MOODY'S
INVESTORS SERVICE

Credit Opinion: PacifiCorp

Global Credit Research - 08 May 2013

Portland, Oregon, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured MTN	(P)Baa1
Pref. Stock	Baa3
Commercial Paper	P-2
Ult Parent: Berkshire Hathaway Inc.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
Parent: MidAmerican Energy Holdings Co.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2

Contacts

Analyst	Phone
Mihoko Manabe/New York City	212.553.1942
William L. Hess/New York City	212.553.3837

Key Indicators

[1]**PacifiCorp**

	2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	**4.9x**	**4.8x**	**5.3x**	**5.2x**
(CFO Pre-W/C) / Debt	**21.1%**	**21.0%**	**25.7%**	**26.0%**
(CFO Pre-W/C - Dividends) / Debt	**18.4%**	**13.5%**	**25.7%**	**26.0%**
Debt / Book Capitalization	**38.3%**	**39.8%**	**38.8%**	**42.4%**

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Reasonably supportive regulatory environment

Diversification to mitigate exposures to environmental spending, economic cycles

Solid credit metrics

Benefits from Berkshire Hathaway affiliation

Corporate Profile

PacifiCorp (Baa1 senior unsecured, stable) is a vertically integrated electric utility company headquartered in Portland, Oregon serving 1.8 million retail electric customers in six states, including Utah (44% of PacifiCorp's 2012 retail electricity volumes), Oregon (23%), Wyoming (17%), Washington (7%), Idaho (7%), and California (2%). PacifiCorp also has ancillary operations in wholesale power marketing (18% of 2012 electricity volumes, as a result of excess electricity generation or other system balancing activities) and coal mining services, both which support its core utility business.

PacifiCorp is the largest subsidiary of MidAmerican Energy Holdings Company (MEHC: Baa1 senior unsecured, stable), accounting for roughly 40% of MidAmerican's operating income in 2012. MEHC, in turn, is a consolidated subsidiary of Berkshire Hathaway Inc. (BRK: Aa2 Issuer Rating, stable).

SUMMARY RATING RATIONALE

PacifiCorp's ratings are supported by the stability of the utility's regulated cash flows, the geographically diverse and relatively constructive regulatory environments in which it operates, the diversification of its generation portfolio, and solid credit metrics. The rating also considers PacifiCorp's position as a subsidiary of MEHC, a holding company whose subsidiaries are primarily engaged in regulated activities, and the benefits from its affiliation with BRK.

DETAILED RATING CONSIDERATIONS

Reasonably supportive regulatory environment

PacifiCorp's rating recognizes the rate-regulated nature of its electric utility operations which generate stable and predictable cash flows. PacifiCorp operates in regulatory jurisdictions that Moody's considers as average in terms of framework, consistency and predictability of decisions along with an expectation of timely recovery of costs and investments. This "average" assessment is in line with Moody's views of most US state jurisdictions compared to regulatory environments elsewhere in the world.

Regulatory lag is a challenge for PacifiCorp, which has long maintained large capital programs to meet load growth as well as regulatory requirements for emissions control, renewable standards, and reliability. Although PacifiCorp has been filing rate cases every year or so in its largest jurisdictions and getting reasonable outcomes, the large capital investments cause its actual returns on equity to be in the 7%- 8% range compared to the roughly 10% that it is allowed.

Expecting weak load growth over the next decade, the company has cut future capital expenditures to roughly $1.1 billion a year, down considerably from the $1.5 billion it has spent in recent years. Almost half of the reduction is in generation. Less capital spending will reduce the need for rate relief and, consequently, regulatory lag.

The most significant of the 2012 rate orders was in Utah, by far its biggest jurisdiction, where $154 million in rate increases (8.5%) will be staged in over 2 years. Sizable rate cases have been filed in Oregon and Washington in Q1 2013, requesting increases of $56 million (5%) and $43 million (14%), respectively. These cases should be decided by year-end 2013.

Future rate filings will arise from its $6 billion Energy Gateway transmission program, with multiple segments currently under construction, and its Lake Side 2 gas plant, which is expected to come online in 2014. The ability to use a forward test year in its rate requests helps to limit regulatory lag in Utah, Oregon, Wyoming, and California. The company has been successful in getting approvals for its major projects; however, it is exposed to some disallowances in most of its jurisdictions, where pre-approvals on projects or cash returns on construction work in progress are not granted.

The company has obtained energy cost adjustment mechanisms in all its jurisdictions now except Washington. Such mechanisms to recover fuel and purchased power costs -- a large, volatile expense --are more established in other parts of the country. While this development is supportive of credit quality, there remains some lag in recovering portions of energy costs. For example, in Utah, Wyoming, and Idaho, the majority of the difference between the actual power costs and costs established in its base rates is deferred. This difference is then recovered or refunded after an annual filing.

Diversification to mitigate exposures to environmental spending, economic cycles

PacifiCorp benefits from a well diversified generation portfolio. Its 11,224 MW of net generating capacity is comprised primarily of its low cost base-load coal plants (55% of the company's generation), along with 25% from its gas assets and 10% from hydro.

With coal accounting for a slight majority of its generation capacity, PacifiCorp is subject to numerous emissions standards, but the company is well positioned to comply with the vast majority of its plants already equipped with sulfur dioxide and nitrogen oxide controls.

Reflecting a common strategic imperative among MEHC affiliates, PacifiCorp has been investing heavily to increase its non-carbon generation resources, and in so doing, has become the second-largest utility owner of wind generation facilities in the US. Owning this much wind capacity not only mitigates exposure to stricter environmental rules for coal plants, but also helps in meeting ambitious renewable portfolio standards in Oregon, Washington, and California.

