

PacifiCorp

A Subsidiary of Berkshire Hathaway Energy Company
Full Rating Report

Ratings

Long-Term IDR	A-
Short-Term IDR	F1
Preferred Stock	BBB+
Senior Secured	A+
Senior Unsecured	A

IDR – Issuer Default Rating.

Rating Outlook

Long-Term IDR	Stable
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Financial Summary

PacifiCorp

(\$ Mil.)	LTM	
	3/31/16	2015
Adjusted Revenue	5,234	5,232
Operating EBITDAR	2,165	2,112
Cash Flow from Operations	1,784	1,734
Total Adjusted Debt	7,222	7,287
Total Capitalization	14,660	14,668
Capex/Depreciation (%)	119.8	121.0
FFO Fixed-Charge Coverage (x)	5.3	5.2
FFO-Adjusted Leverage (x)	3.4	3.5
Total Adjusted Debt/EBITDAR (x)	3.3	3.5

Related Research

[U.S. Transmission and Distribution Utilities Handbook \(A Detailed Review of Electric and Gas Utilities – Second Edition\) \(May 2016\)](#)

[U.S. Utilities, Power and Gas Ratings Navigator Companion \(February 2015\)](#)

Analysts

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Key Rating Drivers

Strong Credit Metrics: PacifiCorp's (PPW) 'A-' Issuer Default Rating (IDR) and Stable Rating Outlook reflect the utility's strong credit metrics and generally supportive regulatory regimes across its six-state service territory. The ratings and outlook also consider PPW's relatively low business risk, more manageable prospective capex, a competitive resource base and below-industry-average retail rates. Fitch Ratings estimates 2016–2018 FFO coverage and leverage ratios will be better than 5.0x and 4.0x, respectively.

Manageable Capex: PPW's prospective capex is expected to average \$807 million per year in 2016–2018, 21% lower than the average annual run rate of approximately \$1.016 billion in 2013–2015 and well below peak investment levels of \$1.5 billion per year seen in 2010–2012. Given the sharply lower trend in 2016–2018 capex, Fitch expects cash flow to be slightly negative on average after capex and dividends. Lower capex is expected by Fitch to mitigate upward pressure on retail customer rates.

Constructive Regulation: Regulation across PPW's multistate service territory is generally stable and balanced, in Fitch's view, supporting its credit ratings and Stable Rating Outlook. An unexpected, meaningful and sustained deterioration in regulatory oversight would likely trigger adverse rating actions.

Rating Outlook: The Stable Rating Outlook considers PPW's strong credit metrics, relatively low business risk profile, more manageable prospective capex, competitive resource base, below-industry-average retail rates, and management focus on cost control and rate stability.

Rating Sensitivities

Positive Rating Action: Sustained PPW EBITDA and FFO leverage ratios of 3.25x and 3.5x, respectively, or better, along with continued efficient operating performance and balanced regulation could trigger future credit rating upgrades.

Negative Rating Action: Unexpected deterioration across key PPW regulatory jurisdictions and/or a prolonged plant outage or other event causing PPW's FFO-adjusted leverage to decline to 5.0x and EBITDA leverage to 3.75x, or worse, on a sustained basis could trigger adverse rating actions.

Financial Overview

Liquidity and Debt Structure

PPW’s liquidity position at March 31, 2016 was \$1.2 billion, including \$167 million in available cash and remaining borrowing capacity of \$1,050 billion under its credit facilities. PPW’s stand-alone borrowing capacity under its revolving credit facilities totals \$1.2 billion and comprises two separate facilities equally sized at \$600 million maturing in 2017 and 2018, respectively.

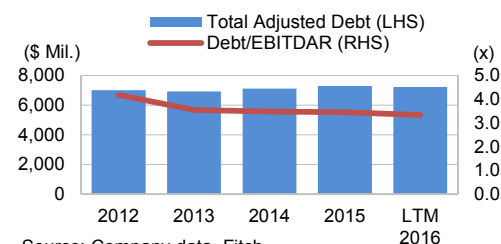
Debt Maturities and Liquidity

(\$ Mil., As of March 31, 2016)

2016	12
2017	52
2018	586
2019	350
2020	38
Thereafter	6,067
Cash and Cash Equivalents	167
Undrawn Committed Facilities	1,050

Source: Company data, Fitch.

