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UTAH PUBLIC
SERVICE COMMISSION

June 3, 1988

Public Service Commission of Utah
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160 East 300 South
Fourth Floor
Salt Lake City, Utah 84111

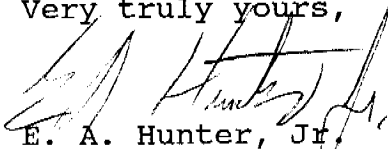
RE: PSCU Case No. 87-035-27
UP&L and PacifiCorp Merger

Dear Commissioners:

Filed with this letter is Applicants' Post-hearing Brief.

Pursuant to a discussion with Commission Counsel, David L. Stott, for the convenience of the Commission and the parties we have included a copy of Applicants' Response to Proposed Merger Conditions which was previously filed and which is referenced in the Brief.

Very truly yours,


E. A. Hunter, Jr.

EAH/gbm

Enclosures

cc: All counsel of record

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INTRODUCTION

Utah Power & Light Company ("Utah Power") and PC/UP&L Merging Corp. (the "Merged Company") (collectively "Applicants") submit this post-hearing brief in support of their Application in this case.

Utah Power, PacifiCorp ("PacifiCorp Maine") and the Merged Company have entered into an Agreement and Plan of Reorganization and Merger ("Merger Agreement") dated August 12, 1987. (App. Ex. 6.1.A.) The Merger Agreement provides for the merger of Utah Power and PacifiCorp Maine into the Merged Company, a new Oregon corporation, which will be renamed PacifiCorp contemporaneously with the merger.

Under the terms of the Merger Agreement, Utah Power and PacifiCorp Maine will cease to exist on the effective date of the merger and the Merged Company will succeed to all their rights and properties and will be responsible for all their debts, liabilities and obligations. The outstanding shares of common and preferred stock of Utah Power and PacifiCorp Maine will be converted into shares of the Merged Company. (App. Ex. 6.1.A at 2-3.)

Following the merger, the power supply and transmission systems of Utah Power and PacifiCorp Maine will be planned for and operated on a "single utility basis." (App. Ex. 18.0 at 3.) However, the Merged Company, doing business as "Utah Power & Light Company," will continue to serve Utah Power's existing customers within its existing service territory, and the Merged Company, doing business as "Pacific Power & Light Company" ("Pacific Power"), will continue to serve Pacific Power's existing customers within its existing service territory. (App. Ex. 3.0 at 15.)

The proposed merger is an extremely significant step for Utah Power and Pacific Power. Both utilities believe the merger is necessary to

respond to the increasingly competitive environment in which they operate. Electric utilities are facing increasingly intense competition from traditional rivals such as oil, wood, gas and other electricity suppliers, as well as from co-generators, small power producers and a whole host of emerging technologies, including fuel cells and photovoltaics. (App. Ex. 3.0 at 5.) This competition is intensified by the power surplus now present in many regions of the country. Large customers, both retail and wholesale, have more options and are shopping actively for the best energy deals. As a result, electric utilities are under mounting pressure to keep prices down and quality of service up. (App. Ex. 3.0 at 6.)

To succeed in this new environment it is necessary to be price competitive and increase efficiency and customer service, without sacrificing the basic responsibility to provide safe and reliable service. (App. Ex. 3.0 at 8.) The evidence is clear that the merger will enable the Applicants to meet these challenges more effectively, while at the same time providing substantial benefits to the customers, employees and shareholders of both utilities, as well as to the states and communities in which they serve. (App. Ex. 1.0 at 10-11.)

LEGAL STANDARD

Utah Code Ann. § 54-4-28 (1986) provides:

No public utility shall combine, merge nor consolidate with another public utility engaged in the same general line of business in this state, without the consent and approval of the public utilities commission, which shall be granted only after investigation and hearing and finding that such proposed merger, consolidation or combination is in the public interest.

The question of what is "in the public interest" was briefed earlier in the proceedings in this case. The Commission, in its Order regarding "standard of approval for merger," issued November 20, 1987, adopted the "positive benefits" test as the standard for judging the merits of the proposed merger. With respect to matters over which the Commission has jurisdiction, the Applicants were given the burden to show that on balance the merger will be beneficial. The Commission stated that with respect to considerations outside of its normal jurisdiction and enforcement powers, for example, the health of the coal mining industry, antitrust effects, et cetera, which bear on aspects of the public interest, Applicants have no affirmative burden to demonstrate benefits or even an absence of harm. In those areas, the parties advocating the same were given the burden of demonstrating either some benefit or some substantial harm by reason of the merger.

The Applicants have clearly met the public interest test established by the Commission. Both Utah Power and Pacific Power are competently managed, financially sound and technically proficient public utilities with long records of providing efficient, reliable and adequate service at reasonable rates. (App. Ex. 3.0 at 19.) After the merger, Utah Power will continue to provide service, as a separate division of the Merged Company, to its existing customers within its existing certificated service territories as it has in the past. (App. Ex. 3.0 at 15.) No party has questioned Utah Power's continuing ability to provide adequate, efficient and reliable service to its Utah customers. The balance of the Brief will identify the other substantial benefits associated with the merger.

I.

NON-POWER SUPPLY SAVINGS RESULTING FROM THE MERGER

The testimony is overwhelming that there are major non-power supply benefits of the merger which neither Company can achieve on a stand-alone basis. The principal benefits stem from manpower efficiencies, reduced insurance premiums and other administrative combinations. Manpower and insurance savings alone surpass \$200 million through 1992. (App. Ex. 11.1 at 1, 5.) The Division of Public Utilities ("Division") supported the substantiality of these benefits. (DPU Ex. 1.0 at 15-16; 7.0 at 10-11). Indeed, there is no evidence from any party that such benefits will not be realized [the Committee of Consumer Services ("Committee") did not address these major points at all] with only the Geneva Steel ("Geneva") witness Winterfeld arguing that, because Applicants had not performed certain studies, the amount of benefits in these categories is speculative. (Gen. Ex. 2.0 at 26-26, 32.)

The answer to Geneva is that, in order for the merger to be found to be in the public interest, it is not required that benefits be quantified as a mathematical absolute. It is sufficient if the areas and magnitude of benefits are shown with a reasonable probability. Union Electric Co., 25 FERC ¶ 61,394, p. 61,876 (1983). "[T]he lack of a precise dollar figure of the future benefits to inure to the ratepayers does not negate the evidence that there will be some cost savings in the future." Consolidated Gas Supply Corp., 22 FERC ¶ 63,037, p. 65,165 (1983). See also Wisconsin Electric Power Co., 59 F.P.C. 1196, 1199-1200 (1977); Iowa Power & Light Co., 44 F.P.C. 1640 at 1654-1655 (1970).

Applicants' testimony shows that non-power benefits will approximate \$30 million in the first year post-merger and increase to approximately \$100 million by the fifth year, with the total of five-year benefits approaching \$320 million. (App. Ex. 11.1 at 1.)

A. Manpower Efficiencies

Nearly half of the non-power supply savings arise from manpower reductions. Applicants have testified that, through attrition and a hiring freeze in the five years following the merger, Pacific Power and Utah Power will achieve annual manpower reductions of 3% and 1.7%, respectively. (*Id.* at 6-7; Tr. at 711.) Using average payroll, benefit and overhead numbers, the resulting savings for five years surpasses \$150 million, exceeding \$50 million annually by the fifth year. (*Id.* at 1, 7).

The projected attrition rates are conservative when compared to attrition rates in recent years. (App. Ex. 1.0 at 5.0; Tr. at 686-88, 711.) With Applicants intending to maintain or improve service quality (Tr. at 686), the bulk of manpower reductions will occur through consolidation of duplicative administrative functions, *e.g.*, shareholder relations, auditing, data processing, insurance and power plant maintenance and scheduling. (App. Ex. 4.0 at 5; App. Ex. 9.0 at 4; App. Ex. 12.0 at 13.) These manpower efficiencies cannot be obtained absent the merger. (App. Ex. 8.0 at 29-30; 12.0 at 3-4, 12; Tr. at 469-470.)

It is only Mr. Winterfeld for Geneva who determined that absolutely no savings could be achieved in manpower reductions either because utility size would not correlate with productivity or because Applicants had not specifically identified each position which would be cut. (Gen. Ex. 2.0 at 32-33.) Mr. Winterfeld's testimony is seriously flawed. First, his own study

and the study published, but not endorsed, by NARUC (Tr. 2164), suggesting that larger electrical companies do not necessarily have more efficient workforces, miss the point. The studies admittedly did not compare pre-merger and post-merger manpower levels or efficiencies (Tr. at 2167-68, 2203-04), whereas the recent merger of Toledo Edison and Cleveland Illuminating demonstrated significant manpower reductions. (Tr. at 687.)

Second, Mr. Winterfeld's refusal to ascribe even \$1.00 of merger benefits from manpower reductions is patently unreasonable. The uncontested evidence and common sense establish that there is substantial duplication between Utah Power and Pacific Power in administrative functions. (App. Ex. 12.0 at 3-4; Tr. at 2157-58.) While many expenses and cuts are a function of external factors over which Applicants have little control, viz., inflation and the cost of other energy sources, manpower reduction is one area where Applicants have substantial control to produce the benefits to which they have testified.

B. Insurance and Other Administrative Efficiencies

Approximately \$100 million of the merger's non-power supply benefits are attributable to insurance and other allied administrative combinations. (App. Ex. 11.1 at 1, 4-6.) Division witness Mr. Burrup reviewed these projected benefits and found them conservative. (DPU Ex. 1.0 at 15.)

1. **Insurance.** The category of insurance savings through the merger is not only one of the clearest areas of benefits, it is virtually undisputed in the testimony. Applicants' witness Reed estimated that savings of approximately \$10 million per year, through lower property, casualty and liability insurance premiums, will result as a direct consequence of consolidated coverage, elimination of Utah's duplicative Directors and Officers coverage

and the fact that a larger, financially stronger corporation can reasonably carry less coverage. (App. Ex. 11.1 at 5; 12.0 at 15-17.) Supportive of the Reed testimony (a witness substantially experienced in insurance markets) are the corroborative letters of two of the largest national insurance brokers stating that savings on insurance premiums through mergers of major regulated air carriers and other large industries range from a high of 55% to a low of 25% of the smaller firm's pre-merger premiums. (App. Ex. 12.4.)

The sole challenge to Applicants' testimony on insurance benefits came from Mr. Winterfeld who was unqualified on insurance issues, having not even a nodding acquaintance with insurance of any type. (Tr. at 2173.) Mr. Winterfeld ignored the fact that duplicative coverage could be eliminated as a result of the merger. (Tr. at 2175-78.) He also ignored the results of his own calculations. After having adjusted Applicants' estimate of insurance benefits down to \$6.4 million in the first year after merger, he rejected even those savings on the threadbare argument that the Applicants had not performed an equivalent rate structure and risk management study. (Gen. Ex. 2.0 at 26.)

2. Other Administrative Combinations. Mr. Winterfeld acknowledged that \$3.2 to \$3.8 million of additional annual merger savings will result from administrative combinations in the areas of computers, legal services, financial services and power plant maintenance. (Gen. Ex. 2.6.) The weight of the evidence supports approximately \$1.3 to \$1.5 million additional annual savings in computers. (App. Ex. 11.1 at 4; 12.0 at 11.) Mr. Winterfeld ignored these additional savings claiming that there was very little common use of programs between the two companies. (Gen. Ex. 2.0 at 20.) On cross-examination, however, he admitted having had access to an exhibit

showing substantial duplication of software before he filed his testimony. (Tr. at 2186-87.) Applicants' projected annual savings of \$600,000, which are achieved by including Pacific Power in Utah Power's mutual insurance company group welfare policies, are substantiated as a benefit attributable to the merger. (App. Ex. 8.0 at 25; Tr. at 376, 472.) Finally, the potential savings of \$3 million per year in the area of environmental services as a result of the merger (App. Ex. 11.1 at 4-5) should not be rejected simply because it is based upon a different management approach than Utah Power currently employs. (Gen. Ex. 2.0 at 22-24.) To the extent that either of the Divisions of the Merged Company will benefit because of new management approaches made available through the merger, cost reductions will be beneficial to customers and likely would not have been achieved without the merger.

