



RECEIVED

2014 APR 15 AM 10:19

ID: 3507111  
UTILITIES COMMISSION

Pacific Power |  
Rocky Mountain Power |  
PacifiCorp Energy  
825 NE Multnomah, Suite 1900 LCT  
Portland, Oregon 97232

April 15, 2014

***VIA OVERNIGHT DELIVERY***

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 attachment 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 the acquisition of PacifiCorp by MidAmerican Energy Holdings Company.

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 report related to PacifiCorp.

Very truly yours,

Bruce Williams  
Vice President and Treasurer

Enclosure

# RatingsDirect®

---

## Summary:

# PacifiCorp

### Primary Credit Analyst:

Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@standardandpoors.com

### Secondary Contact:

Dimitri Nikas, New York (1) 212-438-7807; dimitri.nikas@standardandpoors.com

## Table Of Contents

---

Initial Analytical Outcome ("Anchor") And Rating Result

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

Liquidity

Other Modifiers

Group Influence

Ratings Score Snapshot

Recovery Analysis

Related Criteria And Research

## Summary:

# PacifiCorp



## Initial Analytical Outcome ("Anchor") And Rating Result

Standard & Poor's Ratings Services' 'A-' issuer credit rating (ICR) on PacifiCorp is derived from:

- Our anchor of 'a-', based on our "excellent" business risk and "significant" financial risk profile assessments for the company;
- Modifiers have no impact on the rating outcome; and
- The stand-alone credit profile (SACP) of 'a-' on PacifiCorp, which is one notch higher than our 'bbb+' group credit profile on parent holding company MidAmerican Energy Holdings Co. (MEHC), reflecting our assessment of PacifiCorp's business risk and financial risk profiles. Under our group rating methodology, we consider PacifiCorp to be a core subsidiary of the MEHC group. PacifiCorp's issuer credit rating is one notch higher than the 'bbb+' GCP on the parent because the utility's SACP is stronger and there is sufficient regulatory and structural insulation.

## Rationale

Business Risk: Excellent	Financial Risk: Significant
<ul style="list-style-type: none"> <li>• Stable operating cash flow from the regulated utility operations that supports the credit profile</li> <li>• Lack of competition in regulated service territories</li> <li>• About 70% of retail revenue derived from residential and commercial customers, which provides cash flow diversity and at least a base level of usage</li> <li>• Prudent management of coal-fired generating units to comply with environmental requirements</li> <li>• Cost recovery through base rates and rate surcharges for expenses such as fuel and capital investments</li> </ul>	<ul style="list-style-type: none"> <li>• Discretionary cash flow to remain negative</li> <li>• EBITDA growth consisting of revenue increases and customer growth to remain approximately the same as that in recent years</li> <li>• Sizable parent-level debt</li> </ul>

**Outlook: Stable**

The stable rating outlook reflects our expectation that management will continue to focus on utility operations and reach constructive regulatory outcomes to avoid any meaningful increase in business risk. The outlook also reflects our projection that cash flow measures will decrease as construction projects move forward and bonus depreciation benefits drop. Our base-case forecast calls for adjusted funds from operations (FFO) to adjusted debt, and adjusted operating cash flow to adjusted debt both averaging between 18% and 19%. These measures are consistent with our expectations for the rating.

**Downside scenario**

We could lower the rating if PacifiCorp's business risk increases materially through ongoing under-recovery of operating costs or capital improvements, or if financial measures consistently underperform our base-case forecast and remain at less credit-supportive levels, including adjusted FFO to total debt dropping below 13%.

**Upside scenario**

Although we do not expect an upgrade because of near-term capital needs, we could raise the ratings if we raised the ratings on parent MEHC and if PacifiCorp's credit quality strengthened through both reduced business risk and stronger financial measures that consistently exceeded our base-case forecast, including FFO to total debt greater than 23%.

**Standard & Poor's Base-Case Scenario****Assumptions**

- Low-single-digit EBITDA growth from retail sales growth and incremental cost recovery through various rate mechanisms, including base-rate increases and rate surcharges
- Capital spending of about \$1.2 billion in both 2014 and 2015, and \$1.5 billion in 2016
- Annual owner distributions comparable to the 2013 level of roughly \$500 million in 2014, 2015, and 2016
- Capital spending and dividend payouts that result in discretionary cash flow that is negative, indicating the need for external funding

**Key Metrics\***

	2014E	2015E	2016E
FFO/total debt (%)	18-20	17-19	17-19
Debt/EBITDA (x)	3.2-4.2	3.2-4.2	3.2-4.2
Cash flow from oper./debt (%)	18-20	17-19	17-19

\*Standard & Poor's adjusted figures. E--Estimate.  
FFO--funds from operations.

