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PUBLIC UTILITIES COMMISSION

April 4, 2006

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

Attention: Ms. Jean D. Jewell  
Commission Secretary

**Re: Idaho Docket No. PAC-E-05-08 Compliance Filing**

To the Idaho Public Utilities Commission:

PacifiCorp submits the attachments in compliance with the Commission's Order in this case issued on February 13, 2006 and amended on March 14, 2006. The Order approved the Stipulation supporting MEHC's acquisition of PacifiCorp from ScottishPower.

Commitment I20 of the Stipulation provides that, PacifiCorp will provide to the Commission, on an informational basis, credit rating agency news releases and final reports regarding PacifiCorp when such reports are known to PacifiCorp and are available to the public.

Therefore, in compliance with Commitment I20 of the Stipulation, please find the attached reports related to PacifiCorp.

Very truly yours,

Bruce Williams  
Treasurer

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**Publication Date**  
March 21, 2006

## Mid-American's Acquisition Of PacifiCorp—Implications For PacifiCorp's Bondholders

MidAmerican Energy Holdings Co. (MEHC; A-/Stable/—) today closed its acquisition of PacifiCorp. (A-/Stable/A-2). MEHC purchased all of PacifiCorp's outstanding shares for about \$5.1 billion in cash from Scottish Power plc (A-/Stable/A-2), which was funded from an investment by its parent, Berkshire Hathaway Inc. (AAA/Stable/A-1+). Subsequent to the purchase, MEHC is expected to repurchase \$1.7 billion of Berkshire Hathaway's common stock in MEHC. PacifiCorp's long-term debt and preferred stock, which stood at about \$4.1 billion as of Dec. 31, 2005, remains outstanding.

On March 6, in anticipation of the transaction being completed, Standard & Poor's affirmed the 'A-' corporate credit rating (CCR) on PacifiCorp and removed its ratings from CreditWatch with negative implications. The outlook is stable. This article addresses in further detail the acquisition from the perspective of PacifiCorp's bondholders and discusses the expected ramifications of the sale on PacifiCorp's future credit quality.

### Frequently Asked Questions

**Q:** *How has PacifiCorp's financial performance been in recent years?*

**A:** PacifiCorp's credit quality has benefited from the otherwise strong consolidated operations of Scottish Power, which purchased the utility in 1999 for \$10.7 billion. On a standalone basis, financial performance has been weak but recovering. Scottish Power purchased PacifiCorp just prior to the western U.S. energy crisis, which, given the company's sizable short position as well as unplanned outages, resulted in deferred power costs of approximately \$525 million, of which about \$325 million was ultimately authorized for recovery in retail customer rates. Since then, the company has struggled to achieve cash flows commensurate with performance seen before the crisis. Funds from operations (FFO) has only stabilized in the last two fiscal years to levels on par with fiscal 2000, when FFO was

\$728 million; for the 12 months ending Dec. 31, 2005, FFO improved to about \$818 million. Earned return on equity (ROE), which has been around 7% in the past two years, has fallen chronically short of authorized levels, which range from 10%-10.5%, depending on the state. With respect to cash coverage metrics, PacifiCorp's 12 months ending Dec. 31 adjusted FFO to interest coverage was 3.5x, with adjusted FFO to total debt at 17.1%. Adjusted debt to total capitalization was 56%. These ratios consider PacifiCorp's substantial purchased power obligations, which contributes to off balance sheet adjustments of \$537 million for the purposes of credit ratio calculations.

Multiple factors contributed to PacifiCorp's weakened financial performance over the last five years, and include the absence of fuel and purchase adjusters, except in Wyoming, where one was approved in February 2006; dry hydro conditions; increasing administrative and general costs, including escalating pension and health care costs; and regulatory lag in resolving sizable general rate cases. In addition, Scottish Power has projected that PacifiCorp requires \$6.4 billion in capital expenditures over the next five years, which would have likely necessitated higher leverage at the parent to support the utility's infrastructure needs. These factors resulted in Scottish Power's decision in May 2005 to sell PacifiCorp.

