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PacifiCorp

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Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

- Market and regulatory diversity is 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 to support a large capital program;
- The company has made progress in putting into place fuel and purchased power adjusters in the six states it serves (an adjuster was put into effect in Idaho in 2009, and one is pending in PacifiCorp's largest market, Utah);
- The completion of new natural gas plants, along with wind farm investment, is reducing the company's reliance on purchased power; and
- A settlement reached in February 2010 regarding the contentious Klamath hydro relicensing case has the potential to adequately address the company's financial exposure if the project is decommissioned, which will not occur before 2020.

Weaknesses:

- Despite the company's policy of filing near annual rate cases in the states PacifiCorp serves, regulatory lag continues to allow only modest improvement in the company's financial profile: Its return on equity remains under authorized levels and although leverage has improved since MidAmerican Energy Holdings Co. acquired the utility in 2006, cash flow metrics remain just adequate to support the rating;
- 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 capital plans; and
- 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.

Rationale

The 'A-' corporate credit rating on PacifiCorp (PPW) reflects its "excellent" business risk profile, evidenced by a diverse and growing service territory, and "significant" financial risk profile. PPW has made modest strides in improving regulatory outcomes which should put the company on a path to achieving cash flow coverage metrics that comfortably support the rating. The company has made progress in increasing core earnings amid a recession and a period of heavy capital spending for the company. The company has achieved this by focusing on strengthening the regulatory mechanisms that are in place in the six states it serves and working to minimize regulatory lag by filing for nearly annual rate relief in almost all states it serves.

In 2010 PPW has continued to receive revenue increases through rate case outcomes, fuel adjustments and other recovery mechanisms. Highlights of key regulatory rulings that have provided increased revenues to the company in

2010 include a Utah general rate increase beginning in February 2010 for $32 million (or a 2% increase), and a $31 million increase for the recovery of two major projects approved in June. Also in Utah, the company's largest market, the company has received approval to establish an energy cost adjustment mechanism, with the mechanism design under consideration before the Utah Public Service Commission. In January 2010, the Oregon Public Utility Commission (OPUC) approved a stipulation in the company's 2009 general rate case increasing base rates by $42 million, effective Feb. 2, 2010. In January 2010, PPW received a rate increase of $14 million, or 5%, in Washington. In March 2010, PPW filed a new general rate case in Oregon requesting an increase in the rates by $131 million, or 13% increase, and in July reached a multiparty stipulation for an increase of $85 million, or 8%. If approved by the OPUC, the rates will be effective Jan. 1, 2011.

As with many electric utilities, the company's 2008 and 2009 credit metrics have been buoyed by deferred tax increases, which boosted funds from operations metrics. But these effects notwithstanding, the company's funds from operations (FFO) to total debt has been consistently in the high teens, slightly below our expected credit metrics for the rating, since it was acquired by MidAmerican Energy Holdings Co. (MEHC; BBB+/Stable/--). Leverage has also been somewhat high for the rating at 53% at year-end 2009. However, we expect that credit metrics will improve in the coming years, producing FFO to total debt in the area of 20%, FFO interest coverage of 20% or better and in the range of 4.0x-4.5x, and leverage of about 50%. (We would note that PPW has, over the last three years, produced FFO to total debt of more than 20%, but this is due to benefits of deferred taxes.)

PPW 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, accounted for about 67% of the company's retail electric sales in 2009, with Wyoming and Washington at 25%, and the balance being sold to customers in Idaho and California. As of Dec. 31, 2009, the utility's long-term debt was $6.4 billion.

PPW completed $2.3 billion in capital expenditures in 2009, up from $1.8 billion in 2008. The company projects that it will spend $4.6 billion in 2010-2012, excluding non-cash allowance for funds used during construction. The largest component of PPW's capital program is the construction of the Gateway transmission project, an estimated $4.6 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 tentative completion date of 2018. About 34% of the company's total capital budget over the next three years (2010-2012) 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.

PPW is owned by MEHC. In turn, MEHC is privately held and majority owned by Berkshire Hathaway (AA+/Stable/A-1+). 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. Although PPW is investing heavily in its system, we expect PPW distributions to MEHC to be minimal.

