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July 15, 1988

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WRITER'S DIRECT NUMBER:

Honorable Brian T. Stewart, Chairman
Honorable Brent H. Cameron
Honorable James M. Byrne
Heber M. Wells Building
160 East 300 South
Salt Lake City, Utah 84111

Re: Merger Application of Utah Power and PacifiCorp to
Merge PC/UP&L Merging Corp. - P.S.C. Docket No.
87-035-27

Dear Mr. Chairman and Commissioners:

This day, the Washington State Utilities and Transportation Commission issued its order approving the application of Utah Power and PacifiCorp to merge with PC/UP&L Merging Corp. in the contemporaneously pending merger proceeding to that above referenced before this Commission. A telefax copy of that order entitled "Second Supplemental Order Approving Merger with Requirements" is attached hereto.

Additionally, I am advised that the Public Service Commission of Oregon also today entered its final order in the companion merger case before the Oregon Commission approving the stipulated agreement and the merger as being in the public interest. I will transmit a copy of that order to the Commission upon receiving it by telefax.

A copy of this letter and order is being served upon all counsel of record in this proceeding.

Respectfully submitted,



ROBERT S. CAMPBELL, JR.
Legal Counsel for PacifiCorp

RSC/dd
cc: All counsel of record

JUL 15 1988

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE APPLICATION)
 OF PACIFICORP (MAINE) TO MERGE)
 WITH PC/UP&L MERGING CORP.)
 (PACIFICORP OREGON), AND TO ISSUE)
 SUCH SECURITIES AND ASSUME SUCH)
 OBLIGATIONS AS MAY BE NECESSARY)
 TO EFFECT A MERGER WITH UTAH)
 POWER & LIGHT COMPANY)
)

DOCKET NO. U-87-1338-AT

SECOND SUPPLEMENTAL ORDER APPROVING MERGER WITH REQUIREMENTS

NATURE OF THE PROCEEDINGS: On September 17, 1987, PacificCorp, d/b/a Pacific Power & Light Company (PacificCorp Maine) and PC/UP&L Merging Corp. (PacificCorp Oregon) jointly filed an application with the Commission under the provisions of chapters 80.08 and 80.12, RCW for an order authorizing: (1) the merger of PacificCorp Maine with and into PacificCorp Oregon with PacificCorp Oregon to be the surviving corporation, in accordance with an agreement and plan of reorganization and merger among PacificCorp Maine, Utah Power & Light Company (Utah Power) and PacificCorp Oregon entered into on August 12, 1987 (merger agreement); (2) the issuance by PacificCorp Oregon of not more than 128,000,000 shares of its \$3.25 par value common stock, not more than 126,533 shares of its 5 percent 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 PacificCorp Maine and Utah Power in accordance with the terms of the merger agreement; (3) the assumption by PacificCorp Oregon of all outstanding debt obligations of PacificCorp Maine and Utah Power at the effective date of the merger and the continuation or creation of liens in connection therewith; and (4) the issuance of securities by PacificCorp Oregon under authorizations previously granted to PacificCorp Maine by the Commission, which authorizations have not yet been fully utilized.

HEARINGS: An initial hearing was conducted on December 1, 1987. Hearings were thereafter held on January 7, January 8, February 23 and February 24, 1988 before Chairman Sharon L. Nelson, Commissioner Richard D. Casad, Commissioner A. J. Pardini, and Administrative Law Judge Elmer E. Canfield. Members of the public were afforded an opportunity to testify. All proceedings took place at Olympia, Washington.

