

PacifiCorp

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Major Rating Factors

Strengths:

- Market and regulatory diversity is afforded by PacifiCorp's electric utility business, which serves portions of six western U.S. states;
- Retail electric rates compare favorably with those of other electric suppliers operating in the states PacifiCorp serves, suggesting that the company may be able to maintain its competitive advantage despite its ongoing need for rate relief to support a large capital program;
- The recent approval of a fuel and purchased power adjuster in Utah is a positive development because the state is the company's largest market and will limit the amount that the utility will have to absorb if purchased fuel and power costs exceed amounts reflected in rates; ;
- Dependence on purchased power has decreased; and
- A settlement reached in February 2010 regarding the contentious Klamath hydro relicensing case has the potential to adequately address the company's financial exposure if the project is decommissioned, which will not occur before 2020.

Corporate Credit Rating

A-/Stable/A-2

Weaknesses:

- Despite the company's practice of filing annual rate cases in the states PacifiCorp serves, regulatory lag continues to allow only modest improvement in the company's financial profile: Its return on equity remains under authorized levels and although leverage has improved since MidAmerican Energy Holdings Co. acquired the utility in 2006, cash flow metrics remain just adequate to support the rating;
- Regulators will need to consistently support retail rate increases to recover PacifiCorp's planned capital investments, although the recessionary environment has caused some scaling-back of capital plans; and
- Growth in the percentage of generation provided by natural gas costs mitigates some of the company's potential exposure to carbon regulation, but introduces greater potential for cost volatility, which the company is managing by seeking fuel and purchased power adjusters.

Rationale

The 'A-' corporate credit rating on PacifiCorp reflects what Standard & Poor's Ratings Services views as a "significant" financial profile and is supported by its modest use of leverage to finance a large capital program and MidAmerican Energy Holdings Co.'s (MEHC; BBB+/Stable) willingness to deploy equity into PacifiCorp as needed to support the company's capital structure as it expands its rate base. The electric utility's excellent business profile benefits from the geographical, market, and regulatory diversity provided by its six-state service territory. PacifiCorp provides power to retail customers under the name Rocky Mountain Power in Utah, Wyoming, and Idaho, and as Pacific Power in Oregon, Washington, and California. Utah and Oregon are the most important regions for the company, providing around 42% and 24% of annual retail sales, respectively, as of year-end 2010.

PacifiCorp's financial performance has held steady throughout the recession. The utility's credit metrics would have deteriorated slightly in 2010 but for the benefits of bonus depreciation, which added \$700 million in deferred taxes to the company's \$1.4 billion in cash flow. Beneath this benefit, authorized rate increases in Utah, Wyoming, and Idaho supported a 1% increase in gross margin, but operating revenues and operating income for the year were both down slightly, by 0.6% and 2.2%, respectively, largely due to lower wholesale volumes and margins and weaker growth in retail sales. In 2010, funds from operations (FFO) to total debt was 25%, FFO interest coverage was 5.4x, and leverage was 50%.

A key consideration in 2011 is whether a resurgence in sales will occur to rekindle modest growth. Although overall 2010 retail sales revenues increased by about 1%, this growth has been led by Rocky Mountain Power (which accounted for roughly two-thirds of retail sales). Utah's population and economic growth continue to outpace the nation's. Declines have been meaningful for Pacific Power, with retail sales falling a cumulative 4.4% over 2009 and 2010 on a weather-adjusted basis. Industrial load loss has been especially significant in Oregon, but may have bottomed.

Our expectation in 2011 is that the sales growth for Rocky Mountain Power market will continue to improve. A slower, more hesitant recovery appears likely for Pacific Power sales, and we expect retail sales through 2012 there to remain below levels seen when MEHC acquired PacifiCorp in March 2006. As a result, growth led by Rocky Mountain should produce financial metrics in line with past performance, with FFO to total debt in the high teens and FFO interest coverage of 4.0x to 4.5x. These expectations do not reflect any additional benefits for bonus depreciation, which would slightly improve results. Leverage is not forecast to change from its current level of 50% of total capitalization.

