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Portland, OR 97232

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IDAHO PUBLIC
UTILITIES COMMISSION

PACIFICORP
PACIFIC POWER UTAH POWER

November 28, 2005

Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83702-5983

Attn: Ms. Jean D. Jewell
Commission Secretary

Re: Quarterly Debt Report

Pursuant to Case No. PAC-E-05-5, PacifiCorp (the Company) hereby files an original and eight copies of its debt report for the period ended September 30, 2005 as well as recent write-ups from major bond rating agencies.

Long-Term Debt Activity:

Amount outstanding at June 30, 2005		$4,029,158,000
Issuances		
	None	
Maturities		
	None	
Amount outstanding at September 30, 2005		$4,029,158,000

Long-Term Debt Authorization:

Amount authorized May 17, 2005 by Order No. 29787	$1,000,000,000
Issuances	
June 13, 2005 issuance of 5.250% FMBs due June 2035	(300,000,000)
Remaining authorization at September 30, 2005	$700,000,000

If you have any questions regarding this summary, please call me at (503) 813-6856.

Sincerely,

Matt Fechner

Matt Fechner
Treasury Analyst

Enclosures

STANDARD & POOR'S

CLO

Print

Credit FAQ: PacifiCorp's Rate Case Ruling

Primary Credit Analyst:
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Quick Links
Frequently Asked Questions

PacifiCorp (A-/Watch Neg/A-2) received a disappointing ruling from the Oregon Public Utilities Commission (OPUC) on Sept. 28, 2005, that cut in half the $52.5 million retail rate increase negotiated as part of a stipulated settlement with various parties, including staff. The decision authorized just $25.9 million, or a retail rate increase of about 3.2%, which became effective Oct. 4, 2005.

The $26 million disallowance reflects adjustments the OPUC made in the amount of income taxes that PacifiCorp may collect in its retail electric rates related to recently enacted legislation, Senate Bill (SB) 408. Oregon constitutes about 30% of PacifiCorp's retail market. While the ruling is adverse for credit quality, no near-term rating action is foreseen at this time as Scottish Power supports PacifiCorp's ratings. Longer-term, there could be an adverse ratings action, depending on factors that are discussed in detail below.

Frequently Asked Questions

What is SB 408?

SB 408 addresses concerns that Oregon utilities may be collecting income tax expenses in retail electric and natural gas rates that are not ultimately paid by either the utility or its affiliate (such as a parent) to taxing authorities. A utility's federal and state income taxes are considered an operating expense for ratemaking purposes. In Oregon, as in many other states, retail rates are set at levels designed to cover operating expenses, including income taxes, over an agreed upon test period. But differences frequently arise between amounts that an electric or gas utility collects that are attributable to its stand-alone tax obligations and amounts that the consolidated company actually pays in taxes. Such differences arise for a number of reasons. For example, a utility's positive stand-alone tax obligation could be properly combined with the generation of income as well as losses within the parent company's federal tax return. Tax payments reflect all the combined income and loss positions of the consolidated entity.

The essence of SB 408 is that it overturns the precedent of calculating utility taxes on a stand-alone basis and instead requires the OPUC to track taxes collected by utilities in rates and compare this amount against taxes ultimately paid by the utility or the consolidated corporation to state, federal and local governments. The legislation authorizes the establishment of a mechanism that automatically flows back to retail ratepayers any differences in income taxes collected versus income taxes actually paid by the filing company that are attributable to regulated operations.

The genesis of SB 408, which passed by a significant margin in the Oregon Legislature, has to do with issues surrounding Enron's ownership of Portland General Electric (PGE; BBB/Stable/--). Consumer advocates have charged that while the utility collected millions of dollars in retail rates for PGE's estimated tax obligations, offsetting losses in other Enron operations resulted in its paying no federal or state income taxes for several years. As a result, PacifiCorp has found itself drawn into a sensitive policy issue that has generated widespread concern throughout the state.

How does SB 408 affect PacifiCorp and Scottish Power?

SB 408 applies to investor-owned electric and natural gas utilities that are regulated by the OPUC and serve more than 50,000 customers. Other utilities that are potentially affected are PGE, Northwest Natural Gas (A+/Stable/A-1), Avista (BB+/Stable/B-1) and PacifiCorp.

While all four of these investor-owed utilities will be required to file tax information, those most vulnerable to actual income tax-based adjustments appear to be PGE and PacifiCorp. PacifiCorp's potential SB 408 tax adjustments stem principally from:

- The ability of its U.S. holding company to deduct interest expenses on its federal and state income tax filings, which it pays to Scottish Power in association with its acquisition indebtedness; and
- The U.S. holding company's ability to utilize tax deductions from PacifiCorp's non-regulated affiliates.

