Fitch Affirms Berkshire Hathaway Energy Co & Subs

Fitch Ratings-New York-01 February 2017: Fitch Ratings has affirmed the ratings of Berkshire Hathaway Energy Company (BHE) and its subsidiaries. The Rating Outlook for BHE is Stable.

Fitch has also affirmed the ratings of NV Energy, Inc. (NVE) and its operating subsidiaries, Nevada Power Co. (NPC) and Sierra Pacific Power Co. (SPPC), and revised the companies' Rating Outlooks to Positive. The Outlook revision reflects improving credit metrics at NVE and its operating subsidiaries.

Fitch has affirmed the Issuer Default Ratings (IDRs) and securities ratings for the following BHE subsidiaries: PacifiCorp (PPW), MidAmerican Funding LLC (MF), MidAmerican Energy Co. (MEC), 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 (approximately $85 billion as of Sept. 30, 2016) and investment appetite. As a result, Fitch estimates that BHE will be free cash flow (FCF) positive and that consolidated debt will decline in 2016-2020. 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 a portfolio of large high-quality 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-'/Positive Outlook) in 2013. The potential impact of future M&A activity 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: BHE M&A activity and the associated increase in parent-company leverage following the acquisitions of NVE Energy and AltaLink have pressured BHE's consolidated credit metrics. Fitch projects BHE funds flow from operations (FFO) coverage and leverage ratios will range from 3.9x to 4.1x and 4.6x to 4.8x, respectively, during 2016-2020.

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

Fitch forecasts FFO coverage and leverage ratios will approximate 4.9x and 3.7x 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 Stable Outlook. 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. Various riders are in place to facilitate recovery of certain costs outside of general rate cases (GRCs), including fuel adjustment clauses that mitigate commodity price exposure in all of PPW's regulatory jurisdictions.

Washington regulation remains challenging with some evidence of improvement, in Fitch's view, based on a reasonable outcome in PPW's most recent rate case. In September 2016, the Washington Utilities and Telecommunications Commission (WUTC) issued final orders approving a rate increase of $6 million, or 1.7%, effective October 2016 and a second step-rate increase of $8 million, or 2.3%, effective September 2017. The WUTC also approved a revenue decoupling mechanism and accelerated depreciation for coal-fueled generation facilities included in Washington rates. As part of the proposed rate plan, PPW agreed not to file a GRC in Washington with rates effective earlier than mid-2018.

Previous rulings by the WUTC in PPW GRCs in March 2015 and December 2013 were notably unfavorable for investors, 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 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.
Fitch notes that Washington is a relatively small slice of PPW's operations, representing approximately 8% of consolidated 2015 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.

Lower Capex: PPW's annual capex in 2015 declined 14% to $916 million from $1,066 million in 2014, 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, renewables and environmental remediation 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 these 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.

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 Outlooks reflect the utility's relatively low business risk profile, solid FFO metrics, a cleaner fuel-mix in recent years and a balanced regulatory environment in Iowa.

Wind XI Ratemaking Principles: The Iowa Utility Board (IUB) issued an order August 2016 approving ratemaking principles for the planned construction of MEC's 2,000MW Wind XI project. The ratemaking principles establish a cost cap of $3.6 billion, including AFUDC, and a fixed 11% ROE over the proposed 40-year useful lives of those facilities in any future Iowa rate proceeding. The cost cap ensures that as long as total costs are below the cap, the investment will be deemed prudent in any future Iowa rate proceeding.

Additionally, the Wind XI ratemaking principles modify the revenue sharing mechanism currently in effect at MEC. The revised sharing mechanism will be effective in 2018 and triggered each year by actual equity returns if they are above the weighted average ROE (as determined by the single-A rated average utility bond yield plus 400bps) for MidAmerican Energy calculated annually. Pursuant to the change in revenue sharing, MEC will share 100% of the revenue in excess of this trigger with customers. Such revenue sharing will reduce MEC's coal and nuclear generation rate base, which is intended to mitigate future base rate increases.

In its last GRC the IUB authorized a $266 million rate increase phase in over several years. The final $45 million rate increase was effective Jan. 1, 2016. In addition, the IUB authorized energy and transmission cost adjustment mechanisms and a mechanism to recover expiring production tax benefits in rates.

In recent years, MEC has significantly diversified its fuel-mix via meaningful new-build wind generation while maintaining rates that that are competitive regionally and compared to the national average.

