PacifiCorp

Subsidiary of Berkshire Hathaway Energy Company

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A–
Short-Term IDR	F2
Preferred Stock	BBB+
Senior Secured	A+
Senior Unsecured	A

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

PacifiCorp

($ Mil.)	LTM 2017	2016
Adjusted Revenue	5,230	5,201
Operating EBITDAR	2,238	2,211
Cash Flow from Operations	1,605	1,568
Total Adjusted Debt	7,165	7,471
Total Capitalization	14,504	14,739
Capex/ Depreciation (%)	113.5	117.3
FFO Fixed-Charge Coverage (x)	5.8	5.5
FFO-Adjusted Leverage (x)	3.1	3.4
Total Adjusted Debt/EBITDAR (x)	3.2	3.4

Related Research

Fitch Affirms Berkshire Hathaway Energy Following Oncor Acquisition Announcement; Outlook Stable (July 2017)

U.S. Corporates Spotlight Series: Berkshire Hathaway Energy Company (Subsidiary of Berkshire Hathaway, Inc.) (May 2017)

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Key Rating Drivers

Strong Credit Metrics: PacifiCorp's (PPW) 'A–' Issuer Default Rating (IDR) reflects the utility's strong credit metrics and generally supportive regulation across its six-state service territory. FFO fixed-charge coverage and FFO-adjusted leverage was 5.8x and 3.1x for LTM March 31, 2017, respectively. Fitch Ratings estimates 2017 and 2018 FFO coverage and leverage ratios will be better than 5.0x and 4.0x, respectively. The ratings and outlook also consider PPW's relatively low business risk, a competitive resource base and below-industry-average retail rates.

Rising Capex Expectations: Fitch expects PPW's 2017–2019 capex to meaningfully exceed the $3.5 billion estimate disclosed by Berkshire Hathaway Energy (BHE; BBB+/Stable) earlier this year at its March 31, 2017 fixed-income investors conference. This view reflects the utility's integrated resource plan, subsequently filed with state regulators, which included significant, new wind generating capacity. Notwithstanding significantly higher capex, Fitch believes PPW will not file its next base rate case until late this decade and that future rate increases will be modest.

Constructive Regulation: Regulation across PPW's six-state service territory is generally balanced, in Fitch's view, supporting the utility's 'A–' IDR and Stable Outlook. PPW benefits from regulatory mechanisms and riders designed to recover large costs that are beyond its control, including fuel and purchase power. 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, competitive resource base, below-industry-average retail rates and management focus on cost control and rate stability.

Rating Sensitivities

Positive Rating Action: Sustained 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 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 decline to 3.75x, or worse, on a sustained basis could trigger adverse rating actions.

Financial Overview

Liquidity and Debt Structure

PPW's liquidity position as of March 31, 2017 was $915 million, including $15 million in available cash and cash equivalents and a remaining borrowing capacity of $900 million under its credit facilities. PPW's stand-alone borrowing capacity under its revolving credit facilities totals $1 billion and consists of two separate facilities sized at $600 million and $400 million maturing in March 2018 and June 2019, respectively.

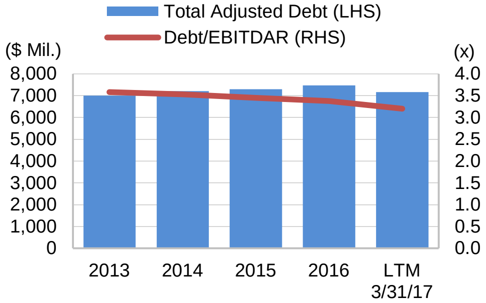
Debt Maturities and Liquidity

($ Mil., As of March 31, 2017)

2017	—
2018	586
2019	350
2020	38
2021	420
Thereafter	5,675
Cash and Cash Equivalents	15
Undrawn Committed Facilities	900

Source: Company data, Fitch.

