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UTAH PUBLIC
SERVICE COMMISSION

October 12, 1987

Ted Stewart
Chairman
Public Service Commission
160 East 300 South
Salt Lake City, Utah 84111

Dear Mr. Stewart:

Thank you for accommodating our request for an extension to file before the Public Service Commission on the issue of the PacifiCorp/UP&L merger.

As you recall from an earlier conversation, there is a group of communities who are studying the viability of a public buy out of Utah Power & Light, either in whole or in part. Such studies, which are a natural process in government, have been ongoing for some time but were brought to a premature publication this summer before conclusions had been reached.

The Utah Public Power Cooperative, a vehicle that was evaluating the level of interest municipalities could or should have in the public power business, has determined that further discussion of a partial or full buy out of Utah Power & Light would not serve to the best interests of the Utah ratepayer while there is an offer on the table from PacifiCorp. Because it is not the desire of the UPPC to scuttle any deal because of the perception or misperception of the UPPC's activities, please be advised that further action and discussion of a UPPC buy out in whole or part has been suspended.

An interesting byproduct from the UPPC discussions has arisen, however. There are a number of communities who are expressing an interest in intervening in the proposed merger before the PSC because many questions about the proposed deal are unanswered and worrisome. I have attached for your interest a copy of 52 questions that were forwarded to Utah Power & Light for response last month. As of yet, we have not received answers to them but

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suspect they will be forthcoming. I believe you will find that a number of communities will be intervening in the PSC proceedings on this issue because of concern about what is being said by UP&L and what seems to be fact. The growing concern of the communities who have taken time to study the proposed merger is that there are too many unanswered questions and that the UP&L response to many questions is simply "trust us." It is obvious, however, that the proper forum for full exposure of the "deal" and protection of the ratepayer is through the PSC. Therefore, I anticipate a number of communities will intervene in a neutral posture to protect their interests and interests of their citizens.

I hope that this observation clarifies the present situation of the UPPC and gives you some indication of the sentiment of the various communities, i.e., the present neutral stand in anticipation of getting answers to some hard questions that would sway us to either support or oppose the proposed merger.

Again, I thank you for the extension of time and look forward with a great deal of interest to the information that will be produced in the upcoming months. Good luck with the task you have before you.

Sincerely,



John D Newman
City Manager

JDN:jt

cc: City Council
UPPC cities

AMALGAMATION OF QUESTIONS
POSED BY VARIOUS CITIES

1. How does UP&L ratio of employees to power sales and employees to population served compare to Pacificorp, industry averages and the average of non -investor owned utilities nationwide?

2. We have been advised that UP&L's buyout value is approximately \$1.8 billion as compared to Pacificorp's approximate \$5.27 billion, this equals approximately \$7.07 billion. At UP&L's approximate \$1.8 billion, which is about 25% of the whole, will this mean that the Utah customers will only have a minority representation on the Pacificorp's Board of Directors? If that is the case, will decisions be made in favor of Utah or the northwest?

3. What would the elimination of federal income tax and dividends and refinancing of debt within UP&L with tax exemption translate into as rate reductions? If so, how much?

4. If the merger takes place, will there be an opportunity for cities that want to get into the power business or who are already providing power to use distribution systems of UP&L/Pacificorp?

5. UP&L has alleged that the formation of a Utah Public Power Cooperative would only benefit the bonding company. What are the potential benefits of an independent evaluation not connected with Pacificorp, UP&L or any bonding company?

6. The media reported that the proposed merger offers a trade of UP&L stock for Pacificorp stock at \$.909 per share. If this is correct, or near correct, how much stock is currently owned by Utahns who have a user interest? How much Pacificorp stock will be owned by Utahns who have a user interest after the merger? If it is only a minor share, what is the long-term likelihood that corporate decisions will be in the real interest of Utah ratepayers?

7. How will UP&L/Pacificorp reduce Utah rates without increasing rates in other states especially when both companies have huge amounts of excess power? With the amount of excess power in the Northwest, how will the differing "peak times" really be a factor?

8. UP&L/Pacificorp say that they will reduce rates 5-10% over the next 4 years. Does this mean Utah ratepayers can expect rates to go down in absolute terms or does it mean they will simply lower the amount of periodic increase? What recourse will ratepayers have if rates do not go down in absolute terms?

9. UP&L/Pacificorp are presenting long-term stabilization of rates after the merger. What does this mean exactly? What will happen to rates if inflation increases?

10. What is meant by UP&L when the statement is made, "Utah Power's name will stay the same and the company will retain its local offices. Its board of directors will continue to oversee the company." What will legally prevent Pacificorp from eliminating UP&L in its identity and for local control?

11. UP&L has said that Utah's peak demand occurs in the summer while Pacific Power's is in the winter and because of that efficiencies can be expected which will bring down rates. With the major population centers of the Pacific Northwest found along the coast where temperatures are more temperate both in winter and summer, as compared to Utah, how can such savings be expected?