C. Other Non-Power Supply Savings

In addition to the savings from manpower efficiencies and administrative combinations, the Merged Company will realize operating savings of approximately \$37 million from economic development and \$28 million from reduced construction during the first five years following the merger. (App. Ex. 11.1 at 1.)

1. **Economic Development.** Pacific Power has developed a uniquely successful economic development program highlighted by target industry studies, a site economic evaluation data base, the ability to assist clients with credit enhancement, excellent contacts with Pacific Rim and European industries and effective coordination with other agencies promoting economic development. (App. Ex. 3.0 at 9-10; 12.0 at 5-9; 15.0 at 3-5; 16.0 at 7-8; Tr. at 644.) The increased sales made possible by economic development were projected by applying Pacific Power's established program to Utah Power's

service area utilizing Utah economic indices (provided by the Bureau of Economic and Business Research of the University of Utah) and deducting the incremental costs of adding Utah Power to the program. (Tr. at 640-41, 644-64, 681, 1082.) Sharing of Pacific Power's expertise will enable Utah Power to save several years and substantial costs. (App. Ex. 12.0 at 5; 16.0 at 7-8.)

Committee witness Weatherwax and Geneva witness Winterfeld challenged the benefits attributable to economic development. Their essential objections were that the benefits are not merger related and are speculative. (CCS Ex. 1.0 at 10-11; 2.0 at 1, 14; Gen. Ex. 2.0 at 14-15.) Applicants have rebutted these arguments (App. Ex. 12.0 at 5-9; 16.0 at 6-11), providing specific evidence of the success of Pacific Power's program. (App. Ex. 12.1.) It is unreasonable for Messrs. Weatherwax and Winterfeld to assume that Utah Power can buy or develop Pacific Power's unique expertise without substantial delay and expense. (App. Ex. 16.0 at 7; Tr. at 651-52, 1078-80.) Applicants acknowledge that forecasts, by their nature, are somewhat speculative. However, their forecast of economic development benefits is based on an established record. (App. Ex. 12.0 at 6-7; 16.0 at 10-11; Tr. 640-41.)

2. Reduced Construction. As a result of the merger, Utah Power and Pacific Power will be able to defer or avoid construction projects currently in their budgets, but will also be required to advance certain transmission interconnection upgrades. (App. Ex. 11.1 at 2.) Applicants' projection of benefits is based upon the net avoided carrying costs on projects deferred or advanced as a result of the merger. (Tr. at 660.)

Committee witness Weatherwax and Geneva witness Winterfeld challenge these savings principally on the grounds that they are not merger-related, that Utah Power's portion is unsupported and that the cost of transmission upgrades necessary to achieve power supply savings will exceed other construction savings. (CCS Ex. 1.0 at 9-10; Gen. Ex. 2.0 at 7, 13.) They also claim double counting between these benefits and those in manpower efficiencies. (CCS Ex. 1.0 at 9; Gen. Ex. 2.0 at 11.) Applicants have demonstrated that the savings could not be achieved without the merger, that Utah Power's benefits are substantiated, that the increased level of transmission interconnections projected by Mr. Weatherwax are not necessary and that benefits included in reduced construction are distinct from those included as part of overhead in computing manpower efficiencies. (App. Ex. 8.0 at 17, 19; 22.0 at 2-4; 25.0 at 7-9; Tr. at 439-40, 1332-34, 1346-48.)

II.

CAPACITY SAVINGS RESULTING FROM THE MERGER

Mr. Boucher offered lengthy direct testimony describing the diversity benefits of the merger, including the benefits derived from merging a summer-peaking and winter-peaking utility. (App. Ex. 18.0.) In large measure, these diversities, as well as Pacific Power's access to Bonneville Power Administration ("Bonneville") capacity and firm energy, translate into an ability for the Merged Company to defer the construction of costly new generating plants. Mr. Steinberg modeled the new resource needs of the Merged Company over a twenty-year period and compared the expected cost of new resources for the Merged Company with those of Utah Power and Pacific Power on a stand-alone basis. He concluded that the present value of

merger savings associated with the deferral of new resources during the next twenty years was \$352 million. (App. Ex. 23.0 at 6).

Dr. Weaver, on behalf of the Division, performed a similar analysis and concluded that the present value of twenty-year savings would be \$346 million. (DPU Ex. 5.0 at 20.)

Neither Mr. Weatherwax nor Mr. Goff concurred with the conclusions of Mr. Steinberg or Dr. Weaver. In large measure, Mr. Weatherwax and Mr. Goff contradicted each other.

Mr. Weatherwax calculated twenty-year capacity savings in a range of \$124 million to \$65.4 million. (Tr. at 1625.) Curiously, Mr. Goff predicted a net increase in twenty-year present value capacity costs of \$186 million. However, he acknowledged that, if (as he predicts) the Merged Company does not make an additional long-term firm sale or expand loads through economic development over stand-alone levels, there will be twenty-year capacity savings from the merger of \$286 million. (Tr. at 1818, 1819.)

The major issues distinguishing the witnesses in their estimates of capacity savings are:

1. Can the Merged Company reduce its reserve margins by 200 megawatts?
2. Is power purchased from Bonneville a feasible and cost-effective substitute for coal plants that would have otherwise been built by Utah Power?
3. Should it be assumed that the Merged Company will plan on a "critical" water basis?

4. Can the available capacity of Pacific Power's Mid-Columbia resources be increased by 40 megawatts in light of the availability of Automatic Generation Control ("AGC") equipment on Utah Power generating plants?

5. Should the cost, but not the revenues, associated with a long-term firm sale and economic development program be included in the merged case?

Following is a brief discussion of each of these issues:

A. 200 Megawatt Capacity Reduction

The Merged Company's ability to reduce reserve requirements, consistent with the provisions of the Pacific Northwest Coordination Agreement ("Coordination Agreement"), accounts for the difference between Mr. Weatherwax's "high" and "low" estimates of twenty-year capacity savings. (Tr. at 1625.) Applicants believe that, as a matter of contract, Pacific Power, on a stand-alone basis, could have reduced reserves by 200 megawatts. (App. Ex. 25.0 at 4-5.) However, as a matter of prudent utility practice, Pacific Power has not been able to do so because of the geographic spread of its system. With Utah Power's generation and merger transmission additions, the reduction will be prudent and possible.

In his prefiled testimony, Mr. Weatherwax suggested that the Coordination Agreement may not allow the 200 megawatt reduction because the Merged Company might be required to include extra-regional loads as well as extra-regional resources in its reserve calculations. (CCS Ex. 1.0 at 3-15.) Upon cross-examination, Mr. Weatherwax recanted and acknowledged that the planned reserve reduction is consistent with past Pacific Power practices as well as the terms of the Coordination Agreement. (Tr. at 1641-1642). Thus, Mr. Weatherwax now appears willing to concede the issue.

Mr. Goff does not discuss this issue in his testimony and apparently concedes that the 200 megawatt reserve reduction will be possible.

B. Availability and Cost-Effectiveness of Purchases from Bonneville

Mr. Weatherwax does not contest Applicants' assumption that Bonneville power will be available to meet future load growth, but does question whether it will be cheaper than additional Utah Power coal plants. (CCS Ex. 2.0 at 23.) Mr. Goff agrees with the Applicants that Bonneville power would be cheaper, but questions its availability. (Tr. at 1823.)

The heart of this issue lies in the Northwest Electric Power Planning and Conservation Act ("Regional Act") which placed upon Bonneville a statutory obligation to acquire cost-effective resources to meet the load growth of Northwest utilities. (See 16 U.S.C. § 839 c(b)(1) and 16 U.S.C. § 839 d.) Mr. Weatherwax opined that there is no reason to believe the Bonneville rate will be cheaper than new coal plants. (CCS Ex. 1.0 at 23-24.) However, he acknowledged that he has not recently studied the make up of Bonneville's new resource rate and never did produce a study supporting his conclusions. (Tr. at 1629.) Intuition alone suggests Mr. Weatherwax is wrong on this point--the Bonneville rate is a melded rate with costs based on embedded resources, as well as additional low-cost conservation and cogeneration. (Tr. at 1632, 1854.) There is every reason to expect that it will be a cheaper source of power than building new coal plants.

As to the issue of availability, cross-examination demonstrated Mr. Goff's lack of understanding of both the provisions of the Regional Act and Pacific's Bonneville contract. (Tr. at 1826.) Reliance on existing Bonneville forecasts to demonstrate a lack of future availability is unreasonable. Like

any utility, Bonneville can be expected to acquire resources as it needs them.
(Tr. at 1853-1854.)

C. Reliance on Critical Water

Mr. Steinberg described the reasons that utilities in the Northwest plan on a "critical" water basis. (Tr. 1068-1070.) Mr. Weatherwax suggested that calculations of future resource costs should assume "average" as opposed to "critical" water, apparently because he expects average water planning to be adopted in the Northwest. (Tr. at 1636, 1637.) Mr. Goff, like the Applicants and Dr. Weaver, assumed critical water planning. (Tr. at 1822.) Whether or not Mr. Weatherwax's prognosis is correct, it seems most reasonable to base calculations on planning assumptions currently used by all Northwest utilities and Bonneville. (Tr. at 1635, 1638.) While Mr. Weatherwax asserts that an economic bias is introduced by assuming critical water planning in regard to projected energy costs, he was not able to explain why an adjustment to energy costs made by the Applicants in their studies did not adequately respond to his concerns. (CCS Ex. 2.0 at 23; Tr. at 1638, 1639.)

D. Mid-Columbia Capacity Adjustment

Mr. Goff was the only witness to question the increase in Mid-Columbia capacity as a result of the availability of AGC equipment on the Utah Power system. It was apparent from cross-examination that Mr. Goff knows virtually nothing about the Mid-Columbia resource. (Tr. at 1831.) As explained by Mr. Steinberg, Mr. Goff's testimony reflects a misunderstanding of the difference between resource planning and actual operating practices. (App. Ex. 24.0 at 7-8.)

E. Inclusion of Costs but Not Revenues

For reasons that remain incomprehensible, Mr. Goff asserted that it is appropriate to include costs, but not revenues, associated with the Merged Company's additional long-term firm sales and economic development activities. This adjustment accounts for the great bulk of the difference in his estimates from those of the Applicants. (App. Ex. 24.0 at 6.) The absurdity of Mr. Goff's approach is best demonstrated by the fact that when an additional firm sale and the economic development activities are deleted from Mr. Goff's analysis, his calculation of capacity benefits goes from a negative \$186 million to a positive \$286 million. (Tr. at 1818).

III.

POWER COST SAVINGS RESULTING FROM THE MERGER

Mr. Steinberg offered extensive direct testimony related to the net power cost savings that can be expected from the merger. These benefits arise from more efficient dispatch of generating resources, displacement of higher cost purchased power and the ability to make additional wholesale sales at enhanced margins. (App. Ex. 23.0 at 11). Mr. Steinberg quantified these savings using production cost models similar to those Pacific Power has used in state regulatory proceedings for at least the last ten years. (Tr. at 1071.) These studies indicated that savings in net power costs will amount to about \$16.7 million in the first year of the merger, increasing to about \$42.2 million by the fifth year. (App. Ex. 23.0 at 10). This represents an overall reduction in net power costs of between 4 and 8 percent. (App. Ex. 23.0 at 11).