Total Debt and Leverage

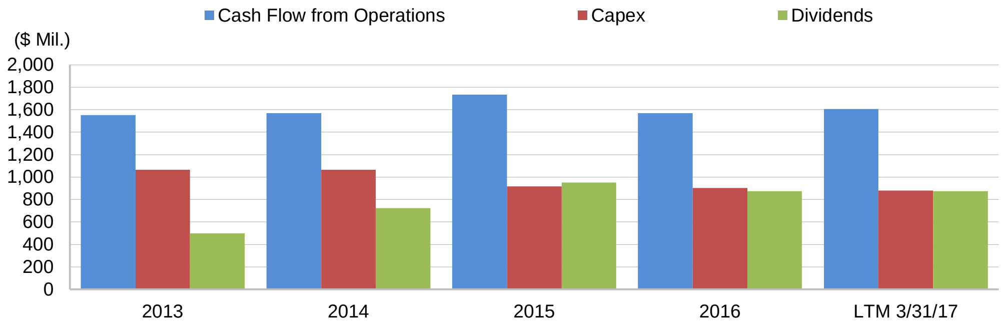


Source: Company data, Fitch.

Cash Flow Analysis

PPW was modestly FCF negative during 2013–2016, reflecting rising FFO, a declining trend in capex and higher dividends paid. PPW's capex declined 15% to $903 million in 2016 from $1.1 billion in 2013. Meanwhile, PPW's utility FFO averaged $1.6 billion per year in 2013–2016. Factoring in dividends and capex, PPW's FCF deficit averaged $144 million per year or approximately 15% of average annual 2013–2016 capex. PPW's annual 2016–2018 capex run rate as disclosed at BHE's fixed-income analyst conference was estimated at approximately $1.2 billion per year on average, before considering proposed wind projects included in PPW's integrated resource plan filing with regulators.

Cash Flow from Operations and Cash Use



Source: Company data, Fitch.

Related Criteria

Non-Financial Corporates Notching and Recovery Ratings Criteria (June 2017)

Criteria for Rating Non-Financial Corporates (March 2017)

Parent and Subsidiary Rating Linkage (August 2016)

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
Feb. 1, 2017	A–	Stable
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	Stable
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–	Stable

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	3/31/17	3/31/17	3/31/17	3/31/17
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)	5.7	6.7	8.0	20.4
FFO Fixed-Charge Coverage	5.8	6.3	8.3	11.6
Total Adjusted Debt/Operating EBITDAR	3.2	3.1	3.2	3.0
FFO/Total Adjusted Debt (%)	31.8	30.2	31.9	30.2
FFO-Adjusted Leverage	3.1	3.3	3.1	3.3
Common Dividend Payout (%)	112.6	59.7	71.6	54.2
Internal Cash/Capex (%)	82.9	61.5	65.4	75.5
Capex/Depreciation (%)	113.5	205.3	255.2	171.5
Return on Equity (%)	10.3	9.9	8.7	10.9
Financial Information				
Revenue	5,230	3,490	4,072	11,851
Revenue Growth (%)	(0.1)	(0.2)	(0.4)	3.8
EBITDA	2,223	1,468	1,332	4,358
Operating EBITDA Margin (%)	42.5	42.1	32.7	36.8
FCF	(151)	(451)	(399)	(886)
Total Adjusted Debt with Equity Credit	7,165	4,510	4,375	13,088
Readily Available Cash	15	3	6	100
Funds Flow from Operations	1,881	1,143	1,228	3,580
Capex	(881)	(1,171)	(1,153)	(3,612)

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

Key Rating Issues

Oregon Coal Phase-Out

In Fitch's view, Senate Bill (S.B.) 1547-B enacted in March 2016 phasing out coal-fired generation in Oregon by 2035 while sharply increasing Oregon's renewable standard is likely to result in higher costs for the utility. However, Fitch believes the higher costs associated with S.B. 1547-B will be recovered from customers and the effects of the legislation will be manageable within PPW's current credit profile.

The law sets firm milestones for the elimination of coal-fired generation for the state's two largest electric utilities, Portland General by 2035 and Pacific Power (which is a division of PPW) by Jan. 1, 2030. S.B. 1547-B also sets a significantly higher renewable portfolio standard (RPS), requiring that 35% of retail load is sourced from qualifying renewables by 2030, 45% by 2035 and 50% by 2040. Oregon's 2007 RPS required that 20% of retail customer power needs be met by qualifying renewables, increasing to 25% in 2025.

