FitchRatings

# FITCH RATES PACIFICORP'S FIRST MORTGAGE BONDS 'A'; OUTLOOK POSITIVE

Fitch Ratings-New York-16 June 2015: Fitch Ratings has assigned an 'A' rating to PacifiCorp's (PPW; IDR 'BBB+'; Outlook Positive) offering of first mortgage bonds (FMB). 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. PPW's Rating Outlook is Positive.

KEY RATING DRIVERS
--Improving credit metrics;
--Balanced rate treatment diversified across six state regulatory jurisdictions;
--Manageable debt and capex;
--Ownership by Berkshire Hathaway Energy Co. (BHE; IDR 'BBB+', Stable Outlook).

The rating and Positive Outlook reflect PPW's strong credit metrics and rate increases granted by regulators to recover its large, historic capex. The ratings and outlook also consider PPW's relatively low business risk, lower prospective capex relative to recent historic levels, a competitive resource base and below-industry-average retail rates.

Fitch forecasts 2015-2019 funds from operations (FFO) coverage and leverage ratios will be equal to or better than 4.8x and 4.0x, respectively. Performance consistent with Fitch's expectations would likely result in a one-notch credit rating upgrade, resolving the Positive Outlook.

PPW's multi-state service territory and diversified regulatory environment support the ratings and Positive Outlook. PPW operates in six states: Utah, Wyoming, Idaho, Oregon, Washington and California. Regulatory compacts across PPW's service territory are generally well-balanced.

However, in Fitch's opinion, recent rulings by the Washington Utilities and Transportation Commission (WUTC's) in PPW general rate cases issued in March 2015 and December 2013 were unfavorable from an investor point of view.

The rulings disallowed costs related to purchased power from qualifying facilities located outside the state of Washington and authorized a below-industry average 9.5% authorized return on equity. In its March 2015 order, the WUTC authorized a rate increase of $9.6 million, 32% of the $30.4 million requested by PPW in the proceeding. PPW has appealed both WUTC orders.

Fitch notes that Washington is relatively small slice of PPW's consolidated operations, representing approximately 8% of consolidated 2014 kilowatt hour (kwh) sales. By comparison, Utah, Oregon and Wyoming represent 44%, 24% and 17% of kwh sales respectively.

Regulatory outcomes across the remainder of PPW's service territory have been and are expected to continue to be balanced. PPW has approved fuel adjustment clauses in place that mitigate commodity price exposure in all of its regulatory jurisdictions.

In March 2015, PPW filed a general rate case with the Wyoming Public Service Commission (WPSC) requesting a $32 million (5%) rate increase. The requested rate hike is based on a 9.85% authorized ROE and a 51.4% equity ratio.

In its last rate case, the WPSC granted PPW a $20.2 million rate increase based on a below industry average 9.5% authorized return on equity (ROE). The December 2014 WPSC authorized rate increase represented approximately 62% of the company supported $32.6 million rate increase rate increase request. PPW filed the rate case March 2014.

In Fitch's view, the commission order provides the company with a reasonable opportunity to earn its authorized return and is credit neutral notwithstanding the below industry average authorized return.

PPW's annual capital expenditures were essentially flat in 2014 and 2013 at $1.065 billion and $1.066 billion, respectively, 21% below 2012 capex of $1.346 billion. Capex averaged $1.5 billion per annum 2010-2012. Projected 2015-2017 capex approximates $842 million per annum on average. The meaningfully reduced 2015-2017 capex reflects slower load growth and efforts by management to minimize customer rate increases.

Slowing PPW service territory load growth trends are driven primarily in Fitch's view by energy efficiency gains and are a source of uncertainty along with the impact of environmental rules and regulations on PPW's coal-fired generation. Fitch believes these dynamics are manageable within the regulatory compact and unlikely to meaningfully weaken PPW's creditworthiness in the near-to-intermediate term.

PPW is considering the feasibility, costs and benefits of joining the California Independent System Operator (CAISO) as a participating transmission owner. The analysis is expected to be completed summer 2015 and, if PPW decides to move forward, would be subject to stakeholder review and input and regulatory approvals.

PPW is a wholly-owned indirect subsidiary of BHE which in turn is majority owned by Berkshire Hathaway Inc. (BRK; IDR 'AA-', Outlook Stable). Ownership of BHE by BRK is in Fitch's view a positive as dividend retention affords BHE greater flexibility in managing operating company growth, dividends and capital structure.

Ring fence provisions at PPW including a special purpose entity are designed to preserve credit quality including a non-recourse structure to limit PPW exposure to BHE liabilities and dividend restrictions.

KEY ASSUMPTIONS
--Revenue increases approximating 2% per annum, reflecting modest sales growth and rate increases.
--Earned ROE approximates 9% over the forecast period.
--Capex averages $850 million-$900 million per annum through 2019.
--Continued credit supportive regulatory regimes across PPW's jurisdictional service territory.

RATING SENSITIVITIES
Positive - Future developments that may, individually or collectively, lead to a positive rating action include:

Sustained PPW earnings and FFO leverage ratios of 3.4x and 4.0x or better, respectively, along with continued balanced regulation.

Negative - Future developments that may, individually or collectively, lead to a negative rating action include:

Unexpected deterioration across PPW's regulatory jurisdictions; A prolonged outage at a major generating facility; These or other factors collectively or individually causing PPW's FFO-adjusted leverage to deteriorate to worse than 5x and EBITDAR leverage to 3.75x, or worse, on a sustained basis.

LIQUIDITY

PPW's available liquidity position at March 31, 2015 was $796 million, including $12 million in cash and cash equivalents and remaining borrowing capacity of $784 million under its revolving credit facilities. PPW's stand-alone total borrowing capacity under its revolving credit facilities is $1.2 billion and is comprised of two separate facilities equally sized at $600 million maturing 2017 and 2018, respectively.

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Date of relevant rating committee Oct. 2, 2014.

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

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 28 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393
Parent and Subsidiary Rating Linkage Fitch’s Approach to Rating Entities within a Corporate Group Structure (pub. 05 Aug 2013)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714476
Recovery Ratings and Notching Criteria for Utilities (pub. 05 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863298