Scottish Power purchased PacifiCorp in 1999. Subsequent to the acquisition, Scottish Power created PacifiCorp Holdings Inc. (PHI), a non-operating, indirect, wholly owned subsidiary. PHI is the parent of PacifiCorp and of Scottish Power's three other U.S. subsidiaries, including PPM Energy.

The interest that PHI pays to Scottish Power that is associated with an inter-company loan is deductible on the consolidated tax returns that PHI files on behalf of PacifiCorp and the other three subsidiaries. At fiscal year end March 31, 2005, PHI reflected an inter-company loan balance of about $2.4 billion, and PHI paid to Scottish Power approximately $160 million in related interest. This constituted a direct offset to PHI's consolidated tax liability, and thus reduced the consolidated group's taxable income. SB 408 will likely mean that until Scottish Power sells PacifiCorp, the utility could face future retail rate deductions induced by the automatic adjustment mechanism, unless PHI debt is reduced.

How is the automatic tax adjustment mechanism

expected to work?

SB 408 applies to income taxes collected from ratepayers and paid to governments beginning Jan. 1, 2006. The legislation specifies that beginning in 2005, utilities must file an annual tax report on October 15. For the three preceding fiscal years, the report must provide: A) the amount of taxes paid by the utility, or the consolidated entity's income taxes paid that are "attributable" to regulated operations; and B) the amount of taxes authorized for collection in the utility's retail rates. The lesser of item A is then compared to item B, and if the difference is at least $100,000, an adjustment is triggered.

SB 408 appears to apply the adjustment symmetrically, allowing for the possibility of an increase in retail rates due to higher tax obligations of the stand-alone utility. But a concern from a credit perspective is that the OPUC may suspend the adjuster if it is found to have a materially adverse effect on ratepayers. This suggests that in its application, the mechanism would more commonly be used to reduce retail rates rather than to pass through rate increases to consumers. Many of the details of the mechanism are left to the OPUC.

When will the details of the mechanism be finalized?

The OPUC issued interim rules on Sept. 15 to enable the Oct. 15 filings. These rules have proved difficult to decipher and have sparked significant concern of the utilities, because there is a potential for unintended consequences. For example, the temporary rules seem to apply a tax adjustment even in cases where the consolidated tax payments far exceed the amount of taxes collected and paid by the utility. Troubling for the pending MidAmerican Energy Holdings Co. (MEHC) acquisition of PacifiCorp is interim rule language that would allow the OPUC to allocate the tax benefits of losses at unregulated affiliates owned by Berkshire Hathaway to Oregon ratepayers in the form of a rate reduction.

Permanent rules are expected to be in place by mid-January 2006. The content of these permanent rules will be critical for credit quality--open-ended rules that introduce a wide set of circumstances in which a rate reduction could be required will increase regulatory risk and potentially increase the variability of regulated cash flows. Also unknown is when the tax trigger should begin. It is PacifiCorp's position (and that of some intervenors) that filings made in 2005 and 2006 are to be used for information purposes only, and that only in late 2007 should the filings be used trigger an actual adjustment. But until permanent rules are in place, it is difficult to determine how the details will work.

How is it that SB 408 formed the basis of reductions in PacifiCorp's rate case?

Treatment of taxes was a contested issue in PacifiCorp's general rate case, and no stipulations were reached with parties on this issue. While the case was pending before the OPUC, SB 408 was passed on an emergency basis, which means the bill became effective when the state's governor signed it on Sept. 2, 2005. The Industrial Customers of Northwest Utilities (ICNU) argued that SB 408 should be considered in the context of PacifiCorp's general rate case decision. The OPUC agreed.

Because it was not expected that the OPUC would apply the principles of SB 408 until after permanent rules were adopted for taxes paid after Jan. 1, 2006, the ruling was a surprise. The OPUC appears to have predicated its authority to apply SB 408 to the general rate case on the fact that PacifiCorp's retail rates are based on a forward 2006 test year, and therefore some portion of the authorized rate increase is to cover expected 2006 expenses, including income taxes. The OPUC noted in its decision that it is not "bound to maintain our practice of stand-alone calculations, particularly when a new statute comes into play." In reducing the settlement by half, the OPUC did not formally apply an adjustment mechanism but followed a methodology presented by the Citizen's Utility Board, a ratepayer advocate. More balanced rules proposed by staff were rejected.

What are the immediate credit implications for PacifiCorp?