Total Debt and Leverage

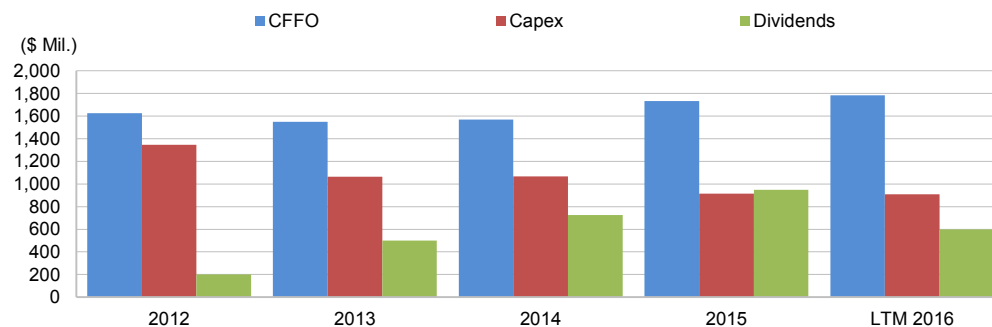


Source: Company data, Fitch.

Cash Flow Analysis

PPW was modestly FCF negative during 2012–2015, reflecting stable cash flows, a declining trend in capex and higher dividends paid. PPW’s capex declined more than 30% to \$916 million in 2015 from \$1.3 billion in 2012. Meanwhile, PPW’s utility FFO averaged \$1.5 billion per year in 2012–2015. Factoring in dividends and capex, PPW’s FCF deficit averaged \$72 million per year or 7% of average annual 2012–2015 capex. PPW’s annual 2016–2018 capex run rate is estimated at \$807 million per year on average.

CFFO and Cash Use



Source: Company data, Fitch.

Related Criteria

[Recovery Ratings and Notching Criteria for Utilities \(March 2016\)](#)

[Corporate Rating Methodology- Including Short-Term Ratings and Parent and Subsidiary Linkage \(August 2015\)](#)

[Parent and Subsidiary Rating Linkage Fitch’s Approach to Rating Entities within a Corporate Group Structure \(August 2015\)](#)

[Rating U.S. Utilities, Power and Gas Companies \(Sector Credit Factors\) \(March 2014\)](#)

Peer Group

Issuer	Country
A-	
Arizona Public Service Co.	U.S.
Public Service Company of Colorado	U.S.
Southern California Edison Company	U.S.

Issuer Rating History

Date	LT IDR (FC)	Outlook/Watch
May 5, 2016	A-	Stable
Nov. 24, 2015	A-	Stable
April 24, 2015	BBB+	Positive
Oct. 3, 2014	BBB+	Positive
April 7, 2014	BBB	Stable
Sept. 16, 2013	BBB	Stable
Sept. 17, 2012	BBB	Stable
Sept. 29, 2011	BBB	Stable
Oct. 1, 2010	BBB	Negative
Oct. 2, 2009	BBB	Stable
Aug. 13, 2008	BBB	Stable
July 13, 2007	BBB	Stable
Jan. 31, 2006	BBB	Stable
Dec. 6, 2005	BBB+	Stable
May 24, 2005	A-	Stable
Oct. 5, 2004	A-	Stable
May 24, 1995	A-	—

LT IDR – Long-term Issuer Default Rating.
 FC – Foreign currency.
 Source: Fitch.