APPEARANCES: The applicant, also referred to as the Company, was represented by George M. Galloway, Attorney, Portland, Oregon. The Commission staff was represented by James R. Cunningham, Assistant Attorney General, Olympia. People of the State of Washington were represented by Robert F. Manifold, Assistant Attorney General, Seattle. The following

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intervenor appeared; Bonneville Power Administration (BPA) by Thomas Miller and Randy Roach, Attorneys, Portland, Oregon; Public Power Counsel (PPC) by Judith A. Bearzi and John C. Guadnola, Attorneys, Tacoma; Colorado River Energy Distributors Association (CREDA) by Jill A. Niederhauser and Gary A. Dodge, Attorneys, Salt Lake City, Utah; and the Washington PUD Association by Joel C. Merkel, Attorney, Seattle. Although Pacific Northwest Generating Company (PNGC) filed a Petition to Intervene in this matter, no appearance was entered by PNGC and the intervention petition was deemed abandoned.

SUMMARY OF COMMISSION ORDER: The Commission approves the merger and requires the Company to make a rate filing which will afford Washington ratepayers their allocated share of a projected \$59 million in first-year merger benefits. The Company will be required to make additional reports so the Commission can assure proper rate levels in the future.

I. POSITIONS OF THE PARTIES

The parties' positions were delineated in the First Supplemental Order and for easy reference are again set forth below.

A. Company

The Company presented testimony from 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.

On August 12, 1987, Utah Power and Light Company (Utah Power), PacifiCorp Maine and PacifiCorp Oregon entered into an agreement to merge Utah Power and PacifiCorp Maine into PacifiCorp Oregon, a new Oregon corporation. As a result of the merger, the separate corporate existences of PacifiCorp Maine and Utah Power will cease and PacifiCorp Maine, Utah Power and PacifiCorp Oregon will be a single corporation to be renamed PacifiCorp. Following the merger, the two power systems of PacifiCorp (Pacific Power and Utah Power), though having separate boards, will be operated and planned on a "single utility basis". Under the merger agreement, the outstanding shares of common and preferred stock of Utah Power and PacifiCorp Maine are to be converted into shares of PacifiCorp Oregon. The Company contended that the merger is necessary to respond to the changing environment, i.e. the increasingly intense competition faced by electric utilities.

The Company highlighted the following benefits of the merger: increasing firm and nonfirm wholesale power sales, facilitating the profitable disposition of available power

supplies; enhancing the ability, through expanded inter-connections, to take greater advantage of low cost power supplies which are available in the short term but will likely not be available in the long term, absent an early commitment; allowing the merged company to benefit from the diversity of its system, because Pacific Power is a winter-peaking utility and Utah Power is a summer-peaking utility; reducing system operating costs through the integrated economic dispatch of generation; reducing system reserve requirements and improving system reliability; permitting the consolidation of duplicative activities, resulting in future operating savings; and providing enhanced opportunities for employees of both companies. Other potential benefits include reduced construction, economic development, administrative combinations and manpower efficiencies.

The Company estimated savings in net power costs to the merged company in the first year to be \$16.7 million and further estimated total merger benefits to be \$48 million per year in the first year, increasing to \$158 million per year in the fifth year.

Utah ratepayers have been promised an immediate two percent rate reduction within 60 days of final approval of the merger. Mr. Bolender explained that Pacific Power was the "suitor" and felt it had to provide something to make the merger happen. On the other hand, the Company did not propose a rate reduction for its Washington customers, but did indicate an intent not to seek an increase in Pacific Power's revenues in Washington over the next four to five years. Pacific Power serves over one hundred thousand ratepayers in the State of Washington. The Company agreed to make a rate filing with this Commission during the second quarter of 1989. The applicant did not propose any change in Pacific Power's jurisdictional allocation methods and agreed to reconvene the jurisdictional allocation committee with all the states within six weeks after final approval of the merger.

The applicant argued that the merger is in the public interest and requested that the Commission approve the merger and authorize the issuance of the specified securities and assumption of obligations and further authorize the adoption of tariff schedules and special service contracts and the transferring of Commission authorizations and approvals for issuance of securities.

B. Commission Staff

The staff presented testimony from Merton R. Lott, WUTC Revenue Requirements Specialist, Kenneth L. Elgin and Bruce W. Folsom, WUTC Utilities Rate Research Specialists.