No witness in this proceeding really contests the proposition that the Merged Company will enjoy materially lower net power costs. Mr. Weatherwax, on behalf of the Committee, reviewed Applicants' models and substituted his own model in part. He offered the Commission a smorgasbord of estimates of net power supply savings. In his original testimony, Mr. Weatherwax calculated a five-year net present value range of benefits of between \$70 million and \$34 million. (Tr. at 1646). In his surrebuttal testimony, he concluded that the range was between \$53.3 million and \$23.2 million. (Tr. at 1658-1659). As a result of study errors identified during cross-examination, Mr. Weatherwax is now willing to concede a range of five-year present value benefits of between \$67.1 million and \$36.5 million or cumulative benefits in a range of \$89.9 million to \$48.51 million. (CCS Rev. Ex. 2.0 [RKW-S1]; Joint Ex. at 1.)

The difference in Mr. Weatherwax's "high" and "low" estimates relates to whether or not Pacific could have made an additional long-term sale in the absence of a merger and whether the Merged Company will be able to make such a sale. (Tr. at 1646-1647). In addition, a number of other issues related to input assumptions and modeling techniques leave major differences between Mr. Weatherwax and Mr. Steinberg's benefit estimates. While Applicants continue to believe that Mr. Weatherwax's analysis is defective in many respects, happily the differences between the Applicants' and the Committee's positions need not be resolved in this proceeding. Even if all of Mr. Weatherwax's assumptions and methods were accepted, the Commission would nevertheless be compelled to conclude that the merger will produce material savings in net power costs. These savings, in and of themselves, are sufficient to demonstrate that the merger will further the public interest.

Mr. Goff did not suggest that the Merged Company will not in fact enjoy lower net power costs. Instead, he argued that a substantial portion of the projected benefits could be obtained in the absence of the merger through various contractual arrangements. He acknowledged that over the first five years, some \$106 million of net power cost reductions will in fact be enjoyed by the Merged Company, but asserted that \$97 million of these should be disregarded because, in his judgment, a merger is not needed to achieve them. (Tr. at 1845). Mr. Goff was not able to explain why this Commission ought not act now to capture these benefits for consumers, notwithstanding the fact that they might be achieved at some future time through some other mechanism. (Tr. at 184, 1846-1847).

Ultimately, the question of whether net power cost savings could be obtained through contract, as opposed to merger, is a matter of experience and judgment. Applicants' experience and judgment are reflected in the testimony of Mr. Davis (who described Utah Power's recent unsuccessful efforts to form a power pool with Northwest utilities) and that of Mr. Boucher. (App. Ex. 2.0 at 8-12; 19.0 at 1-2.) Mr. Davis has worked in the utility industry for 40 years and Mr. Boucher for 23 years. (App. Ex. 1.0 at 1; 18.0 at 1-2.) This experience and judgment must be contrasted to Mr. Goff's, who has never before worked for a utility, never negotiated a power contract and never previously appeared as an expert witness on power supply matters. (Tr. at 1811).

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH 4:10

UTAH PUBLIC
SERVICE COMMISSION

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.)

POST-HEARING BRIEF OF
APPLICANTS UTAH POWER &
LIGHT COMPANY AND PC/UP&L
MERGING CORP.

Case No. 87-035-27

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IV.

ALLOCATIONS/REGULATORY BURDEN ASSOCIATED WITH THE MERGER

A. Allocations

The Applicants are committed to finding methods of allocating the substantial cost savings associated with the merger which are fair and consistent with sound economic and regulatory principles. (App. Ex. 12.0 at 20.) The Applicants are also committed to establishing and maintaining the records and auditing and accounting systems that will permit the Commission to evaluate the merger costs and benefits for allocation and other regulatory purposes. (App. Ex. 4.0 at 4; 8.0 at 36-42; 9.0 at 6.)

The Applicants propose to initiate a joint committee comprised of representatives of FERC and the seven state commissions to discuss and resolve the issues surrounding the allocation of merger benefits. (App. Ex. 12.0 at 19.) All of the state and federal representatives should be included in this joint committee because, ultimately, allocation issues will be addressed by each jurisdiction and there is a need to obtain as much uniformity and consistency as possible between the various jurisdictions. (App. Ex. 12.0 at 19.)

Work with the joint committee would begin within six weeks after final approval of the merger. (App. Ex. 12.0 at 19.) The Applicants are already working on developing an initial allocation proposal which will be provided to the joint committee. (App. Ex. 12.0 at 19.)

As Mr. Powell testified, an interjurisdictional meeting approach has been used by Utah Power and its regulators in the past to obtain consensus on allocation issues. (Tr. at 2243.) Based on this prior experience, the

Applicants believe that the joint committee can develop an equitable allocation method. (App. Ex. 12.0 at 20.)

The Applicants recognize, however, that this Commission has the responsibility and authority to determine how merger benefits will be allocated to Utah Power's Utah customers. (App. Ex. 11 at 3.) The Applicants also recognize that it is the shareholders, not the ratepayers, who will bear the risk of inconsistent allocation procedures between jurisdictions. (App. Ex. 11.0 at 3.)

Because this Commission has the authority to make its own determination on allocation issues in any future rate proceeding, and because a framework has been established for the expeditious examination of allocation issues, allocation issues need not and should not be decided prior to approval of the merger. (App. Ex. 11.0 at 3; 12.0 at 17.) The Division agrees that allocation issues should be resolved after the merger is approved. (Tr. at 2241-2242, 2256.) The Committee also now agrees that allocation issues do not have to be resolved in advance. (Tr. at 1858.)

B. Regulatory Burden

1. **Impact on Commission's Legal Authority.** The proposed merger will not adversely impact this Commission's authority to regulate Utah Power's utility operations. This Commission currently has the statutory authority to regulate and supervise Utah Power's utility operations in the State of Utah. (Utah Code Ann. § 54-4-1, et seq.) This Commission will continue to have that authority over the utility operations of the Utah Power Division after the merger. (App. Ex. 10.0 at 7; 11.0 at 6; Tr. at 1190.) Indeed, this merger, unlike certain other business combinations or structures, will permit this Commission and other state commissions which regulate the Applicants to

maintain all the authority they currently have. (App. Ex. 8.0 at 45; Tr. at 1235-1236.)

2. Impact on Commission's Practical Ability. The proposed merger will not impair the Commission's practical ability to regulate Utah Power's utility operations. Geneva witness Helsby argued that the merger will hamper the ability of this Commission to regulate Utah Power's utility operations. Those concerns were also raised in the Idaho and Wyoming merger proceedings. (App. Ex. 27 [Idaho and Wyoming Orders.]) However, no intervenor witness has successfully demonstrated that the merger will present regulators with issues that they do not already have the expertise to address. (App. Ex. 12.0 at 21-22.) The state regulators with jurisdiction over the Merged Company have the experience necessary to provide effective review. (App. Ex. 12.0 at 22.)

As Mr. Powell testified, this merger will not raise any significant new issues and will not significantly increase the burden on regulators. (Tr. at 2251.) Mr. Powell also testified that the Division has experience in dealing with issues similar to those that will arise as a result of the merger. (Tr. at 2263-2265.)

Similarly, the Idaho Public Utilities Commission recently found, in its order approving the merger, that, ". . . we are satisfied that the merger will not impair the regulatory ability of this Commission" (App. Ex. 12.0 at 22.) The Wyoming Public Service Commission, which previously issued an order approving the merger, recently filed its brief in the FERC merger proceeding and stated that: "The Wyoming Commission firmly believes that the proposed merger will not have a significant adverse effect upon its ability to regulate the merged entity. . . . The proposed merger plainly

does not present unique or new regulatory problems. Interstate, interdivisional and interaffiliate allocations can be successfully made and have been successfully made in the past by the affected state commissions." (App. Ex. 12.0 at 22-23.)

V.

LOCAL CONTROL ISSUES

As one of Utah's largest employers and substantial corporate citizens, it is not surprising that the proposed merger of Utah Power raises concerns regarding loss of local control. In light of the undisputed evidence, however, those concerns have faded as a genuine question in the case. It is patently clear that the merger's impact on the practical aspects of local control is de minimis. The regulatory control of this Commission will not change.

A. Organizational Structure

Utah Power will be a division of the Merged Company with the same standing that Pacific Power now enjoys. (App. Ex. 1.0 at 8; 10.0 at 8; Tr. at 82, 151, 301.) This divisional organization was specifically chosen because it maintains local control and regulation while promoting coordination. (Tr. at 82, 212-13.) The current Utah Power officers and directors will continue to serve as officers and directors of the Utah Power Division (App. Ex. 6.1.A at 44.), with three members of the Utah Power Board becoming members of the Merged Company's Board of Directors. (App. Ex. 3.0 at 15; Tr. at 103, 288.) The Utah Power Board, like the Pacific Power Board, will function as a committee of the Merged Company's Board with delegated authority to manage and operate the Division's business. (App. Ex. 1.0 at 9; 3.0 at 16; Tr. at 157.) The Merged Company's Board will oversee the issuance of securities,

the conduct of audits and approval of extraordinary capital expenditures. (Id.; App. Ex. 10.0 at 8; Tr. at 208.)

Utah Power's President and Pacific Power's President will enjoy the same status in the Merged Company's hierarchy. (Tr. at 2323.) Each will sit on the other Division's Board and each will be a member of the Merged Company's Corporate Policy Group which makes recommendations on overall corporate direction and policies to the Merged Company's Board. (App. Ex. 1.0 at 8; 3.0 at 16; 10.0 at 8.) There will be little, if any, difference in the way management will function before and after the merger, except that each Division will have access to the other's expertise. (Tr. at 82, 106-107, 304.)

In anticipation of the merger, a Utah executive has already been elected to PacifiCorp Maine's Board. (Tr. at 105.) Immediately following consummation of the merger, four of the 21 Board members will be from Utah Power's service area. (App. Ex. 5.0 at 5; Tr. at 103, 155-56.) Although a higher number of members currently reside in Oregon, this imbalance will be gradually corrected over time. (App. Ex. 3.0 at 15; Tr. 155-56, 2319.) Jurisdictional representation on the Board is only one basis for selection of Board members; other business units within the Merged Company and outside areas of expertise are and should also be represented. (Tr. at 103-04, 155-56, 287, 2319-20.) It is without rational foundation to assume that the Merged Company's Board would refuse to devote necessary attention and resources to the Utah Power Division just because its corporate headquarters are in Portland. The investment in the Utah Division is immense and Utah Power will be the Merged Company's single largest electric jurisdiction. (App. Ex. 3.0 at 18; 11.0 at 6-7; Tr. at 105-07.)

B. Local Presence

The offices of the Utah Power Division will remain in Salt Lake City, Utah. (App. Ex. 3.0 at 15; 5.0 at 5; Tr. at 152, 302.) In addition, power supply for the entire Merged Company will be headquartered in Salt Lake City requiring the transfer of from 25 to 100 employees from Portland to Utah. (Tr. at 118, 292-93, 302.) Transition teams are studying administrative functions to determine how they will be organized and where they will be located after the merger. (Tr. at 118, 586, 2310-11.) It is anticipated that the location of the consolidated functions will be balanced between Salt Lake City and Portland. (Tr. at 118.) The Merged Company, through the Utah Power Division, will continue to be a responsible corporate citizen in Utah. (Tr. at 1143, 1226-28, 2316.) It is the Merged Company's policy to decentralize purchasing to the greatest extent possible and to buy from local businesses unless significant savings are otherwise available. (Tr. at 162, 2314-15.) The Utah Power Division and the Pacific Power Division, to the extent of joint purchases, will comply with the Third District Court Order regarding competitive bidding. (Tr. at 77-79, 163.) The Utah Power Division will also comply with that Order's provisions on political contributions. (Tr. at 1144-45.)