PacifiCorp is wholly owned by MEHC. In turn, MEHC is privately held and majority owned by Berkshire Hathaway (AA+/Stable/A-1+). MEHC's stated strategy when it acquired PacifiCorp was to invest significant capital to upgrade its infrastructure. Its largest project is Energy Gateway, a new, 2,000-mile high-voltage transmission line that is being constructed in segments. In the company's 2010 10-K filing, it disclosed that it expects to spend \$6 billion for the project, with about \$1 billion of that amount to be spent over the next three years. MEHC has demonstrated a willingness to support the utility's capital program, providing PacifiCorp with \$1.1 billion equity contributions since 2006. This has allowed the company to grow without straining borrowings.

The company's consolidated earned return on equity, at 8.2%, is below authorized levels, which vary between states but are in the area of 10%. For the company's investment strategy to succeed, PacifiCorp's customers will be required to shoulder nearly annual increases in electric rates at a time when utility regulators around the U.S. are especially focused on holding down costs. A February 2011 ruling in Idaho, which is a small portion of PacifiCorp's franchise, reduced the company's request by \$11 million to \$13.8 million, noting that difficult economic conditions challenge customer ability to pay rate increases. Two large rate cases are in process in Utah and Wyoming. It has requested a \$232 million increase in Utah effective September 2011 that would increase rates an average of 14% if approved as filed. Also pending is an \$80 million rate case in Wyoming, with rates also requested to go into effect in September.

Liquidity

On a stand-alone basis (i.e., unenhanced by the existing contingent equity agreement available to MEHC to support any of its regulated subsidiaries, including PacifiCorp) we view the company's liquidity as "adequate" under our corporate liquidity methodology. This methodology categorizes liquidity in five standard descriptors (exceptional,

strong, adequate, less than adequate, and weak). Projected sources of liquidity, which consist of operating cash flow and available bank lines, exceed projected uses, the company's committed capital expenditures, debt maturities, and common dividends by more than 1.2x over the next 12 months. Under our criteria, we exclude as sources of liquidity any facilities expiring within one year of the liquidity assessment date. This assessment does not consider MEHC draws on its contingent equity that it could make to support PacifiCorp's projected capital requirements and debt maturities over the next two years.

As of March 31, 2011, cash and cash equivalents totaled \$39 million. The utility maintains unsecured credit facilities totaling nearly \$1.4 billion that mature 2012-2013. (A \$760 million facility decreased to \$720 million this month and is reflected in our liquidity calculations.) As of March 31, 2011, the company had additional borrowing capacity of \$821 million, because of \$270 million of borrowings under the facility and \$304 million of liquidity reserved to support variable-rate tax-exempt bond obligations and letters of credit. There are no rating triggers on the credit lines. PacifiCorp's next substantial long-term debt maturities are \$587 million due in 2011 and \$261 million in 2013.

Recovery analysis

We rate PacifiCorp's first mortgage bonds (FMB) 'A', a notch higher than the 'A-' issuer credit rating, and assign them a recovery rating of '1+'. We assign recovery ratings to first mortgage bonds (FMBs) issued by investment-grade U.S. utilities, which can result in higher issue ratings than a utility's corporate credit rating (CCR) depending on the CCR category and the extent of the collateral coverage. We base our investment-grade FMB recovery methodology on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist in the future. Under our notching criteria, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, and the regulatory limitations on bond issuance. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories. (See "Changes To Collateral Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds," published Sept. 6, 2007, on RatingsDirect on the Global Credit Portal.)

PacifiCorp's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral, in combination with regulatory covenants that restrict borrowing that were entered into as a condition of MEHC's acquisition of PacifiCorp in 2006, provides coverage of more than 1.5x, supporting a recovery rating of '1+' and an issue rating one notch above the CCR.

