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PacifiCorp

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Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

- Market and regulatory diversity afforded by PacifiCorp's electric utility business, which serves portions of six western U.S. states;
- Retail electric rates compare favorably with those of other electric suppliers operating in the states PacifiCorp serves, suggesting that the company may be able to maintain its competitive advantage despite its ongoing need for rate relief in the coming years to support a large capital program;
- The approval of a power cost adjuster in Wyoming (which is in place until April 2011), combined with the use of a forward mechanism to set base fuel and power costs in Oregon, as well as an existing mechanism in California have improved the company's exposure to fluctuations in natural gas and purchased power costs;
- The completion of 1,068 MW of new natural gas plants, along with wind farm investment, is reducing the company's reliance on purchased power; and
- A tentative resolution in the contentious Klamath hydro re-licensing case has the potential to adequately address the company's financial exposure if the project is decommissioned, as is now envisioned.

Weaknesses:

- The absence of fuel and purchased power adjusters in Utah, Washington, and Idaho is material for the company given that these states together provide about 55% of revenues; near-term prospects for obtaining one appear limited in Washington and Utah. In October 2008, PacifiCorp filed for an adjuster in Idaho that is pending;
- Despite recent rate relief in nearly all states PacifiCorp serves, regulatory lag continues to allow only modest improvement in the company's financial profile; its returns on equity (ROE) remain under authorized levels and while leverage has improved since it was acquired by MidAmerican Energy Holdings Co. (MEHC) in 2006, cash flow metrics continue to be weak;
- Regulators will need to consistently support retail rate increases to recover PacifiCorp's planned capital investments, although the recessionary environment has caused some scaling back of some capital plans;
- Growth in the percentage of generation provided by natural gas costs mitigates some of the company's potential exposure to carbon regulation, but introduces greater potential for cost volatility, a credit consideration given that the company lacks power adjusters in three of the six states it serves.

Rationale

The 'A-' corporate credit rating (CCR) on PacifiCorp reflects its 'excellent' business profile, evidenced by a diverse and growing service territory, and an 'aggressive' financial profile that reflects a large capital program and the need to shore up its cash flow metrics. While the ring-fenced utility's credit metrics are more consistent on a standalone basis with a 'BBB' category rating, Standard & Poor's Ratings Services expects that management will achieve cash flow metrics more consistent with an 'A' category rating over the next several years. PacifiCorp is owned by parent MidAmerican Energy Holdings Co. (MEHC; BBB+/Stable/--). In turn, MEHC is privately held and majority owned by Berkshire Hathaway (AAA/Stable/A-1+), which at year-end had an 87.4% interest in MEHC on an undiluted basis. (MEHC's remaining common equity is owned by Walter Scott [10.9%] and two members of MEHC's executive management, Chairman of the Board David Sokol [0.7%] and President and Chief Executive Officer Greg Abel [1.0%]). MEHC has demonstrated a willingness to deploy equity to support the utility's large capital program, providing the utility with $865 million in equity contributions since it purchased the company in March 2006.

MEHC's credit profile is supported by Berkshire, which has in place through February 2011 a $3.5 billion equity commitment agreement between itself and MEHC in which MEHC can unilaterally call upon to support either its debt repayment or the capital needs of its regulated subsidiaries, including PacifiCorp. We view this agreement between PacifiCorp's parent and a 'AAA' rated entity to reduce the likelihood of a PacifiCorp default.

Nevertheless, we expect PacifiCorp to have a standalone credit profile consistent with its 'A-' rating. We take this view because the utility has no right to cause MEHC to make an equity contribution, either from MEHC or via Berkshire through an MEHC board request. While MEHC would typically have strong incentives to support the utility by tapping the Berkshire contingent equity, we would note that in a catastrophic utility event, MEHC would be expected to do so only if it were in the economic best interests of the parent. Such a scenario is remote and would require an unprecedented event such as what occurred during the western energy crisis, when regulators refused to allow utilities to recover power procurement costs.

