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Energy

Why PGE and PacifiCorp struck a \$1.9B acquisition deal and what it could mean



Image: Maurice van der Velden

The 94-megawatt Goodnoe wind power plant and two phases of the Marengo wind power plant totaling 234 megawatts are part of the PGE-PacifiCorp deal.

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Story Highlights

- PGE will acquire PacifiCorp's Washington utility business for \$1.9 billion.
- The deal requires approval from federal and state utility regulators.
- PacifiCorp's CEO said the deal will improve the company's "financial stability."

Portland General Electric had a big batch of news to release on Tuesday – fourth-quarter and full-year earnings, new data center power deals, plans for two substantially company-owned solar-plus-storage projects and contracts with two new large battery installations in Washington County.

Remarkably, PGE buried all that by [announcing a \\$1.9 billion deal](#) to acquire PacifiCorp's Washington state utility business.

What does it all mean? Here are seven questions and answers based on early information and reactions.

What is PGE buying?

PGE gets the 477-megawatt Chehalis natural gas plant, the 94-megawatt Goodnoe wind power plant, two phases of the Marengo wind power plant totaling 234 megawatts, 4,500 miles of transmission and distribution lines, and local utility operations across 2,700 square miles that bring 140,000 new customers. PGE also gets 140 PacifiCorp employees in Washington who will stay on, working for the planned PGE subsidiary.

Is it a done deal?

The deal requires approval from utility regulators in the six states where PacifiCorp operates, including Oregon, as well as the Federal Energy Regulatory Commission. That's expected to take a year after plans are submitted to regulators, which is anticipated in the next month or so. The deal includes a \$35 million termination fee payable by either side, depending on the cause of a failure to close the deal.

Why did PacifiCorp do it?

The Berkshire Hathaway-owned company's credit rating is **barely above junk status** due to its massive wildfire liability, mostly related to an **ongoing class-action lawsuit in Oregon**.

PacifiCorp won't get paid until the acquisition closes, but credit markets could weigh the expected bounty in its favor.

Longtime Portland utility analyst Robert McCullough said he'd been expecting PacifiCorp to unload assets. "They're roto-rooting their capital base so they can handle wildfires," he said.

Will PacifiCorp sell more?

McCullough then added: "If it gets any worse on the litigation, we will in fact see some other sales."

In its news release, PacifiCorp CEO Darin Carroll acknowledged the deal will "improve the company's financial stability." But PacifiCorp also cited how "diverging policies" in its six-state service territory "have created extraordinary pressure, affecting the company's ability to meet demand reliably and at the lowest cost to customers."

That's a reference to the split between the clean-energy ambitions in Oregon, Washington and California, where PacifiCorp operates as Pacific Power, and the

fossil-fuel-friendly states of Utah, Wyoming and Idaho, where it operates as Rocky Mountain Power.

Bob Jenks, who heads Oregon residential ratepayer advocate CUB, pointed out that those divergent policies remain in Oregon and California.

"Is this a sign that PacifiCorp is just trying to get out of the Pacific states so they can be a Rocky Mountain coal utility?" Jenks asked in an interview. "The question is how the wildfire liability creates problems in trying to sell the Oregon and California service territory. But their news release suggests that if they had that opportunity, they might take it."

A PacifiCorp spokesperson declined to comment on the possibility of further asset sales.

McCullough suggested that if PacifiCorp were to try to monetize additional assets, next up could be its stake in the Pacific Intertie, a major transmission connection from the Pacific Northwest to Southern California.

That said, McCullough added, a deal that makes a lot of sense in efficiency terms is PGE acquiring PacifiCorp's territory in Northeast Portland.

Why did PGE do it?

PGE executives said they expected the deal to boost the company's earnings per share in its first year and help push a long-term annual growth forecast toward the upper end of a 5% to 7% range.

In a call Tuesday morning, analysts pressed PGE on that earnings boost. They noted that at \$1.9 billion, PGE is paying a 40% premium on \$1.36 billion in PacifiCorp's Washington rate base, the assets that PGE will have the opportunity to profit from when it gains them.

Pope first cited the company's financing plan, which includes a \$600 million equity contribution from Manulife Investment Management, which will hold a 49% stake in the planned Washington subsidiary. She also pointed to costs savings PGE had been undertaken and plans to continue.

"And integration of this new company will really help our cost structure," Pope went on. "And then we will be bringing data center and other customers to the area and development. It's a great operational opportunity and fit for us as we expect first year accretion."

It could be, too, that PGE believes it got a great deal. McCullough said PGE will aim to convince Washington regulators that what it's acquiring is worth more than the current \$1.36 billion, pushing the rate base higher.

"This is a time-honored process every time we have a merger or acquisition," he said.

How does this fit into PGE's holding company plans?

PGE has a proposal before Oregon regulators to form a holding company and operate its Oregon utility business as one company in it and its transmission assets as another.

The PacifiCorp deal fits with that ambition, which could transform PGE from a vanilla regulated utility to a complex holding company with varied businesses that have greater flexibility in raising and spending capital.

PUC staff, CUB and other stakeholders are thus far opposing PGE's proposal on the grounds the company hasn't shown how it will benefit its customers in Oregon. Settlement talks are scheduled in the weeks ahead.

PGE executives said the PacifiCorp deal doesn't hinge on the holdco, though it all pieces together nicely.

"Do we think that this (deal) provides further validation and clarity to this? Yes," CFO Joe Trpik said. "Do we believe it enhances the view of why a holding company makes sense for Portland? Yeah. And we look forward to discussing these in detail at these settlement conferences."

What about all those other PGE announcements?

How about we tackle those tomorrow?