C. Affiliates

PacifiCorp Maine is a diversified company with substantial interests in businesses other than its electric utility business. (App. Ex. 3.0 at 2-3.) The Merged Company will not finance its businesses other than its electric utility divisions from the proceeds of securities issues without prior notice to the Commission. (App. Ex. 5.0 at 9; 10.0 at 4-5; App. Resp. to Prop. Mer. Cond. at 10.) It will allow the Commission to review all transactions between

the electric divisions and affiliates and will provide sufficient access to affiliate records and employees to allow regulators to ensure that utility customers are not damaged through inter-affiliate transactions. (App. Ex. 4.0 at 4-5; 5.0 at 9; Tr. at 567-68.)

D. Local Regulatory Approvals

As discussed in Section IV.B.1 of this Brief, the Commission's jurisdiction will not be impaired by the merger. Ratemaking will be done in the future essentially the same way as it is now done. (App. Ex. 4.0 at 4; 10.0 at 4-5.) To the extent it is necessary for Commission Staff or the Division to review records maintained out of state, the Merged Company will bear the expense of such reviews. (Tr. at 436.) The Merged Company is required to obtain Commission approval for all securities issues. (App. Ex. 10.0 at 7; 11.0 at 6-7.)

VI.

EFFECT OF MERGER ON RETAIL PRICES

A. Rate Reductions

The merger will enable Utah Power's customers' rates to be reduced by 5-10 percent over the next four years. Within 60 days of the effective date of the merger, revised tariffs will be filed in Utah proposing an overall reduction in prices to Utah Power regular firm customers of 2 percent. After the Merged Company gains some experience, and no later than the end of 1988, a detailed plan will be submitted to the Commission describing how the total targeted price reduction will be implemented. (App. Ex. 9.0 at 2.) A minimum 5 percent rate reduction to regular firm customers will be guaranteed within four years of the merger even if not cost based. (Tr. at 527-528,

532.) Rate reductions thereafter will be cost based. (Tr. at 356-361, 396-401.) Beyond the four-year time frame, a precise prediction of electric prices is difficult because costs are heavily influenced by inflation, interest rates, and oil and gas prices. Independent of those factors, however, the merger will result in lower prices to Utah Power and Pacific Power customers than would be the case absent the merger. (App. Ex. 9.0 at 3.)

Applicants do not foreclose the possibility of proposing some interclass restructuring of rates which may mean a recommendation for increase where a class of customers is not paying cost of service. (Tr. at 189, 191.) In any event, the Commission will retain its current authority over any changes in rate spread and rate design.

Applicants hope and intend some day to have rates set on a system average basis. It would be advantageous from an administrative standpoint. (Tr. at 184.) This is not likely to occur, however, within four to five years and will not occur at all if it means a price increase to either Divisions' customers. (Tr. at 210.)

The burden to capture the efficiencies necessary to support the rate reductions described above rests solely on the Applicants and their shareholders. (Tr. at 79.) Applicants, however, are confident that the anticipated savings will be realized at the levels specified in testimony and, therefore, agree to accept as merger conditions the requirements to:

- (1) File revised tariffs reducing Utah firm retail rates of the Utah Power Division by 2% within 60 days of the merger;
- (2) File revised tariffs reducing Utah firm retail rates of the Utah Power Division by 5-10% (including the 2% initial reduction) within the next four years; and

- (3) Certify that Utah customer supported revenue requirements of the Utah Power Division will not ever be raised as a result of the merger.

(App. Resp. to Prop. Mer. Cond. at 12.)

B. Spread of Rate Reductions

Applicants recommend that the 2 percent rate reduction described above be implemented on an across-the-board basis to each tariff rate schedule, in accordance with Applicants' Corrected Rebuttal Ex. 16.1, absent the Commission completing hearings regarding rate spread, rate design and schedule consolidation. (Tr. at 769, 772, 1483-1484.)

Subsequent rate reductions should be spread among and between classes of customers based upon cost-of-service. (Tr. at 86.) Due to the spreading of reductions on a cost-of-service basis, during the four-year period following the effective date of the merger, it is possible, but highly improbable, that some customers in the Utah Power Division may see an increase in their rates even though there are projected merger benefits occurring to the Merged Company. (Tr. at 639-640.) In any event, cost-of-service adjustments are not related to the merger. (Tr. at 1116.)

The Applicants' position with respect to the spread of rate reductions to major industrial customers who take service at discounted or less than full tariff prices is discussed at Section VII of this Brief.

VII.

EFFECT OF MERGER ON MAJOR INDUSTRIAL CUSTOMERS

The evidence provided in this proceeding establishes that Utah Power's industrial customers will receive benefits from the merger. Utah Power's industrial customers who take firm service will receive immediate rate

reductions as a result of the merger. Utah Power's industrial customers who take non-firm service will receive, in accordance with their contracts and their status as a part of Utah Power's operating reserve, benefits associated with the lower power costs and increased reliability characteristics of the merged system.

A. Special Contract Industrial Customers Who Take Firm Service

The four Utah Power industrial customers who take firm service under special contracts would receive rate reductions in accordance with the provisions of their contracts. Those customers would receive rate reductions on the full cost firm portion of their service in the same manner proposed for all tariff rate schedules. (App. Corr. Ex. 16.1; 16.3.)

Those special contract customers would not receive the 2 percent rate reduction on the incentive rate portions of their service. (Tr. at 1149-1150; App. Corr. Ex. 16.1; 16.3.) However, those customers would continue to receive service at the incentive prices provided in their existing contracts. (Tr. at 1259.)

B. Special Contract Industrial Customers Who Take Only Non-Firm Service

The two Utah Power special contract industrial customers who take only non-firm service would not receive the proposed 2 percent rate reduction. (Tr. at 1149-1150; App. Ex. 16.3.) Those interruptible customers have elected to be a part of Utah Power's operating reserve and the prices and terms of their contracts already reflect that choice. (App. Ex. 16.0 at 24; 21.0 at 9; DPU Ex. 7.8; Tr. at 2247-2248.) Indeed, those customers are already receiving service, under the terms of their recently renegotiated contracts, at incentive prices. (DPU Ex. 7.8; App. Ex. 16.3; Tr. at 1527.)

Interruptible industrial customers can, however, expect other benefits from the merger. The Applicants have assured interruptible customers, including AMAX and Geneva, that the merger will reduce the frequency of interruptions due to system operating reserve requirements. (App. Ex. 21.0 at 3.)

The Applicants have also provided evidence that the operation of the merged system as a single entity will reduce the cost and increase the availability of firm power which, absent other firm requirements, will be available to interruptible customers. (App. Ex. 21.0 at 3-4). While the availability of this firm power to interruptible customers will be affected by Applicants' success in making off-system firm sales, Applicants' merger studies project 200 megawatts of off-system sales and 600 megawatts of additional resources. (App. Ex. 21.0 at 4.) Based on those studies, the interruptible customers will actually be in a better position after the merger. (App. Ex. 21.0 at 4.)

In addition, the Applicants have provided evidence that the merged systems' purchased power costs will be substantially lower than the purchased power costs of Utah Power without the merger. (App. Ex. 21.0 at 4-5.) Thus, interruptible customers, like AMAX, who must pay the actual cost of energy acquired to serve them, will see lower average acquired energy costs. (App. Ex. 21.0 at 4-5, 9-10.)

The Applicants have also agreed that Utah Power's current dispatch policy for interruptible customers will be adopted by the Merged Company. (Tr. at 1146-1147.) Interruptible customers on the merged system will continue to have dispatch priority over off-system non-firm sales. (App. Ex. 21.0 at 3; Tr. at 1132-1137.)

Based on the evidence in this proceeding, the Division concluded that the merger will not adversely affect interruptible customers. (Tr. at 2246.) However, if AMAX and Geneva continue to believe that they deserve special guarantees, they should pursue those issues in the Commission's incentive rate proceeding, or in future contract negotiations. (App. Ex. 16.0 at 23; 21.0 at 4, 9-10; Tr. at 2245-2246.) Indeed, the AMAX contract specifically provides for that type of renegotiation. (Tr. at 1945.) Interruptible rate issues, including pricing and dispatch priority, are issues that Utah Power, its customers and the Commission should address in future negotiations and proceedings with, or without, the merger. (App. Ex. 16.0 at 23-24.) This is not the appropriate proceeding in which to attempt to resolve those issues.

VIII.

COAL ISSUES RELATED TO THE MERGER

Mr. Sandack, representing District 22 of the United Mine Workers of America International Union ("UMW"), in his opening statement indicated the concerns of that union to be, generally, the integrity of the "International Union United Mine Workers of America and Utah Power & Light Company Wage Agreement of 1988," layoffs or reductions in force as a result of the merger, displacement of power production at the Hunter and Huntington Plants by Pacific Power's Wyoming generating facilities, the use of Wyoming coal in Utah Power's Emery County generating stations and the use of NERCO expertise in the Utah Power Emery Mines. (Tr. at 43-45.) The UMW offered no witnesses or testimony in support of their positions or concerns. The following brief discussion will address the UMW concerns.

A. Integrity of UMW - Utah Power Wage Agreement

The Merged Company will succeed by operation of law to the assets, liabilities and operations of PacifiCorp Maine and Utah Power. (App. Ex. 6.1.U at 6.) Mr. Davis testified that Utah Power union relations will not be adversely affected by the merger and further that existing union contracts will remain in effect, for their term, unless changed by mutual agreement. (App. Ex. 1.0 at 12.)

Exhibit UMWA 1.1 entitled "International Union United Mine Workers of America and Utah Power & Light Company Wage Agreement of 1988," effective February 1, 1988, and terminating February 1, 1993, was executed by J. Brett Harvey, Vice President of Utah Power and Mike R. Dalpiaz, President of the United Mine Workers of America. Mr. Harvey had authority from the Utah Power Board of Directors to negotiate and execute the agreement. (Tr. at 136.) The Agreement will be honored by the Merged Company. (Tr. at 238, 267, 270-72.)

B. Mining Operation Layoffs or Reductions in Force

With respect to savings due to manpower reductions, the evidence showed that there will be no layoffs as a result of the merger and that it is not anticipated that any of the 940 positions lost to attrition would be coming out of the mining operation. (Tr. at 712-13.) The majority of these positions are expected to come out of administrative type functions. (Id.)

C. Displacement of Power Production at the Hunter and Huntington Plants

The Merged Company will "operate the power supply system with the most economic dispatch." The evidence shows that the lowest cost plants will be dispatched as much as possible, wholesale sales will be made as much

as possible and all of the Merged Company's plants will be operated at a higher percentage of capability than they are now. (Tr. at 283.)

The Applicants' production cost model showed that over the five year study period coal consumption increased roughly 700,000 tons. About 350,000 tons was increased at Pacific Power's plants and 350,000 tons was increased at Utah Power's plants. Eighty-five percent of the 350,000 ton increase at the Utah Power Plants was at the Deer Creek and Cottonwood Mines. (Tr. at 1046.) Dr. Weaver testified that because of the merger, the Huntington and Hunter Units should be run more intensively through the foreseeable future, not just the five years. (Tr. at 2109.)

D. Use of Wyoming Coal in Carbon and Emery County Generating Stations

Wyoming coal has not been considered for use in the Utah Power generating stations in Utah after the merger because of "severe transportation difficulties in moving Wyoming coal to Utah," the quality of Wyoming coal and the competitive price of coal from Utah Power's Emery County Mines. (Tr. at 1051-1052, 1223-1224.)

E. Use of NERCO Expertise in Utah Power's Emery Mines

In light of the underground mining techniques and mining efficiencies that Utah Power has shown in the last year, Applicants do not have any expectations of any kind of intermanagement exchanges with, or transfer of management or ownership of Utah Power's coal properties to, NERCO. (Tr. at 273.)

IX.

