



State of Utah

DEPARTMENT OF BUSINESS REGULATION
Division of Public Utilities

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SERVICE COMMISSION

To: Utah Public Service Commission

From: Division of Public Utilities
Ralph Creer, Director
Kenneth B. Powell, Manager
Ronald L. Burrup, Auditor

October 28, 1988

RE: PacifiCorp/UP&L Merger Docket No 87-035-27

Issue:

On September 28, 1988, the Commission issued its order approving the merger of UP&L and PacifiCorp. The Commission's order required the Division of Public Utilities to propose a method of equally sharing direct merger costs between customers and shareholders, within 30 days from the issuance of the order.

Recommendation:

The Division recommends the following method of equally sharing direct merger costs:

- a) The Utah jurisdictional direct merger costs will be split 50/50 between shareholders and customers on a present value basis.
- b) Recovery of the total Utah jurisdictional allocated share will be allowed in rates over approximately 15 years as an addition to amortization expense. No rate base treatment will be allowed.
- c) The present value of the amounts to be recovered from customers, using a 10% discount rate, will not exceed the 50% share allocated to customers.
- d) The allocation percentages and the actual direct merger costs will be determined by the Commission, and are shown on the attached exhibit for illustration purposes only.

Explanation:

The attached table was provided by UP&L as an example:

Option 2 provides for recovery in rates of 50% of actual merger costs, based on the nominal recovery of all costs over 15 years discounted at 10%. Since the company is recovering the full nominal dollar amount of some \$6.5 million, it does not appear that the FASB would require the company to initiate an immediate write-off. The present value of the amount recovered from customers is equal to 50% of the allocated direct merger costs.

Option 1 is not recommended because it would require an immediate write-off of \$3.2 million and allow the balance to be recovered from customers over 40 years at the full cost of capital.

cc UP&L Attn Tom Forsgren
CCS
Barbara Williams
William Dunn
Michael Ginsberg
All parties of record

UTAH POWER & LIGHT COMPANY
Analysis of Merger Costs

Present Est of Merger Cost:	
UP&L Exp	\$5,500,000
Kidder Peabody	9,500,000
PP&L Exp	3,500,000
1st Boston	4,000,000

Total Merger Costs	\$22,500,000 (1)
1987 Ut Division O/H Fac	37.8300%(2)

Utah Div Merger Costs	\$8,511,750
Utah Feb 88 Demand Factor	76.8908%(2)

Utah Jurisdictional Cost	\$6,544,753
OPTION 1 - 50/50 Sharing	
50% Allowed In Rates	\$3,272,376
50% Write Off	\$3,272,376
OPTION 2 - Discount Rate Equals Incremental Cost of Debt	
Years	14.74
Rate	10.00000%
Yearly Amort	\$444,164
Present Value	\$3,272,017
Percent Sharing	50%

(1) Preliminary estimate of total merger costs.

(2) Estimated factors for illustrative purposes only.

Rate Accounting
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