In its brief, the staff seriously questioned whether the merger would provide any benefits to Washington ratepayers and argued for the rejection of the merger. Mr. Elgin pointed out that the premium over book to be paid by Pacific Power to Utah shareholders virtually forecloses any real opportunity to pass merger synergies to Pacific Power's customers.

Staff argued in the alternative that if the merger and attendant financing are approved, the Commission should condition approval on (a) concurrent filing of tariffs giving effect to an overall revenue reduction of \$4.036 million, spread across all rate classifications on a uniform cents/mills per kilowatt-hour basis and (b) reporting requirements as specified by Mr. Lott. In his testimony, Exhibit T-14, pages 5-7, Mr. Lott recommended additional reporting be required as follows:

With respect to general reporting, the inclusion of Utah will require that a total PacifiCorp income statement and balance sheet be provided, such statements to include the Utah division. These statements will then have to be split between the two operating divisions.

Staff sees a need to have PacifiCorp's corporate costs shown in a separate report. Further, the charges to the subsidiaries and allocation between the operating divisions should be provided along with the appropriate allocation to Washington. Staff would further request that this data be provided historically, on a monthly basis, starting with January 1987.

In addition to the foregoing, the following reports should be required:

(1) A monthly report listing the changes or additions to Pacific's 1987 construction budget referred to on page two of Mr. Reed's exhibit No. 4. This report should include the reason for each major change or addition. This report should also be provided beginning January 1987.

(2) On a monthly basis any changes to Utah's 1987 long term construction budget. This report should also include the reason for each change.

(3) A monthly report indicating whether there were any combinations of any systems or plans, such as those mentioned on pages 4 & 5 of Exhibit No. 4. This report should indicate anticipated savings as a result of the combination for each of the operating divisions.

(4) A monthly report relating to economic development within the Pacific and the Utah Division, to which Mr. Reed refers in Exhibit 4, Note 3. All benefits of economic development should be detailed in terms of increased load, and associated revenues and costs.

(5) A monthly report indicating the total manpower level of PacifiCorp. This report should indicate the number of employees in each operating division and the number of employees in the corporate department. This information should be provided historically, since January 1987, for Pacific and the corporate department. This report should include the number of terminations and new hires. Further, a listing of positions eliminated or created should be included. Total cost savings associated with a reduction in work force should be measured.

(6) A monthly report itemizing charges or allocation of costs between Utah and Pacific. The basis of each allocation or charge should be indicated.

Staff argued that the Company's rate stability "commitment" was an illusion and recommended that Washington ratepayers get the benefits immediately as in the case of the Utah ratepayers. If the Commission were to approve the merger without requiring the concurrent tariff filing effecting a \$4.036 million reduction, staff argued for the reporting requirements as specified by Mr. Lott, as well as a clear statement by the Commission that "rate stability" means that any increase to any class of service would constitute a violation of the rate stability commitment, but that the Company may file such reductions as it deems appropriate, subject to approval of the Commission.

C. Public Counsel

Public counsel presented testimony from Jim Lazar, a consulting economist. Public counsel did not take a position on

whether or not the Commission should approve the merger, but argued that if the merger is approved, the benefits of the merger should be shared with Washington ratepayers at once. Mr. Lazar calculated the estimated first-year benefits allocable to Pacific's Washington jurisdiction at \$4.2 million.

Public counsel argued that if the Commission approves the merger, it should be subject to two conditions:

- (1) Pacific should file for an overall reduction in rates in Washington commensurate with the first year claimed benefits of the merger, approximately \$4.2 million, and
- (2) sufficient reporting and review procedures should have been agreed upon.

In its brief, public counsel moved for the admission of a late-filed exhibit.

