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Gary A. Dodge, Esq.  
Richard D. Clayton, Esq.  
Jill A. Niederhauser, Esq.  
KIMBALL, PARR, CROCKETT & WADDOUPS  
185 South State Street  
Suite 1300  
P.O. Box 11019  
Salt Lake City, Utah 84147  
Telephone: (801) 532-7840

Attorneys for Intervenor  
Basic Manufacturing and  
Technologies of Utah, Inc.

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE APPLICATION )	
OF UTAH POWER & LIGHT COMPANY, )	
AND PC/UP&L MERGING CORP. (TO BE )	POSITION STATEMENT
RENAMED PACIFICORP) FOR AN ORDER )	OF BASIC MANUFACTURING
AUTHORIZING THE MERGER OF UTAH )	AND TECHNOLOGIES
POWER & LIGHT COMPANY AND )	OF UTAH, INC.
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 )	<u>CASE NO. 87-035-37</u>
THEREWITH. )	

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Intervenor Basic Manufacturing & Technologies of Utah, Inc. d/b/a Geneva Steel (hereafter referred to as "Geneva Steel" or "Geneva") submits the following Position Statement in accordance with the Commission's order during the June 8, 1988 hearing in this matter.

POSITION STATEMENT OF GENEVA STEEL

Intervenor Geneva Steel presented testimony expressing skepticism as to whether the proposed merger was in the public interest. Geneva argued that, at the very least, any approval of the proposed merger should be substantially conditioned in an effort to insure protection of the interests of Utah ratepayers.

Geneva presented evidence that the merger benefits claimed by Applicants are overstated. Many of the benefits attributed to the proposed merger by the Applicants would be achievable absent the merger through contract. In addition, the Applicants failed to provide adequate information or study to justify the claimed merger benefits. Geneva's witnesses presented testimony that many of these claimed benefits are, in fact, based on mistaken assumptions.

Geneva expressed concern over Applicants' failure to provide comprehensive rate forecasts or to specify even a general allocation methodology prior to approval of the merger. Applicants' proposal to use the UP&L stand alone model in determining the existence and allocation of merger benefits fails to answer the difficult allocation questions presented by the merger. Moreover, the lack of consensus among experts as to the various assumptions used in the model and the model's sensitivity to those assumptions demonstrate that, absent an allocation methodology, it is impossible to determine whether the merger would result in a net positive benefit to Utah.

Geneva maintained that Applicants' refusal to combine the rate bases of the two divisions represented an attempt to isolate from Utah ratepayers the benefits of PP&L's access to inexpensive

hydroelectric power from the Northwest. This fact, combined with Applicants' refusal to guarantee for Utah ratepayers the benefits derived from UP&L's strategically-located transmission system, raise serious questions about the fair treatment of Utah ratepayers.

The short-term five percent rate reduction promised by Applicants is not sufficient to insure fair treatment of Utah ratepayers. Geneva pointed out that UP&L recently has achieved much success in cutting costs and streamlining operations and there is no reason to believe that such measures would not continue absent the merger. Therefore, it is entirely possible that a five percent rate reduction, or an even greater reduction, could be achieved absent the merger. Moreover, the complex allocation questions that would accompany the merger will increase the complexity of regulation and make it impossible to engage in true cost-based rate making.

In order to ameliorate these concerns, Geneva proposed a number of conditions. Geneva urged that Applicants be required to endeavor to combine the rate bases of the PP&L and UP&L divisions as expeditiously as possible. In the interim, in light of the apparent disagreements over assumptions in the stand alone models, Geneva urged the adoption of allocation procedures designed to insure that the full benefit and value of the UP&L transmission system and other UP&L assets be reserved for UP&L ratepayers by updating and revising the UP&L stand alone model based on what UP&L potentially could have done as a separate company.

Geneva argued that the merger would result in the loss of local ownership and control of Utah's largest utility. Under the

merger as proposed, there is no assurance that UP&L would be adequately represented on the PacifiCorp Board of Directors. In addition, the merged company would be required to assess its activities in light of the interests of a seven-state service territory, rather than to focus on the best interests of Utah. The result would be a utility with less commitment to Utah issues and concerns and increased difficulty for local entities in dealing with the merged utility.

Finally, Geneva argued that there are significant costs associated with the merger. The most significant of these is the premium that the shareholders of the merged company will pay for UP&L stock and the resulting dilution in the value of PP&L stock. As evidenced by the Applicants' internal documents and the analysis of several investment bankers, the need to offset this dilution may drive PacifiCorp shareholders to push for a substantial allocation of merger benefits, thus further dividing merger benefits and increasing the difficulty of allocation decisions. If, however, shareholders do not seek such an allocation, or if regulators refuse to divert merger benefits to shareholders, the dilution may result in an adverse impact on the financial stability of the merged company, lower bond ratings and a higher cost of capital. In order to alleviate this concern, Geneva proposed that the authorized rate of return for the merged company be set without regard to the merger premium and that the risk of any adverse impact on the financial stability of the merged company be borne solely by the shareholders.

DATED this 15<sup>th</sup> day of June, 1988.

KIMBALL, PARR, CROCKETT & WADDOUPS



Gary A. Dodge

Richard D. Clayton

Jill A. Niederhauser

Attorneys for Basic Manufacturing  
& Technologies Utah, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon the persons shown on Exhibit A by mailing a copy thereof via United State Mail, properly addressed and postage prepaid (except where otherwise indicated).