Peer and Sector Analysis

Peer Group Analysis

(\$ Mil.)	PacifiCorp	Arizona Public Service Co.	Public Service Company of Colorado	Southern California Edison Company
As of	3/31/16	3/31/16	3/31/16	3/31/16
IDR	A-	A-	A-	A-
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable

Fundamental Ratios (x)

Operating EBITDAR/ (Gross Interest Expense + Rents)	5.5	7.5	6.5	6.5
FFO Fixed-Charge Coverage	5.3	7.3	6.8	4.1
Total Adjusted Debt/Operating EBITDAR	3.3	2.8	3.2	3.0
FFO/Total Adjusted Debt (%)	29.1	34.5	33.0	25.0
FFO-Adjusted Leverage	3.4	2.9	3.0	4.0
Common Dividend Payout (%)	82.6	61.6	69.9	82.0
Internal Cash/Capex (%)	121.8	81.7	89.2	47.2
Capex/Depreciation (%)	119.8	202.4	229.9	168.1
Return on Equity (%)	9.7	9.5	9.4	8.0

Financial Information

Revenue	5,234	3,498	4,086	11,412
Revenue Growth (%)	0.4	0.7	(5.3)	(12.0)
EBITDA	2,150	1,427	1,331	4,011
Operating EBITDA Margin (%)	41.1	40.8	32.6	35.1
FCF	276	(327)	(155)	195
Total Adjusted Debt with Equity Credit	7,222	4,086	4,271	12,364
Readily Available Cash	167	5	5	21
Funds Flow from Operations	1,706	1,216	1,201	2,493
Capex	(908)	(1,158)	(977)	(3,378)

IDR – Issuer Default Rating.
 Source: Company data, Fitch.

Key Rating Issues

Constructive Regulation

Regulatory outcomes across PPW’s multistate service territory have been and are expected to continue to be balanced, with the notable exception of Washington. PPW operates in six states: Utah, Wyoming, Idaho, Oregon, Washington and California. Various riders are in place to facilitate recovery of certain costs outside of general rate case (GRC) proceedings, including fuel adjustment clauses that mitigate commodity price exposure in all of PPW’s regulatory jurisdictions. GRC filings have slowed along with the step down in capex at PPW and management focus on rate stability.

Recent rulings by the Washington Utilities and Transportation Commission (WUTC) in PPW GRCs issued by the commission in March 2015 and December 2013 were notably unfavorable from an investor point of view, in Fitch’s opinion. The WUTC orders disallowed costs related to purchased power from qualifying facilities located outside the state of Washington and authorized a below-industry average of 9.5% authorized return on equity. PPW subsequently filed a petition for judicial review of certain finding in the WUTC’s December 2013 order. In April 2016 the Washington Court of Appeals affirmed the WUTC order, deferring to the commission’s discretion in ratemaking and concluding that the commission did not abuse that discretion.

Washington is a relatively small slice of PPW's operations, representing approximately 8% of consolidated 2015 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.

Declining Capex Trend

PPW's annual capex in 2015 declined 14% to \$916 million from \$1,066 million in 2014 and 32% below 2012 capex of \$1,346 million. Capex averaged \$1.5 billion per year in 2010–2012. Projected 2016–2018 capex approximates \$807 million per year on average. Lower capex levels at PPW in recent years reflect completion of large projects, including major transmission and renewables investments. In addition, capex incorporates slower PPW service territory load growth and efforts by management to minimize customer rate increases. Efforts by management to minimize customer rate increases while maintaining system reliability, safety and customer service have resulted in generally flat O&M expense.

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.

California ISO

PPW is considering the feasibility, costs and benefits of joining the California Independent System Operator (CAISO) as a participating transmission owner and has completed a comprehensive benefits study. The results of the study, showing net benefits to constituents, were released in October 2015, along with an extension of the nonbinding memorandum of understanding originally entered into by PPW in April 2015. The results of the study supports further analysis; PPW and the CAISO have initiated a stakeholder input and review process. Regulatory approvals would be required if PPW decides to become a participating transmission owner in the CAISO. In that scenario, PPW would participate in the day-ahead market operated by the CAISO and unified planning and operation of PPW's transmission network. PPW currently participates in CAISO's energy imbalance market since November 2014.

Strong Corporate Parent

PPW is a wholly owned indirect subsidiary of Berkshire Hathaway Energy Company (BHE), which in turn is majority-owned by Berkshire Hathaway Inc. (BRK, IDR AA-/Outlook Stable). Ownership of BHE by BRK is viewed favorably by Fitch as dividend retention affords BHE greater flexibility in managing operating company growth, dividends and capital structure compared to other investor-owned utilities. Ring-fence provisions at PPW, including a special purpose entity, are designed to preserve credit quality including a nonrecourse structure to limit PPW exposure to BHE liabilities.