Outlook

The stable outlook on the PacifiCorp ratings incorporates our expectation that MEHC will continue to support the utility by contributing sufficient equity to manage its debt levels to 50% of total capitalization on a fully adjusted basis. We expect FFO to total debt and FFO interest coverage will be in the high teens and the 4.0x-4.5x range, respectively. We view these cash flow levels as minimum levels to maintain the rating. As with 2010, credit metrics could exceed these levels this year, depending on whether the company is able to utilize bonus depreciation benefits. We do not expect upward ratings momentum for the utility, given its heavy investment program. PacifiCorp benefits from regulatory insulation from its parent. Our criteria provide that the PacifiCorp corporate credit rating can be no

more than three notches above the MEHC consolidated credit rating. The companies are a notch apart. We do not see significant risks that the utility rating will fall as a result of adverse rating changes on MEHC, which also has a stable rating outlook.

Table 1.

PacifiCorp -- Peer Comparison*			
	PacifiCorp	Portland General Electric Co.	Pacific Gas & Electric Co.
Rating as of July 28, 2011	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Negative/A-2
--Average of past three fiscal years--			
(Mil. \$)			
Revenues	4,404.3	1,764.0	13,218.9
Net income from cont. oper.	479.7	109.0	1,157.7
Funds from operations (FFO)	1,342.3	326.5	3,030.0
Capital expenditures	1,850.2	511.4	3,437.7
Cash and short-term investments	134.7	38.0	175.7
Debt	6,641.7	1,875.2	12,662.8
Preferred stock	34.2	0.0	258.0
Equity	5,926.2	1,404.3	10,032.3
Debt and equity	12,567.9	3,279.5	22,695.2
Adjusted ratios			
EBIT interest coverage (x)	2.8	2.2	2.9
FFO int. cov. (x)	4.3	3.5	4.1
FFO/debt (%)	20.2	17.4	23.9
Discretionary cash flow/debt (%)	(10.5)	(14.4)	(14.1)
Net cash flow/capex (%)	72.5	51.5	71.2
Total debt/debt plus equity (%)	52.8	57.2	55.8
Return on common equity (%)	7.2	6.3	11.1
Common dividend payout ratio (unadj.; %)	2.7	59.6	49.6

*Fully adjusted (including postretirement obligations).

Table 2.

PacifiCorp -- Financial Summary*					
	--Fiscal year ended Dec. 31--				
	2009	2008	2007	2006	2006
Rating history	A-/Stable/A-2	A-/Watch Neg/A-1	A-/Stable/A-1	A-/Stable/A-1	A-/Stable/A-1
(Mil. \$)					
Revenues	4,457.0	4,498.0	4,258.0	4,154.1	3,896.7
Net income from continuing operations	542.0	458.0	439.0	307.9	360.7
Funds from operations (FFO)	1,760.1	1,272.1	994.8	927.6	864.5
Capital expenditures	2,297.1	1,757.0	1,496.4	1,375.0	1,030.5
Cash and short-term investments	117.0	59.0	228.0	59.0	119.6
Debt	7,415.8	6,635.9	5,873.5	5,473.6	5,185.3
Preferred stock	20.5	41.0	41.0	41.3	41.3
Equity	6,711.5	5,987.0	5,080.0	4,426.8	3,750.7

Table 2.

PacifiCorp -- Financial Summary* (cont.)					
Debt and equity	14,127.3	12,622.9	10,953.5	9,900.4	8,936.0
Adjusted ratios					
EBIT interest coverage (x)	2.7	2.8	2.8	2.5	3.0
FFO int. cov. (x)	4.9	4.2	3.5	3.8	3.8
FFO/debt (%)	23.7	19.2	16.9	16.9	16.7
Discretionary cash flow/debt (%)	(10.2)	(10.7)	(10.5)	(10.7)	(5.6)
Net cash flow/capex (%)	76.6	72.3	66.3	66.1	66.7
Debt/debt and equity (%)	52.5	52.6	53.6	55.3	58.0
Return on common equity (%)	7.0	6.8	7.8	6.2	8.9
Common dividend payout ratio (unadj.; %)	7.0	0.0	0.0	5.2	49.1

