jurisdictions;
--Revised capital plan;
--Good stand-alone liquidity;
--Ownership by MidAmerican Energy Holdings Co. (MEHC, IDR 'BBB+', Stable Outlook).

Financial Profile: Fitch expects financial metrics to remain consistent with, or slightly ahead of guidelines for the rating category and risk profile, with forecasts for EBITDA-to-interest to trend upward of 4.8 times (x) and funds from operations (FFO)-to-debt to be at or near 19% through 2015. Fitch attributes lower FFO in the forecast to the absence of bonus depreciation. Balanced rate treatment, including timely recovery of capital costs is central, in Fitch's opinion, to maintaining a solid utility financial profile.

Rate Treatment: PPW is an integrated electric utility with operations in six western state jurisdictions which limits exposure to any one jurisdiction. Fitch considers rate treatment fair. Regulatory lag is mitigated through rate features designed for timely recovery of, or deferral of capital investments amongst other items. Rate constructs in five of the six jurisdictions include power cost adjustments, the State of Washington being the exception. The Stable Outlook assumes reasonable outcomes in pending and future rate proceedings.

Final Rate Order in Washington: The Washington Utilities and Transport Commission (WUTC) approved a $17 million electric rate increase based on a 9.5% return on equity (ROE) in December 2013. The final order approved recovery of costs related to plant additions, with one exception where costs were not known or measurable at the time. The utility had filed for a $42.8 million electric rate increase earlier in January 2013 based on a historical test year period ended June 30, 2012, adjusted for known and measurable changes, and a 10% ROE. The utility's prior allowed return was 9.8%, effective in 2010. The allowed return, in Fitch's opinion, is lower than the sector average of around 10%.

The Washington rate order does not include a power cost adjustment. The 2013 rate filing included a proposal for a power cost adjustment mechanism; however, the proposal was denied by the WUTC on the grounds that it did not meet commission precedent; specifically it did not include a sharing or dead band. With operations well-diversified across six state jurisdictions, of which all but Washington have power cost adjustment mechanisms, Fitch considers the utility's vulnerability to commodity price volatility as manageable. According to management, over 90% of retail electric sales are covered by a power cost mechanism. Fitch would expect PPW to pursue a power cost mechanism in a future rate filing.

Rate Settlement in Oregon: PPW entered into a rate settlement agreement with the Public Utility Commission of Oregon (PUC) with new rates effective in January 2014. The settlement authorized a $23.7 million electric rate increase, based on a 9.8% ROE. The utility had filed for a $56 million electric rate increase based on a 12-month historical period ended June 2012 with pro forma adjustments to calculate a 2014 test period, and a 9.8% allowed ROE. Included in the initial filing were costs related to capital investments, as well as revised depreciation estimates and pension drivers. The settlement included capital cost recovery for certain projects, while other projects will have costs recovered separately in tariff riders. Also considered separately were net variable power costs.

Rate Filing Pending in Utah: PPW has a general rate case pending with the Utah Public Service Commission (Utah PSC). In January 2014 the utility filed for a $76.3 million electric rate increase based on a forecast year ending June 2014 and ROE of 10%. According to management, costs related to capital investments and lower retail sales are key drivers for the rate increase, and the higher requested ROE is consistent with the higher interest rates anticipated by management over the period new rates will be in effect. The utility's current authorized ROE is 9.8%, effective 2012.

Rate Filing Pending in Wyoming: PPW has a general rate case pending with the Wyoming Public Service Commission (Wyoming PSC). In March 2014 the utility filed for a $36.1 million electric rate increase based on a 10% ROE and a 51.6% common equity ratio. The utility's current authorized ROE is 9.8%, effective 2012. According to management, the rate increase is largely to recover costs related to new capital investments. Other drivers include higher system costs due to customer usage growth, and higher depreciation rates. Fitch anticipates fair outcomes in the utility's pending rate filings.

Capital Plan: PPW's capital plan is forecast to reach $6 billion over the five-year period ending 2017. The target spending level was revised lower by $2 billion to capture declining load growth forecast for the utility's service territory. Management has delayed investments in new generation and transmission and will convert the Naughton Unit 3 plant from coal to natural gas to manage environmental compliance costs. Fitch's concerns relate to timely project execution and capital cost recovery, as well as the possible emergence of more stringent environmental rules and regulation. The revised capital plan has been incorporated in Fitch's forecast.

Liquidity: PPW's liquidity position at Dec. 31, 2013 was $932 million, including $53 million in available cash. PPW's stand-alone bank credit is $1.2 billion and includes two separate bank credit facilities equally sized at $600 million, which mature in 2017 and 2018, respectively.

Refinancing Activity: Fitch considers PPW's refinancing risk as low and access to the debt capital markets as unrestricted. The utility's debt maturity profile is manageable, with $236 million due in 2014, $122 million due in 2015 and $57 million due in 2016.

Ownership: PPW Holdings, LLC (not rated by Fitch), an intermediate holding company for PPW, is a subsidiary of MidAmerican Energy Holdings Co. (MEHC, IDR 'BBB+', Stable Outlook), which in turn is 90% owned by Berkshire Hathaway Corp. (BRK, IDR 'AA-', Stable Outlook). Fitch views MEHC's ownership structure as a credit positive for PPW. With no dividend to ultimate parent BRK, the retention of earnings at MEHC affords flexibility in managing operating company growth, dividends and capital structure.

Operating Co. Ring Fencing: Similar to other MEHC operating subsidiaries, PPW is ring-fenced by a special purpose entity with features designed to preserve credit quality including a non-recourse structure to limit MEHC liabilities to PPW, and dividend restrictions. Additionally, credit available to PPW is prohibited from being used to satisfy obligations or assets to be pledged for the benefit of MEHC or another MEHC company.

RATING SENSITIVITIES:
--A credit upgrade could occur if FFO-to-debt were to increase and be sustained near 20%.
--A credit downgrade could occur if FFO-to-debt were to decrease and be sustained below 16%.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Recovery Ratings and Notching Criteria for Utilities', Nov. 19, 2013;
--'Corporate Rating Methodology: Including Short-term Ratings and Parent and Subsidiary Linkage', Aug. 5, 2013;
--'Rating North American Utilities, Power, Gas and Water Companies', May 16, 2011.

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Additional Disclosure
Solicitation Status