



State of Utah
Department of Commerce
Division of Public Utilities

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RESPONSE TO ACTION REQUEST

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: January 14, 2013

RE: PacifiCorp dividend declaration, Docket No. 13-999-01

I. 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.

II. ISSUE

In a letter dated January 2, 2013, PacifiCorp (Company) announced that its board of directors had declared a dividend amounting to \$150 million payable January 31, 2013 to its sole common shareholder, PPW Holdings LLC, a wholly owned subsidiary of MidAmerican Energy Holdings Company (MEHC). PacifiCorp last paid a dividend on December 6, 2012. The Commission issued an action request to the Division on January 2, 2013 with a due date of January 28, 2013. This memorandum responds to the Commission action request.

III. DISCUSSION

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.

In the previous dividend filing, the Division of Public Utilities (Division) investigated the effects of the dividend on the capital and cash flows of the Company using the latest financial information available, the annual financial statements through December 31, 2011 and its interim September 30, 2012 financial filings. The Division has also reviewed the Company's bond rating through the various bond rating agencies. The Division's investigation was reported to the Commission in a memorandum dated December 2, 2012.

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 of working capital or other financial capacity to continue its operations in the same manner it would if the dividend were not paid.

In its December 2, 2012 memorandum the Division concluded that there would be no impairment to PacifiCorp through the payment of the dividend. The December 2, 2012 memorandum is included, along with its attached financial statements and forecasts, in this memorandum by reference.

There is no significant additional information available on the Company that was not available at the time of the December 2, 2012 memorandum, and the Company is not expected to release new financial statements before the end of January 31, 2013. While this current dividend is larger than the previous one by \$100 million, the total common stock dividends paid in 2012 amounted to \$200 million. In its forecast model, the Division assumed that the Company could pay as much as \$600 million in common dividends in 2013. This dividend forecast is based in part on the expected continued growth in revenues and cash flow for the Company in 2013 as well as a slowing down in the pace of capital expenditures from the highs of recent years. Therefore, the Division concludes that the payment of \$150 million in common stock dividends will have no material effect on the Company at this time.

V. CONCLUSION

As discussed in the Division's December 2, 2012 memorandum, the Company has grown significantly over the past few years and has made some improvements in its balance sheet. On the negative side, profitability as measured by returns on equity and total capital has not improved; indeed, profitability has been on a downward trend for the last five years. The Company does appear, at this time, to be able to make the January 31, 2013 proposed dividend payment and probably can make additional dividend payments in 2013 without impairing its operations.

cc: Dave Taylor, PacifiCorp
Michele Beck, Office of Consumer Services