**Q:** *Given these issues, why did MEHC buy PacifiCorp?*

**A:** Berkshire Hathaway has sizable amounts of equity to invest, and has identified regulated utility assets as desirable because of the opportunity to deploy its capital in return for what the company expects will be reasonable and stable returns. PacifiCorp is also attractive because of its earnings upside if MEHC can improve actual ROEs to allowed levels.

The acquisition should fit well with MEHC's existing energy holdings, which are predominately in the regulated space and consist of MidAmerican Energy Co. (MEC; A-/Stable/A-1), an Iowa-based utility that serves 1.3 million electric and gas customers; CE Electric U.K. Funding Co. (BBB-/Stable/A-3), which serves 3.7 million electric customers (via the distribution companies of Yorkshire Electricity and Northern Electric); and two U.S. pipelines, Kern River Gas Transmission Co. (A-/WatchNeg/—) and Northern Natural Gas Co. (A/Stable/—) that are under the jurisdiction of the FERC. In 2005, these regulated entities contributed about 78% of MEHC's earnings (MEC was 26%, the U.K. operations were 25%, and the two pipelines accounted for 27%). MEHC's largest unregulated subsidiary is a real estate brokerage firm, HomeServices (not rated), which in 2005 provided about 13% of earnings. Through various subsidiaries, MEHC also owns additional independent power generation facilities, including hydroelectric and geothermal assets in the Philippines. Collectively, these unregulated energy companies contributed about 9% of 2005 earnings.

Despite the significant number of companies under MEHC, PacifiCorp is a sizable acquisition. The company operates under the legal names of Pacific Power and Utah Power, serving 1.6 million retail customers in six western U.S. states. Its total assets were \$12.8 billion at year-end 2005, and at the 12 months ending Dec. 31, 2005, cash flow from operations was nearly \$900 million. In comparison, MEHC's total asset value was \$20.2 billion in 2005, and cash flow from operations was \$1.3 billion.

Going forward, about 35% of MEHC's operating income is expected to come from PacifiCorp. PacifiCorp will push the proportion of MEHC's operating income earned from regulated businesses to about 91% by 2007. The acquisition also provides MEHC with substantial U.S. market and regulatory diversification. The majority of MEC's retail revenues are from customers in Iowa, but the utility also operates in portions of Illinois, South Dakota and Nebraska. PacifiCorp's territories include parts of Utah, Oregon, Wyoming, Washington, Idaho, and California. As shown in Table 1, while PacifiCorp's sales are concentrated in Utah and

Oregon, on a consolidated MEHC basis, the importance of each U.S. market is relatively well balanced, and thus lacks the regulatory and market concentration that most U.S. utilities are exposed to.

Table 1

<b>MEHC U.S. Utility Market Concentration*</b>			
	<b>% of 2005 Retail Revenues</b>		
	<b>MidAmerican Energy Co.</b>	<b>PacifiCorp Standalone</b>	<b>MEHC Consolidated</b>
Iowa	83.91	0.00	42.56
Illinois	9.93	0.00	5.04
South Dakota	5.78	0.00	2.93
Nebraska	0.38	0.00	0.19
Utah	0.00	41.13	20.27
Oregon	0.00	28.71	14.15
Wyoming	0.00	13.42	6.62
Washington	0.00	8.56	4.22
Idaho	0.00	5.82	2.87
California	0.00	2.36	1.16
Total	100.00	100.00	100.00

\*Excludes FERC-regulated assets owned by Kern River Gas and Northern Natural

**Q:** Can MEHC improve PacifiCorp's performance?

**A:** This is certainly management's intent. Ultimately, MEHC's success will be driven by whether it can achieve greater operational efficiencies and enhance PacifiCorp's existing regulatory relationships. These goals are not dissimilar from those of Scottish Power when it purchased PacifiCorp seven years ago. However, Scottish Power's acquisition of PacifiCorp proved untimely and largely beyond its control—the unexpected events of the western U.S. power crisis resulted in the need to immediately appeal to state regulatory commissions for rate relief. Yet PacifiCorp, as with many U.S. utilities, expected the deregulation of generation would inevitably minimize the role of regulation and had not been before its regulatory bodies in some time. In addition, Scottish Power, while achieving some significant regulatory milestones, perhaps underestimated the complexities of managing six separate regulatory environments from its Glasgow, Scotland headquarters.