D. Public Power Council

Public Power Council (PPC) presented testimony from Lon L. Peters, Senior Economist and William K. Drummond, Staff Economist. PPC argued that there were no demonstrable benefits of the merger that will accrue to Washington ratepayers. It pointed out that there was insufficient evidence regarding the merger's impact on BPA Exchange Credits and that increases in Washington ratepayers' costs were possible. PPC supported as a condition for approval, that intracompany transactions not be used as a vehicle to shift costs from non-exchanging to exchanging jurisdictions. PPC raised concerns about the Company's formation of a generation and transmission subsidiary and argued for a condition prohibiting the formation of such or any other corporate form that shields or removes purchased power transactions from regulation.

PPC raised concerns about the control the merger would give the combined utility over the transmission system and the resulting impact of transmission "bottlenecks" on Washington ratepayers. It was argued that access to the merged company's transmission facilities is the key factor bearing upon the effect the merger could have on competition in bulk power markets. Since transmission access will be addressed by the Federal Energy Regulatory Commission (FERC), PPC recommended that the WUTC withhold a final decision pending FERC's decision. PPC further argued that the merger would cause additional administrative burdens for the Commission and urged the Commission to defer final merger approval until all allocation problems have been adequately addressed.

For the above reasons, PPC argued that the merger should be disapproved. However, should the Commission approve the merger, in addition to the above-recommended conditions, PPC urged that the approval be subject to: (a) the understanding that future integration of the two divisions' rate bases is a merger-related activity and thus cannot result in a rate increase to any consumers in Washington; (b) the understanding that future jurisdictional allocations will not result in rate increases beyond what they would have been without the merger; (c) 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; and (d) the ratepayers being guaranteed at least the benefits claimed by the Applicants prior to any benefits being recognized by the shareholders.

E. Colorado River Energy Distributors Assoc. (CREDA)

CREDA presented testimony from Curtis K. Winterfeld, Executive Engineer with R. W. Beck and Associates. CREDA opposed the merger and argued it could have the following detrimental effects on CREDA members and affiliated systems, as well as on other utilities and entities in the western United States: (a) reduction of available transmission through the combined Utah Power/Pacific Power system for both purchases and sales to third-party systems; (b) limitation of effective regulatory oversight regarding the structure of transactions and rates offered by the merged company in entering new wholesale and retail markets; and (c) impairment of competition among western utility systems for wholesale and retail markets, and other anticompetitive effects.

F. Bonneville Power Administration (BPA)

BPA presented testimony from Mark L. Roberts, its Chief of the Exchange Program Branch, Division of Finance and Budget. Mr. Roberts described the Residential Exchange program and identified Average System Cost (ASC) issues and concerns relevant to the proposed merger.

Mr. Roberts testified that allocation of the merger benefits between Pacific Power and Utah Power would reduce ASC-related resource costs and, therefore, the ASC. He further pointed out that this reduction in ASC would lead to a reduction in ASC benefits received by Pacific Power and Utah Power from the Residential Exchange program over what would have been received absent the merger. Based on assumptions outlined in his testimony, Mr. Roberts calculated that the allocation of the merger benefits could lead to a combined reduction in Residential Exchange program payments of \$6.6 million. He went on to point out how these reductions would affect other utilities, i.e. that reductions in the amount of the aggregate subsidy BPA pays will

primarily lead to reductions to BPA's Priority Firm (PF) power rate to the benefit of utilities and ratepayers.

Aside from raising the above issues and concerns, BPA did not take a position on whether the Commission should or should not approve the proposed merger.

G. Washington PUD Association

The Washington PUD Association participated in the hearings and cross-examined witnesses, but did not present any testimony or submit a brief.

II. SUPPLEMENTAL POSITIONS

In its First Supplemental Order, the Commission expressed concerns about the sharing of merger benefits and transmission access. Additional information was required by the Commission and the following parties responded.