12. If the majority of stockholders are non-Utahns and the controlling corporate board is Pacificorp out of the Northwest, what does this do to the economic development of Utah? If Pacificorp has an opportunity to encourage industry into its service area, will deference be given to the Northwest where the controlling interests lay or Utah?

13. In the western United States, how many investor-owned utility companies are controlled by an out-of-state corporation? Please list.

14. What has been the average rate increase to the homeowner in the UP&L service area in Utah annually over the last seven years?

15. What has been the average rate increase to the homeowner in the PP&L service area annually over the last seven years?

16. Does Pacificorp stand to make substantial financial gains through the UP&L merger? If so, how much?

17. Is UP&L simply being used as a wheeling mechanism for sending surplus Pacific power to the Southwest?

18. The management of Pacificorp and UP&L have observed that rates will be reduced up to 10% in the next four years. What is to prevent these companies from showing a short-term loss on the books up to four years and then presenting a case to the Public Service Commission for a huge rate increase later?

19. UP&L has reported that rate payers will receive 5-10 percent rate reductions under the merger with Pacificorp. Within what time frame will these reductions take place, and are they guaranteed or just a promise, an expectation? Is the rate reduction guaranteed in the filing with the PSC?

20. Can and will the PSC assure that UP&L makes rate reductions of this magnitude?

21. What is UP&L's average retail rate? What is PP&L's average retail rate? If the merger is such a good idea, and it's really a merger, not a takeover, why can't we split the difference in rates? Why can't we have a system-wide rate averaging and stabilization?

22. Since UP&L's rates are among the highest in the West, excluding California, why won't we see even greater rate reductions than 5-10 percent as a result of the merger?

23. How does UP&L expect to give Utah customers rate reductions under current surplus conditions? Since UP&L's cost of generation is greater than PP&L's, won't PP&L's customers in other jurisdictions have to take rate increases in order to give rate reductions to Utah customers?

24. To what extent do rate reductions depend upon sales to the Southwest? Are there contracts in place to make such sales? If new sales are not successful in the Southwest, will our rates increase?

25. News reports have indicated that UP&L will realize rate stability because of access to low-cost hydroelectric power in the Northwest. Doesn't UP&L already enjoy access to Pacific Northwest power to the full extent of its transmission capability? Why can't long-term contracts with Washington, Montana, Idaho, or PP&L be consummated without a merger? Or is what we are dealing with really a takeover?

26. UP&L has interconnections with Idaho Power Company, PP&L and Montana Power Company. Can't UP&L buy cheap hydro power from these companies or have it wheeled through their systems? What additional benefit does the merger afford UP&L? Will the new 500 line coming from the northern states be a major benefit to UP&L or only a wheeling mechanism to flow excess power to southern California?

27. With the postponement of Hunter IV and excess capacity in Hunter III, plus access to Northwest hydro power, isn't UP&L already in a position to enjoy rate stability for quite some time?

28. What will be the legal status of UP&L under the merger? Will UP&L stock exist? Will UP&L stock continue to trade on the New York stock Exchange? Can UP&L, as a company, issue debt without any approval from Pacificorp? How will the stock certificates read which are issued pursuant to the merger transaction?

29. What real authority will the UP&L Board of Directors have? It has been said that the "merger agreement" with Pacificorp provides the Board of Directors of Utah Power and Light may not enter into negotiations with anyone without the express consent of Pacificorp. Does that mean the UP&L Board will not have final policy-making authority on such issues as budget, power rates, wheeling agreements, plant utilization, operation of the mines, plant construction or other resource decisions? Will not the Board serve more in an advisory capacity to the parent company's board with some minor local management authority?

30. Considering the problems reported in the mass media that have plagued UP&L over the last several years--illegal campaign contribution, political involvement, the Wilberg fire, coal overcharges related to waste and mismanagement by Emery Mining of UP&L's coal mines, kickbacks from security companies, the grand jury investigation, etc.--why would UP&L **want** to retain its name? Would it be better to create a new public identity? Is this a factor in UP&L's financial difficulty and a reason UP&L's Board is supporting a merger? Or is this just the culmination of an "agree to merger" before a takeover?

31. Assuming Pacificorp retains the current UP&L Board of Directors to oversee Utah operations, will that be a duplicate expense which ratepayers must bear?

32. Pacificorp paid its chairman \$606,504 in 1986, excluding any benefits and former consulting contracts, will the Utah ratepayer be paying any of the Pacificorp managements' salaries or expenses?

33. Might not Utah lose potential business if Pacificorp uses its economic development efforts and pricing mechanisms to attract industry to Oregon, rather than Utah? Won't the two utilities be in competition with each other for new loads?

34. Suppose increased demand within Utah warrants construction of new generating capacity. Who will make the final decision to build--the UP&L Board or the Pacificorp Board? What is the likelihood of a plant being built in another state served by Pacificorp?

