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UTAH PUBLIC  
SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION )  
OF UTAH POWER & LIGHT COMPANY, )  
AND PC/UP&L MERGING CORP. (TO BE )  
RENAMED PACIFICORP) FOR AN ORDER )  
AUTHORIZING THE MERGER OF UTAH )  
POWER & LIGHT COMPANY AND )  
PACIFICORP INTO PC/UP&L MERGING )  
CORP. AND AUTHORIZING THE ISSUANCE )  
OF SECURITIES, ADOPTION OF TARIFFS, )  
AND TRANSFER OF CERTIFICATES OF )  
PUBLIC CONVENIENCE AND NECESSITY )  
AND AUTHORITIES IN CONNECTION )  
THEREWITH. )

APPLICANTS' MERGER  
COMMITMENT SUBMISSION

Case No. 87-035-27

Submitted herewith pursuant to letter of counsel of the Division of Public Utilities dated March 23, 1988, and also as requested by the Commission, please find the Company's merger-related commitments.

Applicants have made the following commitments related to the merger in jurisdictions other than Utah. Where the cost of a commitment is determinable, it is shown herein.

In California, Applicants have committed that:

1. PacifiCorp will not request an increase in its overall average rates for California service covering the years 1988, 1989, 1990 or 1991. PacifiCorp, however, shall continue to file

applications and advice letters in these years, so that the Commission can determine whether ERAM or attrition rate decreases are appropriate.

Incremental Cost: Small or indeterminable.

2. Applicants will initiate work with a joint allocation committee from regulatory agencies within no greater length of time than six months after final approval of the merger is obtained.

Incremental Cost: Small or indeterminable.

3. Applicants will provide updated estimates of the magnitude of merger benefits and after we have some experience with the merged company and after the allocation committee has begun to arrive at some consensus, we will present an estimate of those benefits on earnings for California operations. Incremental Cost: Small or indeterminable.

A copy of the Administrative Law Judge's proposed order is provided as Exhibit A.

In Oregon, Applicants have entered into a stipulation with the staff of the Oregon Public Utility Commission; the stipulation is provided as Exhibit B:

1. A showing of consolidated, as well as allocated merger related operating benefits will be submitted in semiannual reports, future general rate case applications and as a last resort in

Commission show-cause actions. Incremental cost: Small or indeterminable.

2. To address the topic of interdivisional allocations, the Applicants will initiate a committee representing all appropriate regulatory jurisdictions of the merged company within six weeks after the merger has been approved by all applicable authorities. Incremental Cost: Small or indeterminable.
3. Oregon customers will be held harmless if the merger results in greater net costs to serve them than if the merger had not taken place. Furthermore, Applicants have agreed not to effect any overall increase in electric rates in Oregon prior to the end of calendar year 1992. Incremental Cost: Small or indeterminable.
4. A quarterly report will be filed showing activity in the Regional Power Act balancing account. Incremental Cost: Small or indeterminable.
5. Within 45 days of the effective date of any BPA rate change, Applicants will file with the Commission a plan regarding how the merged company intends to deal with the rate change and any corresponding impact on the Regional Power Act balancing account. Incremental Cost: Small or indeterminable.

In Idaho and Wyoming, Applicants have pledged that:

1. Overall prices to Pacific Power customers will not be increased in the foreseeable future (four to five years). Cost: None
2. Prices to Utah Power's present customers will be reduced between a total of 5 and 10 percent over the next four years. Cost offset by merger savings. Net cost zero.
3. Within sixty days of the effective date of the merger revised tariffs will be filed in Utah, Wyoming and Idaho proposing a 2 percent overall reduction in prices to Utah Power's regular firm customers. Cost offset by merger savings. Net cost zero.
4. After we have had some experience as a merged company, and no later than the end of 1988, we will submit a detailed plan to each appropriate Commission describing how the total targeted price reduction will be implemented. Incremental Cost: Small or indeterminable.
5. In Idaho, the merged Company will not seek to interrupt service to Monsanto Company to make more lucrative off-system sales. Incremental Cost: Small or indeterminable.

Although the Idaho Public Utilities Commission did not place formal conditions upon approval of the merger, they did

require that the Applicants' future actions adhere to the following:

1. Merger-related rate increases are prohibited.  
Cost: Zero
2. Transactions between divisions and affiliates are to be documented. Incremental Cost: Small or indeterminable
3. Without application to, and approval of the Idaho Commission, the formation of generation or transmission subsidiaries is prohibited. Cost: Small or indeterminable

A copy of the Idaho Public Utilities Commission order is provided as Exhibit C.

In approving the merger application, the Wyoming Public Service Commission did not place any conditions on its approval of the merger. A copy of the Commission's order is provided as Exhibit D.

In the State of Washington, Applicants have committed that:

1. Overall prices to Pacific Power's Washington customers will not be increased in the foreseeable future (4-5 years) and that customers will be held harmless against any price increases caused by the merger. Cost: Zero.
2. Within six weeks following final merger approval, discussions with interested commissions will begin

so that interdivisional allocations can be established that are fair and consistent with sound economic and regulatory principles.

Incremental cost: Small or indeterminable.

3. Regulatory reports as reasonably required would be provided to the Commission. However, monthly reporting of results was opposed by the Applicants. Incremental cost: Small or indeterminable.

4. The Applicants will file a full rate case by the second quarter of 1989 (approximately six months after the expected effective date of the merger).

Incremental cost: Small or indeterminable.

In Montana, Applicants have committed that:

1. Overall prices to Pacific Power's Montana customers will be stabilized for the next five years. Cost: Zero

A copy of the Montana order authorizing issuance of stock, assumption of debt and transfer of authority previously granted to PacifiCorp Maine is attached as Exhibit E.

The Applicants' commitments at FERC including the proposed wheeling policy are contained in Appendix B to the Applicant's Initial Brief in the FERC proceeding and is attached hereto, with Applicants' cost comments, as Exhibit F. The Agreement for Mitigation of Major Loop Flow with Pacific Gas &

Electric Company and Southern California Edison is an agreement that was facilitated by the merger but should not be viewed as a merger commitment because such agreement will be effective regardless of the merger. The cost to the merging company is 70% of approximately \$20 million or some \$14 million. This cost is offset by similar costs to the merged company without the agreement, resulting from loop flow negotiation measures. This results in an estimated net zero cost over a ten-year period.

The Agreement Respecting Transmission Facilities and Services between PacifiCorp, Utah Power & Light and PC/UP&L Merging Corporation and Idaho Power Company, the Energy Purchase and Transmission Service Agreement between PC/UP&L Merging Corp. and The Montana Power Company and the Agreement for Mitigation of Major Loop Flow between Pacific Gas and Electric Company, PacifiCorp, Southern California Edison Company and Utah Power & Light Company and Memorandum Agreement to the above agreement were supplied by counsel for Applicants to the Commission and the parties by transmittal dated April 22, 1988.

The appropriate witnesses to question concerning commitments made by the Applicants are as follows:

Commitments related to rate, regulatory, and reporting matters in Pacific's current jurisdictions can be addressed by Mr. Reed. Commitments related to rate, regulatory, and reporting matters in UP&L's current jurisdictions can be addressed by Mr. Colby.

Commitments related to wheeling policy and the wheeling

agreement with Idaho Power Company can be addressed by Mr. Topham. The Energy Purchase and Transmission Service Agreement with Montana Power Company can be addressed by Mr. Steinberg and Mr. Boucher. The Agreement for Mitigation of Major Loop Flow with PG&E and SCE and the Midpoint Substation Sale and Transfer Agreement can be addressed by Mr. Boucher.

The Applicants have conducted an informal review of the foregoing conditions and are of the opinion that merger benefits, as previously testified to, are not endangered by the stipulations and conditions because these conditions either were anticipated in the development of merger benefits, are consistent with reasonable attainment of merger benefits, or are in the nature of reporting requirements that can be considered a normal activity following a merger of utility systems.


The conditions will not significantly impact the management or operation of the merged company.

The expected impact of conditions proposed by other parties which are not yet resolved are as follows:

Except at FERC, the majority of other parties' unresolved issues are similar to those identified above, and as a result do not impact the applicants estimate of merger benefits. Before the FERC, a total of approximately 50 conditions have been proposed by intervenors and are summarized on Exhibit G.



DATED this 28th day of April, 1988.

  
THOMAS W. FORSGREN  
Attorney for Utah Power &  
Light Company  
1407 West North Temple  
Salt Lake City, Utah 84140

CERTIFICATE OF SERVICE

This will certify that a copy of the foregoing  
Applicants' Submission was mailed postage prepaid, to all parties  
of record in the subject case this 28th day of April, 1988.



## PUBLIC UTILITIES COMMISSION

VAN NESS AVENUE  
SAN FRANCISCO, CA 94102

March 16, 1988

## EXHIBIT A

TO: PARTIES OF RECORD IN A.87-09-043

This is the proposed decision of the administrative law judge. It will be on the Commission's agenda at the next regular meeting 30 days after the above date. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in the attached Rules of Practice. Please read them carefully and note the filing dates, the limitations on content of comments, and the requirement of service on all other parties.

A handwritten signature in cursive script, reading 'Mary Carlos'.

Mary Carlos, Chief  
Administrative Law Judge

MC:rmn

ALJ/RLW/rmn

Item 1  
Agenda 4/27/88

Decision PROPOSED DECISION OF ALJ WU (Mailed 3/16/88)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY, a Maine Corporation )  
(PACIFICORP MAINE), and PC/UP&L )  
MERGING CORP., to be renamed )  
PACIFICORP, an Oregon corporation )  
(PACIFICORP OREGON), for an order )  
authorizing the merger of PACIFICORP )  
MAINE and UTAH POWER & LIGHT COMPANY )  
(UTAH POWER) into PACIFICORP OREGON, )  
authorizing the issuance of )  
securities by PACIFICORP OREGON, and )  
authorizing the initial California )  
rate tariffs of PACIFICORP OREGON. )

Application 87-09-043  
(Filed September 30, 1987)

In the Matter of PACIFICORP OREGON )  
for an order exempting it from )  
regulation under Article 5, Chapter )  
4, Part 1, Division 1, and under the )  
certain provisions of Section 851 of )  
the Public Utilities Code, pursuant )  
to Sections 829 and 853 of the )  
Public Utilities Code. )

Steel, Rives, Boley, Jongs & Grey, by  
Marcus Wood, Attorney at Law, for  
Pacific Power & Light Company,  
applicant.

Kimball, Parr, Crockett & Waddoups, by  
Dale A. Kimball, Attorney at Law, for  
Colorado River Energy Distributors  
Association (CREDA); Roger J. Peters,  
Attorney at Law, for Pacific Gas and  
Electric Company; and Nicholas Tibbetts,  
for Congressman Douglas Bosco;  
interested parties.

Timothy E. Treacy, Attorney at Law, and  
K. K. Chew, for the Division of  
Ratepayers Advocates.

O P I N I O N

I. Summary

We approve a merger between PacifiCorp Maine and Utah Power into PacifiCorp Oregon. We also exempt PacifiCorp Oregon from provisions of the Public Utilities Code relating to stocks and securities transactions and the encumbrance of utility property.

II. Background

PacifiCorp Maine provides electric service to 670,000 customers in California, Idaho, Montana, Oregon, Washington, and Wyoming. For the year ended December 31, 1986, PacifiCorp Maine's electric utility revenues were \$920,150,000. PacifiCorp Maine serves about 35,300 customers in California. Its California electric revenues for the year ended December 31, 1986 were \$46,275,000, about 5% of total electric revenues. PacifiCorp Maine currently serves California ratepayers in the Counties of Del Norte, Modoc, Shasta, and Siskiyou.

Utah Power provides electric service to 510,000 customers in Utah, Idaho, and Wyoming. For the year ended December 31, 1986, Utah received electric revenues of \$889,601,000.

PacifiCorp Maine and Utah Power have agreed to merge into a new entity, PacifiCorp Oregon. If the merger is approved, PacifiCorp Oregon will provide electric service to 1,180,000 customers throughout California, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. Based upon 1986 recorded data, California customers will provide 2.56% of PacifiCorp Oregon's total electric revenues.

Under the terms of the Merger Agreement, PacifiCorp Oregon will continue to do business in all areas previously served

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by PacifiCorp Maine under the assumed business name of Pacific Power & Light Company (PP&L) and in all areas previously served by Utah Power under the assumed business name of Utah Power & Light Company (UP&L). However, when the merger becomes effective, the separate existences of PacifiCorp Maine and Utah Power will cease and PacifiCorp Oregon will succeed to all rights and obligations of PacifiCorp Maine and Utah Power.

A public hearing was held on February 3, 1988 in Yreka, California. The applicant and the Division of Ratepayer Advocates (DRA) presented witnesses. Several public witnesses also entered statements on the proposed merger. All participants supported the merger.

### III. Applicant's Showing

The applicant sponsored the testimony of David F. Bolender, President of Pacific Power & Light Company, Fredric D. Reed, Senior Vice President, Rodney M. Boucher, Vice President of Power Systems, and Dennis P. Steinberg, Director of Power Planning.

Bolender stated in his testimony that the proposed merger will have several benefits:

1. The merger will increase firm and nonfirm access to the wholesale power markets, facilitating the disposition of available power supplies.
2. The merger will enhance the ability of both companies to take advantage of low-cost power supplies which are available in the short term.
3. Since Pacific Power is a winter-peaking utility and Utah Power is a summer-peaking utility, benefits will be gained from the greater diversity of the interconnected systems.

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4. System operating costs will be reduced through the integrated economic dispatch of generation.
5. System reserve requirements will be reduced because of expanded transmission interconnections.
6. The merger will permit the consolidation of duplicative activities, resulting in operating savings.
7. The merger will provide more opportunities for employees of both companies.

Bolender explained that the merger will bring about an extraordinary strategic and geographic fit of the two companies. While Pacific Power has access to low-cost Northwest hydroelectric resources and the Pacific Northwest-Pacific Southwest Intertie, Utah Power has a substantial transmission network and access to wholesale markets unavailable to Pacific Power. Bolender concludes that the merger will reduce and stabilize power prices to PP&L and UP&L customers.

Reed testified on the cost savings of the proposed merger that should accrue to the customers of both utilities. He estimates the total benefits of the merger to be \$48 million in 1988 increasing to \$158 million in 1992. Reed also stated that there is no detailed proposal for the interjurisdictional or interclass allocations. He expects the allocation issue to be addressed by this Commission and other Commissions in future rate proceedings. In the meantime, he stated that Pacific Power will seek no Electric Revenue Adjustment Mechanism (ERAM) price increase, attrition price increase, or other rate increase throughout 1988 and 1989. In this way, he states that the merger will at least have a rate stabilizing impact on customers and also may result in significant price decreases.

Boucher discussed the major power supply benefits he expects to accrue from the merged power systems. He testified that

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the two systems will be operated and planned on a "single utility basis." Because of diversity in the two systems' capacity resources and energy supplies, Boucher expects considerable savings to occur from the dispatch of the "single utility." Boucher also explained that several transmission lines will have to be built to improve the transfer capability between the two systems.

Steinberg testified to the estimated power supply benefits of the proposed merger. His analysis shows net power cost savings of \$16.7 million in 1988 increasing to about \$44.2 million in 1992. Net savings in new generation and transmission capacity are: \$1.8 million in 1988 and \$8.5 million in 1992. The total savings then start at \$14.9 million in 1988 and are projected to increase to \$52.7 million in 1992.

Finally, at hearing, the applicant stated that it would not object to a Commission order directing that the merger is approved subject to the condition that PacifiCorp foregoes both ERAM and attrition rate increases from 1988 through 1991, a four-year period.

#### IV. DRA Report

DRA recommends conditional approval of the proposed merger as it believes certain conditions are necessary to ensure that California ratepayers are not harmed by the merger.

DRA points out that PacifiCorp has promised a rate reduction of 5-10% over the next four years for Utah ratepayers. This rate reduction is estimated as a \$35-70 million decrease over the four-year period. DRA believes that this rate reduction promised to Utah ratepayers should not be subsidized with the savings and benefits that are more properly assigned to other jurisdictions such as California.

To prevent an unfair subsidy from California to Utah, DRA recommends that the applicant should submit a proposed allocation

methodology to the Commission. Specifically, DRA recommends that PacifiCorp should reconvene the Allocation Committee six<sup>1</sup> months after the merger is approved.

DRA concludes that California ratepayers should be indifferent to the merger as long as rates and service are not adversely affected by the proposed merger.

#### V. Discussion

We approve the proposed merger on the condition that PacifiCorp, the successor to PP&L and UP&L, forego ERAM<sup>2</sup> and attrition rate increases for the four-year period 1988 to 1991. While the opportunities for substantial cost savings have been shown by the applicant, we believe this promise of rate stability for the next four years will protect California ratepayers from any unforeseen developments.

From the testimony submitted by the applicant, we are persuaded that the merger should yield significant savings for all ratepayers of the merged utilities. The opportunity to dispatch both utility power systems on an integrated basis will allow PacifiCorp to match the utilities' diverse energy resources with their different load needs. The applicant estimates that savings

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1 The Allocation Committee should be composed of representatives from each state served by PacifiCorp.

2 The ERAM has a balancing account and although the applicant stated that it would forego ERAM increases in the years 1988-1991, it may seek to recover any undercollections accumulated in the ERAM balancing accounts after the four-year period of rate stability is over. In other words, PacifiCorp may attempt to recover in 1992 or later years the ERAM increases it deferred from 1988-1991. Since there is no balancing account for attrition, PacifiCorp may not recover in later years any attrition rate increases it gives up for the years 1988-1991.



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of the merger due solely to power system operating efficiencies will be about \$5-9 million per year. The applicant also expects to accrue significant benefits from wholesale sales revenues. While the applicant does not believe these benefits to be unduly optimistic, we do not rely upon them here as their realization is dependent upon the dynamics of the wholesale power market.

We also adopt DRA's recommendation that the Allocation Committee should be reconvened within six months of the merger's approval. Since California ratepayers will be a small percentage of the merged utilities' total customers, a fair allocation among the jurisdictions will be an important determination for this minority group. We expect DRA to protest California's interests through its participation on this committee.

#### Findings of Fact

1. PacifiCorp Maine and Utah Power have agreed to merge into a new entity, PacifiCorp Oregon.
2. The applicant alleges that total benefits of the merger will be \$48 million in 1988 increasing to \$158 million in 1992.
3. The applicant estimates that power system operating benefits of the merger will be \$5 to \$9 million per year.
4. California ratepayers are projected to provide only 2.56% of PacifiCorp Oregon's total electric revenues.
5. The applicant has stated that to ensure rate stability to California ratepayers after the merger, it will not seek an ERAM or attrition rate increase in the four-year period 1988-1991.
6. DRA recommends that the Allocation Committee should be reconvened within six months after the merger is approved so that this Commission and other Commissions can determine a fair allocation procedure among the various jurisdictions.

Conclusions of Law

1. The proposed merger should be approved as the applicant has shown significant benefits may accrue to ratepayers of both utilities and has agreed to forego any ERAM or attrition rate increase from 1988 until the end of 1991.

2. PacifiCorp Oregon, the successor to PacifiCorp Maine, should be exempted from provisions of the Public Utilities Code relating to stocks and securities transactions and the encumbrance of utility property.

ORDER

Therefore, IT IS ORDERED that:

1. The proposed merger between PacifiCorp Maine and Utah Power into PacifiCorp Oregon is approved as requested in Application 87-09-043.

2. PacifiCorp Oregon is exempt from the provisions of the Public Utilities Code relating to stocks and securities transactions and the encumbrance of utility property.

3. PacifiCorp Oregon shall not request an ERAM or attrition rate increase for the years 1988, 1989, 1990, and 1991. PacifiCorp Oregon, however, shall continue to file applications and advice letters in these years so that the Commission can determine whether ERAM or attrition rate decreases are appropriate.

4. Within six months of approval of the merger, PacifiCorp Oregon shall reconvene the Allocation Committee to determine a fair allocation among the various jurisdictions.

This order becomes effective 30 days from today.

Dated \_\_\_\_\_, at San Francisco, California.