MEHC has a reputation as a competent operator of utility assets, and it has improved the financial performance of regulated businesses that it has acquired, most notably, MEC, which it purchased in 1999, and Northern Natural Gas, which it purchased from Dynegy in 2002, shortly after Dynegy had purchased it from Enron. In both of these businesses, MEHC cut costs, improved operations, built customer relationships and has had constructive regulatory relationships. In Northern Natural's case, it recently entered long-term extensions with two major customers, and MEC has consistently performed well in J.D. Power & Associates customer satisfaction studies. Standard & Poor's also views MEC's regulatory compact as supportive of credit quality. MEC has agreed not to request a general increase in rates before 2012 unless its Iowa jurisdictional electric ROE falls below 10%. The Iowa Office of the Consumer Advocate has agreed not to request or support any rate decreases before Jan. 1, 2012. In addition, earnings exceeding an ROE of 11.75% for 2006 through 2011 will be shared with customers. It remains to be seen whether and to what extent MEHC can replicate this with PacifiCorp, but the speed with which MEHC was able to receive regulatory approval suggests that stakeholders and regulators are supportive of the ownership change. This support may stem from the fact that Berkshire

Hathaway has a reputation for holding on to its investments, and the potential for management stability within the company likely provides a degree of comfort to regulators and customers.

**Q:** *Are these competencies why Standard & Poor's affirmed PacifiCorp's CCR at the 'A-' level?*

**A:** Standard & Poor's does view MEHC ownership as having a potentially stabilizing effect on PacifiCorp's financial performance. However, the affirmation of PacifiCorp's 'A-' CCR was principally based on the benefits PacifiCorp is afforded from the consolidated credit strength of MEHC, whose CCR was raised three notches to 'A-' on March 6 (see "Research Update: MidAmerican Upgraded To 'A-', PacifiCorp Ratings Affirmed; All Ratings Off Watch," RatingsDirect, March 6, 2005).

**Q:** *What is the implication of PacifiCorp's "ring-fencing" for its credit rating?*

**A:** As a condition of approving the sale, the Oregon Public Utilities Commission (OPUC) required PacifiCorp to be ring-fenced from MEHC. As part of this, MEHC has committed to refrain from dividenting cash flows from the utility to MEHC unless it maintains a common equity ratio of 48.25% through 2008, decreasing annually to 44% by 2012.

The structural insulation or "ring-fencing" of an operating company is typically done to protect the credit quality of the operating company from a weaker holding company. When an entity is ring-fenced, Standard & Poor's may rate the operating company up to three notches above the CCR of the parent if its standalone credit metrics warrant the elevation. MEHC has ring fenced MEC, Kern River, Northern Natural, and CE Electric U.K.; some of these companies have historically been rated higher than MEHC.

In PacifiCorp's case, MEHC has set up a special purpose entity, PPW Holdings, LLC that will directly own PacifiCorp. The intent of this structure is to ensure that PacifiCorp is bankruptcy remote from MEHC. Because PacifiCorp's stand-alone credit quality does not warrant a rating above MEHC's, PacifiCorp's rating reflects MEHC's consolidated CCR, as is appropriate under the consolidated rating methodology. If the utility's financial performance improves significantly, it could potentially support a ratings improvement, due to the ring fencing. In addition, it will be somewhat protected from credit deterioration below its own stand-alone credit quality should MEHC's credit quality on a consolidated basis fall to a level below that of PacifiCorp's. In this manner, PacifiCorp's bondholders are somewhat protected from a deterioration due to the failure of another business venture.