**Business Risk: Excellent**

We base our assessment of PacifiCorp's business risk profile as "excellent," as defined in our criteria, on the company's

"strong" competitive profile, "very low" industry risk derived from the regulated utility industry, and the "very low" country risk of the U.S., where the utility operates.

PacifiCorp's competitive position reflects the stable regulatory framework of the low-risk regulated utility. We consider the utility's geographical, market, and regulatory diversity over its six-state service territory a strength because these factors provide extensive market diversity. About 70% of retail revenue is derived from residential and commercial customers, providing cash flow diversity and at least a base level of usage. PacifiCorp serves a total of 1.7 million retail customers, in Utah, Wyoming, and Idaho through its Rocky Mountain Power operating unit; and in Oregon, Washington, and California through its Pacific Power unit, which provides a high level of cash flow diversity.

Utah and Oregon are the most important markets for the company, providing about 45% and 25% of annual retail sales, respectively. As the two largest markets for PacifiCorp, constructive regulatory dialogue is required to maintain timely recovery of fuel costs and capital investments, along with other costs. Rocky Mountain Power has had good sales growth, especially in Utah. Salt Lake County accounts for slightly over 20% of PacifiCorp's customer base.

The utility has a well-diversified power supply portfolio that consists of coal (about 60%), gas (about 10%), purchased power (20%), and other sources (about 10%). PacifiCorp's coal fleet is on track to be compliant with existing environmental rules.

## Financial Risk: Significant

Based on the medial volatility financial ratio benchmarks, our assessment of PacifiCorp's financial risk profile is "significant," reflecting the repetitive cash flows of a utility providing regulated electric service. Our assessment also takes into consideration the company's ongoing capital spending and mostly steady recovery of costs through various rate mechanisms. Capital spending and dividend payments will lead to a drop in discretionary cash flow over the forecast period, indicating the need for external funding and vigilant cost recovery to maintain cash flow measures. Although we expect equity to grow, we also expect the utility to continue using debt financing.

For the 12 months ended Dec. 31, 2013, FFO to debt was roughly 18%, and operating cash flow to debt was about 21%. Debt to EBITDA was about 4x as of year-end 2013. Our baseline forecast includes financial measures about the same as existing levels for FFO to debt; slightly weaker cash flow from operations to debt than current levels; and slightly stronger forecasted debt to EBITDA than current levels.

## Liquidity: Adequate

PacifiCorp's liquidity reflects that of parent MEHC, which we consider "adequate," as our criteria define the term. The company's sources of liquidity are likely to cover its uses by more than 1.1x in the next 12 months. We expect MEHC to meet cash outflows even with a 10% decline in EBITDA.

PacifiCorp has sizable debt maturities over the next three years, but we expect the company to refinance these, given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>• Expected FFO of \$5.6 billion</li> <li>• Credit facility availability of \$2.8 billion</li> </ul>	<ul style="list-style-type: none"> <li>• Capital spending of \$5.2 billion</li> <li>• Debt maturities of \$1 billion</li> <li>• Working capital increases of \$300 million</li> </ul>

## Other Modifiers

Modifiers have no impact on the rating outcome.

## Group Influence

The SACP of 'a-' for PacifiCorp is one notch stronger than the current GCP of 'bbb+' on parent MEHC, reflecting our assessment of PacifiCorp's business risk and financial risk profiles. Under our group rating methodology, we consider PacifiCorp to be a core subsidiary of the MEHC group because we believe the utility is integral to MEHC's long-term strategy. PacifiCorp's issuer credit rating is one notch higher than MEHC's GCP because the utility's SACP is stronger, and existing structural and regulatory protections are sufficient to provide insulation to the utility. PacifiCorp has a regulatory commitment not to pay dividends if its common equity ratio drops below 46.25%. Structurally, the board of the intermediate holding company that owns PacifiCorp has an independent director to consider only the interests of this holding company and any of its creditors when acting or voting on board matters.

## Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/A-2

Business risk: Excellent

- Industry risk: Very low
- Country risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: 'a-'

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)

- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'a-'

- Group credit profile: 'bbb+'
- Entity status within group: Core

## Recovery Analysis

We assign recovery ratings to first mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above an ICR on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualifies for a recovery rating as defined in our criteria.

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries will persist in the future (the 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).

Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed an ICR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.

PacifiCorp's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating one notch above the ICR.

## Related Criteria And Research

### Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

- Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).