MAY - 4 1980

## BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4000

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7 In the Matter of the Application of )  
8 PACIFICORP and PC/UP&L Merging Corp. )  
9 for an Order Authorizing the Merger )  
10 of PACIFICORP and UTAH POWER & LIGHT )  
11 COMPANY into PC/UP&L MERGING CORP. (to )  
12 be renamed PacifiCorp upon completion ) STIPULATION  
13 of the merger), and Authorizing the )  
14 Issuance of Securities, Assumption of )  
15 Obligations, Adoption of Tariffs, and )  
16 Transfer of Certificates of Public )  
17 Convenience and Necessity, Allocated )  
18 Territory, and Authorizations in )  
19 Connection Therewith. )  
20  
21  
22

23 The staff of the Public Utility Commission of Oregon  
24 (Staff), appearing by and through its attorney, W. Benny Won,  
25 Assistant Attorney General, and PacifiCorp and PC/UP&L Merging

1 Corp. (Applicants or Pacific), appearing by and through their  
2 attorney, James F. Fell, Attorney at Law, (jointly, Parties)  
3 hereby stipulate as follows:  
4

5 I. Approvals Requested  
6

7 The Applicants have filed an Application (Application)  
8 with the Public Utility Commission of Oregon (Commission)  
9 requesting the Commission's order:  
10

11 1. Authorizing the merger of PacifiCorp (PacifiCorp  
12 Maine) and Utah Power & Light Company (Utah Power) with  
13 and into PC/UP&L Merging Corp., an Oregon corporation  
14 to be renamed PacifiCorp upon the closing of the merger  
15 (PacifiCorp Oregon), in accordance with an Agreement and  
16 Plan of Reorganization and Merger among PacifiCorp Maine,  
17 Utah Power, and PacifiCorp Oregon, dated August 12, 1987  
18 (Merger Agreement), pursuant to ORS 757.480;  
19

20 2. Authorizing the issuance by PacifiCorp Oregon of  
21 shares of its common and preferred stocks upon conversion  
22 of the outstanding shares of common and preferred stock of  
23 PacifiCorp Maine and Utah Power, in accordance with the terms  
24 of the Merger Agreement, pursuant to ORS 757.410;  
25

1           3. Authorizing the assumption by PacifiCorp Oregon of  
2 all debt obligations of PacifiCorp Maine and Utah Power out-  
3 standing at the time of the merger, pursuant to ORS 757.440,  
4 and the continuation or creation of liens in connection  
5 therewith, pursuant to ORS 757.480;  
6

7           4. Authorizing the transfer to PacifiCorp Oregon of all  
8 certificates of public convenience and necessity of PacifiCorp  
9 Maine, pursuant to ORS 758.015;  
10

11           5. Authorizing the transfer to PacifiCorp Oregon of all  
12 rights to allocated territory granted to PacifiCorp Maine,  
13 pursuant to ORS 758.460;  
14

15           6. Authorizing the adoption by PacifiCorp Oregon of  
16 all tariff schedules and service contracts of PacifiCorp Maine  
17 on file with the Commission and in effect at the time of the  
18 merger, pursuant to ORS 757.205;  
19

20           7. Authorizing the transfer to PacifiCorp Oregon  
21 of all Commission authorizations and approvals granted to  
22 PacifiCorp Maine for transactions with controlled corporations  
23 or affiliated interests, pursuant to ORS 757.490 and 757.495;  
24

25           8. Authorizing the transfer to PacifiCorp Oregon of

1 all Commission authorizations and approvals for the issuance  
2 of securities by PacifiCorp Maine which have not been fully  
3 utilized, pursuant to ORS 757.410; and  
4

5 9. Directing that upon the merger PacifiCorp Oregon  
6 shall succeed to all of the rights and responsibilities of  
7 PacifiCorp Maine under the public utility laws of the State of  
8 Oregon and the orders of the Commission.  
9

10 II. Basis of Stipulation  
11

12 The Staff has reviewed the Application, Pacific's  
13 prefiled testimony and exhibits, and responses to discovery  
14 in this and other jurisdictions, and has conducted its own  
15 studies and investigation. The Staff has determined that the  
16 proposed merger would be in the public interest of the State  
17 of Oregon, provided that the terms of this Stipulation are  
18 adopted. The Parties enter into this Stipulation voluntarily  
19 to resolve matters not in dispute among them and to expedite  
20 the orderly conduct and disposition of this proceeding.  
21

22 III. Approval Recommendation  
23

24 The Parties recommend approval of the Application subject  
25 to Section IV of this Stipulation. Subject to Section IV, the



1 Parties specifically agree that the Merger Agreement and all  
2 transactions proposed in the Application are in the public  
3 interest and meet the requirements of the applicable Oregon  
4 statutes. To the extent the Application and this Stipulation  
5 conflict, this Stipulation shall govern.  
6

7 IV. Terms of Approval  
8

9 The terms of this Section shall apply to the approvals  
10 requested by Pacific. These terms are intended to ensure  
11 that (i) the proposed merger does not harm Pacific's Oregon  
12 customers, (ii) Pacific's Oregon customers receive a fair  
13 allocation of merger benefits, and (iii) Pacific's Oregon  
14 customers do not subsidize benefits provided to Utah Power's  
15 customers.  
16

17 A. Exhibits to Stipulation  
18

19 The following exhibits to Pacific's prefiled  
20 testimony are attached as Exhibits to this Stipulation, as  
21 they apply to the terms contained herein:  
22

- 23 1. Exhibit 1, entitled Pacific Power & Light  
24 Company-Utah Power & Light Company, Con-  
25 solidated Operating Benefits (Docket No.

1 UF 4000, Exhibit No. 4, pages 1 through 10,  
2 Witness: F. D. Reed); and  
3

4 2. Exhibit 2, entitled Estimated Power Supply  
5 Savings from Merger (Docket No. UF 4000,  
6 Exhibit No. 8.1, Witness: D. P. Steinberg).  
7

8 For purposes of this Stipulation, the years 1988 through 1992  
9 as used in Exhibits 1 and 2 shall refer to calendar years 1  
10 through 5 following the closing of the merger, as provided in  
11 Section V of this Stipulation.  
12

13 B. Reporting Requirements  
14

15 The Parties acknowledge that Pacific submits semi-  
16 annual regulatory results of operations to the Commission.  
17 The semi-annual reports contain information requested by the  
18 Staff, as modified from time to time. Pacific agrees that  
19 following the merger these reports as well as all general  
20 rate applications and Commission show-cause actions will  
21 demonstrate the effects of the merger on the various items  
22 referred to in Exhibits 1 and 2 to this Stipulation, as well  
23 as additional items for which benefits have been achieved but  
24 which have not been currently identified. Detailed workpapers  
25 shall be supplied that separately illustrate the savings

1 depicted in Exhibits 1 and 2, as well as other identified  
2 categories, and how they affect Oregon jurisdictional  
3 results. Initial reports shall include:

4  
5 1. A showing of the consolidated operating merger  
6 benefits achieved for each category identified  
7 in Exhibits 1 and 2 to this Stipulation, as well  
8 as additional categories for which benefits have  
9 been achieved but which have not been currently  
10 identified or quantified. The showing shall be  
11 supported by detailed workpapers.

12  
13 2. A showing of the Oregon allocated merger  
14 operating benefits achieved for each category  
15 identified in Exhibits 1 and 2 to this  
16 Stipulation, as well as additional categories  
17 not currently specified for which benefits have  
18 been achieved. All allocation methods employed  
19 shall be clearly described and supported by  
20 detailed workpapers. In demonstrating power  
21 supply benefits, Pacific shall provide a study  
22 showing net power supply costs for Pacific and  
23 Utah Power separately as if the merger had not  
24 occurred and net power supply costs for the  
25 merged company.

- 1           3. A statement of Pacific's then current bond  
2           ratings and an explanation of the rationale for  
3           any change in the ratings (from the currently  
4           acknowledged Standard and Poors, A-; Moody's,  
5           A3; Duff & Phelps, 7) subsequent to the merger.  
6
- 7           4. A schedule of Pacific's preferred stock and  
8           debt series that delineates separately  
9           pre-merger Pacific preferred stock and debt  
10          series, pre-merger Utah Power preferred stock  
11          and debt series, and post-merger preferred  
12          stock and debt series. Recapitalizations of  
13          pre-merger preferred stock or debt series shall  
14          be included in the post-merger preferred stock  
15          and debt series and clearly identified as  
16          recapitalizations.  
17
- 18          5. ~~A description of all major post-merger additions~~  
19          to generation and system transmission plant and  
20          related system facilities, including the cost of  
21          each addition. For purposes of this paragraph,  
22          major additions shall be determined based upon  
23          Pacific's currently applicable budgetary  
24          criteria, a statement of which is attached as  
25          Exhibit 3 to this Stipulation.

1           C. Allocation of Merger Costs and Benefits

2

3           Pacific agrees to initiate an allocation committee

4 consisting of representatives from all appropriate regulatory

5 jurisdictions of the merged company within six weeks after the

6 merger has been approved by all authorities. The function of

7 this committee will be to develop just and reasonable methods

8 for the allocation of joint costs and benefits of the merger.

9 The Staff and Pacific agree to participate in the committee in

10 good faith, although neither shall be bound by this Stipulation

11 to accept the recommendations of such committee. Until the

12 Staff and Pacific agree on final methods for the allocation of

13 joint costs and benefits of the merger and until the Commission

14 adopts such methods, the Parties agree that the general guide-

15 lines for allocating merger costs and benefits specified below

16 shall be adhered to in Pacific's general rate applications or

17 Commission show-cause actions. These guidelines are general

18 in nature and are intended only to be used for determining

19 the share of merger costs and benefits allocable to Pacific's

20 Oregon customers. These guidelines do not take into con-

21 sideration factors that may be significant to Pacific's other

22 jurisdictions, to Utah Power's jurisdictions, or to the

23 development of consensus among all jurisdictions.

24

25           1. Pre-merger generation and transmission

1 facilities of Pacific and Utah Power shall  
 2 remain the responsibility of and shall be  
 3 assigned directly to the Pacific Power and Utah  
 4 Power divisions, respectively. Pre-merger  
 5 facilities of this nature shall be comprised of  
 6 facilities not occasioned by consideration of  
 7 the merger included in plant in service as of  
 8 December 31, 1988, facilities budgeted as of  
 9 August 12, 1987, plus replacements, additions  
 10 and betterments that do not result in appreciable  
 11 changes to existing generation or system trans-  
 12 mission plant.

13  
 14 2. Post-merger additions to generation and system  
 15 transmission plant and related system facilities  
 16 due to the merger shall be allocated between the  
 17 Pacific Power and Utah Power divisions on an  
 18 equitable basis that is based on sound economic  
 19 principles and is mutually agreeable to the  
 20 Staff and Pacific.

21  
 22 3. Net power cost changes due to the merger shall  
 23 be allocated on an equitable basis that is  
 24 mutually agreeable to Staff and Pacific. The  
 25 allocation method shall embody the principle,

1 but not necessarily the practice, of Pacific's  
2 Allocation Notes 1 and 1A. Net power cost  
3 changes due to the merger shall be determined  
4 based on the results of studies showing net  
5 power costs for Pacific and Utah Power separately  
6 as if the merger had not occurred and net power  
7 costs for the merged company.  
8

9 4. ~~Other cost changes due to the merger~~ shall be  
10 allocated using equitable allocation methods that  
11 (i) embody the principle that incurred costs and  
12 benefits follow the cause of such costs and  
13 benefits and (ii) are mutually agreeable to the  
14 Staff and Pacific. For example:  
15

16 (a) ~~Economic development costs~~ that can  
17 ~~be directly assigned to each operating~~  
18 ~~division~~ shall be so assigned. Such costs  
19 that cannot be directly assigned shall be  
20 allocated by a method that is mutually  
21 agreeable to the Staff and Pacific.  
22

23 (b) Manpower costs shall be directly accounted  
24 for by operating division as much as  
25 practicable. For centralized functions,

1 manpower costs shall be allocated by a method  
2 that is mutually agreeable to the Staff and  
3 Pacific.

4  
5 (c) Costs attributable to administrative  
6 combinations shall, in general, be  
7 accounted for at the consolidated total  
8 system level and allocated between the  
9 Pacific Power and Utah Power divisions by  
10 a method that is mutually agreeable to the  
11 Staff and Pacific. Costs referred to in  
12 this paragraph include those in areas such  
13 as group welfare plans, computer systems,  
14 legal expense, insurance, and financial  
15 services.

16  
17 (d) Costs occasioned by the merger shall  
18 be directly assigned to each operating  
19 division where applicable. All other costs  
20 occasioned by the merger shall be pooled  
21 and allocated by a method that is mutually  
22 agreeable to the Staff and Pacific.

23  
24 5. Wherever these guidelines require mutual  
25 agreement between the Staff and Pacific, if



1 the Staff and Pacific are unable to agree after  
2 reasonable efforts to do so, the method of  
3 allocation shall be determined by the Commission  
4 based upon the guidelines in this Subsection C.

5  
6 ~~Pacific agrees that its shareholders shall assume all risks~~  
7 ~~that may result from less than full system cost recovery if~~  
8 ~~inter-divisional allocation methods differ among the merged~~  
9 ~~company's various jurisdictions.~~

10  
11 The provisions of this Subsection C apply only  
12 to the allocation of merger costs and benefits between the  
13 Pacific Power and Utah Power divisions. ~~Allocations within~~  
14 ~~the Pacific Power division shall be governed by Pacific's~~  
15 ~~existing jurisdictional allocation methods, as modified from~~  
16 ~~time to time.~~

17  
18 D. Future Rate Cases

19  
20 Pacific represents and warrants that ~~its Oregon~~  
21 ~~customers shall be held harmless if the merger results in~~  
22 ~~greater net costs to serve Oregon customers than if the merger~~  
23 ~~had not occurred.~~ More specifically, Pacific agrees as  
24 follows:  
25

1           1. Pre-merger Utah Power rate base assets shall be  
2           excluded from calculations of Pacific's rate  
3           base assets devoted to serve Oregon customers.

4  
5           2. By the end of the second quarter of calendar  
6           year 1989, Pacific shall file with the  
7           Commission a general rate case using a fully  
8           normalized test period based upon Pacific's  
9           December 1988 semi-annual report. This filing  
10          will include pro forma adjustments to reflect  
11          estimated merger benefits shown on Exhibit 1  
12          as allocated to the State of Oregon, for the  
13          portions of calendar years 1 and 2 within the  
14          12-month period ending June, 1990, as well as  
15          all known major costs and revenue changes.  
16          ~~Pacific further agrees not to effect any overall~~  
17          ~~increase in electric rates in Oregon prior to~~  
18          ~~the end of calendar year 1992.~~ The Parties  
19          acknowledge that, notwithstanding the  
20          rate-making commitments in this paragraph,  
21          Pacific may propose price adjustments (upward or  
22          downward) among or within various customer  
23          groups.

24  
25          3. Staff reserves the right to propose adjustments

1 to Pacific's embedded debt and preferred stock  
2 costs in future rate proceedings. Pacific shall  
3 be given an opportunity to oppose any such  
4 adjustments.

- 5  
6 4. Pacific agrees that a method of establishing  
7 common equity costs that relies upon the use of  
8 comparable companies will be used in future rate  
9 proceedings during calendar years 1 through 5.

10  
11 E. Agreements Regarding Specific Approvals

12  
13 With regard to the specific approvals requested in  
14 its Application, Pacific represents and agrees as follows:

- 15  
16 1. Pacific shall demonstrate, when necessary, that  
17 the operation of the merged company does not  
18 negate the basis for existing certificates of  
19 public convenience and necessity.  
20  
21 2. Tariffs on file with the Commission at the  
22 time of action on this merger docket shall be  
23 the same tariffs in force after the merger is  
24 consummated, except for changes specifically  
25 approved by the Commission.

1           3. The terms and conditions of pre-merger existing  
2           affiliated interest and/or controlled  
3           corporation contracts approved by the Commission  
4           shall be unchanged in all material respects  
5           at the time of the merger, except for changes  
6           specifically approved by the Commission. As  
7           required by ORS 757.490 and 757.495, Pacific  
8           shall promptly file new affiliated interest  
9           or controlled corporation contracts that are  
10          occasioned as a result of the merger.

11  
12          4. The information contained in the Application  
13          regarding the shares of PacifiCorp Oregon common  
14          stock to be issued upon the merger shall be  
15          unchanged in all material respects at the time  
16          of the merger. Further, Pacific agrees that if  
17          the issuance of additional shares must be made  
18          to accomplish the merger, it shall promptly  
19          amend its Application for approval to do so.

20  
21          5. Pacific agrees to promptly file with the  
22          Commission Pacific's and Utah Power's  
23          Forms 10-K, 10-Q, and 8-K filed with the  
24          Securities and Exchange Commission prior to  
25          the date the Commission issues its Order in this

1 matter. If, subsequent to the Commission Order,  
2 Pacific or Utah Power files with the Securities  
3 and Exchange Commission a Form 10-K, 10-Q, or  
4 8-K that reflects merger-related contingent  
5 liabilities not considered at the time of the  
6 Commission's decision, such information shall be  
7 reported to the Commission.

8  
9 6. Pacific accepts all the terms and conditions  
10 attached to the existing authorizations by the  
11 Commission for the issuance of securities.

12  
13 F. Modification of Terms

14  
15 The terms of this Section IV may be modified by  
16 mutual agreement between the Staff and Pacific and upon  
17 approval of such modification by the Commission, subject to  
18 the applicable laws of the State of Oregon and rules and  
19 procedures of the Commission regarding notice, opportunity  
20 for comment or hearing, and agency decision-making.

21  
22 V. Term of Stipulation

23  
24 The terms of Section IV of this Stipulation shall be  
25 effective for a period of five calendar years from the date

1 of the closing of the merger.  
2

3 VI. Parties' Recommendation  
4

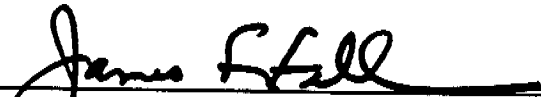
5 The Parties recommend that the Commission adopt this  
6 Stipulation in its entirety. The Parties have negotiated  
7 this Stipulation as an integrated document. Accordingly,  
8 if the Commission rejects all or any material portion of  
9 this Stipulation, each Party reserves the right, upon  
10 written notice to the Commission and all parties to this  
11 proceeding within 15 days of the date of the Commission's  
12 order, to withdraw from the Stipulation and request an  
13 opportunity for the presentation of additional evidence  
14 and argument.  
15


16 VII. Effect of the Stipulation  
17

18 The Parties understand that this Stipulation is  
19 not binding on the Commission in ruling on the Application  
20 and does not foreclose the Commission from dealing with  
21 other merger issues that are raised by other parties to  
22 this proceeding. Except as provided in Section IV.F. of  
23 this Stipulation, to the extent this Stipulation affects  
24 future rate proceedings, the Parties agree to recommend no  
25 actions by the Commission contrary to the terms set forth

1 in this Stipulation.

2  
3 Dated this 3rd day of March, 1988.

4  
5   
6 James F. Fell  
7 Attorney at Law  
8 For Applicants

9  
10   
11 W. Benny Won  
12 Asst. Attorney General  
13 For Oregon PUC Staff

14  
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Docket No. UF-4000  
Exhibit No. 4  
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Witness: F. D. Reed

Stipulation  
Exhibit 1

PACIFIC POWER & LIGHT COMPANY  
UTAH POWER & LIGHT COMPANY

CONSOLIDATED OPERATING BENEFITS\*  
(Millions Of Dollars)

	<u>1988</u> <sup>1</sup>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Reduced Construction <sup>2</sup>	\$ 1	\$ 3	\$ 5	\$ 8	\$ 11
Economic Development <sup>3</sup>	1	2	6	11	17
Administrative Combinations <sup>4</sup>	19	20	20	20	20
Manpower Efficiencies <sup>5</sup>	10	20	30	42	53
Power Supply <sup>6</sup>	<u>17</u>	<u>25</u>	<u>40</u>	<u>47</u>	<u>57</u>
Total Benefits	<del>\$48</del>	<del>\$70</del>	<del>\$101</del>	<del>\$128</del>	<del>\$158</del>

---

\* Notes attached.



Note (1) - Calendar Year Basis

Consolidated Operating Benefits are shown on a calendar year basis, assuming the merger is consummated January 1, 1988.

Note (2) - Reduced Construction

Pacific Power

Removals or Deferrals Beyond 1992

The following fossil projects which were part of Pacific's 1987 construction program will be avoided or delayed past 1992 under the combined system: Jim Bridger Units 1, 2 and 4 turbine upgrades, Jim Bridger Units 1, 2, and 3 cooling towers, Jim Bridger Unit 4 economizer, and the Centralia cooling tower.

Projects Added to the Plan:

The need for additional transmission capacity for the merged system will necessitate the building of the following additional transmission projects: Naughton-Jim Bridger 230 kV line, Riverton and Rock Springs capacitors, and the Naughton phase shifter.

Rescheduled and Adjusted Existing Projects

The South Trona to Monument line and Firehole substation are expected to be moved from 1989 to 1988 to meet additional capacity needs. Information Management projects, Wyoming and Washington fossil projects, and Wyoming microwaves will be reduced due to efficiency savings in the merger.

Utah Power

Although it is premature to specifically identify all of the construction projects which will be specifically altered, as a result of the merger, between the two companies, it is estimated there will be a reduction of \$14 million Production, \$1 million Transmission, \$34 million Distribution, and \$18 million General Plant. This, of course, is offset by additions for transmission interconnections between the two systems of \$8 million in 1988 through 1992.

Note (3) - Economic Development

Pacific has had an active and expanding economic development program for several years.

While this program has been successful, the nature of the service territory limits its competitiveness for projects.

A larger and more diverse service territory will make the combined companies more competitive for such projects than Pacific alone.

There are significant economies of scale in economic development activities. The combined companies will be able to market more than twice the geographic area for about a 50 percent increase in expenditures.

UP&L is just starting its economic development program. The merger will allow them to avoid most of the start-up and learning curve expenses usually associated with a new program.

Pacific has established a specific set of economic development goals (see Attachment 1). These were set using the results of the Company's 20-volume Target Industry Study, combined with an empirical evaluation of known opportunities. These goals are being further refined with the Site Economic Evaluation Data Base (SEED) also developed by the Company.