**Q:** *What are some of the challenges the new owners of PacifiCorp will face?*

**A:** Improvement in PacifiCorp's financial performance and business risk is expected to be incremental. From a bondholder perspective, PacifiCorp faces sometimes-difficult regulatory environments in each of the states it serves. For example, in Oregon, PacifiCorp's second most important market, the senate overwhelmingly passed legislation last year, Senate Bill (SB) 408, which requires that utilities refund to their customers income taxes collected in retail rates that are not paid by the parent. SB 408 could provide a permanent clawback mechanism to reduce rate requests, as the OPUC did in September 2005 when it cut PacifiCorp's negotiated settlement by \$26 million. (The case is being reheard, and final rules are not expected until this summer.) Utah is considering similar legislation.

As shown in Table 2, since 2002, PacifiCorp has initiated nearly annual rate cases in all states. The company nearly always reaches settlements, which have historically awarded it 25% to 50% less than filed requests. Regulatory support will continue to be tested, especially in the next few years. In February and March 2006, the company filed large requests in its two most important markets, Oregon and Utah. In Oregon, the utility has

asked for \$112 million, a 13.2% increase in retail rates, based on test year ending Dec. 2007. In Utah, PacifiCorp filed for a \$197 million increase, or about 17%, based on a test year ending Sept. 30, 2007. The Utah rate case comes on the heels of a 4.4% increase approved a year ago. While Utah has been more supportive of PacifiCorp in past cases, most of the utility's growth is in this region, implying the importance of this case. While both rate requests are sizable, on the other hand, PacifiCorp's retail rates are very competitive, suggesting some room for compromise.

Table 2

<b>PacifiCorp Rate Cases By State</b>							
	<i>Utah</i>	<i>Oregon</i>	<i>Wyoming</i>	<i>Washington</i>	<i>Idaho</i>	<i>California</i>	
<b>2006</b>							
Date	3/8/2006	Filed 2/23/2006	2/23/06 (oral ruling)	Filed 5/2005	To be determined (TBD)	Filed 11/20/2005	
% rate inc.	17.00	13.2 request	6.90	14.9 request	TBD	15.6 request	
\$ increase	\$197 mil. request	\$112 mil. request	\$25 mil./\$40.2 mil.***	\$32.6 mil. request	TBD	\$11.0 mil. request	
Auth ROE (%)	11.4 request	11.5 request	Not specified	11.125 request	TBD	11.8 request	
<b>2005</b>							
Date	3/1/2005	10/4/2005	9/15/2004	N/A	8/9/2005	N/A	
% rate inc.	4.40	3.20	2.68	N/A	4.80	N/A	
\$ increase	\$51 mil./\$96 mil.¶¶	\$25.9 mil./\$52.5 mil.*	\$9.3 mil.	N/A	\$5.8 mil./\$15.1 mil.	N/A	
Auth ROE (%)	10.5	10.00	Not specified	N/A	Not specified	N/A	
<b>2004</b>							
Date	4/1/2004	N/A	3/18/2004	11/2/2004	N/A	N/A	
% rate inc.	6.90	N/A	7.19	7.50	N/A	N/A	
\$ increase	\$65 mil./\$125 mil.	N/A	\$22.9 mil./\$34.4 mil.§§	\$15 mil./\$25.7 mil.	N/A	N/A	
Auth ROE (%)	10.70	N/A	10.75	Not specified	N/A	N/A	
<b>2003</b>							
Date	N/A	9/19/2003	4/1/2003	N/A	N/A	11/1/03	
% rate inc.	N/A	Base 1.1; net 0.8	2.79	N/A	N/A	13.60	
\$ increase	N/A	\$8.5 mil./\$18 mil.¶	\$8.7 mil./\$20 mil.¶¶¶	N/A	N/A	\$7.6 mil.	
Auth ROE (%)	N/A	10.50	10.75	N/A	N/A	Not specified	
<b>2002—None</b>							
<b>2001</b>							
Date	11/2/2001 & 2/9/2001	10/19/2001	10/4/2001	N/A	N/A	N/A	
% rate inc.	5.1 perm., 9 temp	Base 8.60; net .60	3.40	N/A	N/A	N/A	
\$ increase	\$40.2 mil. & \$70 mil./\$142 mil.	\$64.4 mil./\$103 mil.§	\$8.9 mil.	N/A	N/A	N/A	

