

December 7, 2015

***VIA ELECTRONIC FILING  
AND OVERNIGHT DELIVERY***

Steven V. King  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
P.O. Box 47250  
Olympia, WA 98504-7250

**RE: Docket UE-051090—Compliance Filing**

Pacific Power & Light Company, a division of PacifiCorp (Company), provides this credit report in compliance with Order 07 in docket UE-051090 issued on February 22, 2006, and amended in Order 08 on March 10, 2006.

The Company committed to providing credit rating agency news releases and final reports to Washington Utilities and Transportation Commission staff and Public Counsel on an informational basis in Commitment Wa21, as adopted by the above-referenced orders. This credit report is being provided in accordance with Commitment Wa21.

Please direct informal questions to Ariel Son, Manager, Regulatory Projects, at (503) 813-5410.

Sincerely,



Bruce Williams  
Vice President and Treasurer

Enclosures

cc: Tom Schooley, WUTC  
Simon ffitch, Public Counsel

## **FITCH AFFIRMS BERKSHIRE HATHAWAY ENERGY CO & SUBS; UPGRADES PPW; OUTLOOK STABLE**

Fitch Ratings-New York-24 November 2015: Fitch Ratings has affirmed the ratings of Berkshire Hathaway Energy Company (BHE) and certain of its subsidiaries. The Rating Outlook for BHE is Stable.

Additionally, Fitch has upgraded PacifiCorp's (PPW's) Issuer Default Rating (IDR) to 'A-' from 'BBB+' and its securities ratings one notch as indicated at the end of this release. The Rating Outlook for PPW is Stable. The upgrade reflects PPW's solid underlying credit metrics, balanced regulation, competitive rates, and manageable capex.

Fitch has affirmed the IDR and securities ratings for the following BHE subsidiaries: MidAmerican Funding LLC (MF), MidAmerican Energy Co. (MEC), NV Energy, Inc. (NVE), Nevada Power Co. (NPC), Sierra Pacific Power Company (SPPC), Northern Natural Gas Company (NNG) and Kern River Funding Corp. (KRF). The Rating Outlook for these BHE subsidiaries is Stable.

A complete list of rating actions follows at the end of this release.

### **KEY RATING DRIVERS**

- Ownership of BHE by Berkshire Hathaway, Inc. (BRK; IDR 'AA-'/Outlook Stable) and enhanced group funding and capital retention capabilities;
- Strong, parent-only cash generation;
- Diverse utility and utility-like, low-risk businesses provide strong, predictable earnings and cash flows;
- Constructive regulatory compacts across BHE's asset base with balanced general rate case outcomes.

### **BHE Ownership:**

The ratings consider the favorable impact of BRK's 90% ownership of BHE by BRK. Ownership of BHE by BRK affords the former with the ability to retain capital typically paid out in the form of dividends by publicly held investor-owned-utilities (IOUs). This dynamic is a function of BRK's strong credit profile, large cash position (\$56.2 billion as of Sept. 30, 2015) and investment appetite. As a result, Fitch estimates that BHE will be free cash flow (FCF) positive and that consolidated debt will decline 2015-2019. Other benefits include BRK's ability to utilize tax shields and fund strategic growth opportunities.

### **Diversified, Regulated Asset Base:**

BHE's ratings are supported by its large high-quality portfolio of utility and utility-like assets primarily located in the U.S., Canada and Great Britain. BHE owns three large integrated electric utilities with generally constructive regulatory compacts and moderately above industry average growth trends, operating in the U.S. Rocky Mountain/Pacific Northwest, Midwest and Desert Southwest regions. Consolidated BHE leverage is high. However, future cash flows from BHE's diverse portfolio of businesses are projected by Fitch to amply cover its estimated parent-only obligations.

M&A: BHE has been an active consolidator in the utility, power and gas sector, acquiring high quality, low-risk electric and gas utility, electric transmission and natural gas pipeline assets. Large acquisitions in recent years include AltaLink, L.P. in 2014 and NVE (IDR 'BBB-'; Stable Outlook)

in 2013. The impact of M&A on BHE's credit quality will be driven by price, asset quality and funding choices. Debt funded acquisitions and/or acquisition of high risk profile businesses could challenge future credit quality.

**Consolidated Financial Metrics:** The recent acceleration of BHE M&A activity and associated increase in parent-company leverage is estimated by Fitch Ratings to pressure BHE's consolidated credit metrics. Fitch projects BHE funds from operations (FFO) coverage and leverage ratios will range from 3.8x to 4.3x and 5.0x to 4.5x, respectively, during 2015-2019.

