Global Power
U.S. and Canada
Full Rating Report

PacifiCorp

A Subsidiary of MidAmerican Energy Holdings Co. (MEHC)

Ratings

Security Class	Current Rating
IDR	BBB
Senior Secured	A–
Senior Unsecured	BBB+
Preferred	BBB–
Short-Term IDR	F2
Commercial Paper	F2

Rating Outlook

Stable

Financial Data

PacifiCorp ($ Mil.)	9/30/10	12/31/09
Revenue	4,502	4,457
Gross Margin	2,843	2,780
CFFO	1,465	1,500
Operating EBITDA	1,635	1,609
Total Debt	6,459	6,426
Total Capitalization	13,643	13,148
ROE (%)	8.7	8.6
Capex/Depreciation (%)	326.5	424.0

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Related Research

Applicable Criteria

- *Corporate Rating Methodology, Aug. 16, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*

Other Research

- *MidAmerican Energy Holdings Company (Subsidiary of Berkshire Hathaway, Inc.), Jan. 6, 2011*
- *Fitch Affirms MidAmerican Energy Holdings Co. & Subsidiaries, Oct. 1, 2010*

Rating Rationale

- PacifiCorp's (PPW) ratings, affirmed by Fitch on Oct. 1, 2010, and Stable Rating Outlook reflect the utility's solid financial position, competitive resource base, relatively balanced regulation in its six-state service territory, and continued support from its ultimate corporate parent, Berkshire Hathaway (BRK; issuer default rating [IDR] 'AA–'; Rating Outlook Stable).
- Timely recovery of planned capital investment in rates is crucial to PPW's credit quality, in Fitch's view. The ratings assume recovery of capital and operating costs in rates will support credit metrics consistent with the company's 'BBB' IDR and Stable Rating Outlook.
- Fitch estimates that PPW's funds-from-operations-to-interest and debt-to-FFO will range from 4.2x–4.4x and 4.9x–5.3x, respectively, in 2010–2014, consistent with Fitch's target median for the 'BBB' rating category.
- Since being acquired by MidAmerican Energy Holding Co. (MEHC) in 2006, regulatory risk at PPW has been meaningfully reduced through the adoption of tariff mechanisms designed to reduce regulatory lag, including fuel adjustment clauses, forward test years, and single-issue rate cases.
- PPW's planned capital investment program has moderated in response to the cyclical downturn that began in 2007, but remains relatively large, averaging $1.6 billion per annum through 2014. Unanticipated cost overruns or inability to recover investment in base rates are primary concerns for investors.
- PPW's ratings consider corporate structures that insulate the operating utility from its intermediate corporate parent, MEHC, without impeding the parent's ability to infuse capital into PPW.

Key Rating Drivers

- An unexpected sustained decrease in debt leverage resulting in stronger coverage ratios.
- Significant deterioration in the utility's regulatory compact across its six state service territory.
- Lower than expected recovery of capital and operating costs associated with PPW's capital expenditure program.
- Substantial cost overruns associated with PPW's capital expenditure program.
- Loss of support from MEHC/BRK.

Liquidity/Capital Structure

PPW had long-term debt outstanding of $6.4 billion at the end of the third quarter of 2010. Total PPW debt outstanding represented 47.3% of the company's $13.6 billion capital structure. PPW's debt-to-EBITDA ratio was 4.0x for the 12 months ended Sept. 30, 2010.

PPW has total revolving credit of $1.4 billion, comprised of a $635 million facility that is scheduled to mature October 2012, and a $760 million facility that reduces to $720 million in July 2011 and $630 million in July 2012 and matures July 2013. The revolvers support PPW's CP program and certain variable-rate tax-exempt bond obligations, and require that the utility's consolidated total debt to total capitalization ratio at no time exceeds 0.65:1.0.

Debt maturities are manageable, in Fitch's view, with approximately $1.1 billion of debt scheduled to mature through 2014 and $587 million of that amount scheduled to mature in 2011, as indicated in the table at right.

PacifiCorp Capital Structure
($ Mil., As of Sept. 30, 2010)

Short-Term Debt	34
Long-Term Debt	6,425
Total Debt	6,459
Total Hybrid Equity	31
Common Equity	7,153
Total Capital	13,643
Total Debt/Total Capital (%)	47.3
Total Hybrid Equity/Total Capital (%)	0.2
Common Equity/Total Capital (%)	52.4

Source: Fitch model.

PacifiCorp Long-Term Debt Maturities Schedule 2011–2014
($ Mil.)

2011	587
2012	17
2013	261
2014	253

Source: Company reports.