In the short run, Standard & Poor's is taking no rating action. Critical to understanding this decision is the fact that PacifiCorp's current 'A-' corporate credit rating (CCR) is based on the consolidated credit quality of Scottish Power. Thus, a rating action, if it were to occur, would reflect the impact of the OPUC rate case decision and the future risks of SB 408 on the consolidated operations.

PacifiCorp represents about 45% of Scottish Power's operating profit, with the Oregon market being the second-largest service area behind Utah. Scottish Power produced about £1.2 billion (or $2.2 billion) of funds from operations (FFO) in fiscal 2005 (ending March 31), so the pre-tax $26 million disallowance represents about 1% of consolidated cash flows. Thus, the immediate consequences of the rate case are nominal from the consolidated perspective. Key consolidated cash flow ratios for fiscal 2005 were appropriate for the rating, with funds from operation (FFO) interest coverage of about 4.0x and adjusted FFO to total debt of 20%.

What are the longer-term credit implications?

In the long run, the credit implications are more complex, and will be a function of a number of unknowns. For example, until permanent rules are in place, it is difficult to assess the full impact of SB 408 on future utility financial performance. In addition, PacifiCorp has vigorously disputed OPUC's application of SB 408 to the rate case proceeding, calling the OPUC decision premature, ill advised, and possibly illegal. If the company takes legal action regarding the rate case and prevails, it could recoup the rate reductions, though not for some time, and SB 408 will continue to apply to future revenues earned by the utility. Also, while the legislation applies only to Oregon, there is potential for this issue to become a policy concern in other states, especially in Utah, which is PacifiCorp's largest market, accounting for 40% of the company's retail electric revenues. On Oct. 6, 2005 the Committee of Consumer Services issued a letter calling on the Utah Public Service Commission to investigate consolidated tax issues.

Most importantly, Scottish Power is in the process of selling PacifiCorp. As a result, PacifiCorp's ratings are on CreditWatch with negative implications, reflecting PacifiCorp's weak credit metrics, which would not support its current CCR were it rated on a stand-alone basis. The OPUC decision will reduce after-tax cash flows by about $16 million. And absent any changes in PHI's debt and tax arrangements, stand-alone performance will be weaker than forecast. These impacts could be ephemeral, if it is completed. However, the extent to which SB 408 may impact PacifiCorp following the sale to MEHC is also uncertain and is dependent on the permanent decision. For example, given the broad nature of Berkshire's businesses, it is likely that loss-making companies will exist in any given year, which under the temporary rules could result in rate reductions to Oregon customers.

What effect could this have on the sale of PacifiCorp to MEHC?

While the parties have made no public statements in this regard, it is clear that the legislation could influence whether MEHC proceeds with the sale because the permanent rules have the potential to affect the future profitability of PacifiCorp. MEHC's offer was made before SB 408 was passed and, since then, it has closely followed the developments. After the temporary rules were announced, MEHC met with multiple parties, including the state governor. The company's public statements have expressed significant concern about the interim rules. Standard & Poor's is monitoring the situation and will comment further as conditions warrant.

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STANDARD &POOR'S	RATINGSDIRECT

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Research:

Research Update: PacifiCorp's First Mortgage Bonds Assigned 'A-' Preliminary Rating

Publication date: 20-Sep-2005
Primary Credit Analyst(s): Anne Selting, San Francisco (1) 415-371-5009; anne_selting@standardandpoors.com

Credit Rating: A-/Watch Neg/A-2

Rationale

On Sept. 20, 2005, Standard & Poor's Ratings Services assigned its 'A-' preliminary rating to PacifiCorp's first mortgage bonds and its 'BBB+' rating to senior unsecured obligations under a mixed shelf registration filed by the company on Sept. 6, 2005. The filing permits the issuance of up to $700 million in senior secured and unsecured debt.

The 'A-' corporate credit rating on PacifiCorp reflects the consolidated credit quality of the utility's parent, ScottishPower PLC (A-/Stable/A-2). Ratings of PacifiCorp remain on CreditWatch with negative implications following the May 2005 announcement that the Oregon-based utility is to be sold to MidAmerican Energy Holdings Inc. (MEHC; BBB-/Watch Pos/--) for $9.4 billion, including $5.1 billion in cash, and the assumption of $4.3 billion in net debt and preferred stock. The purchase will be effectuated by the purchase of the outstanding shares of common stock of the utility, which is currently held by PacifiCorp Holdings Inc. (PHI; A-/CW Developing). PHI is the indirect holding company for ScottishPower's U.S. interests, which, in addition to PacifiCorp, include PPM Energy Inc., Pacific Klamath Energy, and PacifiCorp Group Holdings (PGHC).