PacifiCorp serves 1.7 million customers in portions of six western states: Utah, Oregon, Wyoming, Washington, Idaho, and California. The company operates as Pacific Power in Oregon, Washington, and California, and as Rocky Mountain Power in Utah, Wyoming, and Idaho. The company's two largest markets, Utah and Oregon, comprised about 68% of the company's retail electric sales in 2008, with Wyoming and Washington at 24%, and the balance being sold to customers in Idaho and California. As of Dec. 31, 2008, the utility's long-term debt was $5.5 billion. Consolidated long-term debt at MEHC (which includes PacifiCorp's debt) was nearly $20 billion as of the same date.

Supportive rate case outcomes continue to be key to maintaining and improving upon the company's financial performance. When MEHC purchased PacifiCorp in 2006 from ScottishPower, the utility had consistently been unable to earn its authorized return on equity (ROE), which varies by jurisdiction but ranges from 10.0% to 10.6%. Management has focused on improving its returns, with some success. In 2008, our calculations suggest that the consolidated ROE for PaciCorp was 8.3%. Regulatory lag remains an issue for the company, although the company is permitted under state regulation to use forward test years for rate cases in Utah, Oregon, Wyoming, and California. (Idaho and Washington require historical test years.)

PacifiCorp has power and fuel cost adjusters in Wyoming and California that allow for the deferral of these costs for later collection. In Oregon, fuel and purchased power costs are updated in rates every January based on forecast power prices, but there is no true-up to reconcile these projected costs with actuals. The company has pending before the Idaho Public Utilities Commission a request to establish an energy cost adjustment mechanism to recover the difference between base power costs set in a general rate case and actual power costs incurred.

Recent rate case activity includes a settlement reached in Utah in the company's 2008 general rate case for $45.0 million, relative to the $57.4 million sought. The Utah Public Service Commission has not yet ruled on the proposed settlement. Retail rate adjustments have been proposed to take effect in early May. In Wyoming, the commission there recently approved the company's $18.0 million settlement over its 2008 general rate case, relative to the $28.8 million sought, with rates proposed to be effective in late May. In Idaho, the company received authorization to implement its $4.4 million rate case settlement, relative to the $5.9 million it sought. The company did not have a 2008 general rate case in Oregon, but is expected to file its 2009 general rate case in Oregon in the first half of this year. The company has submitted a 2009 general rate case request for $38.5 million in Washington, which is pending. Pro forma rate adjustments in California were made in January 2009 to address energy cost adjustments and attrition adjustments.

In September 2008 the company purchased for $308 million the Chehalis plant, a 520 MW combined-cycle plant that will now have to be authorized for recovery in current or future rate cases in all the states PacifiCorp serves but California. The investment will be part of the Washington and Oregon 2009 general rate cases and is part of pending cases in Wyoming and Utah, which has pre-approved the purchase. The company also brought online 382 MW of new wind generation in 2008. Nevertheless, the company's supply portfolio continues to be predominately coal, supplying about 65% of all requirements in 2008.

PacifiCorp completed $1.8 billion in capital expenditures in 2008, up from $1.5 billion spent in 2007. The company is projected to spend $6.1 billion in 2009 through 2011, excluding non-cash allowance for funds used during construction. The largest component of PacifiCorp's capital program is the construction of the Gateway transmission project, an estimated $6.1 billion, 2,000-mile transmission line connecting portions of Wyoming, Utah, Idaho, Oregon, and the southwestern U.S. The project is being completed in phases, with initial portions of new lines being placed in service as early as 2010 and a completion date scheduled for 2018. About 38% of the company's total capital budget over the next three years is devoted to transmission investment, of which Gateway is a component. In 2008, the Federal Energy Regulatory Commission awarded the company incentive rate treatment of 200 basis points for seven of the eight project segments.

