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UTAH PUBLIC
SERVICE COMMISSION

Salt Lake County Board of Commissioners

Bart Barker, Chairman
D. Michael Stewart
David M. Watson

June 8, 1988

Public Service Commission

Attached is a letter to the Board of County Commissioners from Mr. Felshaw King. Mr. King is chairman of the Utah State Committee of Consumer Services. This committee has been evaluating the proposed merger between Utah Power and Light and Pacific Power and Light.

Mr. King's letter points out several concerns the Consumer Services Committee has with the proposed merger. As a Commission, we understand that the Public Service Commission has been involved in a lengthy hearing process on this issue.

We would ask you to review and make note of the concerns expressed by the Utah State Committee of Consumer Services. The proposed merger will effect the lives of the majority of Salt Lake County residents.

We appreciate the difficult task you face.

Sincerely,

Bart Barker, Commission Chairman

D. Michael Stewart, Commissioner

David M. Watson, Commissioner

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MAY 16 1988

May 4, 1988

D. M. (Mike) Stewart
Chairman of Commission
407 City & County Bldg.
Salt Lake City, Ut 84111

Dear Chairman Stewart,

We are writing concerning the UP&L/PP&L Merger. In a letter dated September 17, 1987, we wrote advising you that the State Committee of Consumer Services was evaluating the proposed merger to determine, among other things, if conditions are needed to protect Utah consumers. Since the September letter, the Committee assigned staff and employed experts to analyze the merger proposal.

Upon completion of its analysis, the Committee concluded the benefits claimed for the merger are unsupportable and we are opposed to the merger in its present form.

In their application, UP&L/PP&L claim substantial benefits ($48 million in 1988 climbing to $158 million in 1992) will be realized by combining the two utilities and operating them as one. They further claim these benefits would result in an immediate two percent rate reduction with a subsequent 3% to 8% reduction for UP&L customers over the next four years with stable rates thereafter.

The Committee analysis challenges the merger benefits claimed by UP&L/PP&L. For example, our analysis shows the reduced construction costs claimed for the merger will actually result in increased transmission costs needed to improve coordination between the two merging systems. In addition, our analysis found the claim of $25 million in economic development benefits to be worthless.

Only on the question of capacity savings did our experts agree with the UP&L/PP&L position. However, we found that without a scheme for allocating costs the real capacity benefits will go to the PP&L system and not to the Utah customers of UP&L.

In this same vein the Committee's analysis evaluated whether, absent a cost allocation scheme, one state benefited more than Utah. We found that, while the merger has potential benefits for the new PacifiCorp as a whole, those benefits are significantly less than claimed <u>and</u> the Utah customers of PacifiCorp <u>do not</u> share in those benefits.

In fact, the cost savings to the Utah part of PacifiCorp do not substantiate the rate decreases promised by UP&L/PP&L. Our analysis shows the promised 2% rate reduction may not be in effect very long and the promise of an additional 3% to 8% rate reduction will likely never be realized.

These findings are the basis of the Committee's decision to oppose the merger application as filed by UP&L. Even though the Committee opposes the merger, there are some rate reduction and rate stability conditions under which the majority of the Committee would accept the merger. The most important conditions are: (1) Pacificorp guarantees to implement the promised rate reductions totaling 10%: A 2% reduction 60 days following the approval of the merger and additional 2% reductions in 1989, 1990, 1991 and 1992. (2) Rate stability through the subsequent 10 years as reflected by limiting rate increases to 1% per year from 1992 through the year 2002.

If these conditions and others are part of the merger approval, the majority of the Committee believes that it will benefit Utah. Copies of our Reports and Testimony filed with the Public Service Commission are available upon request. If you would like copies or if you have questions about the Committee's position, feel free to contact Joe Ingles at 530-6645.

Yours truly,

Felshaw King

Felshaw King, Chairman