S&P Global
Ratings

RatingsDirect®

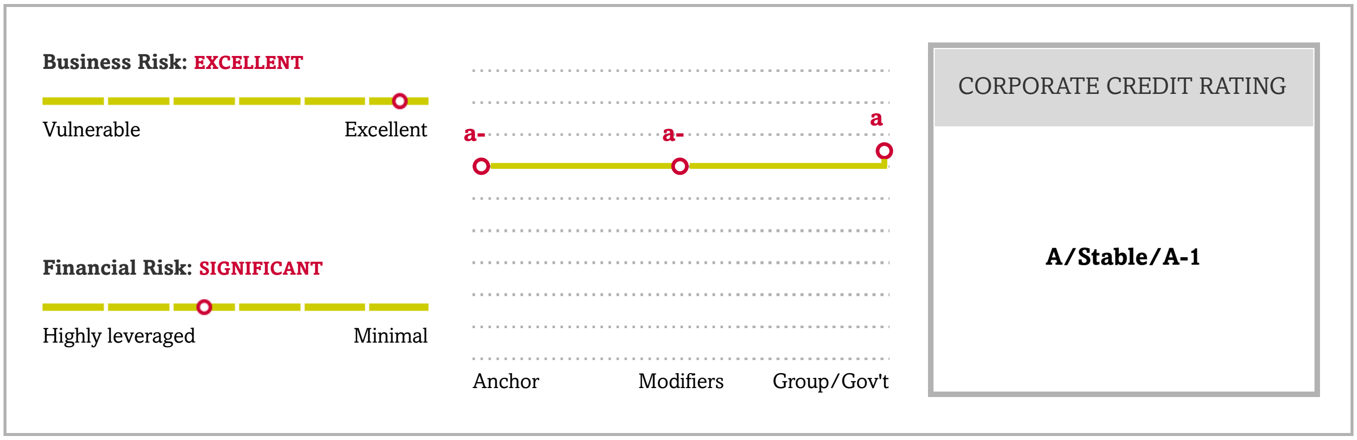
Summary:
PacifiCorp

Primary Credit Analyst:
Safina Ali, CFA, New York (1) 212-438-1877; safina.ali@spglobal.com

Secondary Contacts:
Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@spglobal.com
Amrita Lokhande, Mumbai; amrita.lokhande@spglobal.com

Table Of Contents

Summary:
PacifiCorp



Rationale

Business Risk: Excellent	Financial Risk: Significant
• Vertically integrated electric operations under generally constructive regulatory frameworks. • Large and diversified customer base covering over six states. • Stable operating cash flow from the regulated utility operations that supports the credit profile. • Prudent management of coal-fired generating units for environmental compliance.	• We evaluate financial performance using moderate financial benchmarks compared to the typical corporate issuer because of the company's low-risk utility operations and effective management of regulatory risk • Elevated capital expenditures leads to negative discretionary cash flow over the next several years.

Outlook: Stable

The stable outlook on PacifiCorp reflects S&P Global Ratings' outlook on parent company Berkshire Hathaway Energy Co. (BHE).

The stable outlook on BHE reflects S&P Global Ratings' expectation that management will continue to focus on its core utility operations and reach constructive regulatory outcomes supporting the existing business risk profile. Although BHE has used significant debt leverage for acquisitions and capital investments, we expect credit measures to strengthen, supporting the current rating. Under our base-case forecast, we expect adjusted FFO to debt to average about 14%-16% over the next few years.

Downside scenario

We could lower ratings if core financial measures continuously underperform our base-case forecast and remain consistently at less credit-supportive levels, including adjusted FFO to debt of less than 13%. This could occur if regulatory outcomes are consistently weaker than expected and regulatory lag increases, or if capital expenditure increases are primarily debt financed. An acquisition could present a risk and lead to a rating change depending on the nature of the target entity, the financial risk profile at the time of the acquisition announcement, and the transaction financing.

Upside scenario

We could raise the ratings if the company's business risk profile strengthens, including if regulated utility operations materially increase as a percentage of total operations or if BHE continues to perform consistently within the base case with low probability of event risk. We could also raise the rating if the company continues to maintain its focus on its core regulated utility operations, while financial measures strengthen and consistently exceed our base-case forecast, including adjusted FFO to total debt that is consistently above 20%, the high end of the significant financial risk profile category. Stronger financial measures could occur for various reasons, including higher operating cash flow due to economic growth in the utilities' service territories, deleveraging with free operating cash flow, a decline in capital expenditures, or greater equity funding of investments.

Our Base-Case Scenario

Assumptions

- Low-single-digit EBITDA growth resulting from retail sales growth and incremental cost recovery through various rate mechanisms, including base-rate increases and rate surcharges.
- Capital spending of about $850 million in 2017 that thereafter elevates to $1 billion to $2.2 billion with a focus on wind repowering and wind development projects.
- We assume refinancing of all debt maturities.