In order to develop a preliminary assessment of economic development benefits of the merger, Pacific reviewed its own analysis and research. Discussions have been held with UP&L marketing personnel regarding the potential for economic development in their service territory.

An assessment of economic development benefits was made jointly by Pacific Power and Utah Power. While there are a number of specific assumptions, the most important is that after a "ramp up" period the added economic development potential of the Utah Power service territory after the merger is roughly proportionate to that of Pacific's (see Attachment 2).

After the merger is complete the combined companies will perform a comprehensive evaluation of economic development potential in the current Utah Power service territory. This will, in all probability, draw on the methodology and results of the Pacific Power Target Industry and SEED studies.

This assessment includes only the benefits from increased electric sales. It does not include increased tax revenues to state and local government or any of the other positive results of economic growth and diversification resulting from these activities.

NOTE (4) - Administration Combinations

Group Welfare Plan Benefits

In the group welfare plan area, approximately \$1 million annually in administrative costs could be saved by merging with Utah Power & Light. Utah has established mutual insurance companies to administer their claims, and Pacific's preliminary analysis indicates that since Utah is operating on a non-profit basis, Pacific could utilize Utah's services and systems to achieve these savings.

Computer Systems Benefits

Certain contracts can be reduced in cost because of the combination as well as utilization of systems in place versus acquiring new systems will reduce cost by some \$2 million annually. Examples of these benefits include the following:

1) IBM Hardware and Software License and Maintenance

Pacific analyzed the enterprise license agreement. The analysis showed that if Pacific had an additional site license they could save approximately \$1.2 million on IBM license costs. With Utah Power, the additional site can be obtained.

2) Non-IBM System Software License Savings

The second site license from most of the vendors is about 50% of the base cost. Maintenance (which is about 20% of base cost) would also decrease by 50%. As a result, Utah Power as a second site would experience a savings of \$400,000.

Legal Expense

Utah Power & Light has a staff of in-house attorneys to take care of their legal issues. The combined companies can benefit from the better utilization of this in-house legal expertise and corresponding reductions to outside legal services expense. Estimated savings are approximately \$1 million per year.

Environmental Services

Several management decisions in the environmental area, if modified, appear to have the potential to reduce operating costs:

1) PCB: Utah Power has a program of testing all electrical equipment and replacing any contaminated equipment. Over \$3 million was budgeted for 1987 and \$1.7 million has been expended through June 1987. When coupled with the testing program (approximately 75% of the equipment has been physically tested), a significant savings could be accomplished via modifications to this program.

2) Overall Management: Pacific Power has, over the last few years, developed expertise in actively participating in the handling of potential hazardous waste sites (such as AB and Utah Metal). This active participation role has helped Pacific reduce the overall costs of its programs, and we expect similar success can be achieved at Utah Power sites.

3) Other: A complete review of all environmental service of both companies is expected to disclose other potential savings.

It is estimated that \$3 million in annual savings are possible, given modifications to the aforementioned and perhaps other programs.

#### Insurance

Combining the casualty and property insurance coverages for Utah Power and Pacific Power will result in a significant reduction in expense (approximately \$10-11 million a year). This expected reduction is based upon the following assumptions:

1) Pacific Power has discussed adding Utah Power to its insurance programs with its insurance brokers. The incremental cost for property and casualty insurance for Utah's electric operations will be approximately \$5 million, without significantly impacting the level of coverage for Pacific or Utah.

This compares with \$13 million for property and casualty insurance for Utah Power in 1987, or a savings of \$8 million (excluding coverage for Utah's mining operation).

2) It is anticipated that the need for separate Director and Officer liability insurance can be phased out over the next few years, thereby saving \$3 million.

#### Financial Services

At a minimum, it is estimated that the combination of Utah Power with Pacific Power will save approximately \$1 million through the elimination of duplicated financial services.

These services include: (1) DH&S and FERC audit expense; (2) stockholder's services; and (3) investor relations.

Power Plant Maintenance Savings

Power plant maintenance savings of some \$2 million per year result from consolidation of functions, sharing of expertise and use of capabilities developed by one utility at some tangible cost, but transferable and beneficial to the other utility.

Note (5) - Manpower Efficiencies

As the merger evolves, efficiencies and combination of functions will occur over time, allowing for a gradual reduction of manpower based on normal attrition. The attrition rates are estimated at 3% for Pacific and 1.7% for Utah Power (early retirement options in 1983, 1985 and 1987 have impacted attrition for the next few years). The specific areas and job functions have not been identified--as the merger formally occurs, teams will be assigned to examine opportunities, and make specific recommendations.

The following is a summary of the attrition savings related to the merger:

PP&L 1987 Attrition

1987 Saved Positions	124
Benefits	<u>\$6.0 million</u>

In anticipation of the merger, Pacific Power elected to not replace these positions. Utah Power also had material manpower reductions in 1987; however, it appears they would not be replaced whether the merger occurs or not.

Forecast Attrition

Utah Power & Light Company  
Pacific Power & Light Company

Forecast Attrition  
(In Millions)  
1988-1992

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
<u>Utah Power</u>					
Positions <sup>1/</sup>	42	85	84	82	81
Accum. Positions	42	127	211	293	374
Benefits <sup>2/</sup>	\$1.1	\$4.6	\$9.3	\$14.4	\$19.5
<u>Pacific Power</u>					
Positions <sup>3/</sup>	120	117	113	110	106
Accum. Positions	120	237	350	460	566
1987 Attrition	\$ 6.0	\$ 6.0	\$ 6.0	\$ 6.0	\$ 6.0
Benefits <sup>4/</sup>	<u>\$ 2.9</u>	<u>\$ 8.9</u>	<u>\$15.0</u>	<u>\$21.3</u>	<u>\$27.8</u>
Total Benefits	<u>\$ 8.9</u>	<u>\$14.9</u>	<u>\$21.0</u>	<u>\$27.3</u>	<u>\$33.8</u>
Total Incl. 1987	<u>\$10.0</u>	<u>\$19.5</u>	<u>\$30.3</u>	<u>\$41.7</u>	<u>\$53.3</u>

1/ Based on 1.7% annual attrition rate.

2/ Includes wages, labor overheads & reduction in annex office space reductions.

3/ Based on 3.0% annual attrition rate.

4/ Includes wages and employee benefits.

Note (6) - Power Supply

Power Supply benefits are described in detail in Mr. Steinberg's testimony and Exhibit 8.2. The benefits shown in this line of the exhibit, however, exclude the benefits from reduced generation and transmission construction included in that testimony.

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These benefits rather are reflected in the reduced construction  
line (see Note 2 above).

ATTACHMENT NO. 1

**PACIFIC POWER & LIGHT COMPANY**

**Economic Development Program Results**

Year End  
1988-1992

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Basic Jobs	3,000	4,000	5,000	7,000	10,000
Total Sales (MM\$) (1)	300,000	500,000	700,000	1,000,000	1,400,000
Total Revenues (1)	\$12,000,000	\$19,000,000	\$26,000,000	\$37,000,000	\$52,000,000
Total Margins Before Operating Expenses	\$ 8,000,000	\$12,000,000	\$16,000,000	\$22,000,000	\$29,000,000
Operating Expenses	\$ 3,040,000	\$ 4,162,000	\$ 4,294,000	\$ 3,979,000	\$ 3,514,000
Total Margins After Operating Expenses	<u>\$ 4,960,000</u>	<u>\$ 7,838,000</u>	<u>\$11,706,000</u>	<u>\$18,021,000</u>	<u>\$25,486,000</u>

(1) Includes direct and indirect effects

November 20, 1987  
SRH-4-2.tbl(a)

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ATTACHMENT NO. 2

**PACIFIC POWER & LIGHT COMPANY**

**Incremental Economic Development Benefits  
Resulting from Merger of**

**Pacific Power & Light Company**

**and**

**Utah Power & Light Company**

**Year End  
1988-1992**

	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>
<b>Basic Jobs</b>	2,200	2,700	3,600	4,500	6,400
<b>Total Sales (MM)(1)</b>	70,000	104,000	323,000	583,000	828,000
<b>Total Revenues (1)</b>	\$3,900,000	\$6,200,000	\$14,400,000	\$24,200,000	\$34,800,000
<b>Total Margins Before Operating Expenses</b>	\$2,700,000	\$3,900,000	\$ 8,400,000	\$13,400,000	\$18,700,000
<b>Operating Expenses</b>	\$1,800,000	\$2,100,000	\$ 2,100,000	\$ 2,000,000	\$ 1,800,000
<b>Total Margins After Operating Expenses</b>	<u>\$ 900,000</u>	<u>\$1,800,000</u>	<u>\$ 6,300,000</u>	<u>\$11,400,000</u>	<u>\$16,900,000</u>

**(1) Includes direct and indirect effects**

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November 20, 1987  
SRU-4-2.tbl

Stipulation  
Exhibit 2

Docket No. UF-4000  
Exhibit No. 8.1  
Witness: D.P. Steinberg  
|

**Estimated Power Supply Savings from Merger**  
(Millions of Dollars)

	1988	1989	1990	1991	1992
(1) Net Savings in New Generation and Transmission Capacity	-1.8	-2.2	-0.2	2.0	8.5
(2) Net Power Cost Savings	16.7	22.4	35.5	40.2	44.2
(3) Total	14.9	20.2	35.3	42.2	52.7

Expense and Capital Definitions

- Major Project

1. Total Project cost to exceed \$2,000,000 in Direct cost.
2. Generally, the duration is for more than one budget year.
3. Executive Council or Budget Committee to have discretionary authority to classify specific projects as major, regardless of dollar value or duration of the project.



APR 15 1988

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
 OF PACIFICORP, UTAH POWER & LIGHT )  
 COMPANY, AND PC/UP&L MERGING CORP. )  
 (TO BE RENAMED PACIFICORP) FOR AN )  
 ORDER AUTHORIZING THE MERGER OF )  
 PACIFICORP AND UTAH POWER & )  
 LIGHT COMPANY INTO PC/UP&L )  
 MERGING CORP AND AUTHORIZING THE )  
 ISSUANCE OF SECURITIES, ASSUMP- )  
 TION OF OBLIGATIONS, ADOPTION )  
 OF TARIFFS AND TRANSFER OF CER- )  
 TIFICATES OF PUBLIC CONVENIENCE )  
 AND NECESSITY AND AUTHORITIES IN )  
 CONNECTION THEREWITH. )

CASE NO. U-1152-1  
 U-1009-184  
 U-1046-161  
 ORDER NO. 21867

PacifiCorp, dba Pacific Power & Light Company, is a Maine Corporation. Among its activities, PacifiCorp conducts an electric utility business in six states, including the Sandpoint area in Idaho. Utah Power & Light Company is a Utah corporation. It operates an electric utility business in three states, including substantial portions of southeastern Idaho.

In August of 1987, these utilities announced their intention to merge. On September 17, 1987, they and PC/UP&L Merging Corp. (an Oregon corporation to be renamed PacifiCorp) applied to this Commission for authority to merge the two existing utilities into the third corporation, which would then take over all of their electric utility operations. By this Order, we approve the merger subject to reasonable conditions.

## I. THE APPLICANTS FOR MERGER

A. *Pacific Power.* PacifiCorp is a Maine corporation engaged in a number of businesses: mining, telecommunication, leasing of capital and business equipment, lending against receivables and inventories, and providing equity investments in leveraged lease transactions. PacifiCorp's largest line of business, however, and one relevant to this

application, is its electric utility operation pursued under the business name of Pacific Power & Light Company (Pacific, Pacific Power, or PP&L).

In 1986, Pacific Power had revenues of \$1.072 billion on sales of 24.8 billion kilowatt hours (kwh). It had over 670,000 retail customers, including approximately 570,000 residential, 97,000 commercial, 3,400 industrial and 700 miscellaneous customers. Its total assets exceeded \$3 billion.

Total Idaho revenues were \$10.1 million on sales of 189 million kwh. Idaho had 9,265 customers, including 7,106 residential customers, 2,010 commercial, 114 industrial and 35 miscellaneous.

PP&L provides retail electric service in parts of Oregon, Wyoming, Washington, California, Montana and Idaho. On average, 70% of its generation comes from coal-fired plants and 30% from hydroelectric facilities. It has a small (2.5%) interest in the Trojan nuclear facility and agreements with the Bonneville Power Administration (BPA) to purchase firm capacity and nonfirm energy.

Pacific's principal sources of electric supply include ownership of and access to Pacific Northwest hydroelectric facilities and substantial coal-fired generation. In 1986 its total resource capability of 5,859 megawatts (mw) included 3,073 mw from its coal-fired resources, 1,027 mw of BPA peaking capability, 868 mw of its own system hydro resources, 583 mw of purchased hydro resources, and 308 mw of other resources. In 1986, Pacific met 59.2% of its total energy requirements from its thermal resources, 15.3% from firm purchases, 14.5% from its hydro resources, and 11.0% from other resources.

Pacific's 1986 system peak was in the winter, with monthly peaks of 3,600-3,900 mw in January, February, November and December. Its monthly peaks were below 3,500 mw the rest of the year, staying in a 3,000-3,250 range from May through September.

Pacific's rates reflect its hydro-thermal diversity—they exceed the rates of utilities like Idaho Power Company or the Washington Water Power Company, which have higher percentages of hydroelectric generation, but are lower than Utah Power's.

Pacific's investment in operating nuclear plant is minimal. Pacific invested in Washington Public Power Supply System Washington Nuclear Plant No. 3, but its write-offs in that plant are behind it.

Pacific's transmission system is predominantly east-west, designed to move generation from Wyoming, where it has the bulk of its coal-fired generation, through Idaho and into Oregon, where it may be distributed to its loads in the coastal states. In addition, Pacific has significant transmission interties from the Pacific Northwest to California for use in wholesale transactions.

**B. Utah Power.** Utah Power & Light (Utah Power or UP&L) provides retail electric service in Utah, Idaho and Wyoming. Its operations unrelated to electric utility service or coal mining for its thermal plants are minimal.

Utah Power had total revenues of \$985 million in 1986 on sales of 17.7 billion kwh. It had approximately 516,000 retail customers, including 461,000 residential customers, 45,000 commercial customers, 8,000 industrial customers, and nearly 2,000 miscellaneous customers. In 1986, its total assets also exceeded \$3 billion.

In Idaho, Utah Power had total revenues of \$81.8 million on sales of 1.7 billion kwh. It had 34,795 residential customers, 4,622 commercial, 1,855 industrial and 78 miscellaneous customers.

UP&L's total capacity in 1986 was 2,946 mw. The bulk of that capacity was coal-fired. 118 mw were system hydro, and 131 mw came from other resources—the remaining 2,697 mw (91.5%) were from coal. In 1986 Utah Power derived 72.1% of its

from its coal-fired plants, 5.2% from its hydro facilities, 0.2% from firm purchases, and 22.5% from other resources.

Utah Power's system peaks in summer. In 1986, its June, July and August monthly peaks were in the range of 2,400-2,600 mw. Its monthly peaks fell to the 2,000-2,100 mw range in March and October, rising gradually in the winter months to 2,200-2,400 mw.

Utah Power's rates reflect its coal-fired system. They are the highest rates of any major electric utility this Commission regulates. Utah Power, however, has no investment in nuclear plant.

Utah Power's principal transmission system is north-south. It is the bottleneck linking utilities in the Pacific Northwest, with their hydro base on the Columbia-Snake River system, and utilities in the Inland Southwest of Arizona and New Mexico.

*C. The Merged Company.* The merged company (Merging Corporation or PacifiCorp Oregon) will benefit from the diversity of Pacific Power's and Utah Power's loads. The sum of the two systems' noncoincident peaks for 1986 was approximately 6,400 mw; the merged system's coincident peak never exceeded 6,000 mw. The difference between the two, 436 mw, represents a reduced need for capacity for the two systems when their dispatch is integrated and their transmission systems further intertied to allow larger exchange between the two.

Furthermore, the combination of the two companies' transmission systems is advantageous, giving the merged company access from the Pacific Northwest to California, from Idaho and Wyoming to the Inland Southwest, and from Wyoming to the Northern Plains states. This transmission system is well situated for purchases, sales and exchanges with other utilities.



## II. THE MERGER AGREEMENT

The AGREEMENT AND PLAN OF REORGANIZATION AND MERGER was entered into on August 12, 1987, by PacifiCorp, Utah Power and PC/UP&L Merging Corp., an Oregon Company (Merging Corp.). The agreement calls for Utah Power and PacifiCorp to be merged with and into Merging Corp., with Merging Corp. to be the surviving corporation. Merging Corp. would then be renamed PacifiCorp, with its electric utility operations to continue under the assumed business names of Pacific Power & Light for PP&L's current operations and Utah Power & Light for UP&L's current operations.

In particular, the outstanding shares of capital stock of PacifiCorp and UP&L will be converted into shares of capital stock of Merging Corp. in a transaction intended to qualify as a tax-free reorganization under Internal Revenue Code §368(a)(1)(A). Each existing share of PacifiCorp common stock will be converted into one share of Merging Corp. common stock.

The situation is more complicated for Utah Power common stock—the conversion ratios depend upon market conditions for ten trading days (the computation period) immediately following the determination date that the conditions for the merger have been fulfilled or waived. The four possibilities for converting Utah Power stock into PacifiCorp Oregon stock depend upon the closing price X of PacifiCorp Maine determined in the ten-day computation period:

- (a) If X exceeds \$41.804, each Utah Power share shall be converted into  $\$38/X$  Merging Corp. shares.
- (b) If X exceeds \$35.475, but is equal to or less than \$41.804, each Utah Power share will be converted into .909 Merging Corp. shares.
- (c) If X is more than \$33.70, but is equal to or less than \$35.475, each Utah Power share shall be converted into  $\$32.25/X$  Merging Corp. shares.

(d) If X is less than \$33.70, each Utah Power share will be converted into .957 Merging Corp. shares.

No fractional shares of common stock will be issued.

Both companies' preferred stock will be converted into Merging Corp. preferred stock bearing the existing dividend rate, except for shares owned by shareholders who have properly perfected their dissenters' rights.

After closing, two current members of Utah Power's board of directors and one other person residing in Utah Power's service territory will join Merging Corp.'s board of directors. In addition, Merging Corp. will structure a subboard of directors for the UP&L division substantially similar in structure and authority as PacifiCorp has structured a subboard of directors for its PP&L division. Every member of Utah Power's current board of directors consenting to do so will become a part of the UP&L division's subboard.

Among the conditions of consummation of the merger are shareholder approval, regulatory approval, and opinions of counsel, outside auditors and securities experts. Furthermore, if PacifiCorp's closing price is equal to or less than \$33.70, Utah Power may either terminate the agreement or request that its terms be renegotiated.

### III. THE APPLICATION

The Applicants requested permission and authority to do the following:

1. The merger of PacifiCorp Maine and Utah Power with and into PacifiCorp Oregon, with PacifiCorp Oregon to be the surviving corporation, in accordance with an Agreement and Plan of Reorganization and Merger among PacifiCorp Maine, Utah Power and the Merging Corp., dated August 12, 1987 (Merger Agreement), attached as Exhibit L, pursuant to Section 61-328, Idaho Code;
2. The issuance by PacifiCorp Oregon of shares of its common and preferred stocks upon conversion of the outstanding shares of common and preferred stocks of PacifiCorp Maine and Utah Power in accordance with the terms of the Merger Agreement, pursuant to Section 61-901, Idaho Code;

3. The assumption by PacifiCorp Oregon of all outstanding debt obligations of PacifiCorp Maine and Utah Power and the continuation or creation of liens in connection therewith, pursuant to Section 61-901, Idaho Code.

4. The adoption by PacifiCorp Oregon of all tariff schedules and service contracts of PacifiCorp Maine and Utah Power on file with the Commission and in effect at the time of the merger for service within all territories served prior to the merger by PacifiCorp Maine and Utah Power, respectively, pursuant to Section 61-305, Idaho Code;

5. The transfer to PacifiCorp Oregon of all certificates of public convenience and necessity of PacifiCorp Maine and Utah Power, pursuant to Sections 61-527 and 61-528, Idaho Code; and

6. The transfer to PacifiCorp Oregon of all Commission authorizations and approvals for the issuance of securities by PacifiCorp Maine which had not been fully utilized, pursuant to Section 61-901, Idaho Code.

#### IV. THE APPLICANTS' DESCRIPTION OF OPERATIONS FOR THE MERGED COMPANIES

If the merger is approved, PacifiCorp Oregon will operate two electrical divisions—one doing business as Pacific Power & Light and the other as Utah Power & Light. Each division will have a separate subboard of directors, similar to the PacifiCorp Maine's subboard of directors for Pacific Power & Light. Each division will be a separate "profit center" reporting to PacifiCorp. Initially, at least, the principal officers of Pacific Power and Utah Power will sit on both divisions' subboards.

Although the divisions will maintain their separate retail identities, the merged company will plan the divisions' power supply operations and dispatch their power supply as a single utility. In order to do this, the merged company will expand the two divisions' transmission interties and consolidate dispatching. The applicants also anticipate that the divisions will be able to reduce inventories maintained for power supply purposes.

On the "local" level of retail service, the applicants represent the divisions will operate largely as they have before. In particular, both divisions are expected to maintain their extant local offices in Idaho. They do not anticipate inventory consolidation at local office levels.