The market and customer diversity of PacifiCorp's six-state service territory is favorable, because it mitigates the economic and regulatory impacts in any one jurisdiction. This benefit is demonstrated by the recent economic impact on retail sales. Load has been declining for five straight years in the Pacific Northwest from still weak industrial demand, while the Rocky Mountain states have enjoyed some commercial and industrial growth from oil and gas activity, which has been offset by self-generation among its industrial customers.

Solid credit metrics

PacifiCorp's overall key credit metrics in 2012 mapped to the low A range in the Regulated Utilities Methodology. The ratio of cash from operations before changes in working capital (CFO pre-W/C) to Debt, calculated in accordance with Moody's standard adjustments, was unchanged from 2011 at 21%, compared to 26% in both 2010 and 2009. Its CFO pre-W/C interest coverage was 4.9x in 2012 versus 4.8x in 2011and the 5x range in 2010 and 2009.

PacifiCorp's credit metrics - like the rest of the utilities industry - have been buoyed by the effects of bonus depreciation, a temporary tax benefit which will extend through 2013. Normalized to exclude bonus depreciation, CFO pre-W/C to Debt would have been in the upper-teens and CFO pre-W/C interest expense coverage would have been in the mid to lower 4 times range during 2009-2011. After bonus depreciation ends in 2013, PacifiCorp's credit metrics will return to more normal, sustainable levels.

Benefits from Berkshire Hathaway affiliation

PacifiCorp paid dividends of $200 million to MEHC in 2012, and $550 million in 2011, which was its first since being acquired by MEHC in 2006. MEHC had made equity contributions in each of the previous five years totaling $1.1 billion to help PacifiCorp finance its capital expenditures during this period. The dividends were intended to manage PacifiCorp's equity ratio (as measured by unadjusted equity to equity plus debt) around 50% after it had accreted to 53% as of year-end 2010. PacifiCorp is not held to a regular dividend, but will likely make additional dividends periodically, depending on its capital requirements and equity ratio.

From a credit perspective, the company's ability to retain its earnings as an entity that is privately held, particularly by a deep-pocketed sponsor like BRK, is an advantage over most other investor owned utilities that are typically held to a regular dividend to their shareholders. An additional tangible benefit from PacifiCorp's BRK affiliation is an equity commitment agreement, expiring on February 28, 2014, between MEHC and BRK, under which BRK has committed to provide up to $2 billion through February 2014. Equity from this agreement may be requested to fund MEHC's debt obligations or to provide capital to MEHC's regulated subsidiaries, including PacifiCorp. This agreement thus provides PacifiCorp with an additional source of alternate liquidity. We do not expect the commitment to be renewed, thus somewhat weakening the liquidity profile in 2014 and beyond, but we see no reason why BRK would not be supportive in the event of extraordinary and unanticipated difficulty at MEHC.

Liquidity Profile

PacifiCorp has good near-term liquidity, with $133 million in cash and two $600 million revolvers expiring in 2017 and 2018, of which about $888 million was available as of March 31, 2013. In 2012, the company generated cash flow from operations before working capital changes of $1.5 billion which will more than cover the $1.1 billion a year it plans on capital expenditures. Excluding minor amounts of revenue bonds, significant upcoming debt maturities include $200 million due on September 15, 2013 and $200 million due on August 15, 2014. The roughly $400 million reduction in annual capital expenditures will reduce the need for long and short term borrowings.

PacifiCorp uses its credit facilities to backstop its commercial paper program and to support its variable rate tax-exempt bonds. These credit agreements do not a require MAC representation for borrowings, which Moody's views positively. The sole financial covenant is a limitation on debt to 65% of total capitalization. As of March 31, 2013, PacifiCorp had ample headroom under that covenant with that ratio at 47% as defined in the agreement.

Rating Outlook

The stable outlook incorporates Moody's expectation that PacifiCorp will continue to receive reasonable regulatory treatment for the recovery of its capital expenditures, and that the funding requirements will be financed in a manner consistent with management's commitment to maintain a healthy financial profile. After the bonus depreciation ends in 2013, Moody's anticipates that PacifiCorp's credit metrics will return to the levels more typical before 2009, with CFO pre-W/C to Debt just below 20%.

What Could Change the Rating - Up

While the size of the company's capital expenditures limits the prospects for a rating upgrade in the near-term, the rating could be upgraded if reasonable regulatory support and a conservatively financed capital expenditure program results in a sustained improvement in credit metrics. This would include, for example, PacifiCorp's ratios of CFO pre-W/C to Debt sustained in the mid 20% range.

What Could Change the Rating - Down

The ratings could be adjusted downward if PacifiCorp's planned capital expenditures are funded in a manner inconsistent with its current financial profile, or if there were to be adverse regulatory rulings on current and future rate cases such that we would anticipate a sustained deterioration in financial metrics as demonstrated, for example, by a ratio of CFO pre-W/C to Debt falling to the mid teens.

Rating Factors

PacifiCorp

Regulated Electric and Gas Utilities Industry [1][2]	**12/31/2012**		**Moody's 12-18 month Forward View* As of May 2013**	
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		A		A
b) Generation and Fuel Diversity (5%)		Baa		Baa
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	5.0x	A	4.5x-4.9x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	22.5%	A	18%-	Baa

			20%	
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	19.0%	A	16%-18%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	39.0%	A	36%-39%	A
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012(LTM); Source: Moody's Financial Metrics