MEHC's credit profile is supported by Berkshire Hathaway, 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 Berkshire Hathaway to support either its debt repayment or the capital needs of its regulated subsidiaries, including PPW. In March 2010, the agreement was extended through February 2014 at a lower level of $2 billion. We view this agreement between PPW's parent and a 'AA+' rated entity as reducing the likelihood of a PPW default.

Nevertheless, we expect PPW to grow into a stand-alone credit profile consistent with the 'A-' rating on the company. We take this view because the utility has no right to cause MEHC to make an equity contribution, either from MEHC or via Berkshire Hathaway through an MEHC board request. Although MEHC would typically have strong incentives to support the utility by tapping the Berkshire Hathaway contingent equity, we would note that in a catastrophic utility event, MEHC would be expected to do so only if doing so were in the parent's best economic interests. 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.

Short-term credit factors

On a stand-alone basis (i.e., unenhanced by the existing contingent equity agreement available to MEHC to support any of its regulated subsidiaries, including PPW) we view PPW's liquidity as "strong" under our corporate liquidity methodology. This methodology categorizes liquidity in five standard descriptors (exceptional, strong, adequate, less than adequate, and weak). Projected sources of liquidity, which consist of operating cash flow and available bank lines, exceed projected uses, the company's committed capital expenditures, debt maturities, and common dividends by about 1.5x. Under our criteria, we exclude as sources of liquidity any facilities expiring within one year of the liquidity assessment date. Presuming that MEHC draws on its contingent equity to support PPW's projected capital requirements and debt maturities over the next two years, liquidity would be bolstered to more than 2x, or "exceptional."

As of June 30, 2010, PPW's cash and cash equivalents totaled $110 million. The utility maintains unsecured credit facilities totaling nearly $1.4 billion that mature 2012-2013. As of June 30, 2010, PPW had additional borrowing capacity of $1.1 billion, because $304 million of liquidity is reserved to support variable-rate tax-exempt bond obligations and letters of credit. There are no rating triggers on the credit lines. PPW's next substantial long-term debt maturities are $600 million due in 2011 and $284 million in 2013.

Outlook

The stable outlook on the PPW ratings incorporates our expectation that MEHC will continue to support the utility by contributing equity sufficient to ensure that fully adjusted debt to total capitalization is managed over the next few years to a level of closer to 50% and that FFO to total debt and FFO interest coverage will be in the area of 20% and the 4.0x-4.5x range, respectively. Given that PPW's financial risk profile is weak for the ratings, we do not expect near-term upward ratings momentum for the utility. PPW's regulatory and structural insulation shields the utility from MEHC credit deterioration, to an extent. Specifically, our criteria provide that the PPW corporate credit rating can be no more than three notches above the MEHC consolidated credit rating. The company is comfortably within this range, so we do not see significant risks that the utility rating will fall as a result of adverse rating changes on MEHC, which also has a stable rating outlook.

Table 1.

PacifiCorp -- Peer Comparison*

	PacifiCorp	Portland General Electric Co.	Pacific Gas & Electric Co.
Rating as of Sept. 22, 2010	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Watch Neg/A-2

Table 1.

PacifiCorp -- Peer Comparison* (cont.)			
	--Average of past three fiscal years--		
(Mil. $)			
Revenues	4,404.3	1,764.0	13,218.9
Net income from cont. oper.	479.7	109.0	1,157.7
Funds from operations (FFO)	1,342.3	326.5	3,030.0
Capital expenditures	1,850.2	511.4	3,437.7
Cash and short-term investments	134.7	38.0	175.7
Debt	6,641.7	1,875.2	12,662.8
Preferred stock	34.2	0.0	258.0
Equity	5,926.2	1,404.3	10,032.3
Debt and equity	12,567.9	3,279.5	22,695.2
Adjusted ratios			
EBIT interest coverage (x)	2.8	2.2	2.9
FFO int. cov. (x)	4.3	3.5	4.1
FFO/debt (%)	20.2	17.4	23.9
Discretionary cash flow/debt (%)	(10.5)	(14.4)	(14.1)
Net cash flow/capex (%)	72.5	51.5	71.2
Total debt/debt plus equity (%)	52.8	57.2	55.8
Return on common equity (%)	7.2	6.3	11.1
Common dividend payout ratio (unadj.) (%)	2.7	59.6	49.6

*Fully adjusted (including postretirement obligations).

Table 2.

