

PacifiCorp

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Major Rating Factors

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 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 1,068 megawatts 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 relicensing case has the potential to adequately address the company's financial exposure if the project is decommissioned, as is now envisioned.

Corporate Credit Rating

A-/Stable/A-2

Weaknesses:

- 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 return on equity remains under authorized levels and although leverage has improved since MidAmerican Energy Holdings Co. (MEHC) acquired it in 2006, cash flow metrics remain 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 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.

Rationale

The 'A-' corporate credit rating (CCR) on PacifiCorp reflects its "excellent" business risk profile, evidenced by a diverse and growing service territory, and "aggressive" financial risk 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 stand-alone 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 MidAmerican Energy Holdings Co. (MEHC; BBB+/Stable/--). In turn, MEHC is privately held and majority owned by Berkshire Hathaway (AA+/Stable/A-1+), which at year-end 2009 had an 89.5% interest in MEHC on an undiluted basis. (MEHC's remaining common equity is owned by Walter Scott [9.7%] and President and Chief Executive Officer Greg Abel [0.8%]). 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 Berkshire to support either its debt repayment or the capital needs of its regulated subsidiaries, including PacifiCorp. In March 2010, the agreement was amended to extend through February 2014 at a lower level of \$2 billion. We view this agreement between PacifiCorp's parent and a 'AA+' rated entity as reducing the likelihood of a PacifiCorp default.

Nevertheless, we expect PacifiCorp 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 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 doing so 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, 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. Consolidated long-term debt at MEHC (which includes PacifiCorp's debt) was nearly \$20 billion as of the same date.

Supportive rate case outcomes remain 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% to 10.6%. Management has focused on improving its returns, with some success. In 2009, our calculations suggest that the consolidated ROE for PacifiCorp was 8.5%. 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.)

In 2009, several parties, interveners, and the company reached a settlement to implement fuel and purchased power adjustments, which the IPUC approved. The Utah Public Service Commission (UPSC) is considering the design of a new fuel adjuster, and the company in February 2010 filed to seek approval to defer the difference between the net power costs allowed in the company's 2009 rate case and actual costs incurred. That request is pending before the commission.

Recent general rate case activity includes the company's settlement agreement with the UPSC on Feb. 18, 2010, for a retail rate increase of \$32 million, an average price increase of 2%, as compared with the original \$67 million sought. In Wyoming, the company has filed a general rate case with the Wyoming Public Service Commission for an increase of as much as \$71 million. Early this year, the commission in Oregon approved a stipulation agreement that includes an annual increase to \$42 million, as well as three tariff riders for the collection of an additional \$8 million that is associated with various cost initiatives over the course of the next three years. In Washington, the commission and PacifiCorp reached a settlement agreement for an annual increase of \$14 million, or an average price increase of

5%. Pro forma rate adjustments in California were made in January 2009 to address energy cost adjustments and attrition adjustments. The company has filed a general rate case with the California Public Utilities Commission for an annual increase of \$8 million that remains pending.

PacifiCorp completed \$2.3 billion in capital expenditures in 2009, up from \$1.8 billion in 2008. The company is projected to spend \$4.6 billion in 2010-2012, 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 \$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 completion date scheduled for 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.

Lower fuel prices, decreased volume of wholesale electricity purchases, and favorable rate approvals on retail electricity sales and sales of renewable energy credits affected PacifiCorp's 2009 results. Although revenues declined slightly, by almost 1%, gross margins per megawatt-hour sold increased by almost 6%, as did the company's earnings before interest and taxes. Operating income increased about 11% due in large part to retail revenues increases provided by regulatory rate relief. For 2009, cash flows from operations rose by \$508 million to \$1.5 billion, but the majority of this was attributable to the deferred income taxes. In 2009, retail sales declined by 3%, while wholesale sales were approximately flat. About 30%-32% of PacifiCorp's total electric sales are to industrial customers. As a result, we had expected sales contraction to be a drag on 2009 performance, as industrial sales are more sensitive to the business cycle than is residential electric consumption. Industrial sales declined 7% in 2009.

Year-end leverage for the company was 53%, virtually unchanged year over year. Borrowing in 2009 was partially offset by \$125 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 \$395 million for power purchase obligations and \$370 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 50% area in the next several years.

Short-term credit factors

The company's liquidity position is strong. The PacifiCorp 'A-2' short-term rating reflects that although the contingent equity agreement between MEHC and Berkshire supports MEHC and its subsidiaries, the agreement is not a source of instantaneous liquidity. The agreement allows Berkshire up to 180 days to fund a request by MEHC. Given the recent turmoil in both the liquidity and capital markets, we have taken a firmer view on the need to link the PacifiCorp short-term ratings to its stand-alone credit quality, which supports an 'A-2' short-term rating. However, we note that although 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 \$117 million as of Dec. 31, 2009. 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 October 2012. The company had letters of credit in place for \$258 million, leaving \$1.137 billion available under its revolving facilities.

Outlook

The stable outlook on the PacifiCorp ratings 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 FFO interest coverage will be 20% or better and in the range of 4.0x-4.5x, respectively. Given that PacifiCorp's financial risk profile is weak for the current ratings, we do not expect near-term upward ratings momentum for the utility. PacifiCorp's regulatory and structural insulation shields the utility from some MEHC credit deterioration, to an extent. Specifically, our criteria provide that the PacifiCorp CCR 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 prospects for the utility rating to fall as a result of adverse rating changes on MEHC, which also enjoys a stable outlook.

Table 1.

PacifiCorp -- Peer Comparison*			
	PacifiCorp	Portland General Electric Co.	Pacific Gas & Electric Co.
Rating as of April 28, 2010	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
--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
Debt	6,641.7	1,875.2	12,662.8
Equity	5,926.2	1,404.3	10,032.3
Adjusted ratios			
Oper. income (bef. D&A)/revenues (%)	35.8	25.9	29.3
EBIT interest coverage (x)	2.8	2.2	2.9
EBITDA interest coverage (x)	4.0	3.8	4.4
Return on capital (%)	8.0	7.6	10.2
FFO/debt (%)	20.2	17.4	23.9
Debt/EBITDA (x)	4.2	4.1	3.3

*Fully adjusted (including postretirement obligations).

Table 2.

PacifiCorp -- Financial Summary*					
	--Fiscal year ended Mar. 31--				
	2009	2008	2007	2006	2006
Rating history	A-/Stable/A-2	A-/Stable/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

Table 2.

PacifiCorp -- Financial Summary* (cont.)					
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)
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	--	--	--	--	--

Table 3.

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

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 April 30, 2010)***PacifiCorp**

Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (70 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (3 Issues)	A-/A-2
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
25-May-2005	A-/Watch Neg/A-2

Business Risk Profile

Excellent

Financial Risk Profile

Aggressive

Related Entities**CE Casecan Water and Energy Co. Inc.**

Senior Secured (1 Issue)	BB-/Stable
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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
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Cordova Energy Co. LLC

Senior Secured (1 Issue)	BB/Stable
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Ratings Detail (As Of April 30, 2010)***(cont.)****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 (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 (3 Issues)

BBB-/Stable

Utah Power & Light Co.

Senior Secured (1 Issue)

AAA/Negative

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

Ratings Detail (As Of April 30, 2010)*(cont.)

& Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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