DATED at Salt Lake City, Utah, this 15<sup>th</sup> day of June, 1988.


  
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EXHIBIT A

Sidney G. Baucom, Esq.  
Thomas W. Forsgren, Esq.  
Edward A. Hunter, Jr.  
Utah Power & Light Company  
1407 West North Temple  
Salt Lake City, Utah 84140  
(Hand-delivered)

George M. Galloway, Esq.  
Stoel Rives Boley Jones & Grey  
(PC/UP&L Merging Corp.)  
Suite 2300  
900 S.W. Fifth Avenue  
Portland, Oregon 97204

Dale A. Kimball, Esq.  
Gary A. Dodge, Esq.  
Kimball, Parr, Crockett & Waddoups  
(UMPA, CREDA)  
185 South State, Suite 1300  
P. O. Box 11019  
Salt Lake City, Utah 84147

Donald R. Allen, Esq.  
John P. Williams, Esq.  
Duncan, Allen & Mitchell  
(UMPA, CREDA)  
1575 Eye Street, N.W.  
Washington, D.C. 20005

F. Robert Reeder, Esq.  
Val R. Antczak, Esq.  
Parsons, Behle & Latimer  
(Kennecott Copper Corporation et al.)  
185 South State, Suite 700  
P. O. Box 11898  
Salt Lake City, Utah 84147-0898

Robert S. Campbell, Jr.  
Gregory B. Monson, Esq.  
Watkiss & Campbell  
(PC/UP&L Merging Corp.)  
310 South Main, Suite 1200  
Salt Lake City, Utah 84101  
(Hand-delivered)

Donald B. Holbrook, Esq.  
Calvin L. Rampton, Esq.  
Ronald J. Ockey, Esq.  
L. R. Curtis, Jr.  
Jones, Waldo, Holbrook & McDonough  
(Utility Shareholders Association of Utah)  
1500 First Interstate Plaza  
Salt Lake City, Utah 84101

Raymond W. Gee, Esq.  
Kirton, McConkie & Bushnell  
(Utah Farm Bureau Federation)  
330 South 3rd East  
Salt lake City, Utah 84111

A. Wally Sandack, Esq.  
(UMWA District 22)  
370 East Fifth South  
Salt Lake City, Utah 84111

James A. Holtkamp, Esq.  
(UAMPS)  
Van Cott, Bagley, Cornwall  
& McCarthy  
50 South Main St., Suite 1600  
Salt Lake City, Utah 84144

John Morris, Esq.  
LeBoeuf, Lamb, Leiby & MacRae  
136 South Main, Suite 1000  
Salt Lake City, Utah 84101

Michael Ginsberg, Esq.  
Division of Public Utilities  
Assistant Attorney General  
130 State Capitol Building  
Salt Lake City, Utah 84114

Sandy Mooy, Esq.  
Committee of Consumer Services  
Assistant Attorney General  
124 State Capitol Building  
Salt Lake City, Utah 84114



F. Elgin Ward  
Lynn W. Mitton  
Deseret Generation &  
Transmission  
8722 South 300 West  
Sandy, Utah 84070

Robert Wall, Esq.  
Utah Public Power Co-op  
2470 South Redwood Road  
West Valley City, Utah 84119

L. Christian Hauck  
Colorado Ute Electric Assc.  
P. O. Box 1149  
Montrose, Colorado 81402

Salli Barash, Esq.  
Wilkie, Farr & gallagher  
1 Citi Corp Center  
153 East 53rd Street  
New York, NY 10022

Michael S. Gilmore, Esq.  
Idaho Public Utility Commission  
Deputy Attorney General  
State House Mail  
Boise, ID 83720

Rodger Cutler, Esq.  
Salt Lake City Attorney  
324 South State Street  
Salt Lake City, UT 84111

Chris L. Engstrom, Esq.  
Attorney for Washington City  
90 East 200 North  
P. O. Box 400  
St. George, Ut 84770

Stephen R. Randle, Esq.  
Ungricht, Randle & Deamer  
520 Boston Building  
Salt Lake City, UT 84111

Alice Ritter Burns, Esq.  
Cedar City Corporation  
P. O. Box 249  
Cedar City, UT 84720

Glen J. Ellis, Esq.  
Dean B. Ellis, Esq.  
60 East 100 South  
Suite 102  
P. O. Box 1097  
Provo, UT 84603

Kathryn T. Whalen, Esq.  
Bennett, Hartman, Tauman & Reynolds  
Suite 1450  
One S.W. Columbia  
Portland, OR 97258

Utah Energy Office  
3 Triad Center, #450  
Salt Lake City, UT 84180-1204

Charles M. Darling, IV  
Baker & Botts  
(AMAX Magnesium Corp.)  
555 13th Street, N.W.  
Suite 500 East  
Washington, D.C. 20004-1109

Gerald D. Conder  
Conder and Wangsgard  
(AMAX Magnesium Corp.)  
4059 South 4000 West  
West Valley City, UT 84120-4099

Mr. Jay Bowcutt, Controller  
Nucor Steel/Utah Division  
P. O. Box 488  
Plymouth, UT 84330