High fuel prices impacted PacifiCorp's 2008 results, as did hydro conditions that were about 90% of normal, but nevertheless gross margins per megawatt hour sold remained roughly consistent relative to 2007, as did the company's earnings before interest and taxes. Operating income increased about 7% due in large part to retail revenues increases provided by regulatory rate relief and lower operations and maintenance expense. (Of the $198 million in increased revenues in 2008 relative to 2007, about $102 million was due to higher prices approved by regulators, with most of the balance attributable to customer growth.) Cash flow from operations was greatly boosted by deferred income taxes. For 2008, cash flows from operations rose $168 million to $992 million relative to 2007, but the majority of this was attributable to the deferred income taxes. As a result, the company was able to reflect a $308 million add-back to cash flows. Retail and wholesale sales were roughly flat in 2008 relative to 2007, and in late 2008 the company experienced declining sales volumes. Approximately 30%-32% of PacifiCorp's total electric sales are to industrial customers. As a result, we would expect sales contraction could be a drag on 2009 performance, as industrial sales are more sensitive to the business cycle than is residential electric consumption.

Year-end leverage for the company was 53% and reflects new long-term borrowing in 2008 of $800 million in July 2008, net of maturities, which resulted in total borrowing increasing about $469 million, including short-term balances. This was offset by $450 million of equity contribution from MEHC. These equity investments will be key to maintaining a balanced capital structure throughout the company's capital program. Debt to total capitalization reflects several adjustments we make, the largest of which include adding $424 million for power purchase obligations and $379 million for post-retirement obligations. We expect that PacifiCorp will not be in a position to make distributions to its parent while it is executing its capital program and that MEHC will manage PacifiCorp's debt leverage downward to the range of 50% in the next several years.

Cash flow metrics continue to be weak for the rating but are improving modestly. Funds from operations (FFO) to total debt was nearly 18% in 2008, up from 17% in 2007. FFO interest coverage was 4.0x, versus 3.5x over the same period. Going forward, we would expect PacifiCorp to produce FFO interest coverage in the range of 4.0x-4.5x and achieve FFO to total debt in the range of 20%.

Short-term credit factors

The company's liquidity position is strong. PacifiCorp's 'A-2' short-term rating considers our view that while MEHC and its subsidiaries are supported by a $3.5 billion contingent equity agreement between MEHC and Berkshire, the agreement is not a source of instantaneous liquidity. The agreement allows Berkshire up to 180 days to fund MEHC's request. Given the recent turmoil in both liquidity and capital markets, we have taken a firmer view on the need to link PacifiCorp's short-term ratings to its stand-alone credit quality, which supports an 'A-2' short-term rating. However, we would note that while Berkshire contractually has up to six months to respond to an MEHC call for liquidity, it has strong economic incentives to do so.

PacifiCorp's cash and cash equivalents totaled $59 million as of Dec. 31, 2008. In addition, the company has $1.395 billion in unsecured revolving credit structured in two separate agreements: an $800 million line expiring July 2013 and a $700 million line extending through the end of October 2012. The company had borrowed $85 million in short-term commercial paper at year-end and had letters of credit in place for $258 million, leaving $1.0 billion under its revolvers available. PacifiCorp's single largest exposure to any banks under its revolver as a percentage of total commitments is 15%, which is manageable. Regulators limit PacifiCorp to having no more than $1.5 billion in debt outstanding.

In September 2008, due to the significant reduction in its market liquidity, PacifiCorp acquired $216 million of its insured variable-rate pollution control bonds, which it is currently holding on its balance sheet. These bonds are a small component of the company's overall debt profile, and PacifiCorp can utilize its ample liquidity facility to continue to keep the obligations until market conditions support the company placing the debt back with investors.

