

CREDIT OPINION

5 May 2016

Update

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RATINGS

PacifiCorp	
Domicile	Portland, Oregon, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Mihoko Manabe 212-553-1942  
Senior Vice President  
mihoko.manabe@moody's.com

William L. Hess 212-553-3837  
MD-Utilities  
william.hess@moody's.com

PacifiCorp

Largest Subsidiary of Berkshire Hathaway Energy

Summary Rating Rationale

PacifiCorp's ratings are supported by the stability of the utility's regulated cash flows, the geographically diverse and reasonably supportive regulatory environments in which it operates, the diversification of its generation portfolio, and stable credit metrics. The company will have the capacity to generate free cash flow over the next few years as it reduces capital spending. The rating also takes into account PacifiCorp's position as a subsidiary of BHE, a holding company whose subsidiaries are primarily engaged in regulated activities, and the benefits from its affiliation with BRK.

Exhibit 1



Source: Moody's Investors Service

## Credit Strengths

- » Regulated rates that sustain stable credit metrics
- » Benefits from Berkshire Hathaway affiliation

## Credit Challenges

- » Flat sales growth
- » Exposure to coal generation

## Rating Outlook

The stable outlook incorporates our expectation that PacifiCorp will continue to receive reasonable regulatory treatment, and that the funding requirements will be financed in a manner consistent with management's commitment to maintain a healthy financial profile. We anticipate that PacifiCorp's credit metrics will be sustained at about current levels, for example, CFO pre-W/C/Debt in the low 20% range.

## Factors that Could Lead to an Upgrade

Although its flat financial outlook limits the prospects for a rating upgrade in the foreseeable future, the rating could be upgraded longer term if a more favorable regulatory environment and a conservatively financed capital expenditure program result in a sustained improvement in credit metrics. This would include, for example, PacifiCorp's ratios of CFO pre-W/C/Debt sustained in the mid 20% range.

## Factors that Could Lead to a Downgrade

The ratings could be downgraded if PacifiCorp's capital expenditures are funded in a manner inconsistent with its current financial profile, or if adverse regulatory rulings lower its credit metrics, as demonstrated for example, by a ratio of CFO pre-W/C/Debt sustained below 20%.

## Key Indicators

Exhibit 2

### KEY INDICATORS [1]

PacifiCorp	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
CFO pre-WC + Interest / Interest	4.8x	4.9x	5.1x	5.1x	5.4x
CFO pre-WC / Debt	21.1%	21.3%	22.9%	21.2%	21.8%
CFO pre-WC – Dividends / Debt	13.6%	18.5%	15.7%	11.4%	9.0%
Debt / Capitalization	39.7%	38.2%	36.6%	37.3%	37.9%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
Source: Moody's Financial Metrics™

## Detailed Rating Considerations

### GEOGRAPHICALLY DIVERSE UTILITY ASSETS

The geographic diversity of PacifiCorp's six-state service territory is favorable, because it mitigates the economic and regulatory impacts in any one jurisdiction. The company expects Pacific Power's retail sales to decline slightly due to a reduction in per-customer usage that offsets an increase in the number of customers. Rocky Mountain Power's retail sales are on an upward trajectory, driven by the economic expansion in Utah, although the trend was interrupted in 2015 from the downturn in the commodities extraction industries.

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## EXPOSURE TO COAL GENERATION

PacifiCorp's generation portfolio consists of coal (55% net owned capacity), gas (25%), hydro (10%), and wind and other sources (10%). The company relies on coal for about 60% of its energy supply, which exposes it to stringent and costly environmental regulations. The company, however, has already completed many of its environmental projects over the last several years, so that the majority of its coal units are now equipped with necessary pollution controls. Consequently, it forecasts environmental capex falling to an average of \$40 million a year during 2016-18. The company retired 172 megawatt (MW) of coal-generation at its Carbon facility in December 2015 and proposes to retire or convert to natural gas 280MW more at Naughton during 2018. PacifiCorp has also reduced its exposure to coal-related activities in 2015 by closing a coal mine and disposing related assets in Utah in 2015.