Table 2

<b>PacifiCorp Rate Cases By State (cont. 'd)</b>						
	<i>Utah</i>	<i>Oregon</i>	<i>Wyoming</i>	<i>Washington</i>	<i>Idaho</i>	<i>California</i>
Auth ROE (%)		11.00	10.75	Not specified	N/A	N/A
<b>2000</b>						
Date	5/25/2000	10/5/2000	6/21/2000	8/16/2000	N/A	N/A
% rate inc.	2.5	1.8	4.9	7 (over 2001-03)	N/A	N/A
\$ increase	\$17 mil.	\$13.6 mil./\$21.7 mil.**	\$10.6 mil./\$40.6 mil.	\$13.1 mil./\$25.8 mil.	N/A	N/A
Auth ROE		10.75	11.25	Not specified	N/A	N/A
5-Year % inc.	18.8	6.4	20.7	14.5	4.8	13.6

\*PacifiCorp reached settlement for \$52.5 mil., but amount awarded reduced by about \$26 mil. under application of SB408. PacifiCorp is appealing this reduction. ROE reduced to 10% from 10.5%, set in 2003. †Majority of reduction related to net power costs and return on equity. ‡PacifiCorp sought 11.75% ROE, awarded a 10.75% ROE. Of \$39 mil. disallowed, \$20 mil. related operating costs (\$7 mil. pension) and \$19 mil. re: rates of return. \*\*Original request for \$62 mil. but lowered to \$21.7 mil., difference between \$21.7 mil. request and \$13.6 mil. received reflects agreement to exclude \$8.1 mil. in power cost charges. ††Of the \$45 mil. difference, between request and actual award, \$20 mil. associated with rate of return issues. ‡‡Of the \$11.5 mil. difference, about \$5 mil. due to rate of return, the other pension, payroll and misc. \*\*\*Of the \$16 mil. difference, all attributable to PacifiCorp's agreement to not seek this amount in net power increase but instead to have an adjuster. †††Does not address \$91 mil. in deferred power costs later rejected. \$11 mil. difference mostly disallowed power contracts.

About 70% of PacifiCorp's energy requirements come from owned coal, 21% from purchases, 5% from hydro, and 4% from natural gas. As a result, another important issue for PacifiCorp is whether it will be permitted to establish fuel and purchased power adjusters. Wyoming, which disallowed \$91 million of PacifiCorp's deferred power costs incurred during the energy crisis, was paradoxically the first state to approve an adjuster. Adjuster requests are pending in nearly all other states, and for Utah and Oregon will likely be considered as part of the general rate cases filed. However, the prospects for adoption in these states are uncertain.

One certain challenge to MEHC will be whether it will be able to achieve the benefits of its diversified portfolio in the face of the inevitable logistical and coordination challenges presented by managing 10 separate regulatory commissions (11, if MEHC's FERC-regulated pipelines are considered). In addition, the financial challenges at PacifiCorp are greater than MEHC faced with MEC, which was only slightly under-earning at the time MEHC acquired it. In contrast, PacifiCorp's under-earning is almost structural in character.

While these challenges are significant, at the same time Scottish Power has made progress in achieving a number of regulatory goals that should significantly benefit MEHC. These accomplishments include: Current retail rates, while still lagging, are nearer to actual costs, due largely to PacifiCorp's relentless filing and settlement of cases in recent years; the adoption of forward test years in four states (Oregon, Utah, Wyoming and California) should avoid the potential for future rates to be based on a stale test year; the company's anticipated rulings for fuel and purchased power adjusters in five jurisdictions may provide significant protection from volatile commodity costs; the conclusion of a multi-state agreement for the allocation of costs in four states (pending in Washington and California) should avoid interstate battles over the proper attribution of costs to each service area; and, lastly, the passage of recent legislation in Utah that pre-approves power plants or purchases greater than 100 MW provides protection from future regulatory disallowances, which is critical because much of PacifiCorp's growth is occurring in this state.