Outlook

The stable outlook for PacifiCorp incorporates our expectation that MEHC will continue to support the utility by contributing equity sufficient to ensure that our fully adjusted debt to total capitalization is managed over the next few years to an adjusted level of closer to 50% and that FFO to total debt and interest coverage will be 20% or better and in the range of 4.0x-4.5x, respectively. Given that PacifiCorp's financial profile is weak for the current ratings, we do not anticipate near-term upward ratings momentum for the utility, which would require the company to sustain metrics above these levels. PacifiCorp's ring-fenced structure insulates it from some MEHC credit deterioration, to an extent. Specifically, our criteria provides that PaciCorp's CCR can be no more than three notches above the MEHC CCR. The company is currently comfortably within this range, and as a result we do not see significant prospects for the utility's rating to fall as a result of adverse rating changes at MEHC, which also enjoys a stable outlook.

Table 1

PacifiCorp -- Financial Summary*

Industry Sector: Integrated	--Fiscal year ended Dec. 31--		
	2008	**2007**	**2006**
Rating history	A-/Stable/A-1	A-/Stable/A-1	A-/Stable/A-1
(Mil. $)			
Revenues	4,498.0	4,258.0	4,154.1
Net income from cont. oper.	458.0	439.0	307.9
Funds from oper. (FFO)	1,190.1	994.8	927.6
Capital expenditures (capex)	1,757.0	1,496.4	1,375.0
Cash and investments	59.0	228.0	59.0
Debt	6,687.3	5,945.0	5,473.6
Preferred stock	41.0	41.0	41.3
Common equity	5,987.0	5,080.0	4,426.8
Total capital	12,674.3	11,025.0	9,900.4
Adjusted ratios			
EBIT interest coverage (x)	2.8	2.8	2.5
FFO interest coverage (x)	4.0	3.5	3.8
FFO/debt (%)	17.8	16.7	16.9
Discretionary cash flow/debt (%)	(10.6)	(10.4)	(10.7)
Net cash flow/capex (%)	67.6	66.3	66.1
Debt/total capital (%)	52.8	53.9	55.3
Return on common equity (%)	6.8	7.8	6.2
Common dividend payout ratio (un-adj.) (%)	--	--	5.2

*Fully adjusted (including postretirement obligations)

Table 2

PacifiCorp -- Peer Comparison*

Industry Sector: Integrated	--Average of past three fiscal years--		
	PacifiCorp	**Portland General Electric Co.**	**Pacific Gas & Electric Co.**
Rating as of March 31, 2009	A-/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2
(Mil. $)			
Revenues	4,303.4	1,669.3	12,827.1
Net income from cont. oper.	401.6	101.0	1,069.3
Funds from oper. (FFO)	1,037.5	310.7	2,530.0
Capital expenditures (capex)	1,542.8	402.5	2,969.9
Cash and investments	115.3	31.7	559.3
Debt	6,035.3	1,620.3	10,854.7
Preferred stock	41.1	-	258.0
Common equity	5,164.6	1,298.0	9,037.3
Total capital	11,199.9	2,918.3	19,892.0
Adjusted ratios			

Table 2

PacifiCorp -- Peer Comparison* (cont.)			
EBIT interest coverage (x)	2.7	2.3	2.8
FFO interest coverage (x)	3.8	3.7	3.5
FFO/debt (%)	17.2	19.2	23.3
Discretionary cash flow/debt (%)	(10.6)	(15.2)	(12.9)
Net cash flow/capex (%)	66.8	65.1	67.5
Debt/total capital (%)	53.9	55.5	54.6
Return on common equity (%)	7.0	6.2	11.4
Common dividend payout ratio (un-adj.) (%)	2.0	48.5	48.5

*Fully adjusted (including postretirement obligations)

Table 3

Reconciliation Of PacifiCorp Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2008--

