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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Constance White, Director,
Artie Powell, Energy Manager
Charles Peterson, Utility Analyst

DATE: March 15, 2006

RE: Docket No. 06-035-27. Application of PacifiCorp for Authority to (1) issue its promissory notes to and borrow from commercial banks…and (2) issue and sell its commercial paper….

I. ISSUE

Pursuant to Commitment U12 in the matter of the Acquisition of PacifiCorp by MidAmerican Energy Holdings Company, Docket No. 05-035-54, PacifiCorp (the Company) is seeking Commission approval to issue securities under Utah Code §54-4-31. Specifically, PacifiCorp is seeking approval to borrow up to $1.5 billion either through issuing promissory notes to commercial banks and other credit arrangements with commercial banks, issuing the Company's commercial paper in the market place, or through some combination of commercial paper or bank borrowings.[1] The Commission's previous exemption of such securities issues from Commission review becomes void at the closing of the Acquisition.

II. RECOMMENDATION

The Division finds that the requested short-term debt instruments are consistent with the terms and amounts of short-term debt PacifiCorp has been using to fund its operations for the past several years. Given the load growth in its service territory over the past few years, and the

[1] Some of the language used by PacifiCorp suggests that the Company is requesting issuing up to $1.5 billion in short-term debt through each of the three methods described, for a maximum of up to $4.5 billion. The request is actually for at most $1.5 billion in short-term borrowings to be obtained through some combination of three different credit facilities including the issuing of commercial paper. In previous practice, since the Scottish Power merger, virtually all of the short-term credit has been obtained through the issuance of commercial paper.

prospect of significant capital expenditures over the next few years, PacifiCorp will need the flexibility of access to increased amounts of short-term financing. It is the Division's view that such financing arrangements are consistent with generally accepted practice for short-term financial arrangements in a major corporation. The Division recommends approval of the Application as being in the public interest. The Division also recommends that the Commission's Order make the following points:

1. These short-term credit instruments are for a maximum of $1.5 billion from the combined facilities including bank borrowings and commercial paper.

2. This approval is only for the term of the current contract which expires in August 2010. After twelve months from the close of the Acquisition, if the Company applies for and is granted an exemption of this facility under U.C.A. §54-4-31, there will be no need for further action by the Commission or Division pursuant to Commitment U12 cited above or U.C.A. §54-4-31.

3. On the second page, paragraph 4, of its proposed Report and Order, PacifiCorp states that "The proceeds will be used for the following purposes." The Division recommends that if the Commission follows this proposed Report and Order that it amend this statement with language something like, "The Company asserts that the proceeds…."

4. Similar to number 3 above, on the first full paragraph at the top of page three of its proposed Report and Order, the Division recommends that the Commission amend the language to say something like, "The Company states that it keeps its accounts…."

III. DISCUSSION

The Division has reviewed the documents provided with this application. The Division has also met with and reviewed the application and its effects on the financial statements and future financial results of the Company with Bruce N. Williams, PacifiCorp Treasurer, and Dan Peterson of PacifiCorp.

Documents provided by the Company trace the origins of the $1.5 billion to a resolution of the PacifiCorp's Board of Directors dated November 11, 1997 authorizing the Company's officers to enter into agreements to obtain short-term borrowings up to the $1.5 billion amount. This resolution was modified slightly by a June 4, 2001 resolution of the Board of Directors.[2]

Since that time frame the Company has had credit agreements in place to fund its short-term liquidity needs. According to Bruce Williams, the Company has almost always used the credit arrangements with its banks as "insurance" to issue commercial paper. That is, PacifiCorp has generally issued commercial paper to fund its short-term needs, but has had the credit arrangements with its banks as "back-up" should there be disruptions in the commercial paper market or with the Company itself whereby it could not pay off maturing commercial paper with new paper, or otherwise access that market to fund its needs for short-term funds. "The Company recently entered into an $800,000,000 Amended and restated Credit Agreement dated August 29,

[2] Refer to the Company's Application supporting documents under tab "C."

2005 among the Company, the Banks party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and The Royal Bank of Scotland plc, as Syndication Agent, which includes a $200,000,000 letter of credit facility."[3] This is the current facility (maximum value of $800 million) the Company entered into under its existing exemption to U.C.A. §54-4-31 prior to the Acquisition close. This current credit facility is due to expire in five years: i.e., on August 29, 2010. Mr. Williams indicated that PacifiCorp briefly had a commercial paper balance amounting to almost $700 million in late 2001 due, in part, to the energy crisis. The current balance, as of early March 2006, is approximately $170 million.

Mr. Williams indicated that the Company issues commercial paper instead of borrowing from its banks because the interest rate on commercial paper is typically 20 to 30 basis points (0.20 to 0.30 percent) less than what the banks would charge. To maintain its credit facilities with the banks, PacifiCorp makes an annual payment of $800,000 to its bank syndicate as a "facility fee," and $35,000 annually to JP Morgan as an "agency fee."

The Division believes that this on-going facility arrangement along with the ability to issue commercial paper is necessary for the smooth operations of the Company. Given the growth within PacifiCorp's service area and the prospects for significant capital expenditures over the next few years, it is reasonable that the Company have short-term credit facilities available to it that exceeds its current needs. Therefore the Division finds the Application to be reasonable and in the public interest and recommends that the Commission approve the Application with the changes previously identified.

[3] Application cover letter, p. 2, February 23, 2006.