The Applicants pledge that Pacific's overall level of its retail rates in Idaho will not increase for four years following the merger. Furthermore, Utah Power's retail rates in Idaho will be reduced 2% across the board (except for special contract customers) within 60 days after the merger is approved. The Applicants anticipate additional reductions that together with the two percent reduction will total 5-10% for the Utah Power division in the first few years following the merger.

The Applicants promise rate stability for Pacific Power and rate reductions for Utah Power based upon their anticipation of cost savings of \$50 million in the first year of the merger and approximately \$150 million several years down the road. They anticipate these savings will come from a number of areas—increased power supply efficiency through common dispatch, increased net revenues from additional wholesale sales, consolidation of some administrative and general expenses (e.g., insurance, legal fees). Nevertheless, even in the absence of the merger, Utah Power's coal prices for generation in its own plants have been falling; and Utah Power and Pacific Power have both undertaken substantial cost-saving measures in each division's operations.

#### V. THE PARTIES' "BASIC" ISSUES

In response to the application for approval of the merger, we convened a prehearing conference to identify the issues. Furthermore, unlike most proceedings before the Commission, where intervenors need not initially identify their areas of interest, we required the intervenors to state their areas of concern in their Petitions to Intervene in order to identify issues of interest for the prehearing conference.

The Washington Water Power Company (Water Power or WWP), the Public Power Council (PPC), the Bonneville Power Administration (BPA), the Idaho Irrigation Pumpers Association (Pumpers), Monsanto Company, FMC Corporation, the Idaho Cooperative Utilities Association, Inc. (ICUA), Idaho Power Company (IPCo), J. R. Simplot Company (Simplot), and the Colorado River Energy Distributors Association, Inc. (CREDA), petitioned to intervene. We granted all the Petitions to Intervene except CREDA's.

Based upon the Petitions to Intervene, Commissioner Miller's agenda for the prehearing conference, and subsequent memoranda of the parties, our Orders identified six broad areas of concern: rate issues, BPA issues, transmission issues, comparison of the merger with Idaho Power's acquisition of Utah Power's eastern Idaho service territory, issues identified by Water Power concerning wholesale transmission policies, and issues identified by Idaho Power concerning the merger's possible burden on its transmission system. Furthermore, additional issues were apparently tried with the consent of the parties.

This Part V of the Order reviews those issues. Together with our "basic" findings in Part I describing the Applicants, in Part II describing the Merger Agreement, and in Part IV describing the Applicants' proposals, our discussions, observations or comments following each question in this Part V constitute our "basic" findings underlying our "ultimate" findings to approve the merger and our "basic" findings underlying the conditions attached to our approval.

*A. Rate Issues.* The following rate issues were identified:

1. *Will there be a rate disparity between Pacific's Sandpoint service territory and Utah Power's eastern Idaho service territory after the merger?*

Yes. For the foreseeable future, each operating division will independently set its rates based upon the division's costs or upon reductions promised in this proceeding.

2. *What timetable, if any, will be followed to eliminate or reduce this rate disparity?*

No timetable has been proposed to eliminate or reduce the disparity. There is no current proposal to eliminate it.

3. *If a rate disparity will persist, how will the Applicants decide which resources will serve which territory?*

Each division's existing resources will continue to be assigned to that division for ratesetting purposes. New investment in transmission facilities and new sources of generation will not be assigned to a division, but will be allocated system-wide under allocation methods to be established in the future.

4. *Will Sandpoint rates increase to reflect higher cost resources on the UP&L system?*

No.

5. *Will the merger affect rates and service provided to Monsanto Company?*

The merged company will continue Monsanto's special contract with Utah Power. Monsanto will not share in the immediate 2% reduction proposed for Utah Power's tariff customers, but would benefit by the merged system's reduced fuel costs through its fuel adjustment clause.

Monsanto will continue to be treated as an interruptible customer, not only for the Utah Power division, but for the entire merged system's power supply needs. However, it is unlikely that Monsanto will be interrupted in the near future because the merged company has ample capacity. Furthermore, as a matter of policy, the merged company will not seek to interrupt Monsanto to make more lucrative off-system sales.

6. *Will the merger affect rates and service provided to the Idaho Irrigation Pumpers?*

The Company's three options for irrigation service, including the two interruptible options, will share in the initial across-the-board 2% decrease.

7. *Will the merger affect, directly or indirectly, rates and services provided to FMC in the Idaho jurisdiction (through Idaho Power Company) and in other jurisdictions?*

No evidence was presented on this issue, and the issue is not further addressed.

8. *What steps will the applicants take to lower Sandpoint's rates? Reinstatement of more of the historic wholesale purchase level from the Washington Water Power Company?*

The merged company is not now proposing to lower the Sandpoint service territory's rates. Neither is it proposing to reinstate additional wholesale purchases from the Washington Water Power Company.

**B. BPA Issues.** The following BPA issues were identified:

1. *How will average system costs be calculated for Pacific Power's customers?*

The merged company will independently calculate average system costs (ASCs) for each division. ASCs for customers in Pacific Power's Sandpoint service territory will not be based upon Utah Power's costs of serving its customers in eastern Idaho.

2. *Will BPA exchange credits currently available to eastern Idaho customers be reduced?*

There will be no significant reduction in these credits as a result of the merger. However, there could be slight changes in calculations of ASCs.

Now, when Utah Power purchases from Pacific Power, the entire amount of that purchase is recognized by BPA for ASC purposes. However, since 1984, BPA has not

recognized for ASC purposes federal income taxes paid by investor-owned utilities and the equity return for those utilities to the extent it exceeds the cost of long-term debt. After the merger, if one division purchases from the other at a purchase price that includes some reimbursement for equity return or federal income taxes, BPA (under current policies) would not recognize that amount of the purchase for determining ASC.

Furthermore, BPA raised the possibility that Monsanto might be considered a new load exceeding 10 mw rather than an existing load, which under the terms of the Northwest Power Act would be excluded in calculating ASC. The effect of this is unclear. Monsanto's firm load does not exceed 10 mw, and its interruptible load is considered a system resource rather than assigned exclusively to Idaho for ratemaking purposes. It is possible that the exclusion of Monsanto could, in fact, increase Utah Power's ASC and the exchange credit for the firm Idaho retail load.

*3. Will costs of BPA exchanges affect rates paid by the full requirements preference customers of BPA?*

Effects are theoretically possible, but the effects described by the Public Power Council are most likely to be *de minimis* and unlikely to be significant.

*4. Does the merged company intend to keep itself intact, or will it create subsidiaries for generation and transmission, thereby raising average system cost "subsidies" and removing retail rates from the Idaho Commission review?*

The merged company does not intend to create subsidiaries for generation and transmission. See Part VI-C of this Order.

*5. If the merged company adopts restrictive wheeling policies, will this increase the average system cost for utilities?*



Like the third question in this series, it is theoretically possible that the merged company's wheeling policies would affect the ASCs, but the effects are more likely to be *de minimis* than significant.

6. *Will the merged company attempt to exchange with BPA as one company or two?*

Each division will attempt to exchange individually.

7. *How will costs be allocated among jurisdictions in which the Company is exchanging?*

Neither division intends to change its internal jurisdictional allocations. Furthermore, the risks of inconsistent or incomplete jurisdictional allocations fall upon the shareholders.

**C. Transmission Issues.** The following transmission issues were identified:

1. *Will the transmission needs of other Idaho utilities be adversely affected?*

PPC contended that the merged company would gain significant control of the transmission bottlenecks from the Pacific Northwest into the southern California-Nevada and into the Inland Southwest markets. The Applicants maintained that they would have but minimal control over these transmission corridors. The truth lies between the exaggerated claims of both sides. The testimony on this issue, which should have been largely technical and capable of easy resolution, instead was the least credible evidence received in the proceeding.

The merged company will control a substantial amount of transmission from the Pacific Northwest to California. But PP&L's 300 mw in the Pacific intertie is insignificant compared to the over ten times that amount along the same corridor. Transmission access from the Pacific Northwest to California is dominated much more by BPA than by PP&L, and Pacific's merger with Utah Power appears not to be of great consequence there.

That is not the case farther inland. From this state's perspective, Utah Power owns and controls the bottleneck for the most significant transmission corridor between the Pacific Northwest and the Inland Southwest. The merger will not increase Utah Power's control of this corridor, because it is already 100%, but it will increase Pacific Power's access to markets from which Utah Power could formerly exclude Pacific or other Northwest utilities. Pacific has advantaged itself in a manner that Water Power, Idaho Power, and publicly owned utilities have not.

Consideration of the implications of this and other transmission-related issues would have been the most troublesome area presented in this proceeding: first, jurisdictionally, because of the tension between our consideration of these issues and FERC's; and second, substantively, because of the difficulty of assessing the effects of the merged system's transmission on other utilities compared to the unmerged systems'.

But the issue has since subsided. Idaho Power has filed its agreements with the Applicants to settle their disputes before FERC and in Idaho District Court. Among the conditions of the settlement are that Idaho Power withdraw its intervention and recommendations in this proceeding and that Pacific agree not to oppose a subsequent Idaho Power proposal to build Idaho Power's own inland transmission ties (in return for Pacific obtaining a 20% share). This could be the beginning of an Inland Intertie, which would benefit generating utilities east of the Cascades and west of the Rockies.

Idaho Power, because of its location, was the utility most likely to be affected by the merged company's transmission system and transmission policies. It has now reached a settlement with the Applicants regarding a number of transmission-related issues. The ratepayers of other utilities in Idaho, be they investor-owned or public-owned, are much less sensitive to the combination of Pacific's generating

system with Utah Power's inland transmission system because their access to coastal transmission is superior to Idaho Power's. The effect of the combined transmission systems on ratepayers of these utilities is more attenuated, more likely to be *de minimis*. Thus, from this State's perspective, the effect of the merger upon the transmission needs of other utilities serving in Idaho is not so adverse as to outweigh direct benefits to the Applicants' ratepayers. Indeed, if the merger results in an Inland Intertie, its effect will be positive.

The reactions of the region's utility community to the Applications in this and other jurisdictions are of interest. This Commission notes a stir in other boardrooms. What is before us may be the catalyst, advancing inadvertently by several years the creation of a path—for multi-utility access independent of the massive Bonneville Power Administration presence on the Pacific Intertie—between the winter-peaking Inland Northwest and the summer-peaking arid Southwest.

Officers of investor-owned utilities by their own account are actively considering new stratagems to counter this proposed new entity and to achieve greater flexibility for relations with California utilities and Bonneville.

Public Power spokesman (as demonstrated by their unaccustomed presence in this case) are stepping beyond their perennial bemusement with the Northwest Power Act and the Washington Public Power Supply System disarray.

Thus the short-term effect has not been paralysis at the prospect of an imminent reversion to pre-PUHCA monopoly, but has been invigorating. Neither in this record nor outside it do we see a climate for fatalism or paranoia.

The options are many for utilities, for public policymakers, and for the regulators. It is the individual ratepayer in a given certificated area who has the fewest

alternatives. Aware of regulation's accountability for that customer's welfare, we view the new configuration for transmission, in the Idaho Power settlement specifically and in the activity since the Application was filed, as a net gain.

*2. What ability will PacifiCorp Oregon have to exclude other utilities from the California intertie?*

Pacific cannot unreasonably exclude other utilities from use of the California Intertie.

*3. Will rural electric cooperative utilities in southeastern Idaho have reasonably priced transmission of power supply by the Bonneville Power Administration?*

This issue was initially presented by the Idaho Cooperative Utility Association, which did not present a direct case. Accordingly, it need not be addressed.

*4. Will the merger affect competition in the bulk power market or result in inappropriate concentration of economic power?*

This issue is substantively a subissue of the first transmission issue. Nothing need be added to our analysis of that issue to address this one.

*5. Will the merger have any effect on the value of existing transmission contracts?*

This issue was presented by Idaho Power, which has since withdrawn it. It need not be further addressed.

*D. Comparison With Idaho Power Acquiring Utah Power's Eastern Idaho Service Territory.* The following issue was identified:

*If Idaho Power were to acquire Utah Power's eastern Idaho service territory, could Idaho Power serve that territory more economically than Utah Power without adversely affecting Idaho Power's other ratepayers?*

Under a range of several possible hypothetical alternatives for Idaho Power's acquisition of Utah Power's eastern Idaho service territory, Idaho Power in each instance would increase its own ASC.

**E. The Water Power Issues.** The following issues were identified by Water Power:

1. *If Water Power makes available to Utah Power pricing information in connection with a proposed power transaction, will that information in turn be disclosed to Pacific Power, one of Water Power's primary competitors in Pacific's Southwest bulk power markets?*

This information will be available to the two commonly dispatched divisions. The merged company will purchase from the cheapest source of electricity available.

2. *Will the Pacific Power division be required to offer to sell to Utah Power under the same conditions as other potential sellers, that is, without knowing in advance the terms and conditions offered by its competitors?*

No. The two divisions will be commonly dispatched.

3. *If Pacific Power and Utah Power were ordered to operate their divisions without prior disclosure between them of offers for bulk power transactions, how will the public be assured that they will not be disclosing this information?*

The Applicants have not offered to operate their divisions without prior disclosures.

**F. The Burden on Idaho Power's Transmission System.** These issues have been removed from the case by Idaho Power's withdrawal of its intervention and settlement with the Applicants.

**G. Issues Presented at Hearing.** The following issues were presented at hearing and presumably tried with the consent of the parties:

*1. How will jurisdictional and divisional allocations be made?*

Each division of the merged company will make its jurisdictional allocations as before. Allocations between the two divisions must still be worked out.

*2. What will the merged company's wheeling policies be?*

At hearing, Pacific indicated that the merged company will have a single wheeling policy, but Utah Power indicated that the merged company will not have uniform transmission policies because the divisions' conditions differ. The Applicants resolved this conflict by answering the question posed by our posthearing Order in the following manner:

The merged company will have a single wheeling policy. Firm wheeling requests within "integrated service areas" will be granted as a matter of course. Those between "integrated service areas" will be dealt with on a case-by-case basis. The merged company will provide nonfirm wheeling according to the Western Systems Power Pool Agreement and the Intercompany Pool Agreement. The merged company will provide transmission for qualifying facilities to other electric utilities pursuant to 18 CFR 292.303.

*3. How will sales between the divisions be booked and recorded?*

The Applicants will maintain a paper trail for sales between the divisions, but they have not yet decided their policies for determining costs of the sales or how sales will be reported. In particular, they have not determined whether one division will charge the other division fuel costs only, fuel costs plus some estimate of other running costs, a running cost plus some capital costs, etc. Nevertheless, any equity return or income tax payments included in transactions between the divisions will be traceable.

*4. How will the merger affect the Applicants' long-term financial stability and ability to attract capital?*

The merger will have no adverse effect upon the merged company's financial stability and ability to attract capital. The merged company will have a larger base over which to spread current or future losses or risks.

#### VI. THE STATUTORY OR ULTIMATE ISSUES

The specific statutory standards of *Idaho Code* §61-328 govern our consideration of transfer of the property of PacifiCorp dba Pacific Power & Light Company and Utah Power & Light Company to Merging Corp. That statute provides that the Commission shall not approve an application like this unless:

[T]he commission shall find

- [1] that the public interest will not be adversely affected,
- [2] that the cost of and rates for supply and service will not be increased by reason of such transaction, and
- [3] that the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service; provided,
- [4] that no such order or authorization shall be issued or granted to any applicant or party coming within the prohibitions set forth in this act.

In our order of priority, the first and foremost of those considerations is that the merged company provide efficient and reliable electric service to its customers. Second, the merged utility cannot increase its rates as a result of the merger.

#### *A. Will the Public Interest Be Adversely Affected by the Merger?*

We find that the public interest will not be adversely affected by the transfer of operating property to the merged corporation. Our finding is based primarily upon two factors: the promise of rate reductions for the Utah Power service territory and rate stability for the Pacific Power service territory.

Our finding is based on two factors. First, and most importantly, we are satisfied that the merged company will provide adequate and efficient electrical service to its customers. This is the primary duty of a utility. See I.C. 61-302. Additionally, as described at other places in this Order, we are satisfied that the merger will not impair the regulatory ability of this Commission to insure that the rates and charges for electrical service are just and reasonable as required by I.C. 61-301.

Second, the applicants promise rate reductions in the Utah Power service territory and rate stability in the Pacific Power service territory. These promises have value to the ratepayers of the merged companies, and particularly to the customers of Utah Power.

We emphasize, however, that a promise of rate reduction or of rate stability is insufficient, in itself, to obtain our approval of this transaction or of similar transactions that may be proposed in the future. We have no doubt that such promises, although well intentioned, are in part the result of a political or public relations strategy perceived by advocates as necessary to generate ratepayer support for the proposed merger. Our decision in this case must be, and is, based on an objective appraisal of the merits of the merger.

We recognize the possibility, indeed the probability, that there will be times when the merged company's favorable control of Utah Power's transmission bottleneck will give it market power and benefits it would not otherwise have at the expense of other investor-owned or publicly-owned utilities serving ratepayers in Idaho. The most vulnerable utility would be Idaho Power, which has reached a separate accommodation with the Applicants addressing many of its concerns. Indeed, the possibility of its participation in an Inland Intertie is positive. The other utilities serving ratepayers in Idaho are less vulnerable to the merged company's use of this transmission bottleneck.



Furthermore, the advantages of the merger to the ratepayers of Pacific Power and Utah Power are day-in and day-out and primary; the possible detriments to ratepayers of other utilities in Idaho are infrequent and secondary. The former predominate.

***B. Will the Cost of and Rates for Supplying Service Be Increased by Reason of the Merger?***

We find that the cost of and rates for supplying service will not be increased by the merger. The rate finding is the easier of the two findings. We have the Applicants' pledge that Pacific Power's rates will not increase in Idaho for four years following the merger and that Utah Power's rates will decrease 2% within 60 days after the merger is consummated and 5-10% in the following years. Furthermore, as noted later in this Order, one statutory condition of the merger is that rates will not increase even if costs related to the merger do increase.

The finding that costs will not increase as a result of the merger is more problematic. The Applicants have described projected additional investment in transmission in the first years following the merger. But they have also described a number of cost-saving measures—deferral of additional investment in production plant made unnecessary by the combined resources of the two companies, consolidation of services at the upper echelons of management, and anticipated increased net-power supply revenues to offset the increased investment in transmission. It is probable that the merger will decrease costs overall.

This Commission cannot by Order or decree prohibit costs from rising as a result of the merger. It can, however, prohibit rates from rising as a result of the merger. Our finding on rates is therefore more important than our finding on costs, and it predominates.

***C. Does the Merged Corporation Have the Bona Fide Intent and Financial Ability to Operate and Maintain the Transferred Property in the Public Service?***

We find that the merged corporation has this intent and ability. No party challenged the merged corporation's financial ability or its ability to operate the transferred property in the public service. There was, however, a question whether the merged company had a bona fide intent to operate the property in the public service. PPC presented the issue whether the merged company would seek to set up separate generation and transmission subsidiaries. David Bolender, Pacific Power's president, testified in his prepared direct testimony:

Q. If PacifiCorp now is organized as a set of functionally separate "profit centers", is this in any sense a precursor to a breakup of the utility into separate distribution, transmission and generation companies?

A. Again, our lawyers advise that, as a practical matter, PacifiCorp is precluded by the Public Utility Holding Company Act from creating separate subsidiaries for generation, transmission and distribution functions. We do not expect any change in the law to occur in the near future and therefore we have no plans for a separation of functions.

Tr. Vol. III, p. 213, lines 13-20.

This pledge, of course, is valuable. Statute and case law are even stronger. Pacific Power and Utah Power both have transmission lines in Idaho. In addition, Utah Power has some generation in Idaho. None of this generating or transmission property in Idaho can be transferred from the merged corporation to a separate "Genco" or "Transco" without an application like the one in this case. Thus, the pledges of the Applicants, this Order and the statute, taken together, assure us that the merged corporation will not set up separate generation and transmission subsidiaries without prior approval of this Commission. Furthermore, under the case law, ratepayers have equitable interest in this generating and transmission property to the extent it is depreciated. *Boise Water Corporation v. Idaho Public Utilities Commission*, 99 Idaho 158, 161-163, 578 P.2d 1039, 1092-1093 (1978).

***D. Is Merging Corporation (the Party to Whom the Certificated Utilities' Property and Rights Will Be Transferred) Within the Prohibitions Set Forth in the Act?***

The act in question is not the original Public Utilities Law, but Chapter 3 of the 1951 Session Laws, codified at I.C. §§61-327 - 61-331. The prohibition in question is contained in I.C. §61-327. That section prohibits transfers to:

[1] [A]ny government or municipal corporation, quasi-municipal corporation, or governmental or political unit, subdivision or corporation, organized or existing under the laws of any other state; or

[2] any person, firm, association, corporation or organization acting as trustee, nominee, agent or representative for, or in concert or arrangement with, any such government or municipal corporation, quasi-municipal corporation, or governmental or political unit, subdivision or corporation; or

[3] any company, association, organization or corporation, organized or existing under the laws of this state or any other state, whose issued capital stock, or other evidence of ownership, membership or interest therein, or in the property thereof, is owned or controlled, directly or indirectly, by any such government or municipal corporation, quasi-municipal corporation, or governmental or political unit, subdivision or corporation; or

[4] any company, association, organization or corporation, organized under the laws of any other state, not coming under or within the definition of an electric public utility or electrical corporation as contained in Chapter 1, Title 61, Idaho Code, and subject to the jurisdiction, regulation and control of the public utilities commission of the state of Idaho under the public utilities law of this state.

