State of Utah
Department of Commerce
Division of Public Utilities

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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director,
Artie Powell, Energy Manager
Charles Peterson, Technical Consultant
Douglas Wheelwright, Utility Analyst

DATE: February 7, 2012

RE: PacifiCorp dividend declaration

I. ISSUE

In a letter dated January 25, 2012, PacifiCorp (Company) announced that its board of directors had declared a dividend amounting to $50 million payable February 23, 2012 to its sole common shareholder, PPW Holdings LLC, a wholly owned subsidiary of MidAmerican Energy Holdings Company (MEHC). PacifiCorp last paid a dividend on April 20, 2011.

Pursuant to Utah Code Annotated 54-4-27, the Company must notify the Commission of the dividend within five days of its declaration. The Commission has 30 days from the dividend declaration date to investigate whether the payment of such dividend would result in impairment of the capital or to the utility's service to the public, and if it finds that such impairment will or may occur, the Commission may order that the dividend not be paid.

The Division of Public Utilities (Division) has investigated the effects of the dividend on the capital and cash flows of the Company using the latest financial information available, the

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annual financial statements through December 31, 2010 and its interim September 30, 2011 financial filings. The Division has also reviewed the Company's bond rating though the various bond rating agencies. The Company also provided information pursuant to a data request submitted by the Division.

II. RECOMMENDATION (No Action)

Based upon the following analysis, the Division finds no indication that the capital and operations of PacifiCorp will be impaired pursuant to UCA 54-4-27. Therefore the Division recommends that the Commission take no action.

III. ANALYSIS

In approaching this assignment, the Division understands the terms "impaired" and "impairment" in the statute to mean that (1) the payment of the dividend will result in actions being taken against the Company by creditors, rating agencies, or others due to a reduction in the value of the capital, or the violation of loan covenants, or other agreements; (2) the payment of the dividend would result in a reduced ability of the Company to provide service through a lack the working capital or other financial capacity to continue its operations in the same manner it would if the dividend were not paid.

Exhibit 1 sets forth financial results for the fiscal years ended March 31, 2006 and for the fiscal years ended December 31, 2007 through 2010; and the partial year ended September 30, 2011.

Revenues have grown at an annual rate of 2.75 percent,[1] from about $3.9 billion in 2006 to $4.43 billion in 2010. Energy costs grew 0.98 percent annually over the 2006 to 2010 period and

[1] Annual growth rates have taken into account the change of the fiscal year-ends from March to December.

amounted to nearly $1.62 billion in 2010. Total operating expenses grew at an annual rate of 1.91 percent annually over 2006 to 2010. Earnings from operations grew from approximately $792 million to $1.04 billion over the 2006 to 2010 time period, for a 5.82 percent annual growth rate. Over the 2006 to 2010 time period, interest expense grew from about $248 million to $342 million, for a 7.05 percent growth rate. The Company's net income has grown steadily from $361 million in 2006 to $566 million in 2010, for a 9.95 percent growth rate.

The nine month September 30, 2011 results suggest that the Company's 2011 annual results should approximate $4.5 billion in revenues and $565 million in net income. PacifiCorp initiated dividend payments in 2011 amounting to $550 million; prior to 2011, the Company last paid a dividend in March 2006. Going forward, there is an expectation that the Company will continue to pay dividends to its parent.

Looking at the balance sheet information on pages 3 and 4 of Exhibit 1 indicates that the cash and equivalent balances have fluctuated widely between $31 million and $228 million. The average balance has been about $111 million; the September 30, 2012 balance was $151 million. Total current assets amounted to $1.02 billion in 2006, but have been fairly stable averaging about $1.5 billion since then. Current liabilities balances have fluctuated over the 2006 to 2010 time period, but overall have been roughly flat. In 2006 the current liabilities balance was $1.2 billion; in 2010 the balance was $1.54 billion, and on September 30, 2011 the balance was approximately $1.57 billion.

Net plant and equipment grew from $10.1 billion to $16.4 billion over the 2006 to 2010 period; by September 30, 2011 the balance had risen to just over $17.0 billion. Other assets have trended upward over the 2006 to 2010 time period, increasing from $1.6 billion to $2.1 billion. Total assets grew at a 10.14 percent annual rate over the 2006 to 2010 time period, ending at just under $20.15 billion in 2010; total assets amounted to $20.57 billion on September 30, 2011.