Large Capital Investment Program

For the nine-month period ended Sept. 30, 2010, PPW invested approximately $1.3 billion primarily in transmission, emissions control equipment, wind power, and infrastructure. Capital expenditures during the nine months ended Sept. 30, 2010 decreased $516 million compared to the same period in 2009, reflecting reduction and delay of certain projects due to slower demand driven by the economic downturn that began in 2007.

Total capital expenditures in 2010 are expected to be $1.7 billion. PPW's capital investment is expected to approximate $8 billion during 2010–2014, averaging $1.6 billion per annum. PPW's future capital spending program is expected to be comprised of wind, transmission, environmental remediation, and generation projects as well as system overhauls to maintain reliability and serve new load. Among PPW's largest expansion projects is the Energy Gateway transmission project, which is expected to be a more than $6 billion investment.

Energy Gateway contemplates the addition of approximately 2,000 miles of high voltage transmission lines primarily in Utah, Wyoming Idaho, Oregon, and the desert Southwest during 2010–2018. The first phase of the project, Populus (in southern Idaho)-to-Terminal (near Salt Lake City, UT), is a 135-mile double circuit 345-kilovolt line that was fully completed and placed in service Nov. 19, 2010.

Future demand growth is expected to be met through a mix of efficient wind and fossil generation as well as demand-side management and energy efficiency programs. Although risk of cost overrun and significant delay to PPW's capital expenditure program is a potential concern for investors, Fitch notes that management has compiled a solid track record in executing its investment plans.

Regulatory Developments

Given the size of its planned capital investment, timely recovery of capital and related operating and maintenance costs is crucial for PPW's creditworthiness. Therefore, currently unanticipated adverse developments in PPW's six regulatory jurisdictions, leading to greater regulatory lag or lower recoveries, and resulting weaker coverage ratios compared with Fitch's projections could lead to future deterioration in PPW's creditworthiness and lower credit ratings.

PPW management remains keenly focused on managing the regulatory process through effective communication with regulators, frequent rate case filings, and working closely with policymakers and intervener groups to implement effective cost-recovery mechanisms and policies. Indeed, PPW has compiled a track record of settled general rate case (GRC), power cost adjustment, and other tariff proceedings with balanced outcomes across its service territory in recent years.

PPW's efforts to reduce regulatory lag and commodity exposure have significantly improved the utility's business risk profile, in Fitch's view. Such measures include adoption of a forward-looking test year in GRC filings and single-issue rate case proceedings in Utah, as well as adoption of net power supply cost adjustment mechanisms in Oregon, California, Idaho, and Wyoming.

PPW filed requests to implement an energy cost adjustment mechanism (ECAM) in Utah and replace the expiring power cost adjustment mechanism (PCAM) with an ECAM in Wyoming. The ECAM filings were filed by PPW in March 2009 in Utah and April 2010 in Wyoming.

The Utah Public Service Commission (UPSC) is expected issue a final order in the company's pending ECAM in the first quarter of 2011. The ECAM proceeding was bifurcated into two phases. The first phase of the ECAM was completed in the first quarter of 2010, with the UPSC issuing an order to proceed to the second phase. In its order, the UPSC concluded that evidence to be presented in phase two of the proceeding would be needed to determine if an ECAM is in the public interest. Hearings in ECAM phase two were completed in November 2010. A final order is expected in the first quarter of 2011.

In Wyoming, PPW's PCAM is scheduled to sunset with final deferral of net power costs in November 2010 and collection through March 2012. In April 2010, PPW filed an application with the Wyoming Public Service Commission (WPSC) to adopt a new ECAM to replace the expiring PCAM. A final order is expected to be issued by the WPSC in the first quarter of 2011 effective retroactive to Dec. 1, 2010.

Certain parties to the Utah and Wyoming ECAM proceedings have submitted testimony arguing for larger sharing of power supply cost differentials and dead bands. Fuel adjustors structured in this way will, all else equal, expose the utility to greater commodity risk than a mechanism with full pass-through of such costs to ratepayers on a timely basis. In Fitch's opinion, adoption and implementation of fuel adjustors that facilitate full and timely recovery of prudently incurred power supply costs reduce commodity risk and are constructive from a fixed income investor point-of-view.

In December 2010, the UPSC issued an order approving a $64 million annual rate increase to recover PPW costs associated with certain projects completed in 2010. The single-issue rate cases were filed with the commission in February 2010 and August 2010 to recover costs associated with projects completed by PPW in June 2010 and December 2010, respectively. New rates will be effective January 2011.