Oregon/Utah Legislation Enacted

Oregon House Bill (H.B.) 1547-B, phasing out coal-fired generation by 2035 while sharply increasing Oregon's renewable standard, was signed into law March 2016 by Governor Kate Brown. The law sets firm milestones for the elimination of coal-generation for the state's two largest electric utilities, Portland General by 2035 and Pacific Power (which is a division of PPW), by 2030. H.B. 1547 also sets a significantly higher renewable portfolio standard (RPS)

requiring that 35% of retail load is sourced from qualifying renewables by 2030, 45% in 2035 and 50% by 2040.

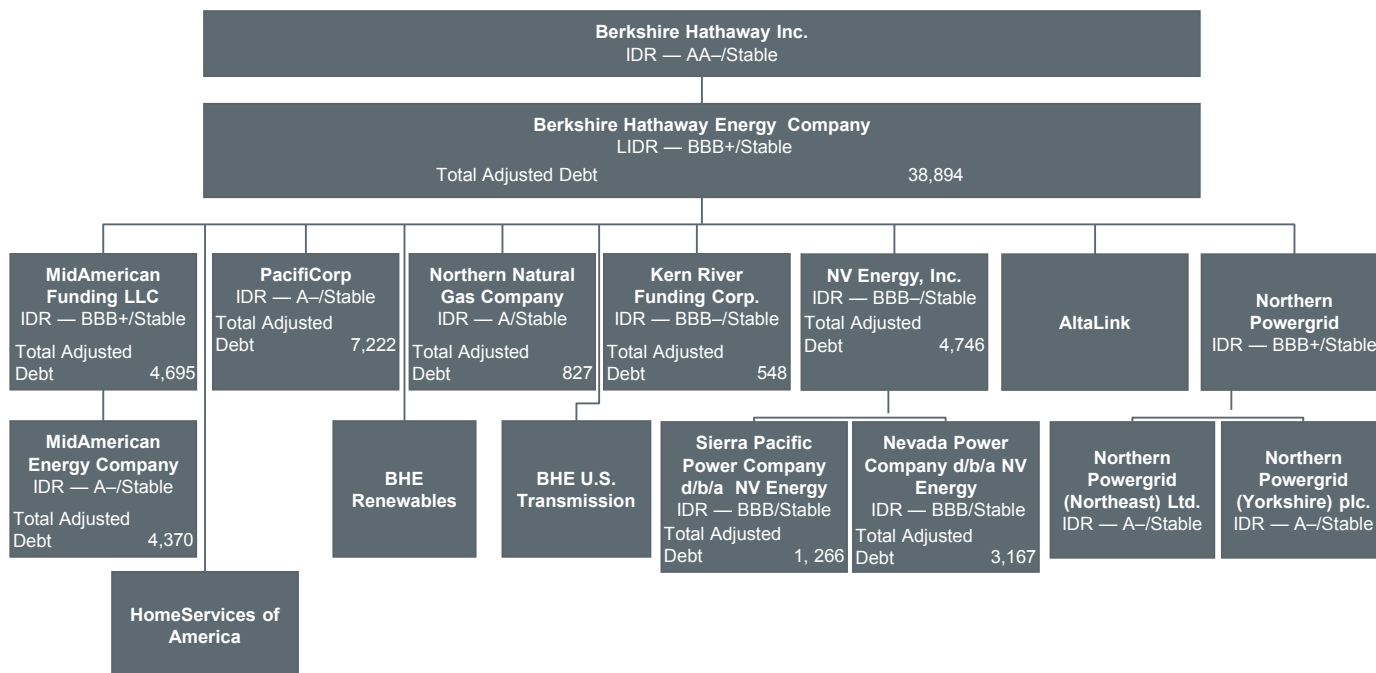
Oregon's 2007 RPS required that 20% of retail customer power needs be met by qualifying renewables and 25% in 2025. H.B. 1547 is the result of a collaborative process of stakeholders, including PPW and environmental groups, and will help the state achieve its ambitious carbon reduction goal of 75% below 1990 levels by 2050. PPW estimates that the legislation will save consumers up to \$600 million compared with a proposed ballot initiative sponsored by Renew Oregon. Fitch expects the legislation will bring upward pressure to bear on PPW's cost structure. Costs related to the legislation are expected to be recoverable in rates.