MERGER COSTS

A. Magnitude of Merger Costs

Estimated costs of the merger are \$18.5 million. (App. Ex. 8.0 at 30-32.) These costs are insignificant when compared with the savings that will result from the merger. (See Sections I, II and III of this Brief.)

B. Amortization of Merger Costs

Inasmuch as the principal benefits of the merger will flow to the Merged Company's electric utility customers, and in accordance with Account 301 of the Uniform System of Accounts, the Commission should authorize the Merged Company to include these costs in its rate base and to amortize them over 40 years. (App. Ex. 7.2 at 4-5; 8.0 at 30-31.) If this treatment is not authorized, the Merged Company will be required to write off \$14 million of the costs in 1988. (App. Ex. 8.0 at 33.) This is too significant a burden to expect the shareholders to bear, particularly in light of the risks they are taking as a result of the merger commitments for rate reductions. (Id.) Mr. Powell recommended that the shareholders and the ratepayers share the merger costs. (DPU Ex. 7.6 at 5.) Mr. Powell proposed that the unamortized portion of the merger costs be included in rate base, but only be allowed a rate of return equal to the cost of debt. (DPU Ex. 7.6 at 5-8.) The Applicants find this to be an acceptable compromise.

C. Premium

Several intervenor witnesses expressed concern about the premium to be paid by the Merged Company to Utah Power's shareholders because they assumed that the Merged Company's management would try to divert merger benefits to shareholders to compensate for this premium. These concerns are

based on a misunderstanding of the regulatory process. The only benefits that will flow to shareholders are those which regulators allow to flow to them. (App. Ex. 8.0 at 27.) Any premium paid will not be reflected in rate base and will not affect electric prices. (App. Ex. 12.0 at 25-26.) The Applicants' testimony made it unequivocally clear that the Merged Company does not expect more than the opportunity to earn its authorized rate of return as determined from time to time by its regulators. (App. Ex. 12.0 at 25-26; Tr. at 80-81.) Therefore, there is no basis for intervenors' concerns.

X.

PROPOSED CONDITIONS

Applicants, through testimony and their written Response to Proposed Merger Conditions dated May 19, 1988, have exhaustively reviewed and formally responded to each of the 60 proposed conditions to merger approval suggested by the Division, Committee and intervenors. Those responses need not be repeated here. A copy of Applicants' Response is attached hereto for the Commission's ease of reference.

Almost all proposed conditions are either unrelated to the merger or are overreaching. Their adoption would encroach on the future flexibility of the Commission and the Merged Company in responding to the evolving electric utility environment or grant untoward advantages to certain intervenors. Therefore, Applicants respectfully submit that the Commission should adopt only those conditions proposed by Mr. Powell for the Division which essentially mirror the commitments Applicants have made with regard to the merger.

CONCLUSION

The overwhelming weight of the evidence of this proceeding places beyond reasonable debate that this merger will produce highly significant net positive benefits exceeding \$500 million. Those benefits accrue to and will be realized by the customers, employees and shareholders of Utah Power and Pacific Power and are plainly in the public interest.

This is not a case in which the merger benefits stem from a single source. The economies and diversities of the merged operations are witnessed in not only the efficiencies of power supply operations, but the non-power supply areas. Virtually no one in the case has denied that these benefits are extant and substantial; the only question has been one of precise quantification.

The cost savings of this merger directly translate into lower electric prices to Utah Power customers, which, in turn, enable the Merged Company to maintain a competitive position in the increasingly competitive environment of the electric utility industry.

The matter of local control of Utah Power after the merger has been effectively removed as a question in the case. The undisputed facts are that the Merged Company will maintain a strong local presence in Utah. Day-to-day operations regarding customers and regulators in the Utah service area will not differ measurably from the status quo. The entire concept of decentralized and local management is a centerpiece of this merger.

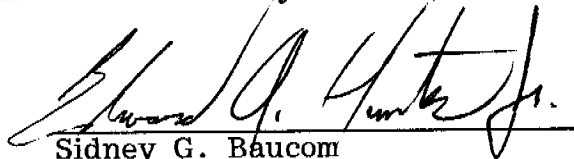
The regulatory jurisdiction and authority of this Commission over the Merged Company will not be impaired vis-a-vis that jurisdiction and authority which the Commission exercises presently over Utah Power. None of the state commissions before whom Applicants have submitted this merger

for approval have concluded that state regulatory jurisdiction will be harmed.

Merger approval should be accompanied by a minimum of conditions. Only those conditions proposed by the Division witness Powell have direct nexus to the merger, itself, and are supported by the public interest.

It is in the public interest that this merger be approved, subject only to the Division conditions, without delay so that the joint allocation committee may begin its sessions and so that the immediate merger benefits may be realized by Utah customers.

Respectfully submitted this 3rd day of June, 1988.

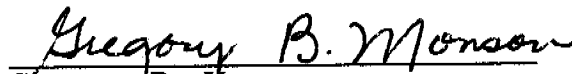


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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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 : Case No. 87-035-27
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' RESPONSE TO
PROPOSED MERGER CONDITIONS

The Commission has requested Applicants to respond to the Division of Public Utilities' ("Division") compilation of proposed conditions to merger approval dated May 16, 1988.

On May 2, 1988, the Division compiled and distributed a list of proposed conditions suggested in prefiled testimony by its witnesses and those of the Committee of Consumer Services ("Committee") and various intervenors. Applicants addressed each condition included in the initial compilation, except for five proposed conditions of Division witness Huntsman, through prefiled rebuttal testimony, supplemental direct testimony or cross-examination. With respect to the five Huntsman proposals, Applicants met with Division counsel and Mr. Huntsman regarding proposed modifications which were accepted by Mr. Huntsman and presented to the Commission in his testimony of May 12 and 13,

1988. Certain other witnesses modified their proposed conditions in surrebuttal testimony filed on May 9, 1988. These modifications were included in a second Division compilation of proposed conditions dated May 16, 1988.

Applicants' responses to all proposed conditions fall into one of five categories:

- (i) Acceptable - conditions proposed which are merger-related and acceptable to Applicants as conditions to merger approval;
- (ii) Not challenged - conditions proposed with which Applicants do not disagree in general principle but which are not merger-related or are unnecessary (e.g. involve matters of jurisdiction which cannot be affected by agreement of the parties or order of the Commission);
- (iii) Unacceptable - conditions proposed which are merger related but are unacceptable to Applicants;
- (iv) Unrelated and unacceptable - conditions proposed which are unacceptable to Applicants and which are not related to the merger; and
- (v) Eliminate - conditions proposed which have been withdrawn or deferred to another witness.

All six conditions proposed by Division witness Kenneth B. Powell (clarified slightly as shown hereafter) are acceptable to Applicants as conditions to approval of the merger. These

conditions require Applicants to:

1. File revised tariffs reducing Utah firm retail rates of the UP&L division by 2% within 60 days of the merger.*
2. File revised tariffs reducing Utah firm retail rates of the UP&L division by 5-10% (including the 2% initial reduction) within the next four years.*
3. Certify that Utah customer supported revenue requirements of the UP&L division will not ever be raised as a result of the merger.
4. Commence multi-jurisdictional meetings within six weeks of the merger to attempt to resolve interdivisional allocation issues.
5. Make a filing within the first quarter of 1989 of the financial and cost of service factors necessary to determine the appropriate rate levels in Utah.
6. Make annual filings of sufficient financial and cost of service data to determine appropriate rate levels in Utah.

Applicants believe it is unnecessary and potentially misleading for the Commission to condition approval of the merger on other proposed conditions which attempt to restate the Commission's authority or which address matters not related to the merger. It is well established that neither the parties nor the Commission itself can confer jurisdiction on or remove jurisdiction from the Commission. Jurisdiction is a matter of law

* These rate reductions will not apply to certain incentive rate customers. Applicants Exhibit 16.3 (Faigle). All rate reductions between customers shall be pursuant or subject to Commission order.

to be determined by the legislature and the courts. Any attempt to condition approval on all matters the Commission may require of Applicants will undoubtedly not include all such matters, could conceivably limit the future flexibility of the Commission and the parties, and may include matters the Commission cannot require regardless of the merger.

To the extent Applicants have already responded to a proposed condition on the record, they will attempt to briefly state their position and refer to those portions of the record containing their prior response; however, this response should not be deemed to identify exhaustively every record reference relative to a proposed condition. If Applicants have not previously responded to a proposed condition, this document will set forth their response.

For ease of reference, Applicants will respond to the proposed conditions in the same order set forth in the Division's May 16, 1988 compilation. If minor wording changes would clarify a proposed condition so that the proposed condition is either "acceptable" or "not challenged", the proposed condition will be amended in this response utilizing the standard legislative amendment format.

PROPOSED CONDITIONS

Witness
ROBERT SPANN - NUCOR

1. Do not approve merger until UP&L presents a definitive proposal for allocation of costs between UP&L and PP&L divisions. (page 2).

Applicants' Response: Unacceptable. Applicants Exhibit 12.0 (Reed) at 17-20; Transcript ("Tr.") 561-62 (Reed).

2. Require UP&L to offer contract demand customers power for loads in excess of current load levels at the same price and under similar conditions as it offers power for sales for resale. (page 3)

Applicants' Response: Unrelated and unacceptable. Applicants Exhibit 17.0 (Topham) at 12-16.

3. Require UP&L to implement procedures to ensure that the merger does not have the effect of increasing rates or lowering service quality to interruptible customers. (page 3)

Applicants' Response: Unacceptable. Applicants Exhibit 16.0 (Faigle) at 23-25; Tr. 1136-37 (Faigle).

4. Commission should state that nothing in the merger approval precludes retail customers connected at the transmission and/or sub-transmission level from seeking wheeling of power from other suppliers under the same general terms and conditions as any wheeling for wholesale customers required by the FERC. (page 3)

Applicants' Response: Unrelated and unacceptable. Applicants Exhibit 17.0 (Topham) at 16-17.

5. If the four previous conditions are not placed on the merger, the Commission should affirmatively require UP&L to offer contract demand customers wheeling of power from other suppliers under the same general terms and conditions as any wheeling for wholesale customers required by the FERC. (page 3)

Applicants' Response: Unrelated and unacceptable. Applicants Exhibit 17.0 (Topham) at 17-20.

Witness

JOHN J. REED - AMAX MAGNESIUM

1. Commission should order AMAX and other existing interruptible customers of UP&L to be dispatched before--not after--any new off-system sales, including firm sales, that the merged company may make.

Applicants' Response: Unrelated and unacceptable. Applicants Exhibit 16.0 (Faigle) at 23-25; Applicants Exhibit 21.0 (Boucher) at 2-5; Tr. 1257-65 (Boucher).

2. Establishment of a set of ground rules for the approval of future off-system sales which address the interruptible customers' concerns. Among these ground rules should be the restriction that pricing provisions should recover all known incremental capacity and energy costs projected to be incurred during the term of the sale. (page 16)

Applicants' Response: Unrelated and unacceptable. Applicants Exhibit 16.0 (Faigle) at 25.

3. Participation by interruptible customers in any allocation of cost savings or revenues from off-system sales. (page 16)

Applicants' Response: Unrelated and unacceptable. Applicants Exhibit 16.0 (Faigle) at 25.

4. Offering interruptible customers the right of first refusal on all off-system sales, be they firm or interruptible. (page 16)

Applicants' Response: Unrelated and unacceptable. Applicants Exhibit 16.0 (Faigle) at 25.

Witness

ROBERT J. GROW - Geneva Steel (based on surrebuttal testimony)

1. The combined company should endeavor to combine ratebases of the UP&L and PP&L jurisdictions as expeditiously as possible and should report to the Commission no less than annually on its progress in this regard. (page 17).

Applicants' Response: Unacceptable.