A. Company

In its supplemental brief, the Company committed to make a rate filing with this Commission during the month of April 1989 if the merger is consummated during 1988. In this filing, Washington customers will be afforded their allocated share of the projected \$50 million of annual, total company merger benefits. This merger benefit figure represents the addition of one half of the Company's projected first-year merger benefits (\$24 million) and one half of projected second-year merger benefits (\$35 million), thereby corresponding to expected merger benefits during the first 12 months the new rates will be in effect.

As a "tracker" filing, the only other proposed changes in the Company's Washington prices are that: (1) the results will be adjusted to reflect the impact of changing from Phase III to Phase IV of the revised inter-jurisdictional allocation methodology (2) the amortization of deferred price decreases arising from Docket No. U-87-1513-T (Schedule 94) will be concluded and (3) increased costs associated with the addition of pollution control equipment at the Jim Bridger plant will be reflected. No change in rate spread or rate design will be proposed in this filing. The Company reiterated its commitment to not seek any increase in Washington revenue requirements through 1992.

The Company submitted its proposed wheeling policy as presented in the Federal Energy Regulatory Commission (FERC) proceedings related to the merger. Under the proposed wheeling policy, the merged company is committed to provide utilities firm

wheeling within "Integrated Service Areas" as a matter of course and requests for firm wheeling into or through such service areas are to be considered on a case-by-case basis with reference to certain stated factors. Non-firm wheeling is to be provided to signatories to the Inter-Company Pool (ICP) Agreement (which includes Washington Water Power Company and Puget Sound Power and Light Company) and the Western Systems Power Pool Agreement. Also, the merged company will be willing to negotiate separate non-firm wheeling agreements which equitably share transaction benefits among the buying, selling and wheeling utilities. The Company pointed out that the most notable aspect of the proposed wheeling policy is its recognition of "opportunity costs" for pricing certain firm transmission services. The proposed wheeling policy recognizes FERC's jurisdiction over complaints from utilities concerning the merged company's application of the wheeling policy. As outlined by the Company in its supplemental brief, some changes in the wheeling policy were proposed by the FERC staff. Though some differences exist in the proposed wheeling policies, the Company acknowledged that, in large measure, it did not particularly object to the changes proposed by the FERC staff.

Concerning the effect of the proposed wheeling policy on other Washington utilities, the Company pointed out that the principal means of transmission access to California and desert Southwest markets is by way of the Pacific Northwest/Pacific Southwest Intertie (Intertie) and argued that neither the merger nor the proposed wheeling policy will have any material effect on Washington utilities' access to the Intertie. It was pointed out that Pacific's 300 megawatt Intertie entitlement is already dedicated to existing long-term firm sales and that in any event, Pacific is precluded by contract with the Bonneville Power Administration (Bonneville) from providing Intertie wheeling for others; any unused portion of Pacific's Intertie entitlement would revert to Bonneville. The Company further pointed out that Washington utilities have no direct access to the existing Utah Power transmission system in that they would first need to obtain wheeling from either the Idaho Power Company or Montana Power Company. The merged company will honor all existing transmission contracts of Pacific and Utah Power.

The Company concluded that the merger itself and the proposed wheeling policy will have a de minimus effect on the ability of Washington utilities to access California wholesale markets and that any effects would be positive to the extent that the proposed wheeling policy assures all utilities non-firm and firm access into and through the merged company's system on an equitable basis that protects the economic interests of the merged company's customers.

B. Commission Staff

The Commission staff submitted a supplemental brief wherein it withdrew its objections to the merger in view of the Company's supplemental information, which staff considered to be responsive to staff's principal concerns. The staff continued to request the reporting requirements specified by Mr. Lott in his testimony as the only way the Commission can reasonably assure proper rate levels.

The time frame of the Company's filing and its specific content were acceptable to the Commission staff. It was staff's understanding that of the \$59 million in merger benefits, 58 percent, or \$34.22 million would be assignable to the Pacific division, and that of that amount, 14.5 percent, or \$4.96 million would be afforded to Washington customers. Staff considered that the Company's proposed rate filing represents a "sharing" of the first-year benefits.