## INTEGRATING THE WESTERN ENERGY MARKET: MORE RENEWABLES AND RELIABILITY, LOWER COSTS AND CAPEX

In November 2014, PacifiCorp launched an energy imbalance market (EIM) in partnership with the California Independent System Operator Corporation (CAISO). EIM is an automated system that matches least-cost electricity supply with demand every five minutes. This real-time dispatching system replaced a less efficient hourly, manual process and integrated PacifiCorp's large, diverse Rocky Mountain and Pacific Power networks with the California grid. EIM benefits PacifiCorp by: expanding the market for its generation (including the second-largest utility owned wind fleet in the US) and transmission assets; enhancing reliability; reducing the need to invest in reserves and more generation; and improving the integration of renewables and helping the company to meet the renewable portfolio standards in its service territories.

From EIM's inception through December 2015, CAISO estimated that the overall system and customer benefits (including lower supply costs and cost of environmental compliance) realized by PacifiCorp customers totaled \$31 million. In the first quarter of 2016, the estimated benefit for PacifiCorp was almost \$11 million.

Going a step beyond EIM, PacifiCorp and CAISO are exploring the creation of a regional ISO. If this happens, subject to numerous regulatory approvals (expected to take at least a couple of years), PacifiCorp will be able to participate more in CAISO's energy markets. The regional ISO would take over the planning and operation of PacifiCorp's transmission grid.

For much of this decade, PacifiCorp Transmission has been developing a \$6 billion suite of transmission projects called the Energy Gateway. To date, it has spent roughly \$2 billion for lines already or soon to be in service. Improved transmission access in the region through the participation of other utilities in EIM could obviate the need to build some of the remaining projects. The company expects transmission capex to fall from \$200-\$300 million a year in 2010-11 to about \$100 million a year in 2015-18.

## REASONABLY SUPPORTIVE REGULATORY ENVIRONMENT

PacifiCorp's rating recognizes the rate-regulated nature of its electric utility operations which generate stable and predictable cash flows. PacifiCorp operates in regulatory jurisdictions that are reasonably supportive in terms of rate decisions and cost recovery. The ability to use a forward test year in its rate requests helps to limit regulatory lag in Utah, Oregon, Wyoming, and California.

During this decade, PacifiCorp had regularly spent in excess of \$1 billion a year for generation, environmental, and transmission projects. With many of these capital projects and rounds of rate cases completed, PacifiCorp is shifting to a strategy, being adopted across BHE, to stay out of rate cases whenever possible.

In its rate cases, PacifiCorp has sought not only rate increases for its capital investments, but also changes in rate design. For example, in its ongoing rate case in Washington, expected to conclude in July 2016, PacifiCorp has requested accelerated depreciation of its coal assets and decoupling. The accelerated depreciation will avoid stranded costs in retiring coal plants as required by regional environmental legislation. Decoupling will make its margins less sensitive to the decline in per-customer sales.

The company now has energy cost adjustment mechanisms in all its jurisdictions. Washington, its most challenging jurisdiction, became the last state to grant a power cost adjustment mechanism in the 2015 rate case. In most of its jurisdictions, however, some lag remains in recovering portions of its energy costs.

PacifiCorp's allowed ROEs (mostly in the mid to high 9% range) have tended to be lower than the industry average, but rate relief has steadily improved its reported ROE to be closer to its allowed levels. In 2010, its reported ROE was 7.7%; in 2015, it was 9.1%.

## STABLE CREDIT METRICS

Expecting flat load growth and seeking to temper rate increases, the company has cut its capital budget to roughly \$0.8 billion a year during 2016-2018, down from about \$1 billion a year during 2013-15. This decrease will bring capex in line with depreciation expense, thereby maintaining its rate base and reducing the need for rate cases.

PacifiCorp's credit metrics are very stable. We expect little change in the ratios that have varied little over the last five years, with cash from operations before changes in working capital (CFO pre-W/C)/Debt at about 22% and Debt/Book Capitalization at about 38%. Its CFO pre-W/C – Dividends/Debt, however, has declined (9% in 2015 vs. 26% in the 2009-10 period when it paid no dividends) and will become more variable, as PacifiCorp will have free cash flow to pay out. We expect the company to size debt issuances and dividends to maintain its current capital structure.