35. In the long run, when cheap, excess Northwest hydroelectric power is consumed, will Utah resources (coal, etc.) be depleted for out-of-state consumption?

36. UP&L has basically two interconnections with other utilities in the South--one at Glen Canyon dam and the other at Four Corners. With the third nuclear unit now on line at Palo Verde, there is a glut of power in the South. Has UP&L secured long-term power supply agreements over its interconnections that are touted as being valuable to Utah ratepayers as part of this

transaction? If so, who with, and what is the length of the contract and is some of that "value" now going to be shared with Pacificorp?

37. UP&L has recently announced a power supply agreement with Nevada Power Company. This agreement is an example of inter-company relationships. What proportion of that sale will accrue to the benefit of PP&L and what proportion to UP&L ratepayers?

38. The company has reported the merger will enable it to take advantage of cost efficiencies. How will those "efficiencies" affect local employment? We have heard that functions such as accounting and engineering may be moved to Portland. Are there any functions that will be relocated?

39. Many local businesses rely on UP&L's business as suppliers and contractors. Will they lose any business as a result of consolidation with PP&L?

40. Isn't it true that the UP&L/Pacificorp "merger" could provide cheaper resources that might affect Utah employment? One City Council has been told by UP&L representatives that Canadian power may be purchased as a means of reducing rates. Won't this affect employment in Utah's coal mines and at UP&L's coal-fired plants?

41. Utah communities are concerned about the jobs of its citizens, it has been observed in the mass media that there will be cost-cutting measures. Does this mean the employees are at jeopardy? If there are going to be layoffs--where, how many, and how soon?

42. Some cities in Utah are contemplating intervention in the merger proceedings as a means of having a voice in this transaction and preserving future options. Should a city council decide continued UP&L operation in their city, a takeover or a merger is not in the best interest of its residents, is UP&L or Pacificorp going to mount aggressive opposition to such a move regardless of the needs and wishes of the citizens as it has done in the southwest Utah cities following the CPN purchase and most recently in Kanab and Cedar City?

43. If the promised rate reductions are dependent on UP&L and PP&L selling their excess power and no excess power can be sold, will it adversely affect potential rate reductions?

44. The promised rate reductions are reported to be phased in over the next four years because of the efficiencies created by combining the two companies. What exactly are the efficiencies that will be created by combining and please show in detail how the reductions will be accomplished?

45. If UP&L has surplus power as well as PP&L and neither company is successful in selling their surplus, then is it not possible that the UP&L ratepayers are taking on additional power that may not be sold and could increase their rates? If the surplus power of both companies cannot be sold, then how much would UP&L have to increase rates to the ratepayers?

46. It is reported that UP&L will see rate stability because of "permanent" access to the low-cost hydro power in the Northwest. Is it not true that UP&L already has access to the low-cost hydro power?

47. The UP&L stock had tumbled to a very low point prior to the announcement of the possible merger between UP&L and PP&L. With the announcement of the merger UP&L's stock increased at least 20% almost immediately, but PP&L's stock has decreased some. In this regard there may be benefits to the UP&L stockholder but what does the PP&L stockholder gain and why would they support the merger?

48. Pacificorp shows in its 1986 Annual Report that PP&L's earnings decreased by 4% in 1986 over 1985 and that Pacificorp's other three interests (NERO, Pacific Telecom and Financial Services) were up 31%. Should this trend continue, it seems likely that Pacificorp will invest less in its electric utility holdings and divert more monies to those other areas. Will Pacificorp let its total electric facilities degrade to such a point that dependable and reliable service may be jeopardized from "milking" the electric interests. What protection does the UP&L ratepayer have that Pacificorp won't continue to a decrease of reliable and dependable electric service in the State of Utah?

49. A number of promises have been made by UP&L and Pacificorp relative to rate reductions, level of service, local control, etc. Is UP&L and Pacificorp prepared to guarantee a 10% rate reduction in four years as well as the other promises by agreeing to an option to allow local jurisdictions to purchase their distribution system if it doesn't happen?

50. It has been said by UP&L that an investor-owned utility is private enterprise while a citizen-owned utility is socialism. Could UP&L please explain how an investor-owned utility where there is a guaranteed income to the stockholders regulated by State and Federal governments and a monopoly can be defined as private enterprise?

51. Some communities would like to know why UP&L becomes involved in hardball politics suggesting fringe information that if a city should start its own distribution system property taxes would go up and homeowners would have mortgages if the City system was initiated. (See Cedar City experience in August) Please justify political involvement where part truths and innuendo is employed?

52. In a recent UP&L pamphlet it was noted, "The merger will enhance Utah's ability to attract new commerce and industry with the prospect of lower, stable rates. Pacificorp has recently developed ties with Japan, Korea, China, and other Pacific rim countries. The states served by Utah Power can now become part of that activity." With the minority interest UP&L will have in Pacificorp, what inclination will Pacificorp have to send industrial prospects outside of the Pacific Northwest unless they are the type of industry that Portland doesn't want?