PacifiCorp is a vertically integrated electric utility that serves about 1.6 million customers in portions of Utah, Oregon, Wyoming, Washington, Idaho, and California. Utah and Oregon accounted for about 70% of retail electric revenues in fiscal 2005 (ended March 31). The company is regulated by the state utility commissions in each of these states. PacifiCorp's satisfactory business profile score of '5' (on a 10-point scale, where '1' is the strongest) reflects a predominately coal-fired generation fleet that provided about 80% of energy requirements in fiscal 2005, low retail electric rates relative to other investor-owned utilities in the western U.S., and a regulatory profile that has been improving, although the utility lacks a fuel and purchased power adjustment mechanism in any of the jurisdictions it serves. However, persistently poor financial performance caused by a variety of factors, including the California power crisis, historic disallowances for purchased power, regulatory lag, issues with plant performance, and large capital expenditures prompted ScottishPower to sell PacifiCorp, which it acquired in 1999.

The CreditWatch with negative implications status reflects that the current 'A-' corporate credit rating on PacifiCorp is based on ScottishPower's consolidated credit profile, whose solid financial performance has compensated for its weaker U.S. utility, which constitutes about 45% of cash flows. On a stand-alone basis, PacifiCorp's debt leverage and cash coverage ratios are solidly in the 'BBB' category. For the first quarter ending June 30, 2005, funds from operations (FFO) to interest and FFO to total adjusted debt was 3.3x and 16.3%, respectively. Standalone debt to total capitalization was 58.9%, adjusted for PacifiCorp's purchased power obligations. Thus, how the acquisition is structured will materially affect PacifiCorp's ratings if the transaction closes. In regulatory filings, MEHC has stated its intent to create a limited liability company, PPW Holdings LLC, which will be a direct subsidiary of MEHC. MEHC has indicated that no new debt will be issued at PPW, and that existing utility debt of $3.9 billion and $86.3 million in preferred stock (both as of June 30) will reside at PacifiCorp.

PacifiCorp's cash flows have been volatile for an investor-owned utility, but have stabilized somewhat in recent years, with FFO reaching $805 million in fiscal 2005, in line with fiscal 2004. But due to steady increases in debt driven largely by rising capital expenditures, financial metrics deteriorated slightly in fiscal 2005 relative to fiscal 2004, but are significantly improved over performance from fiscals 2001 through 2003. In the first quarter of fiscal 2006, PacifiCorp issued $300 million in first mortgage bonds to pay down the utility's commercial paper balances. This increased leverage was partially offset by an equity contribution of $125 million from PHI made on June 30, 2005, as discussed further in the short-term ratings section below.

Capital expenditures are a substantial challenge for the utility, and largely account for the utility's negative free operating cash flow position of $141 million at year-end fiscal 2005, when capital expenditures totaled $852 million. The company estimates that for the next five years, more than $1 billion will be needed each year for new plant construction, emissions and environmental compliance, and investment in infrastructure, particularly in Utah, where retail customer growth is forecast to be about 3% per annum.

The transaction does face some regulatory risk; the Federal Energy Regulatory Commission and all six state commissions must approve the sale. However, the companies will not require Securities and Exchange Commission approval, which could have been a meaningful hurdle, because the Energy Policy Act of 2005 repealed the Public Utilities Holding Company Act (PUHCA) in August. ScottishPower shareholders approved the sale in July 2005.

PacifiCorp has asked the six commissions to rule by February 2006 to enable the transaction to close by the end of PacifiCorp's fiscal year ending March 31, 2006. The terms of the purchase provide that the sale must be completed by May 2006; however, if all conditions are satisfied except the regulatory approvals, either the buyer or seller may extend the purchase agreement until February 2007.

Short-term rating factors

The short-term rating on ScottishPower, Scottish Power U.K. PLC, and PacifiCorp is 'A-2'. ScottishPower's consolidated liquidity is good, owing to a steady, predictable net cash flow stream produced by regulated businesses, minimal debt maturities over the next few years, and good credit facility capacity. Cash and other short-term deposits, which amounted to about £1.75 billion ($3.2 billion) at March 31, 2005, are held in a variety of quickly accessible funds. Full capacity exists under a $1 billion revolving credit facility, split between a $625 million facility and a $375 million facility, both due in 2008. ScottishPower U.K. maintains a $2 billion Euro-commercial paper program, which is undrawn.