S.B. 1547-B was 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. While Oregon is PPW's second-largest contributor to consolidated kilowatt-hour (kWh) sales ranked by state, it represented approximately one-quarter of PPW's annual sales, underscoring the geographic diversity of the utility's operations. Utah, Oregon and Wyoming accounted for 85% of total kWh sales during 2013–2016, with Washington, Idaho and California accounting for the remaining 15%.

Constructive Regulation

Regulatory outcomes across PPW's multistate service territory have been and are expected to remain balanced from a credit perspective, with the exception of Washington. Economic regulation by the Washington Utilities and Transportation Commission (WUTC), has turned more challenging, in Fitch's, view. General rate case decisions issued by the WUTC in 2013 and 2015 were disappointing from a creditworthiness point of view, with noticeable improvement in PPW's most recent GRC. Various riders are in place across PPW's service territory to facilitate recovery of certain costs outside of GRC proceedings, including fuel adjustment clauses that mitigate commodity price exposure in all of PPW's regulatory jurisdictions. GRC filings have slowed, reflecting management focus on rate stability and lower capex. No GRCs are currently pending across PPW's six-state service territory.

PPW's retail electric rates are competitive regionally, based on weighted average rates. Pacific Power's and Rocky Mountain Power's weighted average retail rates are $0.095/kWh and $0.082/kWh, respectively, which compare with Pacific and Mountain regional average rates of $0.145/kWh and $0.095/kWh, respectively, based on Edison Electric Institute data. While year-over-year capex projections have risen meaningfully, Fitch believes PPW will be able to offset costs associated with wind and transmission investment via cost reductions, keeping rates flat through 2019.

In September 2016, WUTC authorized a $14 million, two-step rate increase. The rate increase is composed of a $6 million (1.7%) first-step rate increase effective October 2016 and an $8 million (2.3%) second-step rate increase effective September 2017. The rate increases are based on a 9.5% authorized ROE, the same level authorized in PPW's last GRC. In Fitch's opinion, the outcome of this rate proceeding is more balanced from a PPW creditworthiness point of view than previous orders issued by the WUTC in 2015 and 2013.

PPW filed its most recent rate case with the WUTC in November 2015, initially requesting a $20 million two-step rate increase. The company requested a first-step increase of $10 million effective May 1, 2016 and a second-step increase of $10.3 million effective May 1, 2017. The WUTC orders in the proceeding adopted PPW's proposed depreciation acceleration program and a decoupling mechanism. The new depreciation schedule is designed to recover all capital costs of the Bridger plant by 2025 and Colstrip Unit 4 by 2032. The WUTC-approved decoupling mechanism is effective for five years and includes triggering thresholds and caps in the interest of rate stability. The commission also denied PPW a return on emission control equipment installed at Jim Bridger Units 3 and 4.

In Fitch's opinion, rulings by the WUTC in GRCs issued March 2015 and December 2013 were unfavorable from a credit point of view. The WUTC orders disallowed costs related to purchased power from qualifying facilities located outside the state of Washington and authorized an ROE of 9.5%, below the industry average at the time the order was issued. PPW subsequently filed a petition for judicial review of certain findings 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 7% of consolidated 2016 kWh sales. Regulatory outcomes across the remainder of PPW's service territory have been and are expected to continue to be balanced.

Capex

PPW's 2017 IRP proposes the addition of 1,100 MW of new wind generation in Wyoming that will connect to a new 140-mile 500-kilovolt transmission line from a substation near Medicine Bow, WY to the Jim Bridger power plant. The transmission line will provide access to the new wind generation and relieve congestion. The IRP also includes 905 MW of repowered wind generation and calls for retirement of 3,650 MW of coal-fired generation by 2036. The wind repowering projects incorporate federal production tax credit (PTC) benefits and are expected to be completed by 2020.

PPW's most recent capex plan, disclosed at its March 2017 fixed income analyst meeting, included new wind development of 240 MW at an estimated cost of $377 million and repowering of 805 MW at an estimated cost of $917 million. PPW's current capital investment plan (disclosed in March 2017) is 37% higher than the prior capex plan and totals $3.5 billion during 2017–2019, compared with $2.5 billion in the prior plan. If adopted, the IRP is likely to push capex meaningfully higher in 2018 and 2019.

