



## **Fitch Affirms MEHC's & Subsidiaries Ratings; Outlook Stable; NNG Outlook Revised to Stable**

Ratings Endorsement Policy  
16 Sep 2013 2:02 PM (EDT)

Fitch Ratings-New York-16 September 2013: Fitch Ratings has affirmed MidAmerican Energy Holdings Co.'s (MEHC) Long-term Issuer Default Rating (IDR) at 'BBB+' and its Short-term rating at 'F2'. MEHC's individual security ratings have also been affirmed. Concurrently Fitch has affirmed the IDRs and individual security ratings for MidAmerican Funding LLC (MF), MidAmerican Energy Co. (MEC), PacifiCorp (PPW), and Kern River Funding Corp. (KRF).

Fitch has withdrawn the MEC Preferred Stock rating as there is no amount outstanding. The Rating Outlooks remain Stable.

Fitch has also affirmed Northern Natural Gas Co.'s (NNG) Long-term IDR and individual security ratings, and revised the Outlook to Stable from Negative.

A complete list of all rating actions follows at the end of this release.

### KEY RATING DRIVERS

- Berkshire Hathaway, Inc. ownership strengthens group funding capabilities and capital retention.
- Ring-fencing by special purpose entities preserves operating company credit quality.
- Diversified low-risk regulated businesses support stable cash flows.
- Consolidated leverage remains high.
- Sufficient liquidity relative to funding needs.

**MEHC Affirmation:** MEHC's rating and Stable Outlook are supported by a large high-quality asset base, including two integrated regulated utilities, and two U.S. interstate gas pipeline systems. The ratings also consider Berkshire Hathaway, Inc.'s (BRK; IDR 'AA-'; Stable Outlook by Fitch) 90% ownership of the company which Fitch views as being beneficial to MEHC's credit quality. The company retains capital as a direct result of BRK's financial strength, which obviates the need to upstream dividends and affords MEHC an advantage in funding organic growth and acquisitions such as PPW in 2006 and the pending acquisition of NV Energy, Inc. (IDR 'BB+'; Credit Watch Positive).

**Consolidated Financial Metrics:** Relative to historical performance financial metrics are improving. EBITDA-to-interest, as calculated by Fitch, was 3.5x for the latest twelve month (LTM) period ended June 30, 2013, and forecast by Fitch to reach 4x over the five-year forecast period. Cash flows are likely to weaken as the positive benefits from bonus depreciation, production tax credits (PTCs) and investment tax credits (ITCs) are lower in the forecast period. Funds from Operations (FFO) interest coverage for the LTM period ended June 30, 2013 was 4.6x and is forecast by Fitch to be at, or below 4x toward the end of the five-year forecast period.

Fitch's forecast assumes the pending acquisition by MEHC of NV Energy is complete in 2014 at which time the proportion of consolidated earnings contributed by regulated utility business will be approximately 70%; and, higher than 90% including the pipeline businesses.

**High Leverage:** Debt-to-EBITDA for the LTM period ended June 30, 2013 was 5.3x. The anticipated impact of the \$5.6 billion acquisition of NV Energy could keep leverage metrics elevated through 2015. Fitch considers any acquisition financing provided by BRK to be 'equity like'. Absent the NV Energy acquisition, Fitch forecast debt-to-EBITDA to range near 4.4x toward the end of the five-year forecast.

**Sufficient Liquidity:** MEHC's consolidated liquidity position at June 30, 2013 was \$5.16 billion, including \$892 million in available cash. This figure includes a \$2,000 million equity commitment agreement (ECA) provided by BRK to MEHC through February 2014. MEHC stand-alone bank credit is \$600 million, and the credit facility matures in 2017. Bank credit supports the company's commercial paper (CP) program. Single bank concentration is not a concern as the largest single

bank concentration is 8%.

Fitch considers MEHC and subsidiaries' access to the bank credit and debt capital markets unrestricted. MF/MEC stand-alone credit includes a \$600 million bank credit facility which matures in 2018. PPW stand-alone credit is \$1.2 billion with facility maturities in 2017 and 2018.

**MF/MEC Ratings Affirmed:** The ratings affirmations are based on the credit quality of MEC, an integrated regulated electric utility. MF is an intermediate holding company owned by MEHC, and indirect holding company of the utility. MEC's rating and Stable Outlook reflects the company's relative low business risk profile, solid financial metrics, and a constructive regulatory environment in Iowa.

Fitch expects financial metrics to remain consistent relative to guidelines for the risk profile and ratings, with MF EBITDA-to-interest and FFO-to-debt to range between 4.5 - 5.2x and approximately 21%, respectively through 2017. The same metrics for MEC are forecast to range between 5.1x - 5.7x and lowers to 23%, respectively over the five-year forecast period. Fitch attributes current higher levels of FFO to bonus depreciation and PTCs for wind generation.

MEC has a new rate filing pending with the Iowa Utilities Board (IUB), with interim rates in effect in August 2013 and new rates effective in 2014. The utility has proposed an energy adjustment clause to capture changes in retail fuel costs, environmental consumables and allowances, and pretax changes in PTCs. The utility also included in its filing a transmission rider to recover Midcontinent Independent System Operator (MISO)-billed costs. Fitch's assumes a fair outcome.