Merging Corp. is not within any of the four prohibited categories of the act; on the contrary, it is in the one allowed category—an electrical corporation to be regulated by this Commission. Accordingly, we find that Merging Corp. is not within the prohibition of the act.

## VII. TERMS AND CONDITIONS OF APPROVAL OF THE MERGER

Finally, I.C. §61-328 gives the Commission discretionary authority to "attach to its authorization and order such terms and conditions as in its judgment the public convenience and necessity may require." In this Part VII, we attach terms and conditions to our approval of the application.

*A. Public Power Council's Recommendations.* PPC recommends eight conditions be attached to the merger:

1. *Merger-Related Rate Increases.* PPC recommends that the merger be subject to the understanding that future integration of the two divisions' rate bases is a merger-related activity and cannot result in a rate increase to any customers in Idaho. We grant this condition because it is required by statute. I.C. §61-328 specifically provides that we cannot approve the merger without finding "that the cost of and rates for supplying service will not be increased by reason of such transaction."

We must elaborate. There is some tension between this statute and I.C. §61-315's prohibition against any public utility establishing or maintaining "any unreasonable difference as to rates, charges, service, facilities or in any other respect, either as between localities or as between classes of service." The development of rates and charges under this section has taken many paths.

For example, in the telephone industry, it is common to have different rates based upon the number of customers in a telephone exchange and the distance from the telephone company's "base rate area" of lowest rates to outlying rural zones. This has historically been justified as reasonable to take into account for a telephone subscriber (1) that service is more valuable if the subscriber can reach a larger number of subscribers without paying toll charges than can a subscriber in a less populated area, and (2) the costs

associated with extending service from a central switching facility or facilities to a remote subscriber's location exceed those for nearby subscribers.

In the electric utility industry, it is a matter of indifference to one customer how many other customers also take electric service nearby. Transformers and substations need not be located in a central "switching" facility similar to that of a telephone company's. So, it has generally been the practice to have "postage stamp" electric rates, i.e., rates independent of a customer's location within the service territory. (Electric utilities, however, generally require customers remote from their existing lines to contribute some or all of the cost of extension of lines to a new customer.)

The prohibition against locality-based rates is not absolute. The prohibition is against *unreasonable* differences, not against all differences. The merger of two formerly unintegrated electrical systems, whose local service territories are hundreds of miles apart, with no previously shared common distribution, transmission or generation facilities, and with independently developed tariff classes based upon local customer needs, is a circumstance in which different rates and rate schedules are reasonable. Thus, under I.C. §61-315 alone, the merged company could initially maintain differences in rates based upon locality (the former Pacific Power service territory versus the former Utah Power service territory). Presumably, as the two merged companies integrated their production and transmission systems, their rates would gradually grow closer, and after a generation of utility plant (which is considerably more long-lived than a generation for human beings) will be retired and replaced, the rates could reach parity.

The specific provision of I.C. §61-328, which controls in this instance over I.C. §61-315, requires some rate disparity unless certain conditions are met. First, the

lower-priced service territory's rates cannot be increased by reason of the merger. Accordingly, rates to the merged company's Sandpoint service territory cannot reflect any costs associated with the merged company's acquisition of Utah Power or with investment in transmission line connecting the two divisions as a result of the merger unless the merged company can show offsetting benefits from the merger equaling or exceeding merger-related costs.

Furthermore, this Commission has publicly supported increasing the Sandpoint territory's wholesale purchase of lower-priced electricity from the Washington Water Power Company to displace Pacific Power's higher-cost resources and attendant reduction in the Sandpoint service territory's rates. Our approval of the merger has not changed this view. We still take the position that the Sandpoint service territory will be well-served by Pacific Power increasing its wholesale purchases from Water Power to serve that territory in order to displace more expensive Pacific generation.

2. *Jurisdictional Allocation.* PPC recommends that the merger be subject to the understanding that future jurisdictional allocations will not result in rate increases beyond what there would have been without the merger. This recommendation is a corollary of the previous one, and it likewise is a statutory requirement. As Pacific's Mr. Reed noted, the risk of inconsistent allocations, including those required in Idaho by statute, is borne by the company's shareholders.

Also, the merged utility will now be operating in seven states. Idaho is prepared to participate in formalized proceedings to consider jurisdictional allocations.

3. *Divestiture of the Sandpoint Service Territory.* PPC recommends that the merger be subject to the merged company demonstrating at a future hearing why it should not divest itself of the Sandpoint service territory. We reject this recommendation.

Neither statute nor the record suggests that the merged company's divestiture of one of its service territories is a reasonable requirement for approving the merger.

4. *Cost Shifting.* PPC recommends that the merger be subject to the condition that divisional transactions not be used as a vehicle to shift costs from non-exchanging to exchanging jurisdictions. We deny this condition as superfluous. This Commission will not tolerate cost-shifting to the Idaho jurisdiction, even if some of those shifted costs would be borne by the exchange.

Moreover, BPA polices exchanges at an expense that exceeds this Commission's entire budget for regulation of all utilities. Furthermore, Utah Power's rate cases have historically been the subject of aggressive investigation by Staff and intervenors. The intervenors are generally ineligible for the exchange credit or only partially eligible. They have a strong incentive to object to shifts of costs from non-exchanging jurisdictions to this one. So does the Staff, whose charge is to protect all of the ratepayers of Idaho, not merely those eligible for the exchange.

5. *Transactions Between Divisions.* PPC recommends the merger be approved subject to records being maintained and periodically provided to the Commission showing all components of actual costs of transactions between the divisions, regardless of how transactions between the divisions are booked. We impose this condition. It is essential that all transactions between the divisions be properly booked and a paper trail for Staff and intervenor audit be maintained. This is decidedly critical in the power supply area.

We expect the companies to cooperate with Staff in devising a reporting system. We will not attempt to set out the minutiae of reporting in this Order, but we direct the company to meet with Staff informally to determine what reporting arrangements will be necessary. Furthermore, should the merged company conduct

business of any nature with any of PacifiCorp's other divisions or affiliates, those transactions must also be recorded to produce a clear audit trail.

6. *Formation of Generation or Transmission Subsidiaries.* PPC recommends the merger be approved subject to a prohibition against the formation of generation or transmission subsidiaries. We approve this condition; with respect to generation and transmission plant within Idaho, the condition is already statutory. Furthermore, as we noted earlier, Mr. Bolender stated that the Company does not intend to form separate generation and transmission subsidiaries; we will hold the merged company to Mr. Bolender's promise.

Finally, we remind the Applicants that under Idaho law utility ratepayers are the equitable owners of depreciated utility plant. *Boise Water Corporation v. Idaho Public Utilities Commission, supra*. The ratepayers have an equitable interest in all of Pacific Power's and Utah Power's generation and transmission facilities to the extent that they have been depreciated. This Commission will not permit the merged company to strip depreciated plant from rate base to the detriment of ratepayers by transferring it to a Transco or Genco.

7. *Interlocutory Order.* PPC recommends that any approval of the merger be interlocutory pending a final decision by the Federal Energy Regulatory Commission and a final evaluation by this Commission whether the merger is consistent with the statutory standards of I.C. §61-328. We reject this condition. Idaho Power's settlement with the Applicants before FERC and its withdrawal from this proceeding ends our major interest in the interplay between FERC's decision and our decision. Accordingly, we have no reason to delay our final decision. This Order is a final Order, not interlocutory.

However, the merger will not be effective in Idaho simply by this Order's finality. For the merger to be effective, the Applicants must receive the approval of six



other state commissions and the Federal Energy Regulatory Commission plus the acquiescence of federal authorities in the Justice Department and the Securities and Exchange Commission. Accordingly, for this Commission's Order to become effective (as opposed to final), the Applicants must submit to this Commission copies of the Orders of the other six state commissions, the Order of the Federal Energy Regulatory Commission, and whatever formal or informal actions were undertaken by the Justice Department's Antitrust Division and the Securities and Exchange Commission. Furthermore, they must submit to us a statement or affidavit to the effect that all of the conditions listed in the merger agreement have been met or waived and that the merger will proceed.

After receiving this material, the Commission Secretary will perform the purely ministerial function of notifying the parties and the public at large pursuant to this Order of the transfer of the certificates currently held by PacifiCorp dba Pacific Power & Light and Utah Power & Light to the merged entity, together with necessary assumptions of tariffs, contracts, etc. The parties may submit their proposed language for doing so with their report to us that the merger has become effective. Of course, should the parties report to us that the merger will not be effective, the Commission Secretary would perform the ministerial task of issuing a notice to that effect.

Furthermore, the Commission may from time to time issue subsequent Orders clarifying or interpreting this Order, should the need arise.

**8. Merger-Related Benefits and Detriments.** PPC recommends that the merger be approved subject to ratepayers recognizing benefits claimed by the Applicants in their Application before benefits are recognized by the shareholders. We decline to impose this condition.

Two kinds of benefits may be recognized by shareholders. The first is appreciation of the market value of their shares, over which regulators have no direct control. If the value of shareholders' stock appreciates as a result of this merger,

so be it. If it depreciates, so be it. In either case, the Commission will neither recapture the value of appreciation or cushion against depreciation.

The second possibility is that the merged company may realize additional earnings as a result of the merger. If that is the case, we will not in this Order attempt to allocate those benefits between shareholders and ratepayers. The Applicants have pledged rate stability for four years for Pacific Power customers and a 2% reduction for Utah Power customers within 60 days of approval of the merger and expected 5-10% reductions in the following years. If the merger is so beneficial that the merged corporation may carry out both of its pledges and increase its earnings to shareholders, we will cross the bridge of allocation of additional benefits between shareholders and ratepayers when we get there. It is a prospect to be endured.

**B. Idaho Power's Conditions.** Idaho Power has withdrawn from this proceeding, and the conditions that it presented to us have been settled. We need not address Idaho Power's conditions.

**C. The Staff's Conditions.** The Staff recommended two conditions:

1. *Rate-Related Effects of the Merger.* Staff recommends that newly built plant common to both systems not be allocated to either system in a manner that will cause higher rates than there would be without the merger, i.e., the division to which the plant is allocated must show savings to that division exceeding the cost of the plant allocated to the division. This is substantively the same as PPC's first two recommendations, and this condition is also accepted.

2. *Jurisdictional Allocations to Sandpoint.* Staff recommends that no new jurisdictional allocations of the merged system or either division be approved if the change would increase jurisdictional revenue requirement allocated to the Sandpoint territory. Again, this is a variation of other Staff and PPC recommendations. It is incorporated as a condition.

**D. The Conditions Imposed.** This section individually lists the conditions that are imposed as a result of our analysis of the recommendations of PPC and the Staff. The precise terms of the conditions are those listed below, not the more general discussion contained in our earlier analysis. The Application is approved with the following conditions:

1. *Merger-Related Rate Increases Prohibited.* Neither the rates charged by the Pacific Power division to its Sandpoint service territory in northern Idaho nor the rates charged by the Utah Power division to its eastern Idaho service territory can increase by reason of the merger.

2. *Transactions Between Divisions and Affiliates to Be Documented.* The merged company must maintain a proper audit trail of all transactions between its two electric utility divisions and all of these divisions' transactions with any of the merged company's other divisions or affiliates.

3. *Generation or Transmission Subsidiaries Prohibited.* The merged company is prohibited from forming generation or transmission subsidiaries, or otherwise disposing of any generating, transmission or distribution property in the State of Idaho, without application to this Commission and this Commission's subsequent approval.

The first condition will be implemented through this Commission's fact-finding in individual rate proceedings involving one division or the other. We cannot in this Order anticipate or identify every potential merger-related effect on rates or costs. Those will be handled on a case-by-case determination in the future. The second condition will be implemented through informal meetings between the merged company and this Commission's and other commissions' staffs. The third condition is self-implementing.

## ORDER

IT IS THEREFORE ORDERED that the Application of PacifiCorp, a Maine corporation dba Pacific Power & Light Company, Utah Power & Light Company, a Utah corporation, and PC/UP&L Merging Corp., an Oregon corporation to be renamed PacifiCorp upon completion of the merger, for an Order granting permissions and authorities, be and hereby is granted. In particular,

1. IT IS FURTHER ORDERED that the merger of PacifiCorp Maine and Utah Power with and into PacifiCorp Oregon, with PacifiCorp Oregon to be the surviving corporation, in accordance with an Agreement and Plan of Reorganization and Merger Among PacifiCorp Maine, Utah Power, and Merging Corp., dated August 12, 1987 (merger agreement) be authorized and approved.
2. IT IS FURTHER ORDERED that issuance by PacifiCorp Oregon of shares of its common and preferred stocks upon conversion of the outstanding shares of common and preferred stock of PacifiCorp Maine and Utah Power in accordance with the terms of the merger agreement be authorized and approved.
3. IT IS FURTHER ORDERED that the assumption by PacifiCorp Oregon of all outstanding debt obligations of PacifiCorp Maine and Utah Power and the continuation or creation of liens in connection therewith be authorized and approved.
4. IT IS FURTHER ORDERED that the adoption by PacifiCorp Oregon of all tariff schedules and service contracts of PacifiCorp Maine and Utah Power on file with the Commission and in effect at the time of the merger for service within all territories served before the merger by PacifiCorp Maine and Utah Power, respectively, be authorized and approved.
5. IT IS FURTHER ORDERED that the transfer to PacifiCorp Oregon of all certificates of public convenience and necessity of PacifiCorp Maine and Utah Power be authorized and approved.
6. IT IS FURTHER ORDERED that the transfer to PacifiCorp Oregon of all Commission authorizations and approvals for the issuance of securities by PacifiCorp Maine that have not yet been fully used be authorized and approved.
7. IT IS FURTHER ORDERED that PacifiCorp Oregon's issuance of not more than 128 million shares of its \$3.25 par value common stock, not more than 126,533 shares of its 5% preferred stock, not

more than 754,802 shares of its serial preferred stock, and not more than 3,183,815 of its no par showed preferred stock upon the conversion of all outstanding shares of common and preferred stock of PacifiCorp Maine and Utah Power in accordance with the merger agreement be authorized and approved.

IT IS FURTHER ORDERED that the approvals and authorizations previously listed be subject to the conditions set forth in Part VII of this Order.

IT IS FURTHER ORDERED that the Applicants inform the parties to this proceeding and the Commission Secretary on or before September 1, 1988, whether they will exercise the authorities granted to them by this Order or whether they will need additional time to determine whether they will exercise those authorities. If they have not yet determined whether those authorities will be exercised on September 1, 1988, they shall continue to report to the Commission Secretary at two-week intervals until they have determined whether they will exercise those authorities.

IT IS FURTHER ORDERED that following the Applicants' report to the Commission Secretary whether they will exercise the authorizations given to them in this Order, PacifiCorp Oregon will succeed to all of the rights and responsibilities of PacifiCorp Maine and Utah Power under the Public Utilities Law and Orders of the State of Idaho upon the date requested (which must be at least seven days after the Applicants' notice to the Commission Secretary) if the Applicants report that the merger will proceed.

IT IS FURTHER ORDERED that the Commission Secretary issue the notices required by this Order upon the Applicants' notification to her of their intention whether to exercise the authorizations granted in this Order.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in these

Case Nos. U-1009-184, U-1046-161 and U-1152-1 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in these Case Nos. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration in response to issues raised in the petition for reconsideration. See *Idaho Code* §61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this 15<sup>th</sup> day of April, 1988.



DEAN J. MILLER, PRESIDENT

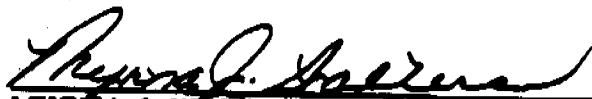


PERRY SWISHER, COMMISSIONER



RALPH NELSON, COMMISSIONER

ATTEST:

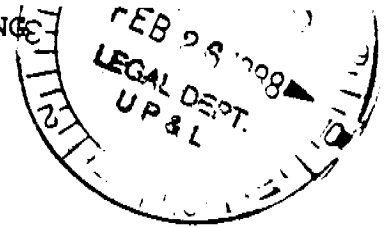


MYRNA J. WALTERS, COMMISSION SECRETARY

mg/dc/849L



BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING



IN THE MATTER OF THE APPLICATION OF )  
 PACIFICORP AND PC/UP&L CORP., (TO BE )  
 RENAMED PACIFICORP), FOR AN ORDER )  
 AUTHORIZING THE MERGER OF PACIFICORP )  
 AND UTAH POWER & LIGHT COMPANY INTO )  
 PC/UP&L MERGING CORP., AND AUTHORIZ- )  
 ING THE ISSUANCE OF SECURITIES, )  
 ASSUMPTION OF OBLIGATIONS, ADOPTION )  
 OF TARIFFS AND TRANSFER OF CERTIFI- )  
 CATES OF PUBLIC CONVENIENCE AND )  
 NECESSITY AND AUTHORITIES IN CONNEC- )  
 TION THEREWITH. )

DOCKET NO. 9266  
 SUB 104

IN THE MATTER OF THE APPLICATION OF )  
 UTAH POWER & LIGHT COMPANY FOR AN )  
 ORDER AUTHORIZING THE MERGER OF UTAH )  
 POWER & LIGHT COMPANY AND PACIFICORP )  
 INTO PC/UP&L MERGING CORP., (TO BE )  
 RENAMED PACIFICORP), AND AUTHORIZING )  
 THE ISSUANCE OF SECURITIES, ASSUMP- )  
 TION OF OBLIGATIONS, ADOPTION OF )  
 TARIFFS AND TRANSFER OF CERTIFICATES )  
 OF PUBLIC CONVENIENCE AND NECESSITY )  
 AND AUTHORITIES IN CONNECTION THERE- )  
 WITH. )

DOCKET NO. 9199  
 SUB 83

### A P P E A R A N C E S

HOUSTON G. WILLIAMS of Williams, Porter,  
 Day & Neville, Casper, Wyoming, and  
 JAMES F. FELL of Stoel, Rives, Boley,  
 Jones & Grey, Portland, Oregon, for  
 Joint Applicants PacifiCorp Maine D.B.A.  
 Pacific Power & Light Company (hereinafter  
 referred to as PacifiCorp Maine or Pacific Power),  
 and PC/UP&L Merging Corp., to be renamed  
 PacifiCorp Oregon upon completion of the merger  
 (hereinafter referred to as Merging Corp.  
 or PacifiCorp Oregon.)

HARRY L. HARRIS of Harris and Morton, Evanston,  
 Wyoming, and EDWARD A. HUNTER, JR. and THOMAS W.  
 FORSGREN, Salt Lake City, Utah, for Joint  
 Applicant Utah Power & Light Company  
 (hereinafter referred to as Utah Power.)

WILLIAM J. THOMSON of Dray, Madison & Thomson,  
 Cheyenne, Wyoming, and DAVID M. COVER,



Englewood, Colorado, for Intervenor  
The Pittsburg & Midway Coal Company  
(hereinafter referred to as Pittsburg & Midway.)

JOHN A. SUNDAHL of Godfrey, Sundahl & Jorgenson,  
Cheyenne, Wyoming, for Intervenor Amoco  
Production Company and Chevron USA, Inc.  
(hereinafter referred to as Amoco and Chevron.)

DONALD N. SHERARD of Sherard, Sherard & Johnson,  
Wheatland, Wyoming, and GARY A. DODGE of Kimball, Parr,  
Crocket and Waddoups, Salt Lake City, Utah, for  
Intervenor Colorado River Energy Distribution Association  
(hereinafter referred to as Colorado River Association.)

DONALD I. SHULTZ of Holland & Hart,  
Cheyenne, Wyoming, for Intervenor Exxon USA  
(hereinafter referred to as Exxon.)

THOMAS LYNN HUTCHINSON, Evanston, Wyoming,  
for Intervenor City of Evanston, and for the  
Southwest Wyoming Utility Users Association  
(hereinafter referred to as Southwest Wyoming Consumers.)

THOMAS A. NICHOLAS of Hirst & Applegate, Cheyenne,  
Wyoming, for Idaho Cooperative Utilities Association  
(hereinafter referred to as Idaho Cooperative.)

CRAIG THOMAS, Casper, Wyoming, as General Manager  
of the Wyoming Rural Electric Association and as a  
State Representative, Casper, Wyoming; TED FROME for  
Lower Valley Power & Light, Inc., Afton, Wyoming;  
and WILLIAM R. LEWIS as Manager of Bridger Valley  
Electric Association, Inc., Mountain View, Wyoming;  
appearing to make statements.

#### H E A R D   B E F O R E

CHAIRMAN JOHN R. SMYTH,  
DEPUTY CHAIRMAN BIL TUCKER,  
COMMISSIONER NELS J. SMITH  
Chairman Smyth presiding.