California ISO

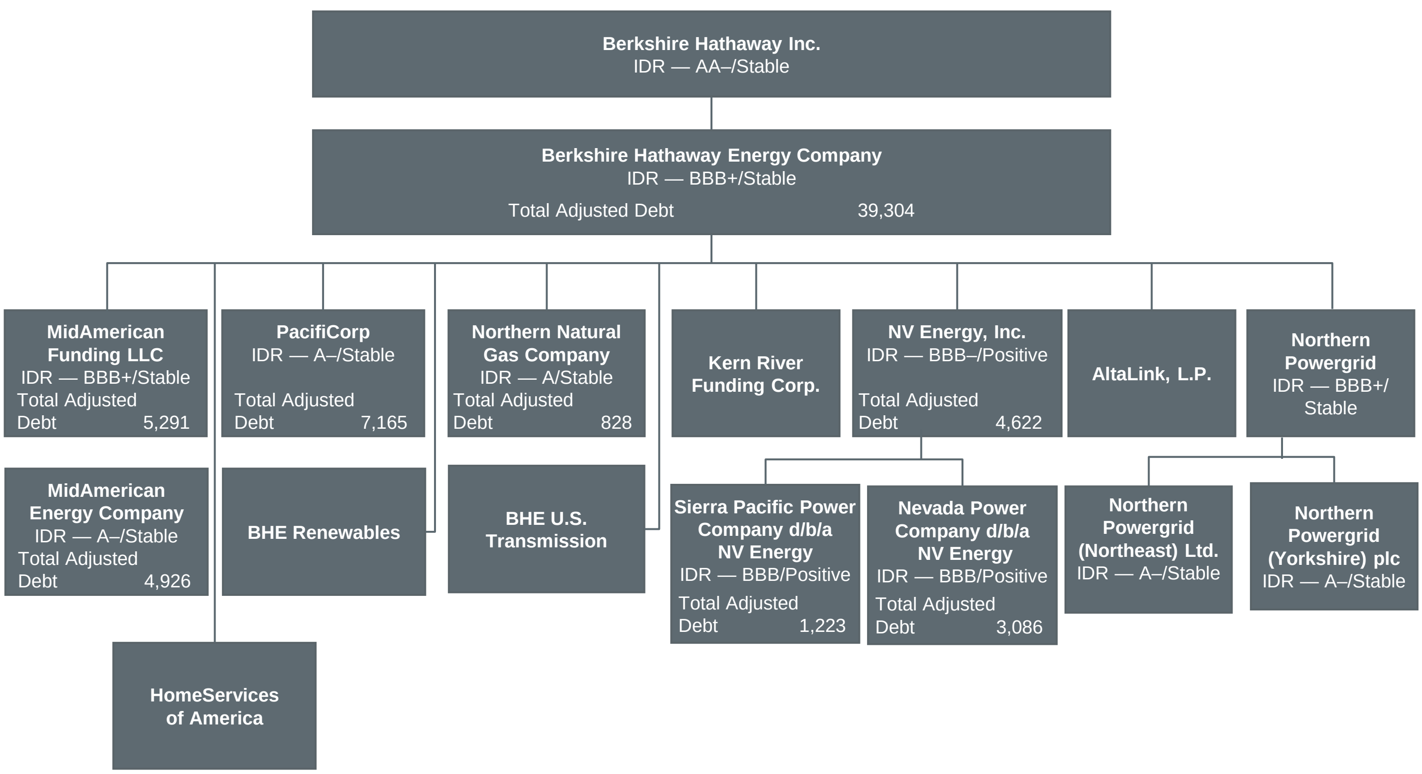
PPW is considering the feasibility, costs and benefits of joining the California Independent System Operator (CAISO) as a participating transmission owner and has completed a comprehensive benefits study. The results of the study, showing net benefits to constituents, were released in October 2015, along with an extension of the nonbinding memorandum of understanding originally entered into by PPW in April 2015. The results of the study support further analysis. California S.B. 350 authorizes the California legislature to consider making changes to current laws that would create an independent governance structure for a regional independent system operator in the state's 2017 legislative session. Regulatory approvals would be required if PPW decides to become a participating transmission owner in CAISO. In that scenario, PPW would participate in the day-ahead market operated by the CAISO and the unified planning and operation of PPW's transmission network.