Solid Credit Metrics: Fitch estimates that MF and MEC's financial metrics will remain consistent with current rating levels based on Fitch's target medians and peer comparisons. The utility's FFO fixed charge coverage and FFO-adjusted leverage ratios are expected to remain strong, ranging from 5.7x to 8.2x and 2.6x to 3.5x, respectively, during 2016-2020. Similarly, MF's FFO fixed charge coverage and FFO-adjusted leverage ratios are estimated at 5.3x to 7.4x and 2.8x to 3.7x during 2016 - 2020.

NVE Outlook to Positive: The affirmations and Positive Outlooks for NVE, NPC and SPPC reflect solid credit metrics that are consistent with 'BBB' target medians. They also consider the balanced Nevada regulatory compact, manageable leverage, improving regional economic conditions and modest sales growth. Fitch expects resolution of the Outlooks will turn on regulatory/legislative developments. An active legislative session is expected in Nevada in 2017 with regard to energy policy and Fitch anticipates NPC will file a GRC later this year. Constructive outcomes on these fronts could result in a one-notch upgrade for NVE, NPC and SPPC.

Nevada Regulation Credit Supportive: The regulatory compact for NVE's operating utilities is credit supportive, in Fitch's opinion. NPC and SPPC are required by Nevada statute to file GRCs every three years. Test years are historical and adjusted for known and measurable changes. The PUCN is required to issue a decision within 210 days from the GRC filing date. Adjustment clauses have been authorized by the commission for the recovery of purchased power and fuel costs as well as energy efficiency and conservation program expenses. Twenty-year integrated resource plans are filed every three years and are subject to PUCN review with regard to ultimate inclusion in base rates.

Improving Credit Metrics: NVE's adjusted debt-to-operating EBITDAR, based on Fitch' projections, improves from 4x in 2016 to 3.6x in 2020 while FFO adjusted leverage is estimated to improve from 4.5x in 2016 to 4.2x in 2020, levels consistent with mid-'BBB' credit ratings. This improvement along with a continuation of a supportive regulatory / political construct in Nevada could result in a credit rating upgrade within 12-18 months.

SPPC GRC Decision: In December 2016, the PUCN issued an order adopting the settlement filed by SPPC October 2016 in its GRC. The filed settlement did not resolve rate design issues associated with net metering. In addition to adopting the settlement's proposed $2.9 million electric and $2.4 million gas rate decreases, the commission authorized net metering using full retail requirement rates for up to 6MW of capacity noting that its decision was case specific and not precedent setting. SPPC has filed for reconsideration with regard to the commission's net metering decision in the GRC.

Commission Update: The PUCN's net metering decision, issued December 2015 consistent with Senate Bill (S.B.) 374, established new rules including higher fixed charges and reductions to rates paid by utilities to partial requirements customers for exports to the grid, among other things. In September 2016 Governor Sandoval appointed a new chairman and commissioner to the PUCN, which has three members. In addition, the governor reconvened the New Energy Industry Task Force, which submitted several recommendations regarding net metering and other energy related issues. Fitch believes further legislative initiatives regarding net metering, grid modernization and energy efficiency will be introduced in Nevada's upcoming legislative session. The highly politicized debate regarding net metering and broader energy policy in Nevada, including efforts to expand retail choice to residential customers, is a source of uncertainty from a credit perspective.

NNG Ratings Affirmed: The ratings and Stable Outlook 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.

Counterparty 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 a reasonable ROE, typically in the low double digits.

Fitch projects NNG FFO coverage and leverage 2016-2020 of 6.6x-8.2x and 2.3x-3.0x, 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.

Projected KRF coverage and leverage ratios over 2016-2020 strongly support its 'A-' rating and Stable 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 risk 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 2016-2020 consolidated FCF and debt reduction at BHE averages approximately $2 billion per year;
--Reasonable outcomes in pending and future operating utility rate cases;
--No meaningful deterioration in key U.S. regulatory jurisdictions;
--Earned ROEs of better than 10% at MEC and 9%-10% at PPW and NVE;
--Incorporates recent regulatory decisions;
--Wind investment of more $3.5 billion at MEC 2016-2019.

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

--BHE: Relatively high consolidated leverage limits a positive rating action 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 a rating upgrade.

--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 limits a positive rating action. However, stable, sustained FFO adjusted coverage and leverage ratios of 5.0x and 3.5x, respectively, or better, could result in a rating upgrade.

--PPW: A positive rating action for PPW is 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 a rating upgrade.