#### FINDINGS, CONCLUSIONS AND ORDER (Issued February 24, 1988)

This matter is before the Commission upon the Joint  
Application of Pacific Power, PacifiCorp Oregon and Utah Power

(hereinafter they may also be referred to as Applicants), filed pursuant to W.S. 37-1-104, 37-2-119, 37-2-120, 37-2-205, 37-3-102, 37-3-111, 37-3-112 and 37-6-101 through 37-6-107, for an expeditiously issued order authorizing:

1. The merger of PacifiCorp Maine and Utah Power with, and into, PacifiCorp Oregon, with PacifiCorp Oregon to be the surviving corporation, in accordance with an Agreement and Plan of Reorganization and Merger among PacifiCorp Maine, Utah Power and PacifiCorp Oregon, dated August 12, 1987 (Merger Agreement) which agreement expires August 12, 1988;

2. Authorizing PacifiCorp Oregon to issue not more than 128,000,000 shares of its \$3.25 par value common stock, not more than 126,533 shares of its 5% Preferred Stock, not more than 754,802 shares of its Serial Preferred Stock, and not more than 3,183,815 shares of its No-Par Serial Preferred Stock upon the conversion of all outstanding shares of common and preferred stock of PacifiCorp Maine and Utah Power in accordance with the terms of the Merger Agreement;

3. The assumption by PacifiCorp Oregon of all outstanding debt obligations of PacifiCorp Maine and Utah Power and the continuation or creation of liens in connection therewith;

4. The adoption by PacifiCorp Oregon of all tariff schedules and special service contracts of PacifiCorp Maine and Utah Power on file with the Commission and in effect at the time of the merger, for service within all territories served prior to the merger by PacifiCorp Maine and Utah Power respectively;

5. The transfer to PacifiCorp Oregon of all certificates of public convenience and necessity and rights and responsibilities under Wyoming law of PacifiCorp Maine and Utah Power;

6. The transfer to PacifiCorp Oregon of all Commission authorizations and approvals for the issuance of securities by PacifiCorp Maine which have not been fully utilized; and

7. Approval of proposed journal entries.

#### FINDINGS ON PROCEDURE AND PARTIES

1. Published notice and personal notice was given to persons having expressed an interest or believed by the Commission to have an interest in this case. Public hearings in this case were held: at the City Council Chambers, City Hall, Casper, on December 14 and 15, 1987; at the City Council Chambers, City Hall, Kemmerer on December 15, 1987; at the City Council Chambers, City Hall, Evanston on December 7, 1987, and at Room 1299, Herschler Building, Cheyenne on January 11, 1988. Briefs were duly filed by Applicants, by Intervenor Pittsburg Mining and Idaho Cooperative, and by the City of Evanston.

2. The Commission set the additional public hearing in Cheyenne mainly at the request of Colorado River Association. Colorado River Association notified the Commission that they would not appear at the Cheyenne public hearing and subsequently did not appear.

3. Pacific Power is a Maine Corporation qualified to do business in Wyoming with its main Wyoming office at Casper. It

is authorized by the Commission to provide electric utility service within designated urban and rural certificated service areas throughout Wyoming as set forth in orders issued in Dockets Nos. 484, 511, 530, 542, 562, 578, 589, 633, 638, 657, 677, 679, 742, 743, 990, 992 through 1001, 1934, 8300, 9047, 9062, 9083, 9213, 9251, 9271, 9297, 9311, 9319, 9349, 9360, 9366, 9399, 9408, 9419, 9437, 9440, 9537, 9582, 9594, 9602, 9626 and 9659 and subs thereunder. Pacific Power is also authorized to operate as an electric public utility in the states of California, Idaho, Oregon, Montana and Washington. PacificCorp Maine operates its electric utility business in Wyoming and elsewhere as Pacific Power.

Pacific Power serves 670,000 retail customers systemwide in 240 communities within 63,000 square miles of service areas. Its utility distribution service is divided as follows: 56% in Oregon; 21% in Wyoming; 14% in Washington; 5% in California and 1% in Idaho. Approximately 66% of Pacific Power's power supply is obtained from its coal-fired plants, 16% from its hydroelectric plant generation, and 18% from long-term power purchases and other power purchases. Pacific Power employs 4100 persons. Pacific Power is currently interconnected with Utah Power at Utah Power's Naughton coal-fired steam electric generating plant located near Kemmerer, Wyoming.

4. Utah Power is a Utah Corporation qualified to do business in Wyoming with its main Wyoming business office at Evanston. It is authorized by the Commission to provide electric utility

service within designated urban and rural certificated service areas in southwestern Wyoming including the municipalities of Evanston and Kemmerer. Utah Power's Wyoming service areas are set forth in orders issued in Dockets Nos. 338, 339, 340, 486, 700, 1934, 9027, 9062, 9425 and 9441 and subs thereunder. Utah Power also provides electric public utility service in the states of Idaho and Utah.

Utah Power serves 510,000 retail customers systemwide within a total 90,000 square miles of service areas. Approximately 86% of its power is obtained from its coal-fired generation, 3% from its hydroelectric generation, and the remainder from other sources.

5. Merging Corp. was incorporated in the State of Oregon on August 11, 1987. All outstanding shares of Merging Corp. are owned by PacifiCorp Maine. When the Joint Applicants have obtained all required state and federal authorities for the merger, the Joint Applicants propose that: the separate corporate existences of PacifiCorp Maine and Utah Power will cease; the Merging Corp. will be the surviving entity; the name of Merging Corp. will be changed to PacifiCorp Oregon, an Oregon corporation; and PacifiCorp Oregon will be qualified to transact business and operate as a public utility in the states of Wyoming, California, Idaho, Montana, Oregon, Utah and Washington.

6. Intervenor Pittsburg & Midway is a customer of Utah Power, and Pittsburg & Midway is the supplier of coal from its Kemmerer mine for the operation of Utah Power's Naughton Plant.

7. Intervenors Exxon, Amoco and Chevron are large industrial customers of Applicants. Exxon is Pacific Power's largest systemwide customer. Amoco is a self-generator and cogenerator of power (40 Megawatt plant near Rock Springs) selling power to Pacific Power under Pacific Power tariffs filed pursuant to the Public Utility Regulatory Policies Act of 1978 (P.L. 95-617) and Commission Rule Section No. 317.

8. Intervenor Colorado River Association is a nonprofit Colorado corporation representing 117 electric systems in Wyoming, Utah, Colorado, New Mexico, Arizona and Nevada. Colorado River Association's Wyoming electric utility members are Tri-State Generation and Transmission Association and the Wyoming Municipal Power Agency.

9. The Intervenor City of Evanston is a customer of Utah Power and represents its citizens who are served by Utah Power. The Southwest Wyoming Consumers represents utility customer members throughout the area served by Utah Power.

10. Intervenor Idaho Cooperative is a nonprofit Idaho organization created to represent its Idaho members in utility matters. Its members include Fall River Rural Electric Cooperative, Inc., and Lower Valley Power & Light, Inc., which provide electric utility service in Idaho as well as in western Wyoming.

11. The Wyoming Rural Electric Association, Lower Valley Power and Light, Inc., and Bridger Valley Electric Association, Inc., appeared to voice certain concerns and obtain answers to questions.

## FINDINGS OF FACT

### Joint Applicants' evidence:

12. The utility systems of Pacific Power and Utah Power, when merged into PacifiCorp Oregon, are proposed to be planned and operated on a single utility basis. The merged companies will be managed on a divisional basis. Pacific Power and Utah Power operations will each become a division of PacifiCorp Oregon and each division will continue providing service within each utility's present service areas under currently authorized rates, tariffs, and contracts. Joint Applicants state that each division will be given equitable representation on the Board of Directors of PacifiCorp Oregon based upon measures such as the proportional investment and revenues of each division.

13. Applicants provided evidence to show that they are each financially sound, and that their long-term utility operations in Wyoming demonstrate that each has been, and is, providing efficient reliable and adequate service at reasonable rates to the public within their service areas.

14. Each Applicant offered evidence to show that its money market positions have improved and will continue improving with or without the merger. Applicants evidence shows that the financial community is still in the process of evaluating the short-term impact of the merger; but have expressed a positive view of the long-term effects of the merger. Applicants offer that these positive financial market indicators point toward a lower long-term cost of capital for the merged company.

15. Applicants show that both have taken action and conducted studies, including investigation of various merger "partners", pointed toward lowering costs and increasing efficiency. Applicants state the principal reason for this action is to meet the challenges of rigorous competition: from other power suppliers, especially those suppliers in the Northwest with low power production costs; from oil, wood and gas fuels; from cogenerators; and from new and emerging technologies, including fuel cells and photovoltaics.

16. Applicants provided substantial evidence showing that the extensive actions taken by each of them in recent years to lower operational costs include: hiring freezes; termination of less essential employees (Utah Power); early retirements; and deferred and cancelled maintenance and construction. Applicants show that these economies were accomplished by each of them while maintaining a high degree of safety and quality service.

17. Applicants each represent that their studies show that a consolidated, coordinated operation of their facilities provides a "tailor made" opportunity for accomplishing further efficiencies and cost savings that will substantially benefit their customers and will permit PacifiCorp Oregon to compete in a manner that will sustain and improve service quality at reasonable rates.

18. Applicants state that their detailed studies are conservatively based, and will result in operating benefits of \$48 million for the initial year of the merged operations,



advancing progressively to a total of \$158 million in the fifth year of the merged operation. The fifth-year estimates of benefits are shown to be: \$11 million in net reduced construction; \$17 million from economic development; \$20 million from administration efficiencies; \$53 million from manpower efficiencies; and \$57 million in power supply savings and sales. Applicants show that the merger transaction will be a tax free reorganization under Section 368(a)(1)(A) of the Internal Revenue code.

19. Applicants evidence supporting the amounts of the merger benefits include:

a. PacifiCorp Maine is a winter-peaking utility and Utah Power is a summer-peaking utility, the combination of which will result in a more efficient and cost saving higher load factor operation;

b. better utilization of Applicants' existing facilities and power resources by integration, including improved interexchange and movement of power by central dispatch;

c. planned new transmission facility construction which will increase the interdivisional and interstate interexchange and movement of power;

d. PacifiCorp Oregon gaining access to potential new wholesale markets in the southwestern United States, which will provide an estimated 200 megawatts in new wholesale sales and provide PacifiCorp Oregon with access to lower cost power supplies throughout the western United States;

e. postponement for several years of new energy and capacity construction;

f. increased flexibility in the maintenance of the generating plants, and reduced load following burden as a result of the coordinated power plant and transmission facility operations;

g. reduced inventories and elimination of duplications;

h. sharing expertise and services between divisions;  
and

i. systemwide adoption of successful operational programs, including Utah Power's adoption of Pacific Power's successful and progressive economic development policies, and Pacific Power utilizing Utah Power's efficient automatic load-following techniques.

20. Based upon the merger improvements and benefits demonstrated by their detailed studies, Applicants have committed to near-term, non-cost based rate reductions under the merger, as follows:

a. reduction of rates of Utah Power's firm customers by 2% within 60 days of the merger effective date; and as operational experience is gained under the merger, and no later than December 31, 1988, to submit a detailed plan for reducing such rates an additional 3% to 8% for a total of 5% to 10% over the next five years; and

b. to maintain "stable" the rates of customers of Pacific Power over the five-year period, commencing with the

merger authorization.

21. Applicants state that if merger benefits exceed those included in the proposed rate reductions, the rate regulating agencies will determine how the benefits will be shared among the jurisdictions. Applicants state that the merger benefits will continue beyond the five-year period, but that commitments by them beyond that period are not reasonable because of the volatility of the economy. Applicants commit that, in any case, no rate increases will occur as a result of the merger.

22. Applicants state that it is not reasonable at this time to include in the merger proposal the incorporation of Utah Power's Wyoming service area into the proposed Pacific Power division because the rates of PacifiCorp Maine are lower than those of Utah Power. This price disparity results mainly from Pacific Power's much larger proportion of lower-cost hydroelectric power supplies. Applicants show that such action taken at this time would unfairly require rate increases to the rates of Pacific Power's Wyoming customers. Applicants state that the consolidation of the Pacific Power and Utah Power properties may be accomplished after the initial five-year term of the merger when the PacifiCorp Oregon utility operating divisions show a similar cost of service.

23. Applicants answer the general concerns expressed by Intervenor and the other persons appearing, as follows:

a. all existing transmission contracts will be honored by PacifiCorp Oregon, and all affected persons have access to the

Federal Energy Regulatory Commission, which has jurisdiction over bulk power sales and transmission, in case of controversy;

b. Applicants, individually or as merged, will negotiate on power purchase and transmission matters with public and private entities on a one-on-one basis, just as Pacific Power is now negotiating with the Bonneville Power Administration;

c. no evidence was provided by Intervenors or others disclosing existing utility purchase or transmission contracts in Wyoming, the Southwest or in other areas that will be interfered with by the merger.

d. PacifiCorp Oregon will provide an important market for public and other bulk power suppliers;

e. PacifiCorp Oregon should be granted reciprocal transmission line access rights on other transmission systems to the same extent that that entity is granted access rights on PacifiCorp Oregon's transmission system;

f. all power utilities must take steps, including mergers if appropriate, to improve their competitive positions in this era of economically generated, and federal governmental promoted, competition; and

g. it is not possible to accomplish all of the benefits of the proposed merger by the alternative of contracting between Pacific Power and Utah Power.

24. Concerning the issue of the Commission's ability to regulate the larger PacifiCorp Oregon, Applicants state that: the Commission has fully and adequately regulated each Applicant; a

comprehensive "audit trail" will be provided to permit tracking of changes under the merger for regulatory purposes; and Applicant will provide periodic detailed reports as required by each jurisdiction. Applicants state that the Commission will, under the merger, be able to fully and adequately address all issues including complex interjurisdictional and intrajurisdictional allocations.

25. Concerning the Naughton generating plant operation under the merger, Applicants state that: generation from all the merged companies' generating plants will be increased as required for anticipated additional bulk power sales; planned plant curtailments will be accomplished on the basis of the lowest total power production costs; and that a benefit of the merger is that curtailments will be made over a much broader base.

26. Applicants state that systemwide load-control and load-following on an economic basis require immediate decisions, and that obtaining prior authority for changes in generation mix would be costly, unreasonable and would encumber efficient plant operations. Applicants offer that the Commission has and can monitor plant operations to determine that operations are conducted on a prudent, non-discriminatory, public interest basis. Applicants state that no agreements have been made that would require uneconomic use of coal mined in another state.

27. Applicants request prompt Commission action on their Joint Application based on the public hearing record now before the Commission; and they offer that the public interest does not

support any delay for the purpose of determining the action of the Federal Energy Regulatory Commission or other regulatory agencies.

28. Utah Power states that it has been contacted concerning service to a potential oil and gas developer customer in the Hickey Mountain area claimed by Bridger Valley as being within its service area; that the service authority in the area is not clear; and Utah Power would apply to the Commission before seeking to extend service to this new location.

29. Applicants stated that applications would be made prior to changes in the areas of concern as stated by Intervenor Exxon and Amoco and Chevron including: the timing of the proposed inclusion of the Naughton Plant Unit No. 3 in Utah Power's rate base; the sale of utility assets; the sale or transfer of assets between divisions; and any planned changes in cogeneration rates, charges, and service conditions.

30. Applicants state the final action by the Commission should not be delayed for the purpose of ruling on allocations, since this issue and other rate issues are properly matters for future determination.

Intervenor Pittsburgh & Midway:

31. Utah Power's Naughton generating plant utilizes 60% of Pittsburgh & Midway's Kemmerer mine production. The Kemmerer mine has an estimated 50-year life at present production levels. Pittsburgh & Midway employs about 400 persons and provides 36% of the tax base of the local school district.

32. Pittsburgh & Midway's main concern is that PacifiCorp Oregon may unfairly burn coal for generation from the merged company's mines, or from its affiliates' mines, in preference to coal from independently owned mines.

33. Pittsburgh & Midway states that the data in Joint Applicants' Exhibit Nos. 8.5 and 11, which shows the Naughton plant fuel cost to be higher than Joint Applicants' other generating plant fuel costs, is inaccurate because the utility owned mine costs do not include provision for rate of return on investment.

34. Pittsburgh & Midway offers that the Commission should require Joint Applicants to obtain prior approval for any planned reduction of coal burn at any plant which obtains its coal supplies from non-utility owned mines. Pittsburgh & Midway requests that the threshold for requiring prior approval should be a reduction of 10% of the average 1985-7 calendar years' coal burn.

Position of Intervenor Amoco and Chevron:

35. Intervenor Amoco and Chevron stated that they do not oppose the merger; and that Applicants' evidence and the information provided to Intervenor as a result of Commission staff's investigation answered their concerns, which include:

a. that the proposed merger should not cause rate increases to Pacific Power's customers;

b. a cost benefit analysis of the merger risks should be made; and

c. that the Commission should rule upon any proposed change in currently authorized interjurisdictional allocation bases, with adequate prior public notice and public hearing opportunity.

Exxon's position:

36. Exxon is Pacific Power's largest customer systemwide and is also a large industrial customer of Utah Power.

37. Intervenor Exxon, based on the evidence of record and Commission staff's investigation information, supports approval of the merger, but reserved the right to request additional rate decreases during the initial five-year term of the merger.

38. Exxon requested information on the plans of Utah Power to include the generating unit No. 3 of the Naughton Plant in its rate base, and on any proposed changes in cogeneration rates, charges or service conditions.

Intervenor Colorado River Association voiced the following concerns:

39. The merged company will gain excessive control of access to surplus and low cost power sales markets.

40. Third parties' ability to obtain wheeling of their power through the merged utility area will be hampered by the more concentrated use by Applicants of their own transmission facilities.

41. The integrated system operation may adversely affect the merged system reliability.

42. The benefits of the merger may not develop as forecast.



43. The Commission should consider, as an alternative to approving the merger, requiring Applicants to contract for their planned coordinated operation.

Questions posed by the Intervenor City of Evanston and by the Southwest Wyoming Consumers:

44. Intervenor the City of Evanston and the Southwest Wyoming Consumers request that the Commission closely monitor the management of the proposed Utah Power division and the coal use under the merged company, to prevent any action that would adversely, unfairly and unnecessarily impact the customers and economy of southwestern Wyoming. The City and the Southwest Wyoming Consumers request that, at the earliest reasonable opportunity, Utah Power's Wyoming service area be integrated into PacifiCorp Oregon's Wyoming service area, for rate, service and management parity throughout Wyoming.

Request of Idaho Cooperative:

45. Intervenor Idaho Cooperative argues that the issues of transmission access and of wholesale rates are exclusively within the jurisdiction of the Federal Energy Regulatory Commission, and should not be ruled upon in this case.

Statements of other persons appearing:

46. Representative Thomas stated concerns, including that:

a. the merged company will have increased economic leverage which may be a barrier to the marketing of power in Wyoming by public power entities in behalf of Wyoming rural electric utilities;

b. the expanded and strengthened merged Company may be difficult to regulate; and

c. the Commission should consider, as an alternative to the merger, requiring Applicants to contract for the power transmission, exchanges and sale planned by them.

47. Bridger Valley stated the following concerns:

a. the merger may make it more difficult for its wholesale supplier Deseret Generation and Transmission Association to transmit power to Bridger Valley;

b. the merged company may eliminate Bridger Valley as a competitor, and increase Bridger Valley's cost of power; and

c. Utah Power is seeking to serve a potential oil field customer in service area exclusively certificated to Bridger Valley.

48. No other persons appeared to make a statement.

#### CONCLUSIONS

1. Adequate public and personal notice was given as required by Wyoming law.

2. This is a reorganization of public utilities as defined by W.S. 37-1-104(b) which provides:

(a) No reorganization of a public utility shall take place without prior approval by the public service commission. The commission shall not approve any proposed reorganization if the commission finds, after public notice and opportunity for public hearing, that the reorganization will adversely affect the utility's ability to serve the public.

The determination that a utility's ability to serve the public will not be adversely affected requires consideration of

each element of the Commission's jurisdiction as set forth in Chapters 1, 2, 3 and 6 of Title 37, Wyoming Statutes 1977. These elements include: rates; any matters affecting or influencing cost and value of the utility property and business; the financial ability and good faith of applicant; the present and future public convenience and necessity; and the adequacy, efficiency and safety of utility service and facilities so as to promote the safety, health, comfort and convenience of the public, the utility's employees and the utility's customers. Under W.S. 37-2-119 the Commission must determine for all regulatory purposes whether a utility's property located within or outside of Wyoming is "used and useful" for Wyoming service.

Additionally Section 12 of Title 37, Wyoming Statutes 1977, requires the Commission to determine that the issuance of securities payable at a period of more than 18 months are consistent with the public interest and that the aggregate amount of the securities will not exceed the face value of the business of the public utility.

The Wyoming Supreme Court has consistently held that in certification and rate matters the paramount consideration must be the public interest and that in certification matters any incidental disadvantages must be weighed in balance against public advantages. Riverton Valley Elec. Co. v. Pacific Power & Light Co., 391 P.2d 489, (Wyo. 1964); Matter of Rule Radio Service, Inc., 621 P.2d 241, (Wyo. 1980); McCulloch Gas Transmission Co. v. Public Service Commission, 627 P.2d 173,

(Wyo. 1981); and Mountain Fuel Supply Co. v. Public Service Commission, 662 P.2d 878 (Wyo. 1983).