PPW and affiliate NV Energy, Inc. (NVE) have participated in CAISO's Energy Imbalance Market (EIM) since 2014 and 2015, respectively, reducing the companies' costs to serve customers. EIM provides benefits through more efficient dispatch from a larger, more diverse pool of resources, more effective integration of renewable resources and enhanced reliability through greater situational awareness and responsiveness.

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 with other investor-owned utilities. Ring-fence provisions at PPW, including a special purpose entity, are designed to preserve credit quality and limit PPW exposure to BHE liabilities.

Organizational Structure — Berkshire Hathaway Energy Company
($ Mil., As of March 31, 2017)



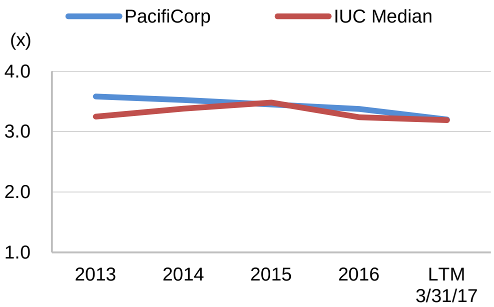
IDR – Issuer Default Rating.
Source: Company filings, Fitch.

Key Metrics

Definitions

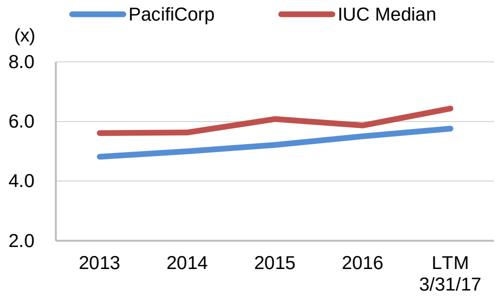
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- 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.

Total Adjusted Debt/Op. EBITDAR



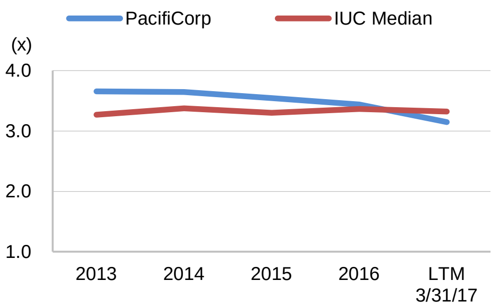
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



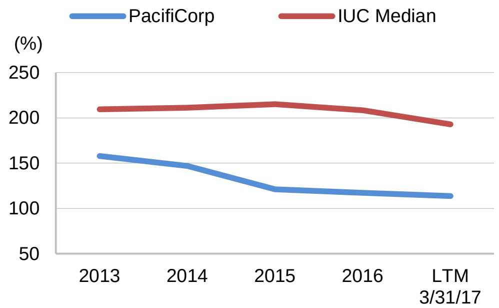
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO-Adjusted Leverage



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

Capex/Depreciation



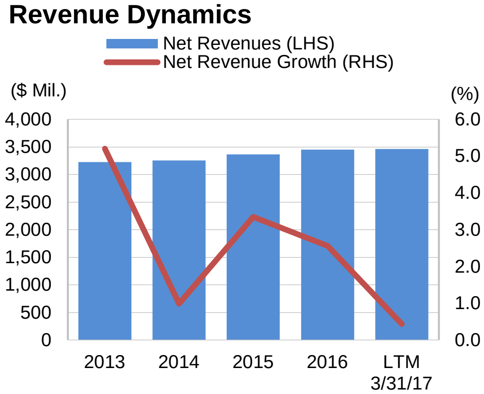
IUC – Integrated utility companies.
Source: Company data, Fitch.