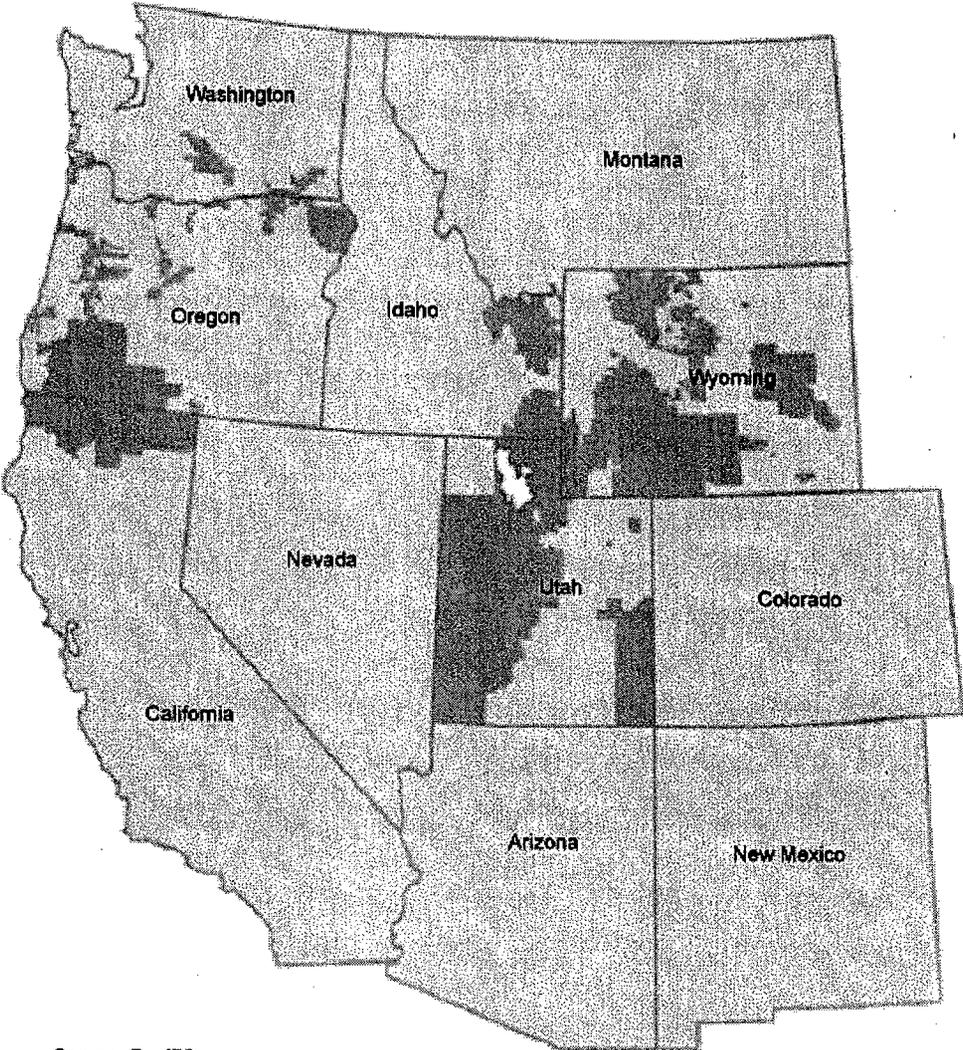
**Q:** *What steps does Standard & Poor's expect MEHC to take to maintain PacifiCorp's credit quality?*

**A:** Standard & Poor's expects that MEHC will deleverage PacifiCorp through the reinvestment of cash flow into its extensive capital expenditure program. MEHC has represented that it views a properly capitalized utility as having roughly a 50-50 equity-to-debt structure, and it has achieved this at MEC. The dividend restrictions in place as a part of regulatory approval should also provide incentives to deleverage PacifiCorp.

PacifiCorp's rating could fall to a level commensurate with its standalone credit quality if MEHC's rating is lowered. This could result from MEHC's financial performance being weaker than forecast, or if Standard & Poor's view of parent support from Berkshire Hathaway changes. MEHC's rating has limited upside, as improving financial metrics and a successful integration of PacifiCorp have been assumed.