3. The uncontroverted evidence discloses that Pacific Power and Utah Power have, over the many years of their authorized service, provided adequate, efficient, safe and reliable service to the public within areas certificated to them. During this period the Commission has presided over the several purchases of other Wyoming utilities by Pacific Power and by Utah Power.

Pacific Power's Wyoming electric utility merger and purchase transaction presided over by the Commission include: Mountain States Power Company in 1954; Western Public Service Company in 1955; Shannon Gas & Electric Company in 1959; Rawlins Electric Company in 1959; Southern Wyoming Utilities in 1960; South Superior electric system in 1967; Farmers' Light & Power in 1967; Town of Sinclair electric system in 1967; and Consumer Lite & Power in 1982. The Commission is currently considering Pacific Power's application to purchase Shoshone River Power, Inc. and Garland Light & Power Company.

The Commission has presided over the Wyoming electric utilities purchases by Utah Power of S.R. Inch in 1923, Green River Power and Light in 1925, California-Pacific in 1963 and Lincoln Service in 1981.

These cases involved, in varying degrees, all the issues of the subject Joint Application, including: the regulation of a separate unit or divisional basis of the new acquired service areas; the progressive melding of these units into one Wyoming

service area; facility adjustments and construction for centralized efficient operations; rate adjustments progressing toward uniform Wyoming systemwide rates for each utility; the determination of facilities "used and useful" for Wyoming service; and very complex but accomplished intrastate and interstate allocations. In each acquisition case PacifiCorp Maine and Utah Power demonstrated superior ability in providing and improving (and in most cases substantially improving) utility service, accomplishing economies, providing adequate information for decision making and coordinating with various regulating jurisdictions, on interstate allocation questions.

4. The substantial evidence of this case supports the conclusions that:

a. PacifiCorp Oregon will be able, financially and otherwise, to continue to provide adequate, efficient, safe and reliable electric utility service within the Applicants' assigned Wyoming service areas under its divisional operations plan;

b. the rate proposals of Joint Applicants are in the present and future interests of the Wyoming public presently served and to be served by them;

c. the value of the utility property of Joint Applicants will not be adversely affected by the merger;

d. the aggregate amount of the securities outstanding and as authorized by this order will not exceed the fair value of the properties and businesses of Pacific Power and Utah Power;

e. no substantive evidence was presented by any party

that shows that the merger will be detrimental to Wyoming electric utilities or their customers; and

f. there is no evidence of record to show that this Commission cannot adequately and timely investigate, issue public notice and hold public hearings, and rule upon any jurisdictional PacifiCorp Oregon matter in the interests of the Wyoming public, including future rate and service changes, determinations that facilities in the state and outside the state are "used and useful" for Wyoming service, and intrastate and interstate allocation determinations.

g. the advantages to the Wyoming public of the merger as shown by the evidence of record outweigh the concerns voiced on the record.

5. Requiring prior authorization from the Commission before a utility can adjust power plant and large power transmission operation and dispatch is not reasonable or in the public interest as it may hamper the utility's ability to adequately, efficiently, and responsively serve the public.

6. This Commission is deeply aware and concerned about the potential adverse economic consequence of cut backs in the operation of Wyoming generating plants, as aptly expressed by Intervenor Pittsburg & Midway and the City of Evanston. The utility power plant operations in Wyoming communities is a predominant economic factor. Pursuant to W.S. 37-2-120, 37-3-112 and 37-3-114, the Commission has required utilities to report concerning any major changes in operations, and will continue

this practice concerning any major planned or emergency changes in the operations of the Joint Applicants' power plants. Any person can file a complaint concerning any change in a utility's operation that would affect the "safety, health, comfort and convenience" of the public (W.S. 37-3-114). Also plant cost data is a matter investigated by the Commission in each general rate case proceeding, providing another forum for any person to question utility management practices.

7. The courts have uniformly held that regulatory agencies should expeditiously consider and rule upon matters before them. The record does not disclose any legal reason for delaying final action. The interests of the Wyoming public will be served by a prompt decision. Additionally, it may be useful for the other jurisdictions to be advised of the evaluation and rulings of that state jurisdiction (Wyoming) wherein both Pacific Power and Utah Power have provided extensive electric utility service for many years, recognizing however that the state of Idaho also regulates both utilities. The Commission will closely monitor the progress and final action of the other federal and state agencies also having jurisdiction over this merger.

#### O R D E R

IT IS HEREBY ORDERED THAT:

1. The Joint Application of PacifiCorp Maine and Utah Power for the merger of PacifiCorp Maine and Utah Power with, and into, PacifiCorp Oregon in accordance with the Agreement and Plan of Reorganization and Merger dated August 12, 1987 be, and it hereby

is, approved.

2. PacifiCorp Oregon be, and it is hereby authorized, to issue not more than 128,000,000 shares of its \$3.25 par value Common Stock, not more than 126,533 shares of its 5% Preferred Stock, not more than 754,802 shares of its Serial Preferred Stock, and not more than 3,183,815 shares of its No Par Serial Preferred Stock upon the conversion of all outstanding shares of common and preferred stock of PacifiCorp Maine and Utah Power in accordance with the terms of the Merger Agreement.

3. PacifiCorp Oregon be, and it is hereby authorized to assume all debt obligations of PacifiCorp Maine and Utah Power outstanding as of the merger, and authorized to continue, and to create liens in connection therewith, subject to compliance with the requirements of Wyoming law and Commission rules.

4. Pursuant to Commission Rule Section 219, PacifiCorp Oregon, doing business as Pacific Power & Light Company, be, and it hereby is, authorized to adopt all tariff schedules and special service contracts of PacifiCorp Maine in effect as of the merger for service within Pacific Power's service area.

5. Pursuant to Commission Rule Section 219, PacifiCorp Oregon, doing business as Utah Power & Light Company, be, and it hereby is, authorized to adopt all tariff schedules and special service contracts of Utah Power in effect as of the merger, for service within Utah Power's authorized service area.

6. PacifiCorp Oregon, doing business as Pacific Power & Light Company, be, and it hereby is, granted the transfer of all



certificates of public convenience and necessity of PacifiCorp Maine.

7. PacifiCorp Oregon, doing business as Utah Power & Light Company, be, and it hereby is, granted the transfer of all certificates of public convenience and necessity of Utah Power.

8. The Commission authorizations and approvals for the issuance of securities by PacifiCorp Maine which have not been fully utilized as of the merger be, and hereby are, transferred to PacifiCorp Oregon.

9. PacifiCorp Oregon shall, upon the merger, succeed to the utility rights and responsibilities of PacifiCorp Maine and Utah Power under the public utility laws of Wyoming and the orders of the Commission.

10. PacifiCorp Maine and Utah Power shall, at appropriate intervals advise the Commission of the status of the merger application proceedings in the other jurisdictions.

11. PacifiCorp Maine, Utah Power and, upon the merger, PacifiCorp Oregon will continue to advise the Commission of any major operation changes affecting Wyoming service, including those involving the operations of Utah Power's Naughton Plant and PacifiCorp Maine's power plants.

12. Applicants proposed journal entries set forth in Applicants' Exhibit 4M be, and hereby are approved.

13. This order documents the Commission's final action taken in special open meeting of February 4, 1988, concerning which all the parties were given notice.

14. This Order is effective immediately.

MADE and ENTERED at Cheyenne, Wyoming, this 24th day of  
February, 1988.

PUBLIC SERVICE COMMISSION OF WYOMING

  
JOHN R. SMYTH, Chairman

  
BIL TUCKER, Deputy Chairman

  
NEELS J. SMITH, Commissioner



  
ALEX J. ELIOPULOS, Secretary



Service Date: February 23, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

\* \* \* \* \*

IN THE MATTER of the Montana Public	)	
Service Commission's Investigation of	)	UTILITY DIVISION 87.9.51
the Merger of the Pacific Power and	)	
Light Company and the Utah Power and	)	
Light Company.	)	

In the Matter of the Application of	)	
PC/UP&L Merging Corp. (to be renamed	)	
PacifiCorp) to: (1) Issue its Common	)	
Stock and Preferred Stock to effect	)	
a merger with PacifiCorp and Utah	)	UTILITY DIVISION
Power & Light Company, (2) Assume	)	DOCKET NO. 87.9.49
all debt obligations of PacifiCorp	)	ORDER NO. 5297a
and Utah Power & Light Company, and	)	
(3) Issue its securities under	)	
authorizations previously granted	)	
to PacifiCorp by the Commission.	)	

BACKGROUND

1. On or about August 12, 1987, the Pacific Power and Light Company and the Utah Power and Light Company announced publicly that they had reached a definite agreement to merge the two companies. On August 26, 1987, Frederic Reed, a PP&L Vice President, met publicly with the members of the Montana Public Service Commission (PSC or Commission) to discuss the impacts of the proposed merger upon the rates and services offered by PP&L in its Montana service territory. At that time Mr. Reed indicated that he did not believe that the merger would have any detrimental impacts upon PP&L's ratepayers in Montana.

2. On September 17, 1987, PC/UP&L Merging Corp. (to be renamed PacifiCorp) (PacifiCorp Oregon), a corporation organized

and existing under and by virtue of the laws of the State of Oregon and qualified to transact business in Montana, filed with the Montana Public Service Commission its verified application, pursuant to Sections 69-3-501 through 69-3-507, MCA, requesting an order authorizing PacifiCorp Oregon to (1) issue not more than 128,000,000 shares of its \$3.25 par value common stock, not more than 126,533 shares of its \$100 par value 5% Preferred Stock, not more than 754,802 shares of its \$100 par value Serial Preferred Stock, and not more than 3,183,815 shares of its No Par Serial Preferred Stock to effect a merger of PacifiCorp (PacifiCorp Maine) and Utah Power & Light Company (Utah Power) with and into PacifiCorp Oregon; (2) assume all of the debt obligations of PacifiCorp Maine and Utah Power outstanding at the effective date of the proposed merger and to continue or create liens in connection therewith; and (3) issue its securities under authorizations previously granted to PacifiCorp Maine by the Commission, which authorizations have not yet been fully utilized.

The application is supported by exhibits, testimony and data in accordance with the rules and regulations of the Commission governing the authorization of the issuance of securities by electric and gas utility companies operating within Montana.

For detailed information with respect to the general character of PacifiCorp Oregon's business and the territories to be served by it, reference is made to annual reports of PacifiCorp

Maine on file with the Commission and the data filed with this application.

The application sets forth Counsel who will pass upon the legality of the proposed issuance, the other regulatory authorizations required, and the propriety of the proposed issue.

3. On September 28, 1987, the Commission voted to waive the 30 day deadline for consideration of such an application, extending the deadline to February 17, 1988. See Section 69-3-503, MCA.

4. On October 2, 1987, the Commission issued an order initiating an independent investigation of the extent of its jurisdiction and the ramifications of the proposed merger. The Commission determined that, at a minimum, the following issues should be addressed:

- 1) Does the Commission have jurisdiction over the proposed merger? That is, does review of the proposed merger fall under the Commission's statutory duty to assure that ratepayers receive adequate service at reasonable rates?
- 2) If the Commission does have jurisdiction over the proposed merger, what further action is appropriate?

See Order No. 5298.

5. The securities application described above, Docket No. 87.9.49, was consolidated into the investigation docket for further consideration and final disposition.

6. On December 7, 1987, and pursuant to a Notice of Public Hearing, a hearing was held in Kalispell, Montana. Satellite public hearings were held in Kalispell and Libby, Montana, on the evenings of December 8 and 9, 1987, respectively.

FINDINGS

7. PacifiCorp Oregon is a corporation organized and existing under and by virtue of the laws of the State of Oregon and is qualified to transact business in the State of Montana.

8. PacifiCorp Oregon will be operating as a public utility as defined in Section 69-3-101, MCA, and is engaged in furnishing electric service in Montana, as PacifiCorp Maine.

9. The Commission has jurisdiction over the subject matter of the application under Section 69-3-102, MCA.

10. Pursuant to an Agreement and Plan of Reorganization and Merger (Merger Agreement), dated August 12, 1987, among PacifiCorp Maine, a Maine corporation, Utah Power, a Utah corporation, and PacifiCorp Oregon, PacifiCorp Maine and Utah Power will be merged with and into PacifiCorp Oregon. The outstanding shares of the capital stock of PacifiCorp Maine and Utah Power will be converted into shares of the capital stock of PacifiCorp Oregon as described in Section 1.3 of the Merger Agreement.

PacifiCorp Oregon will also assume all debt obligations of PacifiCorp Maine and Utah Power outstanding as of the effective date of the merger. As a result of this merger, the separate corporate existences of PacifiCorp Maine and Utah Power shall

cease and thereupon PacifiCorp Maine, Utah Power and PacifiCorp Oregon will be a single corporation (renamed PacifiCorp) subject to the Restated Articles of Incorporation and Bylaws of PacifiCorp Oregon. By operation of law, all of the assets of PacifiCorp Maine and Utah Power will become assets of PacifiCorp Oregon. The merger also will have the effect of changing PacifiCorp Maine's state of incorporation from Maine to Oregon.

11. PacifiCorp Oregon was incorporated on August 11, 1987 as an Oregon corporation with 100 shares of no par value common stock, which are now owned by PacifiCorp Maine. These 100 shares will be canceled at the time of the merger. In order to effect the merger with PacifiCorp Maine and Utah Power, PacifiCorp Oregon will issue its common stock upon conversion of the common stocks of PacifiCorp Maine and Utah Power and will issue its preferred stocks of various classes and series upon conversion of the preferred stocks of PacifiCorp Maine and Utah Power. The application describes the conversion of stock and lists the classes and series of stock to be issued. As described in the Merger Agreement, PacifiCorp Oregon may be required to pay cash to holders of Utah Power preferred stock who exercise dissenters' rights and for fractional shares of Utah Power common stock that are converted in the merger.

12. Upon the effective date of the merger, PacifiCorp Oregon will be responsible for all debts, liabilities and obligations of PacifiCorp Maine and Utah Power, including all notes and first



mortgage bonds. The application lists the series of debt obligations to be assumed by PacifiCorp Oregon. PacifiCorp Oregon will be required to execute appropriate supplemental indentures or other agreements to reflect such assumptions and any existing liens on the properties of PacifiCorp Maine or Utah Power will continue as liens on the property of PacifiCorp Oregon.

13. PacifiCorp Maine has previously been granted authority from the Commission for the issuance of additional long and short-term debt, preferred stock, and common stock which has not been fully utilized. PacifiCorp Oregon requests that the existing authorities be transferred to PacifiCorp Oregon as of the time of the merger.

14. PacifiCorp Maine, doing business as Pacific Power & Light Company, presently provides retail electric service to approximately 28,000 consumers in northwest Montana. It also provides retail electric service in the states of Oregon, Washington, Wyoming, California and Idaho. Prior to the effective date of the proposed merger, PacifiCorp Oregon will file initial rate schedules with the Commission that are identical to existing rate schedules of Pacific Power & Light Company and will qualify to do business in Montana as Pacific Power & Light Company.

Utah Power does not provide utility service in the State of Montana. Utah Power provides retail electric service in the states of Utah, Idaho, and Wyoming.

15. The securities proposed to be issued by PacifiCorp Oregon do not, in the aggregate, exceed the fair value of the properties and business of the merged companies.

16. The issuance of an order authorizing the proposed financing does not constitute agency determination/approval of: 1) any issuance-related ratemaking issues, which issues are expressly reserved until the appropriate proceeding; or 2) the extent of the Commission's jurisdiction, if any, over the proposed merger, and what action by the Commission is appropriate.

#### CONCLUSIONS OF LAW

1. The proposed issuance of capital stock, assumption of debt, and transfer of authority previously granted to PacifiCorp Maine, to which the application relates will be for lawful objects within the corporate purposes of PacifiCorp Oregon. The method of financing is proper.

2. The proposed issuance of capital stock, assumption of debt and transfer of authority previously granted to PacifiCorp Maine, is consistent with the public interest.

3. The issuance of this order does not constitute determination/approval of either any issuance-related ratemaking issues, or the extent of the Commission's jurisdiction, if any, over the proposed merger which underlies the proposed securities transaction.

#### ORDER

IT IS THEREFORE ORDERED by the Commission that:

1. The application of PacifiCorp Oregon, filed on September 17, 1987 for authority to issue not more than 128,000,000 shares of its \$3.25 par value common stock, not more than 126,533 shares of its 5% Preferred Stock, not more than 754,802 shares of its Serial Preferred Stock, and not more than 3,183,815 shares of its No Par Serial Preferred Stock pursuant to Sections 69-3-501 through 69-3-507, MCA, to effect the merger of PacifiCorp Maine and Utah Power with and into PacifiCorp Oregon, is approved.

2. The application of PacifiCorp Oregon to assume all of the debt obligations of PacifiCorp Maine and Utah Power outstanding as of the effective date of the merger is approved.

3. The application of PacifiCorp Oregon to issue its securities under authorizations previously granted to PacifiCorp Maine by the Commission is granted and those prior orders shall remain in full force and effect.

4. PacifiCorp Oregon shall file the following as they become available:

- a. Verified copies of any agreement entered into in connection with the issuance of the securities approved herein.
- b. Verified copies of any agreement entered into in connection with the assumption of debt obligations approved herein.

c. Verified copies of any agreement entered into in connection with the issuance of securities by PacifiCorp Oregon under authorizations previously granted by the Commission to PacifiCorp Maine.

5. Issuance of this order does not constitute acceptance of PacifiCorp Oregon's exhibits or other material accompanying the application for any purpose other than the issuance of this order.

6. Approval of the security transaction authorized shall not be construed as precedent to prejudice any future action of this Commission, including appropriate ratemaking treatment or resolution of the remaining issues in this consolidated docket.

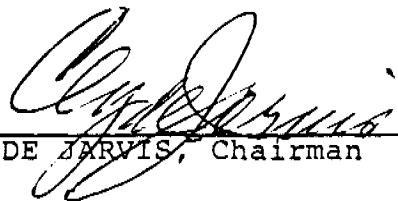
7. Section 69-3-507, MCA, provides that neither the issuance of securities by PacifiCorp Oregon pursuant to the provisions of this order, nor any other act or deed done or performed in connection with the issuance, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed. construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed.


8. This order shall be effective upon the issuance of a subsequent Order in this Docket approving the merger of PacifiCorp Maine and Utah Power with and into PacifiCorp Oregon.

9. This approval extends to de minimis variations from the financing proposal contained in the application filed herein, which are necessary to effectuate the merger.

DONE IN OPEN SESSION at Helena, Montana, this 17th day of  
February 1988, by a 5 to 0 vote.

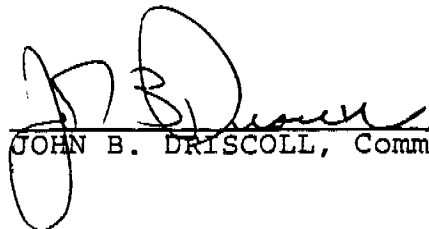
BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

  
CLYDE JARVIS, Chairman

  
HOWARD L. ELLIS, Commissioner

  
TOM MONAHAN, Commissioner

  
DANNY OBERG, Commissioner

  
JOHN B. DRISCOLL, Commissioner

ATTEST:

  
Ann Purcell  
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.


MONTANA PUBLIC SERVICE COMMISSION

CERTIFICATE OF SERVICE

\* \* \* \* \*

I hereby certify that a copy of ORDER NO. 5297a, in DOCKET NO. 87.9.49/87.9.51, in the matter of PACIFICORP/UP&L MERGING CORP., dated February 17, 1988, has today been served on all parties listed below by mailing a copy thereof to each party by first class mail, postage prepaid.