Key Metrics

	2016A	2017E	2018E
FFO/total debt (%)	20.2	19-21	18-20
Debt/EBITDA (x)	3.6	3-3.5	3-3.5
FFO cash interest coverage (x)	5.5	5-5.5	5-5.5

A--Actual. E--Estimate. FFO--Funds from operations.

Company Description

PacifiCorp is a regulated electric utility company serving 1.8 million retail electric customers in portions of Utah, Oregon, Wyoming, Washington, Idaho, and California. Pacificorp is an indirectly wholly owned subsidiary of Berkshire Hathaway Energy Inc. (BHE).

Business Risk: Excellent

Our assessment of PacifiCorp's business risk profile incorporates the company's low-risk and regulated, vertically integrated electric operations under generally stable and transparent regulatory frameworks. The utility demonstrates geographical and regulatory diversity with its operations in six states, serving a large customer base. Over 65% of customers are from its two primary markets, Utah and Oregon. The predominance of residential and commercial customers limits susceptibility to economic cyclicality and provides stable cash flows.

The company has a well-diversified energy supply portfolio that consists of coal (about 55%), gas (about 15%), purchased power (20%), and renewables (about 10%). Our assessment also incorporates its environmental compliant coal plant fleet that provides safe and reliable operations. The company is currently retiring coal plants and investing in renewables generation to decarbonize its generation portfolio. Recently, PacifiCorp announced a plan to invest in approximately 850 MW of new wind generation and about 900 MW of wind repowering in next few years. The plan is subject to the state commissions' approval.

From a regulatory standpoint, PacifiCorp operates under generally constructive regulatory environments that offer opportunities to recover capital and operating cost with minimal regulatory lag. The constructive mechanisms provided by regulators vary by state, and include decoupling, fuel cost recovery mechanisms, and renewable adjustment clauses. These mechanisms support the company's operating cash flows and allow it to achieve returns close to its authorized levels.

Financial Risk: Significant

We assess PacifiCorp's financial risk profile as significant based on moderate financial benchmarks compared to the typical corporate issuer, reflecting the company's vertically integrated electric operations under constructive regulatory framework and its ability to effectively manage its regulatory risk.

Under our base-case scenario, we expect PacifiCorp will generate FFO to total debt of about 18%-21%, above the midpoint of the significant financial profile range. We expect discretionary cash flow to turn negative from 2018 as the company accelerates its capital spending on renewable generation. Our base-case assumptions include modest sales volume growth, elevated capital spending and associated regulatory cost recovery, bonus depreciation as a result of new wind generation.

Liquidity: Adequate

We assess PacifiCorp's liquidity as adequate to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x, the minimum threshold for this designation under our criteria, and that the company will meet our other such conditions.

Moreover, the company's generally prudent risk management, well-established and solid relationships with banks, and its satisfactory standing in the credit markets further support our liquidity assessment.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash balance of about $150 million; • Revolving credit facility of $1 billion; and • Cash FFO of about $1.6 billion.	• Debt maturities, including short-term debt of about $590 million; • Capital spending of about $950 million; and • Common stock dividends of about $600 million.

Group Influence

We consider PacifiCorp to be a core subsidiary of BHE, reflecting our view that the utility is unlikely to be sold, has strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. PacifiCorp meets the provisions and conditions in our group rating methodology to be considered an insulated subsidiary except for the requirement that PacifiCorp's stand-alone credit profile (SACP) exceed BHE's group credit profile. Insulation measures in place that inhibit the utility from fully supporting the parent and justify up to a one-notch rating differential between PacifiCorp and BHE include:

- PacifiCorp is prohibited from acquiring obligations or securities of BHE or affiliates;
- To pay dividends, PacifiCorp must maintain investment-grade credit ratings;
- Separate books and records must be maintained;

- Affiliate transactions must be at arm's length;
- PacifiCorp has a regulatory commitment not to pay dividends if its common equity ratio drops below a certain level;
- To pay dividends, interest coverage should be at least 2.5x and debt leverage cannot exceed 65%; and
- Any amendment to these provisions requires independent director consent and rating agency confirmation of no downgrade.

Although PacifiCorp is an insulated subsidiary with structural and regulatory restrictions, we assign an 'A' issuer credit rating based on parent BHE's 'a' group credit profile. This is one notch higher than the utility's 'a-' SACP.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/A-1

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a
- **Entity status within group:** Core (+1 notch from SACP)

Issue Ratings

The short-term rating of PacifiCorp is 'A-1' based on the issuer credit rating on the company.

PacifiCorp's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Subordination risk analysis

Capital structure

PacifiCorp's capital structure consists of about $7 billion of debt out of which senior unsecured debt is about $400 million and the balance is first-mortgage bonds.

Analytical conclusions

We rate senior unsecured debt of PacifiCorp at the same level as the issuer credit rating, because it is unsecured debt of a qualifying investment-grade regulated utility.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-