Governor Gary Herbert signed Utah Senate Bill (S.B.) 115 on March 30, 2016. Enactment of S.B. 115 is a constructive development which includes, among other things, authorization of recovery of 100% of net power costs outside of GRC proceedings. The law also requires the Utah Public Service Commission to establish a fund through a change in accounting for energy efficiency programs as a reserve for coal plant exposure. In addition, S.B.115 establishes and funds a pilot for investment in electric vehicle infrastructure and clean coal research.

Organizational Structure

Organizational and Debt Structure — Berkshire Hathaway Energy Company

(\$ Mil., As of March 31, 2016)



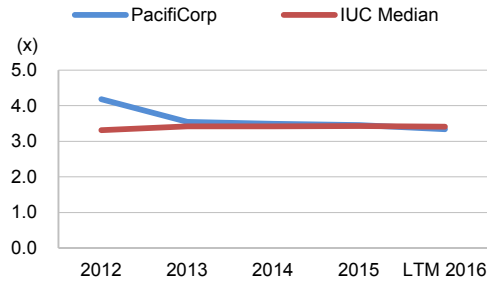
IDR – Issuer Default Rating.
Source: Company filings, Fitch.

Key Metrics

Definitions

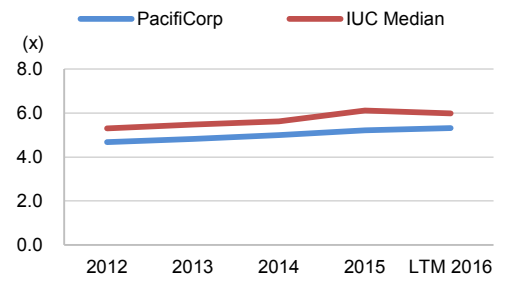
- FFO Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- FFO/Debt: FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock.

Total Adjusted Debt/Op. EBITDAR



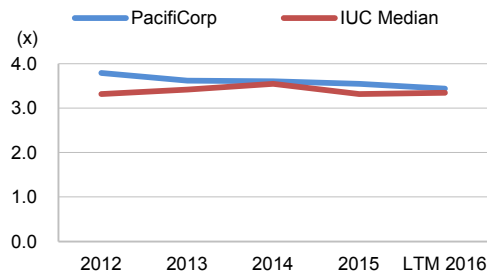
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



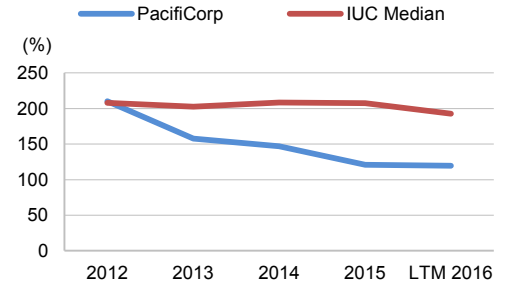
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO-Adjusted Leverage



IUC – Integrated utility companies.
Source: Company data, Fitch.

Capex/Depreciation



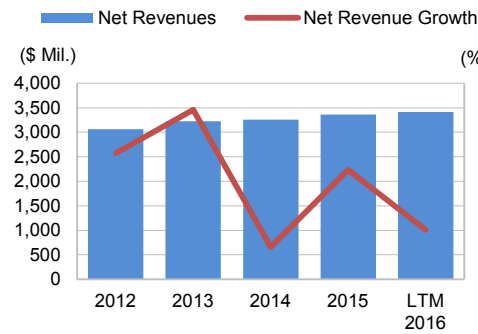
IUC – Integrated utility companies.
Source: Company data, Fitch.