**PPW Upgrade & Stable Outlook:**

PPW's ratings and Stable Rating Outlook reflect PPW's strong credit metrics, balanced jurisdictional regulatory environment and meaningfully lower estimated 2015-2019 capex compared to historic levels. PPW's business risk is relatively low and retail rates below the industry average.

Fitch forecasts FFO coverage and leverage ratios will approximate 5.0x and 3.8x or better, respectively, consistent with target medians for the 'A-' IDR.

**Regulatory Overview:** The utility's multi-state service territory and diversified regulatory environment support the ratings and Rating Outlook Stable. PPW operates in six states: Utah, Wyoming, Idaho, Oregon, Washington and California.

Regulatory outcomes across PPW's service territory have been and are expected to continue to be balanced with the notable exception of Washington. Various riders are in place to facilitate recovery of certain costs outside of general rate cases (GRC), including fuel adjustment clauses that mitigate commodity price exposure in all of PPW's regulatory jurisdictions.

PPW filed a GRC with the Wyoming Public Service Commission (WPSC) in March 2015 and currently supports a \$27 million (4%) rate increase. The requested rate hike is based on a 9.85% authorized return on equity (ROE), 51.4% equity ratio and a test year ending Dec. 31, 2016. A final order in the GRC is expected later this year. In its previous Wyoming rate case, the WPSC granted PPW a \$20.2 million rate increase based on a below-industry-average 9.5% authorized ROE. The December 2014 WPSC authorized rate increase represented approximately 62% of the company supported \$32.6 million rate increase request.

In Fitch's opinion, WPSC rate orders have been supportive from a creditworthiness point-of-view, providing the company with a reasonable opportunity to earn its authorized ROE, notwithstanding the below-industry-average ROE adopted by the commission in PPW's previous GRC.

Washington Utilities and Transportation Commission (WUTC) rulings in PPW GRCs issued in March 2015 and December 2013 were notably unfavorable for investors. The WUTC orders disallowed costs related to purchased power from qualifying facilities located outside the state of Washington and authorized a below-industry-average 9.5% ROE. 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. In its December 2013 order, the WUTC approved a \$17 million rate increase, approximately 46% of PPW's requested \$37 million rate hike. PPW has appealed both WUTC orders. Fitch notes that the WUTC earlier this year approved an all-party stipulation in which the parties agreed to the implementation of a power cost adjustment mechanism, which includes dead bands and sharing of deferred balances between the utility and ratepayers.

**Manageable Capex:** PPW's annual capex was 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 year in 2010-2012. Projected 2015-2017 capex approximates \$842 million per year on average, more than 40% below PPW's \$1.5 billion 2010-2012 capex.

Meaningfully lower projected PPW capex reflects completion of large capital projects, including major transmission, natural gas generation and renewables investment in the past several years. In addition, capex incorporates slower PPW service territory 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 some 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. Lower capex is likely to slow the pace of regulatory filings, easing upward pressure on rates.

Efforts by management to minimize customer rate increases while maintaining system reliability, safety and customer service have resulted in generally flat O&M expense.

**MF/MEC Ratings Affirmed:** The ratings affirmations are based on the credit quality of MEC, an integrated regulated electric utility. MF is an intermediate holding company owned by BHE. MF in turn owns MEC and is dependent on distributions from the utility to meet its ongoing obligations.

MF and MEC's ratings and their respective Stable Rating Outlooks reflect the utility's relatively low business risk profile, solid financial metrics, more diversified fuel-mix in recent years and a balanced regulatory environment in Iowa.

**Constructive Iowa Regulatory Compact:** MF and MEC's ratings consider the constructive outcome in MEC's last rate case filing. In that proceeding, the Iowa Utilities Board (IUB) increased MEC's base rates \$266 million consistent with the company's requested rate increase. The base rate increase will be phased in through Jan. 1, 2016.

In addition, the approved MEC settlement authorized energy and transmission cost adjustment mechanisms. The IUB's order includes revenue sharing based on specific ROE hurdles.

In recent years, MEC has significantly diversified its fuel-mix via meaningful new build wind generation while maintaining rates that are competitive regionally and compared to the national average. This combined with fuel switching and coal plant retirements should position MEC well for compliance with EPA regulations, including the agency's Clean Power Plan.

**Solid Credit Metrics:** Fitch estimates that MF and MEC's financial metrics will remain consistent with Fitch's target medians and peers. MF's FFO coverage and leverage ratios are expected to range between 5.3x-7.1x and 3.8x-3.5x, respectively through 2019. The same metrics for MEC are forecast to range between 5.8x-6.9x and 3.6x-3.2x, respectively, over the five-year forecast period.

