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F. N. DAVIS
President and
Chief Executive Officer
August 29, 1988

Governor Norman H. Bangerter
State of Utah
Office of the Governor
Salt Lake City, UT 84114

Dear Governor:

We are pleased to respond to your letter of August 24, 1988, regarding questions about the merger of our Company with PacifiCorp. We are excited about the prospects the merger offers, especially in allowing us to reduce costs and, correspondingly, rates to our customers and allowing our Company to be more competitive.

With regard to your specific questions:

1. The corporate headquarters of PacifiCorp will remain in Portland, Oregon. The Pacific Power & Light Division will be headquartered in Portland; also, the Utah Power & Light Division will retain its name and remain in Salt Lake City. Each Division will have its own president, board of directors and executive officers.

Some consolidated functions will be based in Portland and some in Salt Lake City. The only consolidation decided to date is that the power supply function (operation of power plants) will be headquartered in Salt Lake City.

2. At year end 1986 UP&LCo work force was 5649 including the mining division. At year end 1987 our work force was 5097 and the end of July 1988 the work force was 4920. Thus without the merger manpower has been reduced by 729 in 19 months. This work force reduction is much larger than the estimated reduction allowed by the merger. Manpower reduction estimates resulting from the merger are based on our experience with attrition rates in the past. The promise has been made to all employees that no one will be terminated because of the merger. PP&L's estimated attrition rate is 3 percent. UP&LCo's attrition rate

is estimated to be 1.7 percent. Thus we estimate that employee reduction by attrition at UP&LCo and allowed by the merger will be about 85 persons per year through the next five years. We are still in the process of determining how operational functions will be reduced as a result of merger efficiencies but most of the reductions in positions will be in administrative areas.

3. Generally, we expect purchases from local businesses to continue as in the past. Local operations should be minimally affected in the future.

Likewise, it is expected that coal consumption will increase (not decrease) for UP&LCo and in Utah specifically.

4. We expect cost savings in most areas of the Company's operations as a direct result of the merger. The detailed evidence presented to the Utah Public Service Commission showed that the merger is expected to produce total annual operating savings of \$48 million in the first year after the merger, increasing to \$158 million in annual operating savings by the fifth year. In addition to operational savings, the seasonal load diversity between the Pacific Northwest and Utah and combined resources will save the merged Company the capital investment cost of a future 400 to 500 megawatt generating plant in the mid to late 1990's. (The 1983 capital investment cost of the 400 megawatt Hunter #3 was over \$460 million.) Over the next 20 to 30 years cumulative savings will be in the billions of dollars.

The savings will occur from economic development, insurance costs, power supply, manpower and administrative combinations.

The State of Utah's allocable share of these savings will be passed on to Utah consumers. The first of these rate reductions will take place 60 days after the merger occurs; other reductions will occur as rapidly as the savings can be achieved. These reductions are guaranteed to amount in total to no less than five percent reduction from present retail rates within four years. Considering the likelihood of continued inflation, we are not aware of any other Company anywhere making such a commitment.

5. As indicated in Item 2. above, there will be no terminations due to the merger. We believe this is a stronger commitment to employees than has been made by any other company headquartered or doing business in Utah. As always we will take into consideration the desires of an employee with respect to his or her work location, but a particular location cannot be guaranteed. There will be enhanced employment opportunities throughout the entire PacifiCorp system. When certain positions are eliminated as consolidation of functions occur, employees will be offered comparable positions at UP&LCo, PP&LCo or other PacifiCorp divisions. Some employees will wish to take advantage of retraining options remaining at UP&LCo; others have expressed interest in relocating.
6. The customers of the Company will probably never notice any impacts of the merger except lower rates. Reliability and quality of service will receive the same concern and care it always has. In fact, the additional power resources available will improve reliability.

Again, we welcome your inquiry and appreciate your interest in the proposed merger of UP&LCo and PacifiCorp. We believe that the evidence submitted to the Public Service Commission of Utah establishes that the merger of UP&LCo and PacifiCorp will provide substantial benefits to the customers and employees of UP&LCo as well as to the State of Utah as a whole. We believe the majority of UP&LCo employees (95 percent of whom are also shareholders) are grateful that the Company is taking actions to allow us to meet competitive pressures and remain a viable Company. UP&LCo shareholders are obviously grateful as exhibited by their overwhelming approval. We look forward to becoming a more cost-effective supplier of energy in this State and, in partnership with State and local government, working toward increased economic development in Utah.

Very truly yours,

- Frank

A: Bangertner