Importantly, Berkshire Hathaway has indicated that it may purchase other utilities. MEHC's consolidated business risk profile score reflects Standard & Poor's expectation that MEHC's future acquisitions will be in the regulated utility segment and not in unregulated or commodity-exposed businesses. If acquisitions were to result in a change in consolidated credit quality, this could affect PacifiCorp's rating.

PacifiCorp Service Area



Source: PacifiCorp.

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**RESEARCH**

# Research Update: PacifiCorp's Short-Term Rating Raised To 'A-1' Following Sale To MidAmerican Energy Holdings

**Publication date:** 22-Mar-2006  
**Primary Credit Analyst:** Anne Selting, San Francisco (t) 415-371-5009; anne\_selting@standardandpoors.com

**Credit Rating:** A-/Stable/A-1

## Rationale

On March 22, 2006, Standard & Poor's Ratings Services raised its short-term rating to 'A-1' from 'A-2' on PacifiCorp to reflect Scottish Power plc's sale of the company on March 21, 2006 to MidAmerican Energy Holdings Company (MEHC; A-/Stable/--). The rating action reflects Standard & Poor's conclusion that the utility's short-term rating benefits from the explicit and implicit support that MEHC receives from its parent, Berkshire Hathaway Inc. (AAA/Stable/A-1+).

The 'A-' corporate credit rating (CCR) on PacifiCorp reflects the consolidated credit profile of MEHC. MEHC's ratings reflect a strong business risk profile score of '4' (on a 10-point scale where '1' is excellent and '10' is vulnerable), a fairly aggressive financial profile, and the support available to MEHC from its parent Berkshire Hathaway.

MEHC's business risk profile reflects its ownership of primarily regulated energy companies. In addition to PacifiCorp, MEHC owns MidAmerican Energy Co. (MEC; A-/Stable/A-1), an Iowa-based utility that serves 1.3 million electric and gas customers; CE Electric U.K. Funding Co. (BBB-/Stable/A-3) that serves 3.7 million electric customers (via the distribution companies of Yorkshire Electricity and Northern Electric); and two U.S. pipelines, Kern River Gas Transmission Co. (A-/CreditWatch Neg) and Northern Natural Gas Co. (A/Stable/--), that are under the jurisdiction of the FERC. In 2005, these regulated entities contributed about 78% of MEHC's earnings. MEHC's largest unregulated subsidiary is real estate brokerage firm HomeServices (not rated), which in 2005 provided about 13% of its earnings. Through various subsidiaries MEHC also owns additional independent power generation facilities, including hydroelectric and geothermal assets in the Philippines. Collectively, these unregulated energy companies contributed about 9% of 2005 earnings.

Going forward, about 35% of MEHC's operating income is expected to come from PacifiCorp, and will increase the proportion of MEHC's operating income earned from regulated businesses to about 91% by 2007.

PacifiCorp serves 1.6 million customers in six western states. Its business profile is a satisfactory '5', reflecting strengths that include: a predominantly coal-fired generation base that produces competitive, low cost power; average markets, which by virtue of their disparate locations provide a degree of economic and geographical diversity; and the potential for improved operating efficiencies through MEHC's ownership. Challenges that are reflected in PacifiCorp's business risk include its exposure to wholesale purchases and hydro variability (about 70% of PacifiCorp's 2005 energy requirements came from owned coal, 21% from purchases, 5% from hydro and 4% from natural gas); an absence of fuel and purchased power adjusters (although one was recently granted in Wyoming and applications for adjusters are pending in the five other states the utility serves); and the sometimes difficult regulatory environments that the company operates within. The company has been consistently unable to earn its authorized return on equity, which ranges from 10% to 10.5%, depending on the state. Regulatory and customer relationships are likely to be tested this year in PacifiCorp's two most important markets, Utah and Oregon,

where sizable rate cases were recently filed. The company is seeking \$197 million (an 11.4% increase) in Utah and \$112 million (an 11.5% increase) in Oregon.