Concerning the proposal to adjust the results to reflect the impact of changing from Phase III to Phase IV of the revised inter-jurisdictional allocation methodology, staff concluded that the April 1989 filing date would not appear either to be inconsistent with the intent of the Commission's order in Cause No. U-86-02, which approved the modified allocation procedure, or constitute an unconscionable delay in giving effect to the contemplated reduction in revenue requirement. Staff also found no particular problem with the Company's proposal that the amortization of deferred price decreases arising from Docket No. U-87-1513-T (Schedule 94) be concluded. Some concern was expressed, however, about the proposal to reflect increased costs associated with the addition of pollution control equipment at the Jim Bridger plant; staff was reluctant to consider this sizable rate base item as a proper element of a "tracker", but did acknowledge that bringing a project of this magnitude on line would normally create pressure for a rate increase. In its reluctant acceptance of this Bridger pollution control proposal, staff emphasized that this plant must be in service, since to recognize it in rates prior to that time would be a violation of Washington Supreme Court decisions. However, staff argued that the implementation of the merger benefits not be delayed should the Company encounter delays in getting the Bridger facilities in service. In any event, staff suggested that the revenue requirement (positive or negative) associated with each of these elements be identified and thoroughly supported in order to meaningfully evaluate the filing and also as a guard against any hint of gamesmanship.

While noting the favorable wholesale market aspects Pacific Power may enjoy as a result of the merger, possibly to the detriment of other Washington investor-owned utilities, the

brief of the Commission staff remained silent on the issue of transmission and noted that transmission issues are duly before PERC, the regulatory agency having jurisdiction to decide them.

C. Public Power Council

In its supplemental brief, PPC again expressed opposition to the proposed merger. It argued that the merger would harm the bulk power market of the Western Systems Coordinating Council (WSCC) and its Washington member utilities. The concern was raised that the merger might not be consummated during 1988, so PPC argued that there is no guarantee that Washington ratepayers will receive an equitable share of the benefits since the Company's commitment to an April 1989 rate filing was contingent on merger consummation during 1988.

Pointing to the merged company's control of transmission access from the Northwest into the Southwest markets, PPC argued that the merger would have anti-competitive impacts on Washington utilities in that they all depend on others for access. The concern was that the merged company would be in a position of harming competition by not allowing access. PPC considered the Company's proposed wheeling policy to be flawed and to fall short of mitigating the anti-competitive nature of the merger.

PPC also moved to supplement the record with late-filed exhibits.

III. APPLICABLE LAWS

Under RCW 80.01.040(3), the Washington Utilities and Transportation Commission is authorized to regulate in the public interest, the rates, services, facilities, and practices of public utilities.

Chapter 80.12, RCW deals with transfers of property. Specifically, RCW 80.12.020 provides that:

No public service company shall sell, lease, assign or otherwise dispose of the whole or any part of its franchises, properties or facilities whatsoever, which are necessary or useful in the performance of its duties to the public, and no public service company shall, by any means whatsoever, directly or indirectly, merge or consolidate any of its franchises, properties or facilities with any other public service company, without having secured from the commission an order authorizing it so to do: Provided, That this

section shall not apply to any sale, lease, assignment or other disposal of such franchises, properties or facilities to a special purpose district as defined in RCW 36.96.010, city, county, or town.

Commission authorization is required in order for a public service company to, directly or indirectly, purchase, acquire, or become the owner of any of the franchises, properties, facilities, capital stocks or bonds of any other public service company. RCW 80.12.040, WAC 480-143-010. The Commission must be satisfied that the transaction is consistent with the public interest. WAC 480-143-050.