2. Until such time as the UP&L and PP&L ratebases are merged pursuant to the procedure set forth above, the full benefit and value of the UP&L transmission system, including future additions, enhancements and improvements to the same, should be reserved for UP&L ratepayers, based upon an "opportunity cost" rationale assuming UP&L were permitted in the future to pursue fully the highest and best use of the transmission system, including all available brokering and wheeling opportunities. (page 18)

Applicants' Response: Unacceptable. Applicants Exhibit 21.0 (Boucher) at 6-8; Tr. 564 (Reed).

3. The Commission will set an authorized rate of return without regard to merger premium issues. The risk of any adverse impact on bond ratings, etc. shall be borne solely by the shareholders of the merged company. (page 18)

Applicants' Response: Unrelated and unacceptable. See Huntsman Proposed Condition No. 6. Tr. 80-81 (Davis); 158-61 (Bolender).

4. The UP&L stand alone model will be updated and revised based upon what UP&L potentially could have done as a separate company. (page 18)

Applicants' Response: Unacceptable. Applicants do not believe any condition should be imposed which could limit the options available in the meetings on interdivisional allocation.

Witness

RONALD L. BURRUP - DIVISION OF PUBLIC UTILITIES

1. Reporting requirements of the merged company, including semi-annual report on merger benefits and five year financial plan. (page 18)

Applicants' Response: Unacceptable. See Powell Proposed Condition No. 6. Applicants Exhibit 8.0 (Colby) at 38-39; Tr. 392 (Colby).

2. Requirement for merged company to pay Division travel costs pertaining to auditing out of state records. (page 22)

Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 42-43.

Witness

WESLEY D. HUNTSMAN - DIVISION OF PUBLIC UTILITIES

1. Agree that employees, officers, directors, and agents will voluntarily testify before the Commission. (DPU Exhibit 2.7 (Huntsman), A.1)

Applicants' Response: Not challenged. Tr. 565 (Reed).

2. Provide adequate access to records and officials of all PacifiCorp entities which transact business with the electric utility divisions of PacifiCorp. In addition, PacifiCorp should be required to pay for the expenses of accessing records and personnel of the Commission and Division of Public Utilities which are located outside of the state of Utah. (DPU Exhibit 2.7 (Huntsman), A.2)

Applicants' Response: Not challenged.

3. Implement timekeeping and project management systems adequate to support the allocation of costs to the utility. (DPU Exhibit 2.7 (Huntsman), A.3)

Applicants' Response: Not challenged. Tr. 565-66 (Reed); 1448-49 (Huntsman).

4. Agree that the Commission, subject to the limits of its authority and subject to other applicable law, may investigate and make appropriate orders after hearing regarding transactions between the electric utility divisions of PacifiCorp and their affiliates. (DPU Exhibit 2.7 (Huntsman), A.4)

Applicants' Response: Not challenged.

5. Agree that the Commission, subject to the limits of its authority and subject to other applicable law, may modify its orders or rules regarding matters of utility diversification. (DPU Exhibit 2.7 (Huntsman), A.5)

Applicants' Response: Not challenged.

6. Agree that the capital costs and structure of the PacifiCorp corporation may be adjusted to reasonable levels to assure that the cost of capital is appropriate for the utility operations. (DPU Exhibit 2.7 (Huntsman), B.1)

Applicants' Response: Not challenged. Tr. 566 (Reed).

7. Document and justify allocations to the Utah division in a manner basically consistent with the agreement between PacifiCorp and the Oregon Commission Staff attached as Appendix 1. (DPU Exhibit 2.7 (Huntsman), B.2)

Applicants' Response: Not challenged. Tr. 566 (Reed).

8. Allocate net power cost changes and benefits on an equitable basis that is consistent with principles currently utilized in allocating power costs to the Utah Energy Balancing Account. Net Power cost changes due to the merger shall be determined based on the results of studies showing net power costs for Pacific and Utah divisions separately as if the merger had not occurred and net power costs for the merged company. (DPU Exhibit 2.7 (Huntsman), B.3)

Applicants' Response: Eliminate. Witness deferred matter to Powell. Tr. 1435-36 (Huntsman).

9. Allocate other cost changes due to the merger using equitable allocation methods that embody the principle that incurred costs and benefits follow the cause of such costs and benefits. (DPU Exhibit 2.7 (Huntsman), B.4)

Applicants' Response: Not challenged. Tr. 566-67 (Reed).

10. Agree that PacifiCorp shareholders shall assume all risks that may result from less than full system cost recovery if inter-divisional allocation methods differ among the merged company's various jurisdictions subject to all administrative and judicial remedies. (DPU Exhibit 2.7 (Huntsman), B.5)

Applicants' Response: Not challenged. Witness agreed to interlineation. Tr. 567 (Reed); 1436 (Huntsman).

11. Adopt and implement the procurement policies and procedures developed by UP&L (Exhibit DPU-2.5), or as modified by PacifiCorp and approved by the Commission, for all procurement in the Utah division [~~or associated with costs allocated to the Utah division~~] in compliance with the Third District Court Order and joint procurement between the Utah and Pacific divisions. (DPU Exhibit 2.7 (Huntsman), B.6)

Applicants' Response: Not challenged. Tr. 77-79 (Davis); 163 (Bolender); 1436-37 (Huntsman).

12. Comply with the competitive bidding policy in relation to affiliated entities expressed in [~~Response to the Division's Data Request No. 128~~] Appendix 2 attached hereto for all procurement in the Utah division or [~~associated with costs allocated to the Utah division~~] joint procurement between the Utah and Pacific divisions. (DPU Exhibit 2.7 (Huntsman), B.7)

Applicants' Response: Not challenged. See Huntsman Proposed Condition No. 11.

13. Adopt the transfer pricing policy regarding the pricing of goods and services and the transfer of assets expressed in [~~Response to Division's Data Request 9-E~~] Appendix 3 attached hereto. (DPU Exhibit 2.7 (Huntsman), B.8)

Applicants' Response: Not challenged. Tr. 567 (Reed).

14. Provide a copy of the affiliated interest report prepared for the Oregon Commission to the Utah Commission [~~as expressed in Response to the Division's Data Request No. 130~~]. (DPU Exhibit 2.7 (Huntsman), B.9)

Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 36; Tr. 392 (Colby).

15. Provide notification of ~~[all]~~ asset transfers to or from the Utah division ~~[until-asset-transfer-rules-are-adopted by-the-Utah-Public-Service-Commission]~~ in accordance with the current Rule No. 95 or R750-4-1, whichever is applicable, until new asset transfer rules are adopted by the Commission. (DPU Exhibit 2.7 (Huntsman), C.1)

Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 42.

16. Implement a standardized planning process for making decisions (1) to form an affiliate entity for the purpose of transacting business with the electric utility divisions of PacifiCorp, (2) to commence new business transactions between an existing affiliate and the electric utility divisions of PacifiCorp, or (3) to dissolve an affiliate which has transacted any substantial business with such divisions. (DPU Exhibit 2.7 (Huntsman), D.1)

Applicants' Response: Not challenged.

17. Provide sufficient information, documentation and reporting to the Commission of plans (1) to form an affiliate entity for the purpose of transacting business with the electric utility divisions of PacifiCorp, (2) to commence new business transactions between an existing affiliate and the electric utility divisions of PacifiCorp, or (3) to dissolve an affiliate which has transacted any substantial business with such divisions. (DPU Exhibit 2.7 (Huntsman), D.2)

Applicants' Response: Not challenged.

18. The Commission should require PacifiCorp to document and report the analysis performed to determine that divestiture of an integral utility function is a cost effective management decision. (DPU Exhibit 2.7 (Huntsman), D.3)

Applicants' Response: Not challenged. Tr. 567 (Reed).

19. Agree that PacifiCorp will not finance its businesses other than its electric utility divisions from the proceeds of the issuance of PacifiCorp securities, including common and preferred stock and debt, without providing prior notice to the Commission. (DPU Exhibit 2.7 (Huntsman), D.4)

Applicants' Response: Not challenged.

Witness

ROGER WEAVER - DIVISION OF PUBLIC UTILITIES

1. Annual reporting of realized energy and peak loads for the merged company total, for the Utah and Pacific divisions, and for the jurisdictions served by the Utah division. (page 37)
Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 40-41; Tr. 392 (Colby); 1256 (Boucher).
2. Annual reporting of realized diversity benefits. (page 37)
Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 41; Tr. 392 (Colby); 1256 (Boucher).
3. Annual reporting of 20 year, year by year forecasts of the information categories discussed in 1 and 2 above. (page 37)
Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 41; Tr. 392 (Colby); 1256 (Boucher).
4. Annual reporting of realized new generation and transmission additions with discussion of variations of such additions from the then-current resource expansion plans. (page 37).
Applicants' Response: Not challenged. Tr. 1256 (Boucher).
5. Annual reporting of realized resource expansion plans based on then-current load forecasts including specific planned resource additions, their costs, and a discussion of the reasons for their selection/inclusion in the plan. (page 37)
Applicants' Response: Not challenged. Tr. 1256 (Boucher).
6. Annual comparison of realized resource additions and then-current resource expansion plans with what such additions and plans would probably have been in light of then-current conditions and expectations if the merger had not occurred and the companies continued on a stand alone basis. (page 38)
Applicants' Response: Not challenged. Tr. 1256 (Boucher).
7. Annual reporting of realized operating statistics and production costs in at least the level of detail produced

by the PP&L Production Cost Model with discussion/explanation of realized values from then-current projections. (page 38)

Applicants' Response: Not challenged. Tr. 1256 (Boucher).

8. Annual reporting of projected operating statistics and production costs in at least the level of detail produced by the PP&L Production Cost Model based on then-current load forecasts and resource endowments. (page 38)

Applicants' Response: Not challenged. Tr. 1256 (Boucher).

9. Comparison of realized and projected operation statistics and production costs with what they would probably have been in light of the then-current conditions and expectations if the merger had not occurred and the companies continued on a stand alone basis. (page 38)

Applicants' Response: Not challenged. Tr. 1256 (Boucher).

Witness

KENNETH B. POWELL

1. File revised tariffs reduc[ing] [UP&L-division] Utah firm retail rates of the UP&L division by 2% within 60 days of the merger. (page 2)

Applicants' Response: Acceptable. Applicants Exhibit 8.0 (Colby) at 4-11; Tr. 568 (Reed). See footnote at page 3.

2. File revised tariffs reduc[ing] [UP&L-division] Utah firm retail rates of the UP&L division by 5-10% (including the 2% initial reduction) within the next [five] four years [including-the-2%-previously-listed]. (page 2)

Applicants' Response: Acceptable. Applicants Exhibit 1.0 (Davis) at 11; Applicants Exhibit 3.0 (Bolender) at 21; Applicants Exhibit (Colby) at 4-11. See footnote at page 3.

3. Certify that [rates] Utah customer supported revenue requirements of the UP&L division will not ever be raised as a result of the merger. (page 3)

Applicants' Response: Acceptable. Tr. 73 (Davis); Tr. 568 (Reed).

4. [Hold] Commence multi-jurisdictional meetings within six weeks of the merger to attempt to resolve interdivisional allocation issues. (page 3)

Applicants' Response: Acceptable. Applicants Exhibit 12.0 (Reed) at 19; Tr. 568-69 (Reed).

5. Make a filing within the first quarter of 1989 of the financial and cost of service factors necessary to determine the appropriate rate levels in Utah. (page 3)

Applicants' Response: Acceptable. Tr. 390 (Colby); 570 (Reed).

6. [~~The-utility-will~~] Agree to make annual filings of sufficient financial and cost of service data to determine appropriate rate levels in Utah. (page 3)

Applicants' Response: Acceptable. Tr. 570 (Reed).

Witness

JEFFERY T. WILLIAMS (as modified by surrebuttal testimony)

1. Company agrees to guarantee a 10% rate reduction over the next 4 years beginning with 2% within 60 days following merger approval followed by 2% per year through 1992. Rate decreases shall be effective unless global factors outside the control of Applicants prevent them. However, the 5% rate decrease shall not be alleviated. Applicant has burden of proof to show global factors will not allow rate decrease. Otherwise rate decreases will be implemented on schedule.