PacifiCorp -- Financial Summary*					
	--Fiscal year ended Dec. 31--				
	2009	**2008**	**2007**	**2006**	**2006**
Rating history	A-/Stable/A-2	A-/Watch Neg/A-1	A-/Stable/A-1	A-/Stable/A-1	A-/Stable/A-1
(Mil. $)					
Revenues	4,457.0	4,498.0	4,258.0	4,154.1	3,896.7
Net income from continuing operations	542.0	458.0	439.0	307.9	360.7
Funds from operations (FFO)	1,760.1	1,272.1	994.8	927.6	864.5
Capital expenditures	2,297.1	1,757.0	1,496.4	1,375.0	1,030.5
Cash and short-term investments	117.0	59.0	228.0	59.0	119.6
Debt	7,415.8	6,635.9	5,873.5	5,473.6	5,185.3
Preferred stock	20.5	41.0	41.0	41.3	41.3
Equity	6,711.5	5,987.0	5,080.0	4,426.8	3,750.7
Debt and equity	14,127.3	12,622.9	10,953.5	9,900.4	8,936.0
Adjusted ratios					
EBIT interest coverage (x)	2.7	2.8	2.8	2.5	3.0
FFO int. cov. (x)	4.9	4.2	3.5	3.8	3.8
FFO/debt (%)	23.7	19.2	16.9	16.9	16.7
Discretionary cash flow/debt (%)	(10.2)	(10.7)	(10.5)	(10.7)	(5.6)

Table 2.

PacifiCorp -- Financial Summary* (cont.)					
Net cash flow/capex (%)	76.6	72.3	66.3	66.1	66.7
Debt/debt and equity (%)	52.5	52.6	53.6	55.3	58.0
Return on common equity (%)	7.0	6.8	7.8	6.2	8.9
Common dividend payout ratio (unadj.) (%)	7.0	0.0	0.0	5.2	49.1

*Fully adjusted (including postretirement obligations).

Table 3.

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

	--Fiscal year ended Dec. 31, 2009--									
PacifiCorp reported amounts										
	Debt	**Shareholders' equity**	**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**	**Dividends paid**	**Capital expenditures**
Reported	6,416.0	6,732.0	1,609.0	1,609.0	1,060.0	359.0	1,500.0	1,500.0	2.0	2,328.0
Standard & Poor's adjustments										
Operating leases	36.5	--	5.0	2.3	2.3	2.3	2.7	2.7	--	4.1
Intermediate hybrids reported as equity	20.5	(20.5)	--	--	--	1.0	(1.0)	(1.0)	(1.0)	--
Postretirement benefit obligations	369.9	--	20.0	20.0	20.0	5.0	33.8	33.8	--	--
Accrued interest not included in reported debt	111.0	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	35.0	(35.0)	(35.0)	--	(35.0)
Power purchase agreements	395.7	--	63.3	63.3	25.8	25.8	37.5	37.5	--	--
Asset retirement obligations	66.3	--	9.0	9.0	9.0	9.0	5.2	5.2	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	83.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	217.0	--	--
Total adjustments	999.8	(20.5)	97.3	94.6	140.2	78.2	43.1	260.1	(1.0)	(30.9)

Table 3.

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

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	7,415.8	6,711.5	1,706.3	1,703.6	1,200.2	437.2	1,543.1	1,760.1	1.0	2,297.1

*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 October 7, 2010)*	
PacifiCorp	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (69 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (2 Issues)	A/Developing
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
Business Risk Profile	Excellent
Financial Risk Profile	Significant
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+/Stable/A-2
Senior Unsecured (1 Issue)	BBB+/Stable
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

Ratings Detail (As Of October 7, 2010)***(cont.)**	
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 (8 Issues)	BBB+
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-/Stable/--
Senior Unsecured (1 Issue)	A-
Northern Electric Finance PLC	
Senior Unsecured (1 Issue)	A-/Stable
Northern Electric PLC	
Issuer Credit Rating	BBB+/Stable/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 (2 Issues)	BBB-/Stable
Yorkshire Electricity Distribution PLC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (1 Issue)	A-
Senior Unsecured (1 Issue)	A-/Stable
Yorkshire Electricity Group PLC	
Issuer Credit Rating	BBB+/Stable/--
Yorkshire Power Group Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured (1 Issue)	BBB+

*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.