Matters relating to securities are governed by Chapter 80.08, RCW. As provided, in relevant part, in RCW 80.08.040:

Application for authorization to issue such stocks and stock certificates or other evidence of interest or ownership, and bonds, notes or other evidences of indebtedness shall be made to the commission stating the amount, character, terms and purpose of each proposed issue thereof, and stating such other pertinent details as the commission may require.

To enable it to determine whether it will issue such order, the commission may hold a hearing and may make such additional inquiry or investigation, and examine such witnesses, books, papers, documents and contracts, and require the filing of such data as it may deem of assistance. The commission may by its order grant permission for the issuance of such stocks or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness in the amount applied for, or in a lesser amount, or not at all, and may attach to the exercise of its permission such condition or conditions as it may deem reasonable and necessary.

Under RCW 80.08.130, in order for a public service company to assume any obligation or liability as guarantor, indorser, surety or otherwise in respect to the securities of any other person, firm or corporation, when such securities are payable at periods of more than twelve months after the date thereof, it must first secure from the commission an order authorizing it so to do. See also Chapter 480-146, WAC. The

3. All motions consistent with this decision should be granted and all inconsistent motions should be denied.

ORDER

WHEREFORE, THE COMMISSION HEREBY ORDERS:

1. The proposed merger of PacifiCorp Maine 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 & Light Company (Utah Power) and PacifiCorp Oregon entered into on August 12, 1987 (merger agreement) is approved.

2. The merged company is authorized and directed to adopt tariff schedules and special service contracts of PacifiCorp Maine, d/b/a Pacific Power and Light Company, for service within Washington on file with the Commission and in effect as of the effective date of the merger.

3. The Company is 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 percent 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.

4. The Company is authorized to assume all outstanding debt obligations of PacifiCorp Maine and Utah Power at the effective date of the merger and the continuation or creation of liens in connection therewith.

5. The Company is authorized to issue securities under authorizations previously granted to PacifiCorp Maine by the Commission, which authorizations have not yet been fully utilized.

6. The Company is required to submit the reports specified by staff witness Mr. Lott in his testimony, Exhibit T-14 at pages 5-7 and also set out in the body of this order.

7. The Company shall make a rate filing during the month of April 1989, giving effect to Washington ratepayers their allocated share of \$59 million in projected first-year merger benefits, to be adjusted as set out earlier in this order.

8. All motions consistent with this decision are granted and all inconsistent motions are denied.

3. On September 17, 1987, PacifiCorp, d/b/a Pacific Power & Light Company (PacifiCorp Maine) and PC/UP&L Merging Corp. (PacifiCorp Oregon) jointly filed an application with the Commission under the provisions of chapters 80.08 and 80.12 RCW for an order authorizing: (1) the merger of PacifiCorp Maine 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 & Light Company (Utah Power) and PacifiCorp Oregon entered into on August 12, 1987 (merger agreement); (2) the issuance by PacifiCorp Oregon of not more than 128,000,000 shares of its \$3.25 par value common stock, not more than 126,533 shares of its 5 percent 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 at the effective date of the merger and the continuation or creation of liens in connection therewith; and (4) the issuance of securities by PacifiCorp Oregon under authorizations previously granted to PacifiCorp Maine by the Commission, which authorizations have not yet been fully utilized.

4. Hearings were held on December 1, 1987, January 7 and 8, 1988, and February 23 and 24, 1988, after due and proper notice to all interested parties.

5. The Company will make a rate filing during the month of April 1989 giving effect to the first-year merger benefits. Its Washington customers will be afforded their allocated share of \$59 million of annual, total-company merger benefits. The Commission finds this filing, as detailed earlier in this order, to be an appropriate method for the equitable sharing the merger benefits with Washington ratepayers. The Company agrees to reconvene the jurisdictional allocation committee with all involved states within six weeks after final approval of the merger.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction of the subject matter and of the parties to this proceeding.