Applicants' Response: Unacceptable. Applicants Exhibit 8.0 (Colby) at 13; Tr. 570 (Reed).

2. From 1/1/93 to 1/1/98 Applicants would be limited to no more than a 1% increase in rates per year. Global factors beyond the control of Applicants would allow increases beyond the 1% cap.

Applicants' Response: Unacceptable. Applicants Exhibit 8.0 (Colby) at 13-14; Tr. 571-72 (Reed).

3. Pursuant to annual filing requirements or rate applications, the Committee reserves the right to challenge the Company's filing or application if they feel that additional decreases are justified.

Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 14; Tr. 572 (Reed).

4. The rate reductions and rate increase caps outlined in 1 and 2 would be net rate reductions between general rates and EBA rates. However, until such time that the Commission determines the allocation methodologies and reconciles the EBA, rate decreases, other than the initial 2% rate reduction, shall be effected solely through general rates. After that time rate changes shall be net changes. (page 4)

Applicants' Response: Unacceptable. Applicants Exhibit 8.0 (Colby) at 14-15; Tr. 573 (Reed).

5. Apply the current EBA formula to the merged system. This shall continue until the inter-divisional allocation methodologies have been determined by the Utah PSC and until the EBA balance is thereby reconciled. During the interim period no party shall seek a rate adjustment based upon the unreconciled EBA balance. However, after the allocations have been determined and the EBA reconciled, any party shall have the right to seek rate changes through the EBA mechanism.

Applicants' Response: Unacceptable. Applicants Exhibit 8.0 (Colby) at 15.

6. Annual filings to the Utah PSC by [both] the UP&L [~~and PacifiCorp-providing-fully-embedded-cost-of-service-information-and~~] division including total company electric operation information in sufficient [~~additional~~] detail for regulators to determine [~~cost-of-service-and~~] revenue requirements. Monthly filings to the Utah PSC, Division, and Committee on the EBA as is currently done by UP&L. (page 4)

Applicants' Response: Not challenged. Applicants Exhibit 8.0 (Colby) at 36; Tr. 392 (Colby). See Powell Condition No. 6.

7. For PacifiCorp and the Utah Division to develop and file as soon as practicable, a detailed allocation approach that is acceptable to the Utah PSC. (page 5)

Applicants' Response: Not challenged. Tr. 573 (Reed). See Powell Proposed Condition No. 4.

8. Schedule inter-divisional and inter-jurisdictional meetings as soon as is practicable including representatives from all jurisdictions in which PacifiCorp does business to discuss and analyze inter-divisional and inter-jurisdictional allocation issues. The Committee must be explicitly

included in all inter-divisional and inter-jurisdictional allocation meetings and correspondence.

Applicants' Response: Unacceptable. Tr. 573-74 (Reed).

9. Agree to include on the agenda for consideration at the inter-divisional allocation meeting, the cost allocation principles and methodology including the capacity equalization payment concept put forth by Dr. Bernow in his testimony.

Applicants' Response: Not challenged.

10. Restrict the sharing of remedial action expenses for hazardous waste management activities and order PacifiCorp to prepare and present to the Utah Commission a detailed plan on how remedial action programs expenses will be accounted for.

Applicants' Response: Not challenged. Tr. 575-76 (Reed).

11. Applicants agree to pay expenses for the Committee and its experts to visit the offices of PacifiCorp when the Committee is participating in a proceeding involving either the UP&L Division or PacifiCorp and only when sufficient records are not available at UP&L offices.

Applicants' Response: Unacceptable. Applicants Exhibit 8.0 (Colby) at 16.

DATED this 19th day of May, 1988.

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BEFORE THE PUBLIC UTILITY COMMISSION

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OF OREGON

UF 4000

In the Matter of the Application of)
PACIFICORP and PC/UP&L Merging Corp.)
for an Order Authorizing the Merger)
of PACIFICORP and UTAH POWER & LIGHT)
COMPANY into PC/UP&L MERGING CORP. (to)
be renamed PacifiCorp upon completion)
of the merger), and Authorizing the)
Issuance of Securities, Assumption of)
Obligations, Adoption of Tariffs, and)
Transfer of Certificates of Public)
Convenience and Necessity, Allocated)
Territory, and Authorizations in)
Connection Therewith.)

STIPULATION

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

I20881

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

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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

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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

120887

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

24

25

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

120888

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

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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.

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3. A statement of Pacific's then current bond ratings and an explanation of the rationale for any change in the ratings (from the currently acknowledged Standard and Poors, A-; Moody's, A3; Duff & Phelps, 7) subsequent to the merger.

4. A schedule of Pacific's preferred stock and debt series that delineates separately pre-merger Pacific preferred stock and debt series, pre-merger Utah Power preferred stock and debt series, and post-merger preferred stock and debt series. Recapitalizations of pre-merger preferred stock or debt series shall be included in the post-merger preferred stock and debt series and clearly identified as recapitalizations.

5. A description of all major post-merger additions to generation and system transmission plant and related system facilities, including the cost of each addition. For purposes of this paragraph, major additions shall be determined based upon Pacific's currently applicable budgetary criteria, a statement of which is attached as Exhibit 3 to this Stipulation.

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C. Allocation of Merger Costs and Benefits

Pacific agrees to initiate an allocation committee consisting of representatives from all appropriate regulatory jurisdictions of the merged company within six weeks after the merger has been approved by all authorities. The function of this committee will be to develop just and reasonable methods for the allocation of joint costs and benefits of the merger. The Staff and Pacific agree to participate in the committee in good faith, although neither shall be bound by this Stipulation to accept the recommendations of such committee. Until the Staff and Pacific agree on final methods for the allocation of joint costs and benefits of the merger and until the Commission adopts such methods, the Parties agree that the general guidelines for allocating merger costs and benefits specified below shall be adhered to in Pacific's general rate applications or Commission show-cause actions. These guidelines are general in nature and are intended only to be used for determining the share of merger costs and benefits allocable to Pacific's Oregon customers. These guidelines do not take into consideration factors that may be significant to Pacific's other jurisdictions, to Utah Power's jurisdictions, or to the development of consensus among all jurisdictions.

1. Pre-merger generation and transmission

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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,

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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.

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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.

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23 (b) Manpower costs shall be directly accounted
24 for by operating division as much as
25 practicable. For centralized functions,
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but not necessarily the practice, of Pacific's Allocation Notes 1 and 1A. Net power cost changes due to the merger shall be determined based on the results of studies showing net power costs for Pacific and Utah Power separately as if the merger had not occurred and net power costs for the merged company.

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

(a) Economic development costs that can be directly assigned to each operating division shall be so assigned. Such costs that cannot be directly assigned shall be allocated by a method that is mutually agreeable to the Staff and Pacific.

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

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

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

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

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

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

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

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

D. Future Rate Cases

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

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

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

3. Staff reserves the right to propose adjustments

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

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

E. Agreements Regarding Specific Approvals

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

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

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

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

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

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

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

F. Modification of Terms

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

V. Term of Stipulation

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

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1 of the closing of the merger.

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3 **VI. Parties' Recommendation**

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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.

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16 **VII. Effect of the Stipulation**

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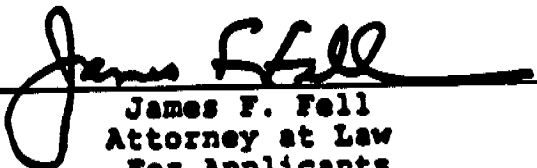
18 The Parties understand that this Stipulation is
19 not binding on the Commission in ruling on the Application
20 and does not foreclose the Commission from dealing with
21 other merger issues that are raised by other parties to
22 this proceeding. Except as provided in Section IV.F. of
23 this Stipulation, 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


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in this Stipulation.

Dated this 3rd day of March, 1988.


James F. Fell
Attorney at Law
For Applicants


W. Benny Won
Asst. Attorney General
For Oregon PUC Staff

ah/5476H

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Docket No. UF-4000
Exhibit No. 4
Page No. 1 of 10
Witness: F. D. Reed

Stipulation
Exhibit 1

PACIFIC POWER & LIGHT COMPANY
UTAH POWER & LIGHT COMPANY

CONSOLIDATED OPERATING BENEFITS*
(Millions of Dollars)

	<u>1988</u> ¹	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Reduced Construction ²	\$ 1	\$ 3	\$ 5	\$ 8	\$ 11
Economic Development ³	1	2	6	11	17
Administrative Combinations ⁴	19	20	20	20	20
Manpower Efficiencies ⁵	10	20	30	42	53
Power Supply ⁶	<u>17</u>	<u>21</u>	<u>40</u>	<u>47</u>	<u>57</u>
Total Benefits	<u>\$48</u>	<u>\$70</u>	<u>\$101</u>	<u>\$128</u>	<u>\$158</u>

* Notes attached.

I20904

Docket No. UF-4000
Exhibit No. 4
Page No. 2 of 10
Witness: F. D. Reed

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 Trena 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.

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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.

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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:

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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 services 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.

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These services include: (1) DHS 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.

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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 ^{1/}	42	85	84	82	81
Accum. Positions	42	127	211	293	374
Benefits ^{2/}	\$1.1	\$4.6	\$9.3	\$14.4	\$19.5
<u>Pacific Power</u>					
Positions ^{3/}	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 ^{4/}	<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>\$19.8</u>	<u>\$29.1</u>	<u>\$41.7</u>	<u>\$51.1</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.

These benefits rather are reflected in the reduced construction
line (see Note 3 above).

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ATTACHMENT NO. 1

PACIFIC POWER & LIGHT COMPANY
Economic Development Program Results

Year End
1988-1992

	1988	1989	1990	1991	1992
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	\$ 0,000,000	\$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	\$ 4,960,000	\$ 7,838,000	\$11,706,000	\$18,021,000	\$25,486,000

(1) Includes direct and indirect effects

November 20, 1987
SM-6-2.tbl(s)

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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**

	1988	1989	1990	1991	1992
Basic Jobs	2,200	2,700	3,600	4,500	6,400
Total Sales (MM)(1)	70,000	104,000	375,000	503,000	870,000
Total Revenues (1)	\$3,900,000	\$6,700,000	\$14,400,000	\$24,700,000	\$34,800,000
Total Margins Before Operating Expenses	\$2,700,000	\$3,900,000	\$ 9,400,000	\$13,400,000	\$18,700,000
Operating Expenses	\$1,000,000	\$2,100,000	\$ 2,100,000	\$ 2,000,000	\$ 1,000,000
Total Margins After Operating Expenses	\$ 900,000	\$1,800,000	\$ 6,300,000	\$11,400,000	\$16,900,000

(1) Includes direct and indirect effects

November 20, 1987
SM-4-2.tbl

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**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	18.7	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.

I20915

IN THE THIRD JUDICIAL DISTRICT COURT IN AND FOR
SALT LAKE COUNTY, STATE OF UTAH

IN THE MATTER OF SPECIAL SALT LAKE : CONSENT OF UTAH POWER &
COUNTY GRAND JURY 1986 TERM : LIGHT COMPANY TO ENTRY OF
: FINAL JUDGMENT AND PERMANENT
: INJUNCTION
:
: M 86-11

1. The Judges of the Third Judicial District Court in and for Salt Lake County convened a special Grand Jury on January 6, 1986 for the purpose, inter alia, to investigate public offenses relating to the Utah Power & Light Company.

2. Rodney G. Snow, Larry R. Keller and Peter Stirba have been appointed as special counsel to the Special 1986 Salt Lake County Grand Jury by the Attorney General of the State of Utah.