Long-term debt (excluding the current portion) also grew steadily from $3.72 billion in 2006 to $6.40 billion in 2009, but declined to $5.81 billion in 2010 due to a lack of new debt issuances and the increase in the current portion of long-term debt from $16 million in 2009 to $588 million in 2010. Deferred income taxes, which represent a positive cash flow item, has increased from $1.6 billion in 2006 to nearly $3.4 billion in 2010. As of September 30, 2011, the deferred income tax balance stood at $3.7 billion. Common equity increased from $4.0 billion in 2006 to $7.3 billion in 2010. The growth in common equity was facilitated by equity contributions from MEHC totaling around $1 billion since the 2006 acquisition, by the growth in net income, and by the lack of dividend payments between March 2006 and February 2011.Due to the sizable dividend payments in the first half of 2011, the common equity balance declined by over $200 million to stand at about $7.1 billion on September 30.

Reviewing the financial ratios on page 7 of 7 of Exhibit 1, about half of these financial measures improved over the time period considered. For example, the current ratio improved from 0.70 in 2005 to 1.55 in 2009, but declined somewhat to 1.06 in 2010. Long-term solvency ratios generally increased (a good thing) over the 2005 to 2010 time period.

Among the profitability ratios, return on assets have been flat since the acquisition by MEHC; however, returns on total capital and, more importantly, on equity have not shown any clear improvement, in fact are down in 2010 from their 2009 levels. The level of return on equity has consistently been one or more percentage points below the Company's authorized returns.

Asset utilization ratios have generally declined which suggests that in recent years the Company has not been doing as well as in the past in generating revenues (and profits) from its expanding asset base. Whether this is due to the Company's current build cycle, or some systemic negative in the Company or both is not clear from the data.

The Company's Standard & Poor's bond rating for its senior secured debt (the large majority of the debt) is an "A-" rating. This is a notch lower than about a year ago, when it was rated a straight “A.” Moody’s recently rated PacifiCorp Baa1 (similar to Standard & Poor’s BBB+). This suggests a slight deterioration in the Company’s financial strength as measured by bond ratings; due, in part, to the Company’s continuing relatively low profitability. It should be noted that these ratings are in part based upon the benefit of the Company’s relationship as a subsidiary of MEHC and, ultimately, Berkshire Hathaway.

As indicated on Exhibit 1 page 5, PacifiCorp is currently incurring capital expenditures at a rate of about $1.5 billion annually. Cash from operations (primarily net income plus depreciation plus deferred income taxes) has been running at about 65 percent of capital expenditures between 2007 and 2010; however, this ratio improved to 87 percent due primarily to a $700 million reduction in capital expenditures in 2010 over 2009. The Company’s capital expenditure program has required that the Company obtain funding from the debt markets as well as the receipt of equity contributions from MEHC. Beginning in 2011, the Company resumed dividend payments which has likely ended further capital contributions from MEHC.

Exhibit 2 sets forth a forecast of PacifiCorp’s financial statements based upon assumptions made by the Division that seemed reasonable in light of historical results. Based upon these assumptions, it appears that there should be no significant affect on the Company’s financial health due to the payment of the currently announced dividend. It appears that the Company can maintain a program of dividend payments while keeping approximately the current levels of profitability and capital structure.

IV. CONCLUSION

To date MEHC appears to have kept to its promises to make significant capital expenditures and to maintain an equity capital structure at or above the Acquisition Commitments.[2] The Company

[2] Acquisition Commitment 18 indicates the expectation that PacifiCorp’s equity percentage be kept above a 44 percent minimum. Standard & Poor’s indicated in a Research Update on August 8, 2006 related to the $350 million

has grown significantly over the past few years and has made some improvements in its balance sheet and increased its bond rating a notch. On the negative side, profitability as measured by returns on equity and total capital has not improved. The Company does appear, at this time, to be able to make the proposed dividend payment and perhaps resume a regular dividend payment program without impairing its operations.

debt issuance that it expects PacifiCorp/MEHC to manage PacifiCorp's debt and equity in a manner "sufficient to maintain roughly a 50-50 capital structure."