Date: February 23, 1988

  
For The Commission

Dennis Crawford  
Public Service Commission  
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Helena, MT 59620-2601

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EXHIBIT F

APPLICANTS' PROPOSED CONDITIONS

Without conceding either the authority of the Commission to impose such conditions or the adequacy of the record to justify such conditions, the Applicants will not object to the following conditions:

1. The Merged Company shall adopt the Wheeling Policy set forth in Exhibit 1 hereto as of the date the merger becomes effective, and the Merged Company shall agree that (a) this Commission shall be authorized to resolve disputes arising under the Policy, but not to alter, modify or enlarge that Policy without the consent of the Merged Company, and (b) no material change shall be made in the Policy without prior approval by this Commission. (Cost is discussed in Mr. Topham's rebuttal testimony in the Utah proceeding)

2. As of the effective date of the merger, that UP&L Division wholesale Fuel Adjustment Clause (FAC) shall be frozen at 13 mills, subject to refund, until approved allocation procedures are applied to the FAC. Within one year of the effective date of the merger, the Company shall file with the Commission any necessary modifications to the FAC. (Cost: None)

3. Firm wholesale rates for the UP&L Division shall be reduced 2%, effective 60 days after the effective date of the merger, and shall remain in effect until approved allocation procedures are applied to the wholesale FAC. (Cost: None)

4. An allocated cost of service study equivalent to Statement BK (18 C.F.R. Section 35:13(h)(36)) shall be filed for the wholesale rates of the UP&L Division within none months of the effective date of the merger. Such an allocated cost of service study shall be filed annually thereafter upon the request of the Commission. If such a study demonstrates a rate decrease is

justified, such a decrease will be filed. (Cost: Small or indeterminable)

5. Rates for firm transmission services provided by UP&L just prior to the effective date of the Merger of UP&L and PacifiCorp shall not be increased over levels established in FERC Docket ER84-571 for a period of ten years after the Merger, insofar as such increase may be caused by rolling in all or a portion of the costs of transmission facilities located in the pre-merger Pacific system. However, nothing herein shall prevent the Merged Company from adopting a rolled-in method of cost allocation at any time, or increasing firm wheeling rates after the merger, to the extent that the increase reflects increased costs of service that would be indicated using the cost allocation methods approved in Docket No. ER84-571. (Cost: None)

6. Within the first year following the Merger, the Merged Company shall file with the FERC a cost-of-service study for the UP&L Division that shows inter alia, the costs of providing service, including a transmission loss factor, under its contracts for firm wheeling service. If the cost-of-service study shows a decrease from the cost-of-service study supporting the then-effective wheeling rates for such contracts, the Merged Company shall file for a rate decrease to reflect such lower costs. The same procedures shall be followed with respect to any later cost-of-service studies the Merged Company files with the FERC within five years of the effective date of the Merger. (Cost: Small or indeterminable)

7. In any cost-of-service study applicable to wheeling service by the UP&L Division that is filed with the FERC within five years of the effective date of the merger, the Merged Company shall apply the method of allocating revenue credits to wheeling service utilized by UP&L in Docket No. ER84-571. (Cost: None)

WHEELING POLICY

Following is the wheeling policy (Policy) of PacifiCorp (Company). The Policy shall be put in effect on the effective date of the merger of Utah Power & Light Company (Utah Power) and PacifiCorp and shall remain in effect for at least five years. Any amendments of the Policy proposed by the Company will be submitted to the Federal Energy Regulatory Commission (FERC) for review and approval.

I. DEFINITIONS

As used herein, the following terms shall have the following meanings:

1. "Embedded Costs" means the actual fixed and variable costs associated with transmission facilities calculated in accordance with established FERC regulations.
2. "Firm Wheeling" means a contractual obligation to stand ready to transmit power and energy up to a specified amount for a specified term, subject to such interruptions as are agreed to between the contracting parties to maintain system reliability.
3. "Integrated Service Area" means a geographic area of the Company's system within which it is generally unconstrained in its ability to respond to requests to transmit power in the quantities that can be reasonably expected. A listing of the Company's Integrated Service Areas is attached hereto.
4. "Net Power Costs" means the Company's purchased power, wheeling and use-of-facilities expenses, and variable generation costs, less sale-for-resale revenues, determined on an operating year basis.
5. "Non-firm Wheeling" means transmission service that is interruptible at the sole discretion of the Company, or interruptible for any reason other than system reliability as agreed to between the contracting parties.

6. "Opportunity Costs" means the loss of economic benefits measured by any increase in the Company's Net Power Costs caused by providing Firm Wheeling service, not including lost benefits associated with the loss of the sale of firm power by the Company that is displaced by the power being transferred pursuant to this Policy.

7. "Point of Delivery" means the point at which power wheeled by the Company is received by another Utility.

8. "Point of Replacement" means the point at which the Company takes delivery of power to be wheeled for another Utility.

9. "Source" means the Mona Substation or any facility that generates electricity located within an Integrated Service Area.

10. "Transmission Dependent Utilities" means Deseret Generation and Transmission Co-operative, Utah Associated Municipal Power Systems, Inc. and its present members, and the present members of the Utah Municipal Power Association.

11. "Utility" means any public or private entity that is lawfully engaged in the business of selling electricity at wholesale or retail.

## II. EXISTING CONTRACTS

All transmission contracts to which Utah Power or Pacific Power & Light Company were parties as of the effective date of this Policy shall be honored by the Company for their remaining term.

## III. FIRM WHEELING WITHIN AN INTEGRATED SERVICE AREA

When both the Source and Point of Delivery are within one of its Integrated Service Areas, the Company will provide Firm Wheeling service for a requesting Utility as a matter of course unless the amount of power to be wheeled exceeds the engineering limitations of the Company's system.

The rate for Firm Wheeling service provided pursuant to this Paragraph III will be designed to recover an allocated portion of either system embedded cost or an allocated portion of the embedded cost of the facilities used to provide the requested service.

To the extent additions to the Company's transmission facilities are necessary to provide Firm Wheeling within an Integrated Service Area, and are technically feasible, the Company will construct such additions if sufficient lead time is provided and a contract term is agreed upon that is adequate to economically support the facilities required.

IV. FIRM WHEELING SERVICE INTO, OUT OF, OR THROUGH  
AN INTEGRATED SERVICE AREA

When either or both the Point of Replacement or the Point of Delivery are not internal to a single Integrated Service Area, the Company will determine, on a case-by-case basis, whether it is prepared to provide Firm Wheeling service for a requesting Utility. This determination will be based upon a reasonable evaluation of the following factors only:

1. The duration of the requested service;
2. Whether new facilities would have to be constructed in order to provide the requested service over the Company's facilities;
3. Whether other Utilities desire the same transmission services;
4. Whether the provisions of transmission contracts with other Utilities permit the requested service;

5. Whether the intentions of the Utility requesting service are lawful (for example would there be a violation of laws related to a certificated area);
6. The degree of firmness of the requested service;
7. The service priority of the requested service;
8. The system impacts of the requested service;
9. To the extent the requested service involves the control area of another Utility, whether that other Utility will cooperate in providing the service;
10. Whether the Utility requesting the service is a scheduling Utility;
11. Whether the Utility requesting the service has other reasonable opportunities available to it through other transmission paths; and
12. Current laws and regulations as they apply to the Company and its competitors.

The rates for Firm Wheeling service provided pursuant to this Paragraph IV shall be designed to recover an allocated portion of embedded system costs, together with Opportunity Costs incurred as a result of providing the service. At the option of the Utility requesting the service, exercised at the time of entering into a contract, Opportunity Costs will be based upon either projected or experienced operating conditions and wholesale marketing opportunities. If the Utility requesting wheeling service agrees in principle to the appropriateness of including an Opportunity Cost component in the Firm Wheeling rate, but the Company and the Utility requesting service are unable to reach agreement as to the appropriate level or methodology of such a component, the Company shall provide the requested service and unilaterally file a proposed rate including an Opportunity Cost component with the FERC, subject to refund.

V. USE OF FACILITIES CHARGES

To the extent that providing Firm Wheeling services requires the installation of facilities that are not generally useful to the Company in providing transmission services, the Company may require the payment of a use of facilities charge or contribution in aid of construction to recover costs associated with the installation of such facilities.

VI. ANCILLARY SERVICES

To the extent a request for Firm Wheeling service requires the provision of generating reserves by the Company, or load following services, which the Company is able to provide, or if transmission losses are not otherwise provided, the Company will attempt to negotiate an appropriate charge for such ancillary services with the requesting Utility. If the parties are unable to agree on an appropriate charge, the services will be provided and the Company will unilaterally file a proposed charge with the FERC, subject to refund.

VII. REQUESTS

Requests for Firm Wheeling should be made in writing to the Company. The Company will respond to written requests for wheeling services in writing in a reasonable period of time. In cases where the Company is not prepared to provide the requested service, an explanation of the factors underlying the Company's decision will be provided.



VIII. PARTICIPATION BY OTHER UTILITIES IN  
TRANSMISSION CONSTRUCTION

1. With respect to the construction of transmission facilities of voltage levels of 345 kV or higher and subject to applicable state regulatory approval, the Company will afford other Utilities the opportunity to participate in the project, provided that: (a) the potential participants have a legitimate interest or service-related purpose in such participation, (b) the joint participation will not unreasonably delay the project or render it impractical for the Company as a matter of economics or engineering, (c) the potential participants are prepared to equitably share in the costs and benefits of the project, considering the cost of the project, the value of the Company's existing investment in related facilities and the benefits to be derived by each party, and (d) the Utility requesting the opportunity to participate has not unreasonably denied the Company's participation in comparable projects.
2. With respect to Transmission Dependent Utilities, the Company will agree to joint participation in upgrades, improvements or additions to backbone transmission (138 kV or higher), interconnections and substation facilities that are internal to an Integrated Service Area, so that such Utilities may, subject to applicable state regulatory approval, reasonably participate in the project, provided that: (a) the potential participants have a legitimate interest or service-related purpose in such participation, (b) the joint participation will not unreasonably delay the project or render it impractical for the Company as a matter of economics or engineering and (c) the potential participants are prepared to equitably share in the costs and benefits of the project considering the cost of the project, the value of the Company's existing investment in related facilities and the benefits to be derived by each party.

3. With respect to Transmission Dependent Utilities, the Company shall not unreasonably withhold its consent to requests for upgrades, improvements or additions to interconnections, transmission and substation facilities located within an Integrated Service Area, and subject to applicable state regulatory approval, provided that: (a) the requesting Utility pays for the upgrades, improvements or additions, (b) the upgrades, improvements or additions are required to serve the retail or wholesale customers of the Transmission Dependent Utility, (c) are consistent with the Company's engineering and construction standards, and (d) the parties are able to agree upon a fair allocation among them of the additional resulting transfer capability considering the cost of the project and the value of the Company's existing investment in related facilities.

IX. REDRESS

Any Utility believing that the Company has violated this Policy, or unreasonably administered this Policy, may file a complaint with the FERC. The Company will submit to the jurisdiction of the FERC to consider any such complaint and provide for an appropriate remedy, but not to alter, modify or enlarge the Policy without the Company's consent. Parties may mutually agree to submit any dispute arising under this Policy to some other impartial arbiter whose decision will be subject, where required, to review by the FERC as an uncontested offer of settlement. This Paragraph IX shall not apply to Paragraph VIII to the extent that a state agency has jurisdiction over complaints arising from the Company's alleged failure to adhere to the provisions of Paragraph VIII.

X. NON-FIRM WHEELING

To the extent it has physical capability to do so, the Company will provide

Non-firm Wheeling to signatories of the Western Systems Power Pool Agreement or the Intercompany Pool Agreement in accordance with the terms of those agreements. In addition, the Company stands ready to negotiate separate contracts with Utilities for Non-firm Wheeling which provide for an equitable sharing of benefits between the Company and other Utilities participating in the transactions.

XI. WHEELING FOR QUALIFYING FACILITIES

The Company will provide transmission service for Qualifying Facilities to Utilities in accordance with the provisions of 18 CFR § 292.303.

INTEGRATED SERVICE AREAS

1. The existing UP&L service area in the State of Utah;
2. The existing UP&L service area in the State of Idaho;
3. The existing UP&L service area in the State of Wyoming;
4. The existing PP&L service area in Southern Oregon and Northern California;
5. The existing PP&L Coos Bay, Oregon service area;
6. The existing PP&L Lincoln City, Oregon service area;
7. The existing PP&L Willamette Valley, Oregon service area;
8. The existing PP&L Central Oregon service area;
9. The existing PP&L Hood River, Oregon service area;
10. The existing PP&L Portland, Oregon service area;
11. The existing PP&L Clatsop, Oregon service area;
12. The existing PP&L Enterprise, Oregon service area;
13. The existing PP&L Pendleton, Oregon service area;
14. The existing PP&L Walla Walla, Washington service area;
15. The existing PP&L Yakima, Washington service area;
16. The existing PP&L Sandpoint, Idaho service area;
17. The existing PP&L Libby, Montana service area;
18. The existing PP&L Kalispell, Montana service area;
19. The existing PP&L service area in the State of Wyoming;



Intervenor Group

Casazza - Idaho Power

Merger will modify 1980 TSA so Idaho will have to provide additional transmission services for which Idaho should be compensated (P24 lines 18 - 22 & P35 lines 1-2)

Advanced scheduling should be required for system transfers (P35 lines 3-4)

New transmission agreement should be developed which fairly splits the merger benefits between applicants & Idaho (P35 lines 5-14)

An agreement should be signed with Idaho covering future coordinated planning and operating procedures (P35 lines 15-18)

Hughes

Reduce competitive imbalance by allocating a block of transfer capability to any competitor of PP&L which succeeds in contracting to sell bulk power at the southern and or southwestern outlet points of the UP&L system. (Summary of testimony P8, P84 line 5 P85 line 7, or Exhibit WRH-11)

Actual access to the UP&L corridor by any competitor should be contingent upon buyer selection of its offerings in competition with other potential sellers as evidenced by contractual commitment (P86 lines 8-13)

Provide enough capacity to competitors of applicants to assure efficient transactions but not to force inefficient transactions (P87 lines 1-4)

Commitment to reliable customer service and contractual commitments should be protected (P89 lines 9-12)

Transmission incentives requiring allocation of up to one-third of any added capacity to competitors (P91 line 11, P92 line 28)

Existing control areas be maintained and applicants be required to schedule all transfers (contents and conclusions P5, P24 lines 6-23)

Applicants enter into a transmission agreement with Idaho Power to identify services to be required by applicants and to protect Idaho's system and fully compensate Idaho Power for transmission use (Contents and Conclusions P5, P24 line 24, P25 line 20)

Collingwood - Idaho  
Power

Intervenor Group

Mosher - FERC Staff

to properly reflect the cost savings the merger will achieve (Contents of Test, P2, P16 line 19, P17 line 23)

Applicants should file a plan to develop or provide future additional interconnection points to the Utah transmission system at which public system customers can arrange the delivery of power/energy from generating sources not located in applicants merged system (P17 line 24, P18 line 4)

Information reporting by applicants to its competitors of the degree of projected and actual utilization of transmission facilities in the Ben Lomond Region (P25 lines 19-21)

Requirements that no capacity in the bottleneck facility be withheld from the market except for documented system reliability reasons (P25 lines 22-24)

Price caps applicable when the capacity utilization of the bottleneck facility is below maximum or a share of maximum (P25 line 25, P26 line 2)

Pricing flexibility when capacity utilization of the bottleneck approaches maximum (P26 lines 3-4)

Procedures for the joint ownership of additional north-south transmission lines connecting the substation with the Arizona - New Mexico region, coupled with pricing flexibility on those lines (P26 lines 5-8)

Transitional rules requiring that the merging companies apply internal transfer prices to transactions between the divisions on the same basis as they apply transmission access and pricing rules to unaffiliated utilities, until bottlenecks are eliminated (P26 lines 9-13)

Transitional rules requiring that the merging companies apply internal transfer prices to cost and revenue allocation for off-system sales transactions which involve the use of both division facilities until bottlenecks are eliminated (P26 lines 14-18)

Mandatory transmission capacity should be set aside for non-affiliated competitors (P27 lines 1-2)

Joint participation of transmission construction projects (Summary of Testimony P4, P39 line 15, P40 line 13)

Hunter - UAMPS

Intervenor Group

Applicants to undertake betterments and enhancements at UAMPS expense when reasonably requested (Summary of Testimony P4)

UAMPS being able to buy power from Idaho Power (Summary of Testimony P1, P16 lines 13-18)

Millet - DESERET

Condition approval over a five year period to monitor applicants responses to Deseret's request for wheeling (Summary of Testimony P3, P25 line 25, P26 line 4)

Elimination of applicant proposal to maintain separate divisions for wheeling (Summary of Testimony P4 and Linn Testimony P14 lines 1-11)

Joint participation of trans. construction projects (Summary of Testimony P4, p31 lines 16-19)

Helsby - CREDA

The merger should not be approved until applicants have presented a cost of service studies showing how cost allocations would be done between the two division and wholesale and retail customers (Summary of Testimony P4-5, P22 lines 2-9)



# MONTANA

Rate Reductions	Method of Allocating Benefits	Transmission	Structure of Company	Miscellaneous
Committed to no rate increases in Montana for 5 years	Approximately 40% of merger benefits will go to PP&L customer, 60% to UP&L	The merged company will not change Pacific's transmission policy	Have not studied UP&L as Genco or disco.	PP&L customer would never be liable for UP&L problem like acid rain, asbestos, etc.
After 2% rate reduction in Utah - merger benefits will have to be realized before additional reduction-1989-1990.	We won't change our current method of allocation. Wyoming and Montana wholesale customers will be treated as retail in these states.	Alternative transmission link to UP&L will cost \$22M versus Transmission link of \$48M.		We believe in incentive rate-making; sharing with shareholder.
Net rate reductions in Utah will occur regardless of being cost-justified.	Task force on allocations will determine how cost of transmission line will be shared.	We looked at the retail business as the stand-alone reason for this merger.		

We commit to no rate increases in foreseeable future; if benefits don't occur all shareholder risk.

Even if cost of capital increases no rate increases.

We will amortize cost of merger, \$18M, over 40 years; approx. \$500K per year to be offset by benefits; no rate increases.

# WYOMING

<u>Rate Reductions</u>	<u>Method of Allocating Benefits</u>	<u>Transmission</u>	<u>Structure of Company</u>	<u>Miscellaneous</u>
<p>No rate increases for Pacific Power customers for 5 years.</p>	<p>If savings are bigger than anticipated, benefits will be shared between customer and shareholder.</p>		<p>We will not be forming a G&amp;P.</p>	<p>Firm wholesale price stability for Cheyenne does not apply to other wholesale customers.</p>
<p>UP&amp;L rates will be 5-10% lower than their rates the day of merger--not their rates of today.</p>	<p>No detriment to Pacific's customers from merger.</p>		<p>Consolidated debt and preferred will be used in rate filings.</p>	<p>Both divisions will honor cogeneration contracts.</p>
<p>Committed to no rate increases for UP&amp;L customers regardless of what happens.</p>	<p>January filing will be made to address consensus allocation methodology and Colstrip 4 (was not made).</p>		<p>No transfer of assets from one division to the other.</p>	
<p>Will absorb any increases in costs specific to merger in future rate proceedings.</p>				
<p>Company will not try to capture benefits before passing on 5-10% decrease.</p>				

## WASHINGTON

<u>Rate Reductions</u>	<u>Method of Allocating Benefits</u>	<u>Transmission</u>	<u>Structure of Company</u>	<u>Miscellaneous</u>
We expect immediate benefits for both divisions' customers as result of merger.	For rate making purposes, the books of both companies will be kept separate.	The merged companies transmission policy will change over the years.	Generation and transmission areas of the two companies are the first we hope to combine.	Our plate is too full to consider another merger or acquisition.
We increase in rates for 4-5 years; we will bear the risk of inflation.	We have not estimated what portion of the savings will go to shareholders.		We don't expect consolidation of the two companies for 4-5 years.	We will not be seeking other merger and acquisitions for 4-5 years.
We were the suitor in this deal; the 5-10% rate reductions are part of the merger agreement.	The merger would "die of old age" if it waited for approval of seven commissions on allocation methodology.			Some dilution to PP&L shareholders.
Our analysis of the magnitude of the 10% rate decrease will be \$84M by the fourth year after the merger.	The 40-60 split of merger benefits between UP&L and PP&L customers is more like 50-100% to UP&L customers.			Washington commission will have full access to books and records of UP&L for ratemaking purposes.
The difference between our savings of \$120M in year four and \$84M in rate reductions in Utah of \$44M will either go to shareholders, Utah customers, Pacific's customers or all three.	We haven't discussed sharing of benefits between ratepayers and shareholders; can come back with such a proposal in the future.			We've delayed construction of Centralia cooling tower even though we only own 47%; have not talked to partners.
There could be rate reductions to PP&L customers based on allocation formula.	We would expect to prepare periodic reports on the benefits of merger achieved.			

WASHINGTON, continued

Rate Reductions

Method of Allocating  
Benefits

For rate-making purposes we will keep the system costs separated.

We will form a transition team in 1 or 2 months to determine allocation of benefits.

Allocation team will have completed its study by year end 1988.

Structure of  
Company

Transmission

Miscellaneous

# IDAHO

<u>Rate Reductions</u>	<u>Method of Allocating Benefits</u>	<u>Transmission</u>	<u>Structure of Company</u>	<u>Miscellaneous</u>
PP&L will support UP&L policy of rate reduction in commercial classes 7/1/88 in Idaho.	We will have audit path so commissions can see how we keep divisions separate.	We expect the two power systems to operate and be planned on a single utility basis.	The merged company will have a higher dividend payout ratio than Pacific.	We will not interrupt Monsanto to make other interruptible off-system sales.
While Monsanto won't benefit from the 2% reduction, it will benefit from the power cost adjustment.	We will not be subsidizing one division's rate-payers at the expense of another; we will develop an allocation system whereby through commission action we will get approval of how much savings go to each division.	We will have a single wheeling policy for both divisions.	No UP&L employee will lose his job due to merger.	Pacific does not intend set up a G&T subsidiary.
Rate reductions in Utah are not part of the merger agreement.	There is no allocation of benefits to shareholders	The merged company will contract with electric utilities within an integrated service area to provide firm transmission services from sources within the integrated area to the utility or municipal power system.	UP&L will be PacificCorp dba as UP&L, as PP&L is.	Should non-firm service provided, it will be subject to interruption protect our customers.
The only benefit to PP&L Idaho customer is rate stability for 5 years, unless merger benefits are greater than expected.		Requests for non-firm transmission service will be reviewed on case-by-case basis and subject to availability.		Do not see additional utility acquisitions until savings from this one are realized.
There are savings of \$40M/month to customers of both divisions.				If this merger fails, we look for another.