UTAH POWER & LIGHT COMPANY
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June 24, 1988

Chairman Brian T. Stewart
Public Service Commission of Utah
Heber M. Wells Building
160 East 300 South
Fourth Floor
Salt Lake City, Utah 84111

Re: Utah Power/PacifiCorp Merger
Case No. 87-035-27

Dear Chairman Stewart:

Transmitted herewith is a legislative copy of a revised version of the Applicants' position summary. The position summary included in the initial draft of the Order deliberately excluded certain points in order to meet the Commission's requested page limit.

Based on the length of the summaries of certain other parties and based on requests from counsel for other parties that additional points be included in the draft Order, we have revised our summary to include additional points.

If you have any questions, please contact me at your convenience.

Very truly yours,

Tom

Thomas W. Forsgren

TWF/jj

Enclosure

cc Counsel for all parties

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The Applicants state that the proposed merger is necessary in order to respond to the increasingly competitive environment in which they operate. Applicants produced studies showing that the non-power supply merger savings in the areas of manpower efficiencies, reduced insurance premiums and other administrative combinations would exceed $200 million during the first five years after the merger. Applicants project additional benefits of $37 million in the economic development area and $28 million in reduced construction ~~of $38 million~~ during the first five years after the merger.

In the area of power supply, Applicants' studies reflect 20-year present value savings of approximately $352 million arising from the deferral of new generating capacity. In addition, Applicants project that there will be net power cost savings arising from more efficient dispatch of generating resources, displacement of higher cost purchased power and the ability to make additional wholesale sales at enhanced margins. These net power cost savings are estimated by the Applicants to be $16.7 million the first year of the merger, increasing to about $42.2 million by the fifth year after the merger. This represents an overall reduction in net power costs of between 4 and 8 percent.

The Applicants state that they 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. The Applicants also state they are 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. The Applicants propose to initiate a joint committee comprised of representatives of the FERC and the seven state commissions to discuss and resolve the issues surrounding the allocation of merger benefits.

Applicants assert that the proposed merger will not adversely impact this Commission's authority to regulate Utah Power's utility operations. They acknowledge that this Commission will continue to have the same authority over the utility operations of the Utah Power Division that it currently enjoys with regard to Utah Power.

Applicants state that Utah Power will be a division of the Merged Company with the same standing that Pacific now enjoys. The current Utah Power Officers and Directors will continue to serve as Officers and Directors of the Utah Power Division with three members of the Utah Power Board becoming members of the Merged Company's Board of Directors. The Utah Power Board, like the Pacific Board, will function as a Committee of the Merged Company's Board with delegated authority to manage and operate the Division's business. The offices of the Utah Power Division will remain in Salt Lake City, Utah. Applicants assert that, in light of these factors, and in view of the substantial investment that the Merged Company will have in the

State of Utah, it is unrealistic to believe that the Merged Company would be unresponsive to the needs of the State of Utah.

Applicants believe that Utah Power's industrial customers will receive benefits from the merger. Those industrial customers who take firm service will receive immediate rate reductions and those industrial customers who take non-firm service will receive, in accordance with their contracts, benefits associated with the lower power costs and increased reliability characteristics of the merged system. The Applicants have also agreed that interruptible customers on the merged system will continue to have dispatch priority over off-system non-firm sales.

Applicants have committed that Utah Power's customers' rates will be reduced by 5 to 10 percent over the four years following the merger. Within 60 days of the effective date of the merger, Applicants have committed to filing revised tariffs in Utah proposing an overall reduction in prices to Utah Power regular firm customers of 2 percent. A minimum 5 percent rate reduction to regular firm customers will be guaranteed within four years of the merger even if not cost-based. Applicants have also committed that Utah customer supported revenue requirements of the Utah Power Division will not ever be raised as a result of the merger.

The Applicants have also executed a stipulation, which is included in the record in this proceeding, with the Kennecott Industrial Customers which provides in part:

(a) If the merger proposed in the present application is consummated, the Applicants will, subject to appropriate regulatory approvals, reduce rates two percent to firm retail Utah customers within 60 days of consummation of the merger and an additional three to eight percent within five years of the date of the merger. Those rate reductions will occur, subject to appropriate regulatory approvals, regardless of whether the estimated savings set out in Applicants' testimony are realized, and even if those rate reductions must be provided through reductions in shareholder earnings of the merged entity.

(b) The merged entity will continue to have its Utah operations headquartered in Salt Lake City, Utah, and the officers and employees responsible for customer service for the Utah operations will continue to be located within the State of Utah. As a consequence, Utah customers will continue to have local access to those responsible for customer service decisions concerning the Utah operations of the merged entity on the same basis as Oregon customers have access to responsible personnel for the existing Pacific Power division of PacifiCorp.

(c) The merged entity will not restructure its Utah or other operations in a manner which results in the jurisdiction and control of the Utah Public Service Commission over the Utah operations of the merged entity being less than the Utah public Service Commission's current jurisdiction and control over the Utah operations of Utah Power & Light Company, except with the approval of the Utah Public Service Commission and/or other appropriate regulatory agencies which may have jurisdiction thereof. Without limiting the generality of the foregoing, the merged entity will make no arrangement which will have the effect of divesting the Utah Public Service Commission of its jurisdiction to review the prudency of investments and expenses used and useful in providing service to Utah ratepayers and to determine rate of return of the Utah Division of the merged entity as it currently exists, absent approval of the Utah Public Service Commission and/or other appropriate regulatory agencies which may have jurisdiction thereof.