**PacifiCorp Ratings Affirmed:** The utility's rating and Stable Outlook reflects PPW's low business risk profile, competitive resource base, solid financial metrics, and a fairly balanced and diversified regulatory environment. PPW operates in six state jurisdictions, Utah, Wyoming, Idaho, Oregon, Washington and California. Ratings stability is predicated on reasonable outcomes in pending and future rate proceedings to recover anticipated, significant capital investments.

A key rating concern is the execution of a large capital plan and timely recovery of related costs. Also a concern is the potential for more stringent environmental rules and regulations. Over the next five years capital spending will reach \$6 billion, \$2 billion less than Fitch's previous assessments, largely due to a scale back by management to reflect lower forecast load growth. The revised plan reflects delays starting certain generation and transmission projects and supports a stable credit profile. Higher spending levels could expose the utility to increased regulatory recovery which may weaken financial metrics over a capital intensive period.

Rate treatment is fair and well-diversified across multiple state jurisdictions. Exposure to commodity price risk is largely mitigated by power adjustment mechanisms in five of the six rate designs. Other rate features allow for the recovery or deferral for future recovery of investments in renewable generation, or other investments outside traditional rate filings. PPW has rate filings pending in Oregon and Washington. Fitch's rating assessment assumes fair outcomes in each.

**NNG Outlook Revised to Stable:** The Outlook revision reflects Fitch's assumption that the \$100 million maturity due in 2015 will be paid-in full effectively reducing pro-forma leverage metrics. Fitch forecasts debt-to-EBITDA at or near 2.5x for a sustainable period starting in 2015. Fitch also considers re-contracting will be supportive of a Stable Outlook.

Absent re-payment in full of the maturity and/or a narrowing of basis differentials, which would have a negative impact on interruptible transportation prices, Fitch could expect to see leverage metrics at levels higher than 2.8x which could result in negative rating action.

The Stable Outlook for NNG reflects the pipeline's strong business profile as an essential supplier of natural gas to many Midwest utilities under long-term contracts, favorable operating characteristics, and low regulatory risk.

**KRF Ratings Affirmed:** KRF ratings reflect Fitch's assessment that the pipeline produces predictable cash flows, receives fair rate treatment by the FERC, and capital spending levels remain manageable. Fitch views debt amortization as a key driver of improving leverage metrics over the five-year forecast period. The pipeline serves the Salt Lake City, UT areas, Southern Nevada and Central California.

#### RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a positive rating action include:

--MEHC: High leverage at the consolidated level continues to limit positive rating action;

--MF: If MF were to redeem its parent level debt its long-term IDR would likely be raised to that of MEC;

--MEC: The already strong rating of the utility limits positive rating action at this time;

--PPW: If FFO-to-debt were to increase and be sustained at or near 20%;

--NNG and KRF: The already strong ratings limit positive rating action at this time.

Future developments that may, individually or collectively, lead to a negative rating action include:

--MEHC: A change in ownership would have negative implications on the company's credit ratings; and/or a material change in financial policies including dividends from MEHC to BRK would pressure financial metrics;

--MF and MEC: If FFO-to-debt were to decrease and be sustained below 20%.

--PPW: If FFO-to-debt were to decrease and be sustained below 16%;

--NNG: Higher pro-forma leverage that could result in weakened leverage metrics over a longer period than considered by Fitch in its rating forecast could result in negative rating action;

--KRF: Negative rating action is unlikely at this time.

Fitch has affirmed the following ratings with a Stable Outlook:

MidAmerican Energy Holdings Co. (MEHC)

- Long-term IDR at 'BBB+';
- Senior unsecured debt at 'BBB+';
- Preferred stock at 'BBB-';
- Short-term IDR at 'F2'.

MidAmerican Funding LLC (MF)

- Long-term IDR at 'BBB+';
- Senior secured debt at 'A-'.

MidAmerican Energy Company (MEC)

- Long-term IDR at 'A-';
- Senior secured debt at 'A+';
- Senior unsecured debt at 'A';
- Short-term IDR at 'F1';
- Commercial paper at 'F1'.

Fitch has withdrawn the Preferred Stock rating at 'BBB+'.

PacifiCorp (PPW)

- Long-term IDR at 'BBB+';
- Senior secured debt at 'A-';
- Senior unsecured debt at 'BBB+';
- Preferred stock at 'BBB-';
- Short-term IDR at 'F2';
- Commercial paper at 'F2'.

Kern River Funding Corp. (KRF)

- Long-term IDR at 'A-';
- Senior unsecured debt at 'A-'.

Fitch has affirmed the following ratings and revised the Outlook to Stable from Negative:

Northern Natural Gas Co. (NNG)

- Long-term IDR at 'A'.

--Senior unsecured debt at 'A'.

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Applicable Criteria and Related Research:

- 'Corporate Rating Methodology' (Aug. 8, 2012);
- 'Rating North American Utilities, Gas and Water Companies' (May 16, 2011);
- 'Recovery Ratings and Notching Criteria for Utilities' (Nov. 13, 2012);
- 'Corporate Rating Methodology: Including Short-term Ratings and Parent and Subsidiary Linkage' (Aug. 5, 2013).

**Applicable Criteria and Related Research:**

Corporate Rating Methodology - Effective from 8 August 2012 - 5 August 2013  
Rating North American Utilities, Power, Gas, and Water Companies  
Recovery Ratings and Notching Criteria for Utilities  
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

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