PacifiCorp provides for its own liquidity needs. Its cash and cash equivalent position was $168 million as of June 30, down from the $199 million as of year-end fiscal 2005. In addition, it has an $800 million commercial paper program that is backstopped by a currently undrawn revolving credit agreement that terminates in May 2007. Short-term debt balances totaled $314 million as of the same date. Regulatory authorities limit PacifiCorp from issuing more than $1.5 billion in short-term debt.

Additional cash will be provided in the coming year in the form of planned equity contributions from PHI. The purchase agreement specifies that ScottishPower via PHI make a common equity contribution to PacifiCorp in quarterly amounts that total $500 million per year for fiscal 2006, rising to $526 million in fiscal 2007. (The latter year amount will be refunded to PHI in terms of an increased sale price to ScottishPower if the transaction closes.) Net of dividends from the utility, which are capped in the acquisition agreement, in fiscal 2006 PHI/ScottishPower cash equity contributions to PacifiCorp will be roughly $285.2 million. In contrast, in fiscal 2005, PacifiCorp's dividends paid to PHI totaled about $195 million, and no equity investments were made.

Future maturities of $289 million in fiscal 2006 are in line with historic obligations. Affiliate transaction rules restrict PacifiCorp from lending to any of PHI's subsidiaries or U.K. affiliates.

Ratings List

PacifiCorp	
Corp credit rating	A-/Watch Neg/A-2
Ratings assigned	
First mortgage bonds	A-/Watch Neg
Senior unsecured obligations	BBB+/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

The McGraw-Hill Companies

Moody's Investors Service

Global Credit Research
Liquidity Risk Assessment
7 SEP 2005

Liquidity Risk Assessment: PacifiCorp

PacifiCorp

Portland, Oregon, United States

Broad Industry:	Public Utility
Specific Industry:	Utility/Diversified Holding Company
Short Term Rating:	P-2

Contacts

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Opinion

PacifiCorp's Prime-2 short-term rating for commercial paper reflects the predictable cash flow of this well-positioned vertically integrated utility. Operating cash flow has strengthened over the past few years due to the receipt of favorable regulatory decisions relating to recovery of purchased power costs. Operating cash flow is being used to finance a growing capital expenditure program intended to enhance reliability and supply requirements for the utility's service territory.

During fiscal year 2005 (March 31st), cash from operations of about $840 million covered nearly 70% of PacifiCorp's capital requirements, including capital expenditures incurred at the utility and the payment of dividends. Through 12 months ended June 30, 2005, cash from operations remained in the $840 million range, representing nearly 75% of the company's capital requirements. PacifiCorp has met the remaining funding requirements through the incurrence of short-term debt, principally commercial paper, and from equity provided by PacifiCorp's parent, PacifiCorp Holdings, Inc. (PHI).

On May 23, 2005, ScottishPower (SP) and PHI executed a Stock Purchase Agreement providing for the sale of all PacifiCorp common stock held by PHI to MidAmerican Energy Holdings Company (MidAmerican) for about $9.4 billion, consisting of approximately $5.1 billion in cash plus approximately $4.3 billion in net debt and preferred stock, which will remain outstanding at PacifiCorp. The closing of the sale of PacifiCorp is subject to a number of conditions, including approvals from various state and federal regulatory authorities. Pursuant to the Stock Purchase Agreement, SP has agreed to cause PacifiCorp to not pay dividends to PHI in excess of $214.8 million in the aggregate during fiscal 2006 and $242.3 million in the aggregate during fiscal 2007. Additionally, while the sale of PacifiCorp is pending and the Stock Purchase Agreement is in effect, PHI has agreed to make common equity contributions to PacifiCorp of $125 million at the end of each quarter in fiscal 2006 and $131.25 million at the end of each quarter in fiscal 2007.

PacifiCorp had outstanding commercial paper of $314.6 million and $468.8 million at June 30, 2005 and at March 31, 2005, respectively. PacifiCorp's short-term borrowings and other financing arrangements are supported by an $800 million revolving credit agreement, which expires in August 2010. Additionally, the company had $167.5 million and $199.3 million in cash and cash equivalents at June 30, 2005 and at March 31, 2005, respectively.

PacifiCorp relies upon its revolving credit agreement to backstop its commercial paper program and for daily liquidity requirements, if any, for $38 million of unenhanced pollution control revenue bonds. The facility does not contain rating triggers that would cause acceleration or make the facilities unavailable, but does contain rating sensitive pricing. The facility contains a financial covenant that limits debt to 65% of total capitalization. At June 30, 2005, PacifiCorp was in compliance with this covenant.

On June 13, 2005, PacifiCorp issued $300 million of 5.25% first mortgage bonds due 2035 using the proceeds to reduce short-term debt.