**NVE & Subs Affirmed:** The ratings and Rating Outlooks Stable for NVE, NPC and SPPC reflect solid credit metrics that are consistent with target medians. The ratings and outlooks also consider the balanced Nevada regulatory compact, manageable leverage, slowly improving regional market conditions and modest sales growth.

**Favorable Nevada Regulation:** Under Nevada regulation, GRC filings are required at least every three years with a decision required within seven months from the filing date and adjustments for known and measurable adjustments to the test year; pre-approval of capex; and, timely fuel and purchase power cost recovery mechanisms.

In October 2014, the PUC adopted a modified settlement in NPC's 2014 GRC. NPC filed the GRC with the PUC May 2014 requesting a \$20.8 million rate increase based on a 10% ROE. The PUC-approved settlement authorized no change in base rates and modest rate design changes. In Fitch's view, the settlement is credit neutral. SPPC and NPC are scheduled to file triennial rate cases in June 2016 and June 2017, respectively.

Fitch projects NVE FFO coverage and leverage 2015-2019 of 3.8x-4.7x and 4.9x-3.9x, respectively, levels consistent with NVE's 'BBB-' IDR and operating subsidiaries NVP and SPPC's 'BBB' IDRs.

NNG Ratings Affirmed: The ratings and Rating Outlook Stable for NNG reflect the pipeline's strong business position and relatively low business risk profile. NNG's natural gas transportation system is an essential source of contracted supply to its Upper Midwest utility customer base.

Counter-party credit risk is ameliorated by the pipeline's diverse group of primarily highly rated off-takers with multi-year contracts. NNG's ratings also consider the pipeline operator's constructive regulatory compact and its consistent ability to earn reasonable returns on equity, typically in the low double digits.

Fitch projects NNG FFO coverage and leverage 2015-2019 of 5.3x-8.2x and 3.5x-2.2x, respectively, levels consistent with NNG's 'A' IDR.

KRF Ratings Affirmed: The ratings consider KRF's relatively predictable earnings and cash flows, competitive rates, attractive markets, recent success in extending maturing shipper contracts and a balanced FERC regulatory compact. The ratings also consider the pipeline's manageable projected capex, declining debt and improving credit metrics from an already strong base.

The KRF pipeline transports competitive Rocky Mountain natural gas to large volume end-users in Utah, Southern Nevada and Southern California.

KRF coverage and leverage ratios 2015-2019 strongly support its 'A' rating and Stable Rating Outlook. KRF's outstanding debt is expected by Fitch to fully amortize by 2018 with no expectation for issuance of any additional debt.

Re-contracting and more stringent rules regarding pipeline integrity and related issues are potential sources of concern for both NNG and KRF. Fitch believes these concerns are manageable within the pipelines' current rating categories given their strong competitive positions in their respective markets and ongoing infrastructure investment by management.

#### KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for BHE and its subsidiaries include:

- Estimated 2016-2019 parent-only FCF of \$7 billion-\$8 billion;
- Repayment of trust preferred issued to fund recent acquisitions by the end of 2016;
- Reasonable outcomes in pending and future operating utility rate case outcomes;
- No meaningful deterioration in key U.S. regulatory jurisdictions;
- Earned returns on equity of better than 10% at MEC and 9%-10% at PPW and NVE;

#### RATING SENSITIVITIES

Positive: Future developments that may individually or collectively lead to positive credit rating actions for BHE and its subsidiaries include the following.

--BHE: High consolidated leverage limits positive rating actions in the near-to-intermediate term. Nonetheless, improvement in FFO-adjusted leverage to 3.6x-3.8x or better on a sustained basis could result in future credit rating upgrades.

--MF: Structural subordination of MF debt to MEC and current notching requires an upgrade at the utility to accommodate an MF upgrade.

--MEC: The utility's strong credit rating and parent - subsidiary notching considerations limit positive rating actions. However, stable, sustained FFO adjusted coverage and leverage ratios of 5.0x and 3.5x, respectively, or better, could result in future credit rating upgrades.

--PPW: Further positive rating actions for PPW are unlikely in the near-to-intermediate term given the recent upgrade and other considerations. However, further improvement in PPW's FFO coverage and leverage ratios to 5.0x and 3.5x, respectively, in concert with a stable or improving business risk profile could result in future upgrades.

--NVE/NPC/SPPC: Improvement in NVE's FFO and EBITDAR leverage to better than 5.0x and 3.75x, respectively, on a long-term projected basis could lead to a one-notch upgrade for NVE and its operating subsidiaries, NPC and SPPC.