2. The Commission concludes that the proposed merger and the issuance of securities and assumption of obligations are consistent with the public interest and should be approved.

should remain cost-based. Furthermore, the design of rates (i.e. rate structure) should, to the extent possible, convey to consumers a price signal that reflects the expected costs of meeting future electric loads. The assumptions underlying rate design should be consistent with those used in the Company's least-cost planning process.

Staff witness Polson correctly points out the discrepancy in average system cost between Pacific Power and Utah Power. The Commission continues to be concerned about the effects on Pacific's ratepayers of merging with a higher cost system, and believes that any integration of the power supply function for the two companies should be done in a manner consistent with Pacific's least-cost planning process, now getting under way. In the meantime, the Commission views Pacific's current average system costs as the appropriate basis for rates.

While this Commission remains concerned about transmission access issues, we recognize that these matters involve interstate commerce and are properly before the Federal Energy Regulatory Commission (FERC). Having reviewed the Company's and FERC's proposed wheeling policies, this Commission notes its initial accord with the wheeling policy as modified by the FERC staff. We note that the Company has accepted the modifications proposed by the FERC staff including the recognition of "opportunity costs" becoming a part of the transmission and wheeling policy statement. In any event, we believe that the public interest of Washington residents and utility companies will be protected by the modified proposal and a fair resolution of issues can be reached by FERC, the regulatory agency with jurisdiction to decide these matters in any future proceedings.

FINDINGS OF FACT

Having discussed in detail the oral and documentary evidence and having stated findings and conclusions, the Commission now makes the following summary of facts. Portions of the preceding detailed findings pertaining to the ultimate facts are incorporated by this reference.

1. The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with authority to regulate rates, rules, regulations, practices, accounts, securities and transfers of public service companies, including electric companies.
2. PacifiCorp Maine, d/b/a Pacific Power and Light Company, an applicant herein, is engaged in the business of furnishing electric service within the State of Washington as a public service company.

filing of the application is covered in WAC 480-146-010. The necessary information and exhibits for mergers are identified in the WAC and are set forth in the required form of application, see WAC 480-146-070 and 080.

IV. COMMISSION DISCUSSION

As set forth by the Commission in its First Supplemental Order, the Company demonstrated on this record that there are substantial economies to be gained in the first five years of the merger; it estimated total merger benefits of \$48 million per year in the first year, increasing to \$158 million per year in the fifth year. While recognizing that these are estimates, the Commission notes the benefits to be of substantial magnitude. The evidence establishing merger benefits was largely uncontradicted. Thus, the Commission's concern was that Washington ratepayers receive an equitable share of the benefits. We requested and received additional information from the Company and others, as indicated earlier in this order.

Based upon the record before this Commission, we conclude that the merger is in the public interest and accordingly approve the merger, with the requirements set forth herein, and further approve the issuance of securities and assumption of obligations as being in the public interest. The Commission is satisfied with the Company's benefit-sharing commitment to afford Washington ratepayers their allocated share of the projected \$59 million in merger benefits in its April 1989 rate filing. We accept the "tracker" filing as proposed by the Company but agree with staff's concerns. The Company will be expected to thoroughly support each element of the filing. We further accept the Company's agreement to reconvene the jurisdictional allocation committee with all involved states within six weeks after final approval of the merger.

The Commission concludes that the general and monthly reporting requirements as recommended by staff are reasonable and will require the Company to comply therewith.

The additional conditions suggested by the parties are deemed unnecessary and are rejected. The Commission is satisfied that the record is complete and is a sufficient basis on which to make a decision. Accordingly, the requests to supplement the record with late-filed exhibits are denied.

The Commission agrees with the distinction made by staff between revenue stability and rate stability. While revenue requirements will be affected by the proposed merger, should it occur, the allocation of costs to customer classes and rate design issues derive from considerations outside the realm of this case. In particular, the Commission believes that rates

9. Jurisdiction is retained by the Washington Utilities and Transportation Commission to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this 15th day of July, 1988.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD D. CASAD, Commissioner



A. J. PARDINI, Commissioner