PacifiCorp reported amounts

	Debt	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	5,653.0	1,437.0	1,437.0	947.0	309.0	992.0	992.0	1,789.0
Standard & Poor's adjustments								
Operating leases	35.1	7.0	2.3	2.3	2.3	4.7	4.7	2.0
Postretirement benefit obligations	379.0	20.0	20.0	20.0	--	50.7	50.7	--
Accrued interest not included in reported debt	89.0	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	34.0	(34.0)	(34.0)	(34.0)
Power purchase agreements	424.0	53.8	53.8	26.9	26.9	26.9	26.9	--
Asset retirement obligations	107.3	10.0	10.0	10.0	10.0	7.8	7.8	--
Reclassification of nonoperating income (expenses)	--	--	--	58.0	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	142.0	--
Total adjustments	1,034.3	90.8	86.1	117.2	73.2	56.1	198.1	(32.0)
Standard & Poor's adjusted amounts								
	Debt	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	6,687.3	1,527.8	1,523.1	1,064.2	382.2	1,048.1	1,190.1	1,757.0

*PacifiCorp reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of April 1, 2009)*	
PacifiCorp	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (43 Issues)	A
Senior Secured (7 Issues)	A/Negative
Senior Secured (4 Issues)	AA-/Watch Dev
Senior Unsecured (1 Issue)	A-
Senior Unsecured (3 Issues)	A-/A-2
Senior Unsecured (2 Issues)	AA-/Watch Dev
Corporate Credit Ratings History	
27-Mar-2009	A-/Stable/A-2
18-Sep-2008	A-/Watch Neg/A-1
22-Mar-2006	A-/Stable/A-1
06-Mar-2006	A-/Stable/A-2
25-May-2005	A-/Watch Neg/A-2
18-Aug-2004	A-/Stable/A-2
Related Entities	
CE Casecnan Water and Energy Co. Inc.	
Senior Secured (1 Issue)	BB-/Stable
CE Electric U.K. Funding Co.	
Issuer Credit Rating	BBB+/Watch Neg/A-2
Senior Unsecured (1 Issue)	A/Negative
CE Generation LLC	
Senior Secured (1 Issue)	BB+/Stable
Cordova Energy Co. LLC	
Senior Secured (1 Issue)	BB/Stable
Iowa-Illinois Gas & Electric Co.	
Senior Unsecured (5 Issues)	A-/A-2
Kern River Gas Transmission Co.	
Senior Secured (2 Issues)	A-/Stable
MidAmerican Energy Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (1 Issue)	BBB+
Senior Unsecured (9 Issues)	A-
Senior Unsecured (2 Issues)	A-/A-2
MidAmerican Energy Holdings Co.	
Issuer Credit Rating	BBB+/Stable/--
Preferred Stock (2 Issues)	BBB-
Senior Unsecured (7 Issues)	BBB+

Ratings Detail (As Of April 1, 2009)* (cont.)	
MidAmerican Funding LLC	
Senior Secured (2 Issues)	BBB+
Midwest Power Systems Inc.	
Senior Unsecured (1 Issue)	A-/A-2
Northern Electric Distribution Ltd.	
Issuer Credit Rating	A-/Watch Neg/--
Senior Unsecured (1 Issue)	A-
Northern Electric Finance PLC	
Senior Unsecured (1 Issue)	A/Negative
Northern Electric PLC	
Issuer Credit Rating	BBB+/Watch Neg/A-2
Senior Unsecured (1 Issue)	A-
Northern Natural Gas Co.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured (5 Issues)	A
Salton Sea Funding Corp.	
Senior Secured (3 Issues)	BBB-/Stable
Utah Power & Light Co.	
Senior Secured (1 Issue)	AAA/Watch Neg
Yorkshire Electricity Distribution PLC	
Issuer Credit Rating	A-/Watch Neg/A-2
Senior Unsecured (1 Issue)	A-/Watch Neg
Senior Unsecured (1 Issue)	A/Negative
Yorkshire Electricity Group PLC	
Issuer Credit Rating	BBB+/Watch Neg/--
Yorkshire Power Group Ltd.	
Issuer Credit Rating	BBB+/Watch Neg/A-2
Senior Unsecured (1 Issue)	BBB+/Watch Neg

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.