MEHC has about \$16.2 billion of consolidated debt and \$1.6 billion of trust-preferred securities outstanding at the holding company level. MEHC has set up a special purpose entity, PPW Holdings LLC, to directly own PacifiCorp. PacifiCorp's total debt outstanding at Dec. 31, 2005 was \$4.1 billion. Standard & Poor's applies its consolidated rating methodology to PacifiCorp. As a condition of approving the sale, the Oregon Public Utilities Commission (OPUC) required PacifiCorp to be ring-fenced from MEHC. The ring-fencing includes structural protections, covenants, a pledge of stock, and an independent director. Such provisions serve to protect PPW Holdings LLC and PacifiCorp from an MEHC bankruptcy. Due to the ring-fencing, PacifiCorp's CCR could potentially be as high as three notches above MEHC's rating, if its stand-alone credit quality supported such an elevation. Currently, the utility's stand-alone credit quality does not warrant a rating above MEHC's; its stand-alone credit metrics are in the 'BBB' category.

As part of acquiring the needed regulatory approvals to complete the acquisition of PacifiCorp, MEHC has agreed to refrain from dividending cash flows from the utility to MEHC unless it maintains a common equity ratio of 48.25% through 2008, decreasing annually to 44% by 2012. This dividend restriction should also provide incentives to deleverage PacifiCorp. (PacifiCorp's adjusted debt to total capitalization was 56% at Dec. 31, 2005, which reflects a debt equivalent of \$537 million, resulting primarily from the utility's substantial purchased power obligations.)

PacifiCorp has a sizable capital program that Scottish Power has estimated will be \$6.4 billion over the next five years. Attaining operational efficiencies to improve cash flows available to reinvest in the utility will be an important focus. However, equity support from the parent may also be required to support the utility's infrastructure requirements.

### Short-term rating factors

PacifiCorp's 'A-1' short-term rating reflects Standard & Poor's conclusion that the utility's CP rating benefits from the explicit and implicit support that MEHC receives from Berkshire Hathaway. Berkshire Hathaway's extremely strong liquidity position is assumed to be available to PacifiCorp via MEHC in the unlikely event that PacifiCorp could not repay its CP obligations.

Explicit support exists in the form of a \$3.5 billion equity commitment agreement between Berkshire Hathaway and MEHC that could be called upon to support the liquidity requirements of MEHC's regulated subsidiaries, including PacifiCorp. In addition, Standard & Poor's believes that due to Berkshire Hathaway's increased voting interest in MEHC and its strategic focus on utility investments, it has incentives to treat PacifiCorp and MEHC's other regulated investments as core to consolidated Berkshire Hathaway operations.

PacifiCorp provides for its own day-to-day liquidity needs. Its cash and cash equivalent position was \$163.4 million as of Dec. 31, 2005, relative to \$199 million as of year-end fiscal 2005 (March 31, the end of Scottish Power's fiscal year). In addition, it has an \$800 million CP program, with \$215 million outstanding as of Dec. 31. The program is backstopped by a revolving credit agreement that terminates in August 2010. As of Dec. 31, the facility was undrawn. Future maturities are in line with historic obligations. At Dec. 31, 2005, PacifiCorp's capital expenditures totaled \$716 million, as compared to \$540 million at Dec. 31, 2004.

### Outlook

The stable outlook on PacifiCorp reflects Standard & Poor's expectation that MEHC will deleverage PacifiCorp through the reinvestment of cash flow into its extensive capital expenditures program and work to build constructive regulatory relationships in the states PacifiCorp serves. It is also assumed that Berkshire Hathaway, which holds an 86.6% economic interest on a diluted basis in MEHC, will provide credit support and future investment capital as needed to PacifiCorp. PacifiCorp's rating could fall to a level commensurate with its stand-alone credit quality if MEHC's rating is lowered. PacifiCorp's rating has limited near-term upside, as its credit metrics on a stand-alone basis fall well short of

the 'A' category.

## Ratings List

Rating Raised	To	From
PacifiCorp Short-term corp credit rtg	A-1	A-2

### Ratings Affirmed

PacifiCorp Long-term corp credit rtg	A-/Stable
Senior secured debt	A-
Senior unsecured debt	BBB+
Preferred stock	BBB
MidAmerican Energy Holdings Co. Corporate credit rating	A-/Stable/--
Senior unsecured debt	BBB+
Preferred stock	BBB-

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

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