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of PacifiCorp Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)*

--Fiscal year ended Dec. 31, 2009--

PacifiCorp reported amounts

	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid
Reported	6,416.0	6,732.0	1,609.0	1,609.0	1,060.0	359.0	1,500.0	1,500.0	2.0
Standard & Poor's adjustments									
Operating leases	36.5	--	5.0	2.3	2.3	2.3	2.7	2.7	--
Intermediate hybrids reported as equity	20.5	(20.5)	--	--	--	1.0	(1.0)	(1.0)	(1.0)
Postretirement benefit obligations	369.9	--	20.0	20.0	20.0	5.0	33.8	33.8	--
Accrued interest not included in reported debt	111.0	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	35.0	(35.0)	(35.0)	--
Power purchase agreements	395.7	--	63.3	63.3	25.8	25.8	37.5	37.5	--
Asset retirement obligations	66.3	--	9.0	9.0	9.0	9.0	5.2	5.2	--
Reclassification of nonoperating income (expenses)	--	--	--	--	83.0	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	217.0	--
Total adjustments	999.8	(20.5)	97.3	94.6	140.2	78.2	43.1	260.1	(1.0)

Table 3.

Reconciliation Of PacifiCorp Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)* (cont.)

Standard & Poor's adjusted amounts									
	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid
Adjusted	7,415.8	6,711.5	1,706.3	1,703.6	1,200.2	437.2	1,543.1	1,760.1	1.0

*PacifiCorp reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of July 29, 2011)*

PacifiCorp

Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Preferred Stock (2 Issues)	BBB
Senior Secured (60 Issues)	A
Senior Unsecured (2 Issues)	A-

Corporate Credit Ratings History

27-Mar-2009	A-/Stable/A-2
18-Sep-2008	A-/Watch Neg/A-1
22-Mar-2006	A-/Stable/A-1

Business Risk Profile

Excellent

Financial Risk Profile

Significant

Related Entities

CE Electric U.K. Funding Co.

Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured (1 Issue)	BBB+

CE Generation LLC

Senior Secured (1 Issue)	BB+/Stable
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Cordova Energy Co. LLC

Senior Secured (1 Issue)	BB/Stable
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Iowa-Illinois Gas & Electric Co.

Senior Unsecured (5 Issues)	A-/A-2
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Kern River Gas Transmission Co.

Senior Secured (2 Issues)	A-/Stable
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MidAmerican Energy Co.

Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Preferred Stock (1 Issue)	BBB+
Senior Unsecured (9 Issues)	A-
Senior Unsecured (2 Issues)	A-/A-2

Ratings Detail (As Of July 29, 2011)***(cont.)****MidAmerican Energy Holdings Co.**

Issuer Credit Rating	BBB+/Stable/--
Preferred Stock (2 Issues)	BBB-
Senior Unsecured (8 Issues)	BBB+

MidAmerican Funding LLC

Senior Secured (1 Issue)	BBB+
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Midwest Power Systems Inc.

Senior Unsecured (1 Issue)	A-/A-2
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Northern Electric Distribution Ltd.

Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A-

Northern Electric Finance PLC

Senior Unsecured (1 Issue)	A-
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Northern Electric PLC

Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured (1 Issue)	A-

Northern Natural Gas Co.

Issuer Credit Rating	A/Stable/--
Senior Unsecured (5 Issues)	A

Salton Sea Funding Corp.

Senior Secured (1 Issue)	BBB-/Stable
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Yorkshire Electricity Distribution PLC

Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (2 Issues)	A-

Yorkshire Electricity Group PLC

Issuer Credit Rating	BBB+/Stable/--
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Yorkshire Power Group Ltd.

Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured (1 Issue)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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