--NNG and KRF: The pipelines' relatively high ratings challenge future positive rating actions.

Future developments that may, individually or collectively, lead to credit rating downgrades include:

--BHE: Deterioration of BHE's FFO adjusted leverage to 5.0x-5.5x or worse on a consistent basis would likely lead to future credit downgrades.

Longer term, a change in ownership structure and/or strategic direction at BRK eliminating or diminishing capital retention and other benefits currently available to BHE would likely lead to future downgrades at the utility holding company and pressure its subsidiaries' ratings as well. Large debt funded M&A transactions and/or acquisition of assets with more volatile cash flows and higher business risk could trigger future credit rating downgrades.

--MF and MEC: A significant deterioration in the regulatory compact in Iowa or other factors causing MEC's FFO leverage weaken to 4.5x or worse on a sustained basis would likely lead to credit rating downgrades for both MEC and MF.

--PPW: An unexpected, sustained weakening of FFO leverage due to deterioration in PPW's regulatory oversight, higher-than-expected capex or other factors to 4.5x or worse could lead to future credit rating downgrades.

--NVE/NPC/SPPC: An unexpected deterioration in the currently constructive regulatory compact in Nevada or other factors pressuring FFO leverage to 6.0x or weaker for NVE could lead to future, adverse rating actions for NVE and its subsidiaries, SPPC and NPC.

--NNG: Deterioration of NNG's FFO leverage to 4.0x or weaker could result in future credit rating downgrades.

--KRF: Given the pipeline's strong operating profile and already low and amortizing debt, credit rating downgrades appear unlikely at this juncture.

## LIQUIDITY

BHE's liquidity is strong, with total available consolidated liquidity of \$7 billion as of Sept. 30, 2015. Liquidity is composed of BHE's \$1.7 billion of consolidated cash on BHE's balance sheet and \$5.4 billion of unused borrowing capacity under its \$6.7 billion of committed revolving credit facilities. BHE has a \$2 billion parent-only credit facility that matures in 2017 and supports its CP program. Debt maturities are manageable, approximating \$1.8 billion 2015-2019 on average per annum.

#### FULL LIST OF RATING ACTIONS

Fitch has taken the following rating actions:

Berkshire Hathaway Energy Co. (BHE)

- Long-term IDR affirmed at 'BBB+';
- Senior unsecured affirmed at 'BBB+';
- Trust Preferred affirmed at 'BBB-';
- Short-term IDR affirmed at 'F2'.

The Rating Outlook is Stable.

PacifiCorp (PPW)

- Long-term IDR upgraded to 'A-' from 'BBB+';
- Senior secured debt upgraded to 'A+' from 'A';
- Senior unsecured debt upgraded to 'A' from 'A-';
- Preferred stock upgraded to 'BBB+' from 'BBB';
- Short-term IDR upgraded to 'F1' from 'F2';
- Commercial paper upgraded to 'F1' from 'F2'.

The Rating Outlook is Stable.

NV Energy (NVE)

- Long-term IDR affirmed at 'BBB-';
- Senior unsecured debt affirmed at 'BBB-'.

The Rating Outlook is Stable.

Nevada Power Co. (NPC)

- Long-term IDR affirmed at 'BBB';
- Senior secured debt affirmed at 'A-';
- Short-term IDR affirmed at 'F2'.

The Rating Outlook is Stable.

Sierra Pacific Power Co. (SPPC)

- Long-term IDR affirmed at 'BBB';
- Senior secured debt affirmed at 'A-';
- Short-term IDR affirmed at 'F2'.

The Rating Outlook is Stable.

MidAmerican Funding LLC (MF)

- Long-term IDR affirmed at 'BBB+';
- Senior secured debt affirmed at 'A-'.

The Rating Outlook is Stable.

MidAmerican Energy Company (MEC)

- Long-term IDR affirmed at 'A-';
- Senior secured debt affirmed at 'A+';
- Senior unsecured debt affirmed at 'A';
- Short-term IDR affirmed at 'F1';
- Commercial paper affirmed at 'F1'.

The Rating Outlook is Stable.

Kern River Funding Corp. (KRF)

- Long-term IDR affirmed at 'A-';
- Senior unsecured debt affirmed at 'A-'.

The Rating Outlook is Stable.

Northern Natural Gas Co. (NNG)

- Long-term IDR affirmed at 'A';
- Senior unsecured debt affirmed at 'A'.

The Rating Outlook is Stable.

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Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage  
(pub. 17 Aug 2015)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=869362](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362)

Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis (pub.  
25 Nov 2014)



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