3. The Utah Supreme Court on September 23, 1986 appointed Messrs. Snow and Keller, pursuant to Article VIII, Section 16 of the Utah Constitution, as prosecutors pro tempore to prosecute any cases initiated by the Salt Lake County Special Grand Jury and to handle as public prosecutors any other matters related to the Special Grand Jury that require the powers of a public prosecutor.

4. Since March 1986, the Grand Jury has been investigating, inter alia, alleged public offenses relating to the Utah Power & Light Company.

5. The Grand Jury, special prosecutors, and other appropriate government agencies have become aware of certain abuses and inefficiencies that have occurred over the last several years at Utah Power & Light Company.

6. The special prosecutors have determined, and with the advice and approval of the 1986 Salt Lake County Special Grand Jury, that it is in the public interest to have the attached permanent injunction entered by the Court.

7. The 1986 Special Grand Jury has determined to issue no indictments as and against Utah Power & Light Company as a corporate entity and will not recommend to any other governmental agency that the Company be indicted or charged.

8. Except for the determination with regard to Utah Power & Light set forth in paragraph 7, the Grand Jury shall continue its investigation consistent with the call order of the Grand Jury.

9. The Utah Power & Light Company, through its Board of Directors, without admitting any wrong doing, admits personal and subject matter jurisdiction, and hereby consents to the entry of the Final Judgment of Permanent Injunction in the form annexed hereto.

10. Utah Power & Light Company, through its Board of Directors, hereby waives:

(a) The filing of a complaint or formal charges; and

(b) The entry of findings of fact and conclusions of law;

and

(c) Any right of appeal from or challenge to the Final Judgment annexed hereto.

11. Utah Power & Light Company through its Board of Directors has entered into this Consent freely, voluntarily and of their own accord.

12. Utah Power & Light Company understands and agrees that the Final Judgment is in settlement of certain 1986 Special Grand Jury matters and does not bar any other independent, civil, criminal or administrative action by other appropriate authorities or persons.

13. The Grand Jury, special counsel and the Board of Directors of Utah Power & Light Company believe that the implementation of the Consent Judgment by the Company, the Public Service Commission, the Division of Public Utilities, and the Court will assist in assuring the integrity of the future operations of the Company to the benefit of the customers and the employees of the Company. The Grand Jury believes that it is in the public interest of the people of the State of Utah to have a soundly operated, efficient and independently managed electric utility.

14. The Grand Jury, special counsel and the Company are in hopes that the implementation and enforcement of this Consent Decree and the rules as they are adopted by the Public Service Commission, will prevent a recurrence of these alleged abuses and practices which gave rise to the convening of the Special Grand Jury, and the turmoil which has engulfed the Company the last several months.

IN THE THIRD JUDICIAL DISTRICT COURT IN AND FOR
SALT LAKE COUNTY, STATE OF UTAH

IN THE MATTER OF SPECIAL SALT LAKE : FINAL JUDGMENT OF PERMANENT
COUNTY GRAND JURY 1986 TERM : INJUNCTION AS AND AGAINST
: UTAH POWER & LIGHT COMPANY
:
:
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M 86-11

Based on the Petition of Utah Power & Light Company and the special prosecutors, the Consent of Utah Power & Light, and with the approval of the 1986 Special Salt Lake County Grand Jury, the Court enters its ORDER OF PERMANENT INJUNCTION:

1. To promote competition and prevent allegations of collusion, Utah Power & Light Company and its affiliates over which the Company has control, including its captive insurance companies, effective June 7, 1987, shall (a) competitively bid any and all contracts in excess of \$10,000.00, excluding professional service contracts, situations of an emergency nature, or any exclusion subsequently and specifically approved by the Public Service Commission in the public interest, (b) standardize its competitive bidding procedures and (c) submit to the Public Service Commission for adoption as rules, or as an enforceable order, such standardized competitive bidding procedures to govern the bidding practices and procedures of the Power Company in the future.

Said rules or enforceable order shall be reviewed and evaluated by this Court, the Public Service Commission, the Division of Public Utilities, and the Attorney General, and may be modified by the Public

Service Commission pursuant to its authority as deemed necessary in the public interest. Said procedures, practices and proposed rules or order shall be submitted to this Court, the Division of Public Utilities and the Public Service Commission on or before June 1, 1987 consistent with the settlement in Case No. 84-035-12 before the Public Service Commission. The Public Service Commission is encouraged to review and adopt said bidding practices and procedures as enforceable rules, or as an enforceable order, as soon as is practicable. The Public Service Commission and the Division of Public Utilities are encouraged to oversee the competitive bidding practices and procedures to determine if the rules are being followed as adopted. This Court shall retain enforcement and supervisory authority over the implementation of the bidding rules by Utah Power & Light Company, subject to the primary jurisdiction of the Public Service Commission as provided by law.

2. The Utah Power & Light Company, with the submission of its competitive bidding practices or within the next ninety (90) days, shall propose to the Public Service Commission, with a copy to be filed with this Court, a rule or enforceable order for the establishment of audit procedures of vendors (contract administration) who now or in the future may do business with the Company. Such rule or order shall require Utah Power & Light to include in its purchasing contracts a provision which requires vendors to be subject to an audit by Utah Power & Light when the Company has reason to believe that a fraud may have been perpetrated upon the Company. Such rule or order shall

also require the Company to consider including in its contracts a performance audit provision where appropriate.

3. The Utah Power & Light Company with the submission of its competitive bidding procedures or within the next ninety (90) days, shall submit to the Public Service Commission, with a copy to this Court, a proposed rule or enforceable order prohibiting gifts or gratuities by the Company, its officers, directors, agents or employees to any of its vendors, government officials or others and prohibiting the acceptance by officers, directors, agents and/or employees of gifts or gratuities by vendors or others doing business with the Utah Power & Light Company. The rule or order shall provide for sanctions as deemed appropriate by the Public Service Commission which shall include termination in appropriate cases where any employee, officer or director violates such policy.

4. The Utah Power & Light Company shall immediately cause an audit of each of its "captive" insurance companies (Energy Mutual Insurance Company; Electric Mutual Insurance Company, Electric Life Insurance Company, and Intermountain Mutual Insurance Company) including an audit of claims performance and shall cause such companies to pay to the Company all costs, including overhead attributable to the operation of the insurance companies. With respect to the "captive" insurance companies, Utah Power & Light is hereby ordered to bill its captive insurance companies for any and all costs and overhead charged to the rate payers but not yet paid by the captive insurance companies or otherwise covered by the settlement in Case No. 84-035-12 before

the Public Service Commission. Within thirty (30) days after each audit is complete, Utah Power & Light Company shall provide the Division of Public Utilities with a copy of each audit for review.

5. Within forty-five (45) days, the Board of Directors of the Utah Power & Light Company shall establish an office of ombudsman with the responsibility and obligation of receiving and investigating complaints and suggestions from Company officers, employees, vendors dealing with the Company, and the public, concerning any activity of the Company or its employees, officers, or directors. The ombudsman shall immediately report suspected criminal activity to all appropriate government officials and shall file a monthly report of all suspected criminal activity and other complaints with the audit committee of the Board of Directors. The ombudsman shall submit annually a report to the Board of Directors of all activities of the office of ombudsman. The individuals holding this position shall be independent of management and shall be responsible directly and only to the Board of Directors. The first such ombudsman appointed shall be approved by the Third Judicial District Court. The name and qualifications of the first such ombudsman shall be submitted to the Third Judicial District Court within thirty (30) days of the date hereof. The Company shall establish a written policy within sixty (60) days to protect Company employees who file complaints and/or suggestions with the ombudsman from recrimination. A copy of that policy shall be lodged with this Court when prepared. The anonymity of any employee filing a complaint shall be maintained if requested by the employee.

6. Within five (5) days of this Order, the Company shall encourage in writing all of its employees to disclose suspected criminal conduct injuring the Company to the Grand Jury or its agents. No Company employee contacting the 1986 Special Grand Jury shall be subject to recrimination or sanction by the Company. Any Company employee may do so without advising Company officials or lawyers, although they may do so if they so choose freely.

7. Within ninety (90) days, Utah Power & Light Company shall disband its political action committee(s), state and federal. The Company shall refrain from engaging in any organized or company sponsored solicitation of funds for political candidates or political parties from its officers and employees. The Company may offer the general suggestion that employees support candidates or political parties of their own free choice in a manner similar to the rights and responsibilities of any other citizens. The Company shall not directly or indirectly make or cause to be made any political contributions to any political candidate or party for the next seven (7) years. Thereafter, the Company shall not make or cause to be made contributions to any political party or candidate, state or federal, except through a lawfully constituted PAC. This provision shall not in any way limit the rights of any officer, director or employee of Utah Power & Light Company to support any political candidate, party, campaign or cause. However, the Company is enjoined from reimbursing or allowing the expensing of campaign or political contributions by officers, directors, agents and employees.

DATED this 14 day of July, 1987.

UTAH POWER & LIGHT COMPANY

1986 SPECIAL SALT LAKE COUNTY
GRAND JURY

By [Signature]
E. Allan Hunter
Chairman of the Board

By [Signature]
Rodney G. Snow, Prosecutor Pro
Tempore and Special Counsel

By [Signature]
Donald B. Holbrook, Attorney
for Utah Power & Light Company

By [Signature]
Larry R. Keller, Prosecutor Pro
Tempore and Special Counsel

By [Signature]
John S. Flynn, Attorney for
the Audit Committee of the
Board of Directors

By [Signature]
Peter Stirba, Special Counsel

Approved by the 1986 Special
Salt Lake County Grand Jury

By [Signature]
Judy Johnson, Foreperson

ENI maintains separate offices, personnel, and operations. This is not anticipated to change as a result of the merger.

UP&L has obtained approval from its commissions for a leasing subsidiary but that subsidiary has not commenced operation at this time.

UP&L does bid its maintenance at the various power plants. NESCO, a subsidiary of PacifiCorp, has been awarded some competitively bid power plant maintenance service contracts.

PC/UP&L Merging Corp. responds to 9.a through 9.k as follows:

a.1. A list of direct corporate subsidiaries for PacifiCorp is provided as Attachment 9.a., which is available for inspection and copying. With the exception of some production plant maintenance service provided by North American Energy Services Company (NESCO), there are no business transactions between UP&L and Pacific's subsidiaries.

a.2. See Answer to Data Request 9.a.1.

c. The following represents Pacific Power's current transfer pricing policy relative to goods and services sold to, or purchased from, an affiliated company:

If subsidiaries use electric utility facilities, Pacific Power believes the utility should be reimbursed at prices which make electric customers better off than they would have been before the transaction was entered into.

When an electric utility transfers property to an affiliate, Pacific Power believes the utility should be reimbursed at the property's market value in cases where the property is to be used in ventures not involving the electric utility.

In cases where the property will be used to provide service to the electric utility, the reimbursement should equal the original cost depreciated value of the property.

Each subsidiary should be capable of operating independently, with, or without, business from the electric utility.

Pacific Power uses the lower of cost, or market, as the transfer price for goods and services sold by an affiliate to the utility. Such costs include a return on the affiliate's investment (attributable to utility sales) no greater than the most recently authorized utility rate of return. Also, a fully loaded cost, including all overheads and the utility authorized return, is used to cost any goods or services provided by the utility to an affiliate.

d.1. Transactions between Pacific Power and affiliates are priced as outlined in Answer to Data Request 9.c. Pacific currently has an annual reporting requirement to the Oregon Public Utility Commission relative to affiliated interest transactions. A complete copy of our most recent report (1985 transactions) is marked as Attachment 9.d.(A) and is



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Merging Corp.

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.)

CERTIFICATE OF SERVICE

Case No. 87-035-27

I hereby certify that I delivered a true and correct copy of the foregoing Applicants' Post-Hearing Brief by placing the same in the United States Mail, postage prepaid to the following, this 3rd day of June, 1988:

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