PPW has GRC filings pending in Wyoming, Washington, and Idaho, supporting $98 million (17%), $57 million (21%), and $25 million (12%) rate increases, respectively. Final orders in the rate proceedings are anticipated in 2011.

Corporate Structure

BRK

PPW's affiliation with intermediate holding company, MEHC, and its ultimate parent, BRK, provides two unique, specific financial advantages that confer, in Fitch's view, a measure of incremental financial flexibility to PPW.

First, unlike most utility holding companies, MEHC benefits significantly from capital retained as the direct result of BRK's financial strength, which obviates the need for MEHC to upstream dividends, in turn lowering dividend requirements from its operating subsidiaries.

Second, MEHC and BRK have entered into an equity commitment agreement (ECA). The ECA provides equity capital of up to $3.5 billion through February 2011 and $2 billion through February 2014 at the request of MEHC, to be used for the purpose of paying when due MEHC debt obligations and funding the general corporate purposes and capital requirements of MEHC's regulated subsidiaries.

PPW's ratings benefit from the strong financial position of BRK, its ultimate corporate parent, and BRK's strategy to invest in utility assets for the long term.

Ring-Fencing Measures

MEHC has implemented policies and procedures, including the creation of a special purpose entity, PPW Holdings, LLC (PPWH) designed to insulate PPWH and its operating subsidiary PPW from its parent, MEHC, and affiliates. Among other things, the ring-fence provisions include: a non consolidation opinion; an independent director; non-recourse structure; dividend restrictions; a prohibition against the use of PPWH's credit or pledge of its assets for the benefit of any other company; and, the maintenance of separate books, financial records, and employees.

Financial Summary — PacifiCorp

($ Mil., Fiscal Year-End December)

	LTM 9/30/10	2009	2008	2007	2006
Fundamental Ratios (x)					
FFO/Interest Expense	5.6	5.5	4.3	4.0	3.9
CFO/Interest Expense	4.9	4.8	3.9	3.6	3.0
FFO/Debt (%)	27.1	27.6	20.0	18.1	14.3
Operating EBIT/Interest Expense	2.8	2.7	2.8	2.8	1.9
Operating EBITDA/Interest Expense	4.3	4.1	4.2	4.4	3.5
Operating EBITDAR/(Interest Expense + Rent)	4.3	4.1	4.2	4.4	3.5
Debt/Operating EBITDA	4.0	4.0	3.9	3.7	5.9
Common Dividend Payout (%)	—	—	—	—	—
Internal Cash/Capex (%)	80.7	64.3	55.3	54.1	40.9
Capex/Depreciation (%)	326.5	424.0	365.1	305.6	296.1
Profitability					
Adjusted Revenues	4,502	4,457	4,498	4,258	2,924
Net Revenues	2,843	2,780	2,541	2,490	1,627
Operating and Maintenance Expense	1,072	1,035	992	1,004	780
Operating EBITDA	1,635	1,609	1,437	1,385	770
Depreciation and Amortization Expense	555	549	490	497	355
Operating EBIT	1,080	1,060	947	888	415
Gross Interest Expense	379	394	343	314	220
Net Income for Common	589	542	458	439	159
Operating Maintenance Expense % of Net Revenues	37.7	37.2	39.0	40.3	47.9
Operating EBIT % of Net Revenues	38.0	38.1	37.3	35.7	25.5
Cash Flow					
Cash Flow from Operations	1,465	1,500	992	824	432
Change in Working Capital	(284)	(274)	(142)	(115)	(213)
Funds from Operations	1,749	1,774	1,134	939	645
Dividends	(2)	(2)	(2)	(2)	(2)
Capital Expenditures	(1,812)	(2,328)	(1,789)	(1,519)	(1,051)
Free Cash Flow	(349)	(830)	(799)	(697)	(621)
Net Other Investment Cash Flow	(7)	5	6	8	9
Net Change in Debt	18	763	469	669	350
Net Equity Proceeds	225	125	450	162	207
Capital Structure					
Short-Term Debt	34	—	85	—	397
Long-Term Debt	6,425	6,426	5,578	5,177	4,114
Total Debt	6,459	6,426	5,663	5,177	4,511
Total Hybrid Equity and Minority Interest	31	115	31	31	59
Common Equity	7,153	6,607	5,946	5,039	4,386
Total Capital	13,643	13,148	11,640	10,247	8,956
Total Debt/Total Capital (%)	47.3	48.9	48.7	50.5	50.4
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.2	0.9	0.3	0.3	0.7
Common Equity/Total Capital (%)	52.4	50.3	51.1	49.2	49.0

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.