## BENEFITS FROM BERKSHIRE HATHAWAY AFFILIATION

PacifiCorp benefits from its affiliation with BRK, which requires no regular dividends from PacifiCorp or BHE. 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.

As an example, PacifiCorp did not pay dividends for the first five years after being acquired by BHE in 2006, and during that time received equity contributions totaling \$1.1 billion from BHE to help PacifiCorp finance its capital expenditures. Its balance sheet has strengthened from this financial policy, and PacifiCorp now pays dividends that are sized to manage PacifiCorp's equity ratio (as measured by unadjusted equity to equity plus debt) around its allowed levels of about 50% (regulations restrict dividends if this ratio falls below 44%). Furthermore, BHE has placed PacifiCorp in a ringfencing structure that restricts dividends if PacifiCorp's ratings fall to non-investment grade.

## Liquidity Analysis

PacifiCorp has good near-term liquidity, with the capacity to generate free cash flow and ample bank lines. Last three years' reported cash flow from operations averaged at \$1.6 billion. After the roughly \$0.8 billion of capital expenditures estimated for 2016-18, the company would have free cash flow of about \$0.7 billion annually before financing activities.

As of 31 December 2015, the company had \$12 million in cash and \$1.02 billion was available under two \$600 million revolvers expiring in June 2017 and March 2018. We assume that the company will renew its credit facilities before they become current. PacifiCorp uses its credit facilities to backstop its commercial paper program and to support its variable rate tax-exempt bonds. These credit agreements do not require a MAC representation for borrowings, which we view positively. The sole financial covenant is a limitation on debt to 65% of total capitalization. As of 31 December 2015, PacifiCorp had ample headroom under that covenant with that ratio at 49% as defined in the agreement.

PacifiCorp has approximately \$401 million of variable rate tax-exempt bonds that it remarkets periodically. Material issues coming due over the next 12 months are three issues of tax-exempt bonds totaling \$62 million maturing on 1 October and 1 December 2016 and on 1 January 2017. The company can repay these maturities using its free cash flow and has no foreseeable need to issue long-term debt this year. It will likely dividend its remaining cash flow to BHE.

## Profile

PacifiCorp (A3 stable) is a vertically integrated electric utility company serving 1.8 million retail electric customers in six western states. PacifiCorp conducts business through two utility divisions: Rocky Mountain Power (Utah, 44% of PacifiCorp's 2015 retail electricity sales; Wyoming, 17% of sales; Idaho, 6%) and Pacific Power (Oregon, 24% of retail sales; Washington, 8%; California, 1%). The company also sells power in the wholesale market (14% of 2015 total electricity sales).

PacifiCorp is the largest subsidiary of Berkshire Hathaway Energy Company (BHE, A3 stable), comprising 30% of BHE's 2015 EBITDA. BHE, in turn, is a consolidated subsidiary of Berkshire Hathaway Inc. (BRK, Aa2 stable).

## Rating Methodology and Scorecard Factors

Exhibit 3

### Rating Factors

#### PacifiCorp

#### Regulated Electric and Gas Utilities Industry Grid [1][2]

	Current FY 12/31/2015		Moody's 12-18 Month Forward View As of 5/5/2016 [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
<b>Factor 4 : Financial Strength (40%)</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.2x	A	5.1x - 5.4x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.0%	Baa	22% - 23%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	12.0%	Baa	9% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	37.3%	A	37% - 38%	A
<b>Rating:</b>				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2015;

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 4

Category	Moody's Rating
<b>PACIFICORP</b>	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Senior Unsecured MTN	(P)A3
Pref. Stock	Baa2
Commercial Paper	P-2
<b>ULT PARENT: BERKSHIRE HATHAWAY INC.</b>	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
<b>PARENT: BERKSHIRE HATHAWAY ENERGY COMPANY</b>	
Outlook	Stable
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Commercial Paper	P-2

Source: Moody's Investors Service

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REPORT NUMBER 1025124