Company Profile

Acquired by BHE in March 2006, PPW provides integrated electric utility service to 1.8 million retail customers in six Western U.S. states. Through its Rocky Mountain Power division, PPW serves customers in parts of Utah, Wyoming and Idaho. Its Pacific Power division oversees its Western service territory operations serving customers in parts of Oregon, Washington and California. Combined, Utah, Oregon and Wyoming accounted for 85% of PPW's total retail electricity sales in 2014–2016.

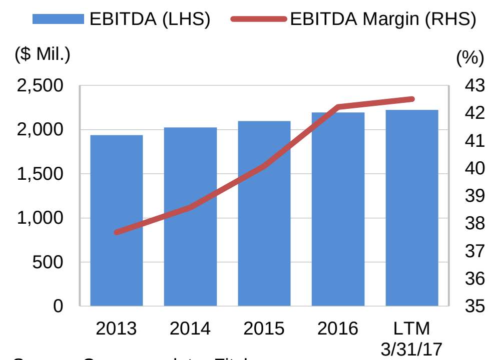
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — PacifiCorp

($ Mil., As of Mar 31, 2017, IDR — A–/Rating Outlook Stable)	2013	2014	2015	2016	LTM 3/31/17
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	4.9	5.2	5.4	5.6	5.7
FFO Fixed-Charge Coverage (x)	4.8	5.0	5.2	5.5	5.8
Total Adjusted Debt/Operating EBITDAR (x)	3.6	3.5	3.5	3.4	3.2
FFO/Total Adjusted Debt (%)	27.3	27.4	28.2	29.1	31.8
FFO-Adjusted Leverage (x)	3.7	3.6	3.5	3.4	3.1
Common Dividend Payout (%)	73.3	103.9	136.7	114.7	112.6
Internal Cash/Capex (%)	98.7	79.3	85.6	76.7	114.2
Capex/Depreciation (%)	157.8	146.8	121.0	117.3	113.5
Return on Equity (%)	8.8	9.0	9.1	10.2	10.3
Profitability					
Revenues	5,147	5,252	5,232	5,201	5,230
Revenue Growth (%)	5.4	2.0	(0.4)	(0.6)	(0.1)
Net Revenues	3,223	3,255	3,364	3,450	3,465
Operating and Maintenance Expense	(1,114)	(1,057)	(1,082)	(1,064)	(1,049)
Operating EBITDA	1,939	2,026	2,097	2,196	2,223
Operating EBITDAR	1,955	2,042	2,112	2,211	2,238
Depreciation and Amortization Expense	(675)	(726)	(757)	(770)	(776)
Operating EBIT	1,264	1,300	1,340	1,426	1,447
Gross Interest Expense	(379)	(379)	(379)	(380)	(380)
Net Income for Common	682	698	695	763	777
Operating Maintenance Expense % of Net Revenues	(34.6)	(32.5)	(32.2)	(30.8)	(30.3)
Operating EBIT % of Net Revenues	39.2	39.9	39.8	41.3	41.8
Cash Flow					
Cash Flow from Operations	1,551	1,570	1,734	1,568	1,605
Change in Working Capital	34	(10)	74	(209)	(276)
FFO	1,517	1,580	1,660	1,777	1,881
Dividends	(500)	(725)	(950)	(875)	(875)
Capex	(1,065)	(1,066)	(916)	(903)	(881)
FCF	(14)	(221)	(132)	(210)	(151)
Net Other Investment Cash Flow	12	(16)	(3)	33	55
Net Change in Debt	15	207	124	182	(56)
Net Equity Proceeds	(40)	—	—	—	—
Capital Structure					
Short-Term Debt	—	20	20	270	8
Total Long-Term Debt	6,877	7,053	7,146	7,079	7,027
Total Debt with Equity Credit	6,878	7,074	7,167	7,351	7,037
Total Adjusted Debt with Equity Credit	7,006	7,202	7,287	7,471	7,165
Total Common Shareholder's Equity	7,787	7,756	7,503	7,390	7,469
Total Capital	14,663	14,828	14,668	14,739	14,504
Total Debt/Total Capital (%)	47	48	49	50	49
Common Equity/Total Capital (%)	53	52	51	50	51

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.