--NVE/NPC/SPPC: Improvement in NVE's FFO and EBITDAR leverage to 5.0x and 3.75x, respectively, or better on a long-term projected basis along with a continued balanced political - regulatory environment in Nevada could lead to a one-notch upgrade for NVE and its operating subsidiaries, NPC and SPPC, within 18-months.

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

Future developments that may, individually or collectively, lead to a rating downgrade include:

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

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 a downgrade 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 at BHE could trigger a rating downgrade at the utility holding company. Significant deterioration in the financial strength of BRK leading to a rating downgrade could also trigger adverse rating actions at BHE. Poor operating and financial performance at its operating subsidiaries could lead to a downgrade at BHE.

--MF and MEC: A significant deterioration in the regulatory compact in Iowa, a catastrophic plant outage or other factors causing MEC's FFO leverage to weaken to 4.5x or worse on a sustained basis would likely lead to a rating downgrade 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, a catastrophic plant outage or other factors to 4.5x or worse could lead to a rating downgrade.

--NVE/NPC/SPPC: 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 a future, adverse rating action for NVE and its subsidiaries, SPPC and NPC. The highly politicized debate in Nevada regarding net metering and energy policy issues in the state is a source of concern that could lead to a rating downgrade.

--NNG: Deterioration of NNG's FFO leverage to 4x or weaker could result in a rating downgrade driven by recontracting risk, higher operating costs or other factors.

--KRF: Given the pipeline's strong operating profile and already low and amortizing debt, a rating downgrade appears unlikely at this juncture.

Both NNG and KRF could be downgraded due to recontracting risk, unexpected increases in operating costs and catastrophic pipeline related events leading to significant pressure on projected credit metrics.

LIQUIDITY

BHE's liquidity is strong, with total available consolidated liquidity of $5 billion as of Sept. 30, 2016. Liquidity is composed of $1 billion of consolidated BHE cash and $4 billion of unused borrowing capacity under its $6.3 billion of committed revolving credit facilities. BHE has a $2 billion parent-only credit facility that matures in 2019 and supports its commercial paper program. Debt maturities are manageable, averaging $1.4 billion in 2016-2020.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings and maintained the Stable Rating Outlook for each entity's Long-Term IDR:

Berkshire Hathaway Energy Co. (BHE)
--Long-Term IDR at 'BBB+';
--Senior unsecured at 'BBB+';
--Trust Preferred at 'BBB-';
--Short-Term IDR at 'F2'.

PacifiCorp (PPW)
--Long-Term IDR at 'A-';
--Senior secured debt at 'A+';
--Senior unsecured debt at 'A';
--Preferred stock at 'BBB+';
--Short-Term IDR at 'F2';
--Commercial paper at 'F2'.

MidAmerican Funding LLC (MF)
--Long-Term IDR at 'BBB+';
--Senior secured debt at 'A-'.

MidAmerican Energy Company (MEC)
--Long-Term IDR at 'A-';
--Senior secured debt at 'A+';
--Senior unsecured debt at 'A';
--Short-Term IDR at 'F2';
--Commercial paper at 'F2'.

Kern River Funding Corp. (KRF)
--Long-Term IDR at 'A-';
--Senior unsecured debt at 'A-'.

Northern Natural Gas Co. (NNG)
--Long-Term IDR at 'A';
--Senior unsecured debt at 'A'.

Fitch has affirmed the following ratings and revised the Rating Outlook to Positive from Stable for each entity's Long-Term IDR:

NV Energy, Inc. (NVE)
--Long-Term IDR at 'BBB-';
--Senior unsecured debt at 'BBB-'.

Nevada Power Co. (NPC)
--Long-Term IDR at 'BBB';
--Senior secured debt at 'A-';
--Short-Term IDR at F2'.

Sierra Pacific Power Co. (SPPC)
--Long-Term IDR at 'BBB';
--Senior secured debt at 'A-';
--Short-Term IDR at 'F2'.

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Summary of Financial Statement Adjustments - No financial statement adjustments were made that were material to the rating rationale outlined above.

Additional information is available on www.fitchratings.com.

Applicable Criteria
Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016) (https://www.fitchratings.com/site/re/885629)
Recovery Ratings and Notching Criteria for Utilities (pub. 04 Mar 2016) (https://www.fitchratings.com/site/re/878227)

Additional Disclosures
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(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?
pr_id=1018435&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiMlBTWE5GRVE0V1JaRlhTUEJEMD
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