Company Profile

PPW is an integrated electric utility with operations spanning six states throughout portions of the U.S. Rocky Mountains and the Pacific Northwest. PPW owns net 10,894 MW of generating capacity and 61% of its 2015 output was coal-fired with the remainder supplied via natural gas (14%), hydroelectric (4%), wind and other (4%) and purchase power (17%). Utah, Oregon and Wyoming account for approximately 85% of electricity sold to PPW retail customers by jurisdiction. During 2012–2015, revenue, operating income and net income logged CAGR of 7.2%, 9.5% and 9%, respectively. Consolidated PPW retail sales growth in 2016 is expected to approximate 2.1% before slowing to 0.3% in 2017.

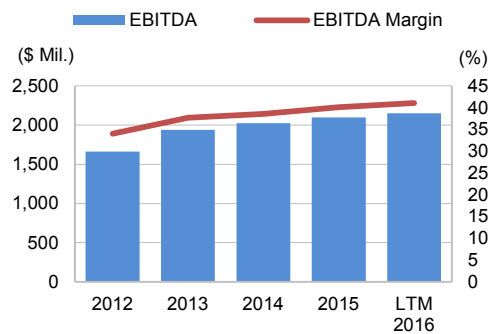
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — PacifiCorp

(\$ Mil., As of March 31, 2016, IDR — A-/Rating Outlook Stable)	2012	2013	2014	2015	LTM 1Q16
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	4.3	4.9	5.2	5.4	5.5
FFO Fixed-Charge Coverage (x)	4.7	4.8	5.0	5.2	5.3
Total Adjusted Debt/Operating EBITDAR (x)	4.2	3.5	3.5	3.5	3.3
FFO/Total Adjusted Debt (%)	26.4	27.6	27.7	28.2	29.1
FFO-Adjusted Leverage (x)	3.8	3.6	3.6	3.5	3.4
Common Dividend Payout (%)	37.2	73.3	103.9	136.7	82.6
Internal Cash/Capex (%)	93.2	95.5	80.2	77.5	121.8
Capex/Depreciation (%)	210.3	157.8	146.8	121.0	119.8
Return on Equity (%)	7.0	8.8	9.0	9.3	9.6
Profitability					
Revenues	4,882	5,147	5,252	5,232	5,234
Revenue Growth (%)	6.5	5.4	2.0	(0.4)	0.4
Net Revenues	3,064	3,223	3,255	3,364	3,415
Operating and Maintenance Expense	(1,242)	(1,114)	(1,057)	(1,082)	(1,077)
Operating EBITDA	1,661	1,939	2,026	2,097	2,150
Operating EBITDAR	1,675	1,955	2,042	2,112	2,165
Depreciation and Amortization Expense	(640)	(675)	(726)	(757)	(758)
Operating EBIT	1,021	1,264	1,300	1,340	1,392
Gross Interest Expense	(380)	(379)	(379)	(379)	(380)
Net Income for Common	537	682	698	695	726
Operating Maintenance Expense % of Net Revenues	(40.5)	(34.6)	(32.5)	(32.2)	(31.5)
Operating EBIT % of Net Revenues	33.3	39.2	39.9	39.8	40.8
Cash Flow					
Cash Flow from Operations	1,625	1,551	1,570	1,734	1,784
Change in Working Capital	170	34	(10)	74	78
Funds from Operations	1,455	1,517	1,580	1,660	1,706
Dividends	(200)	(500)	(725)	(950)	(600)
Capex	(1,346)	(1,065)	(1,066)	(916)	(908)
FCF	79	(14)	(221)	(132)	276
Net Other Investment Cash Flow	(5)	12	(16)	(3)	20
Net Change in Debt	(41)	15	207	124	(141)
Net Equity Proceeds	—	(40)	—	—	—
Capital Structure					
Short-Term Debt	—	—	20	20	—
Total Long-Term Debt	6,861	6,877	7,053	7,146	7,093
Total Debt with Equity Credit	6,881	6,878	7,074	7,167	7,094
Total Adjusted Debt with Equity Credit	7,008	6,926	7,120	7,287	7,222
Total Common Shareholder's Equity	7,644	7,787	7,756	7,503	7,568
Total Capital	14,484	14,663	14,828	14,668	14,660
Total Debt/Total Capital (%)	47	47	48	49	48
Common Equity/Total Capital (%)	53	53	52	51	52

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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