



Public Service Commission of Utah

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NORMAN H. BANGERTER
GOVERNOR

COMMISSIONERS
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COMMISSION SECRETARY
STEPHEN C. HEWLETT

October 6, 1987

Thomas W. Forsgren, Esq.
Utah Power & Light Company
P.O. Box 899
Salt Lake City, Utah 84110

Dear Mr. Forsgren:

Here, per your request, is a copy of our staff's memorandum evaluating the Utah Power and PacifiCorp prefiled testimony in the Merger Case (87-035-27). As you can see, the testimony does not meet most of the information requirements set out in our letter of September 15. The staff recommended, and we as Commissioners seriously considered, that the testimony be rejected and the schedule adopted at the September 29 Prehearing Conference be suspended pending receipt of more complete testimony.

We have decided against rejecting the testimony. However, we remind you in the strongest terms that the information deficiencies cited in the staff's evaluation must be rectified in the full case as it is developed in hearings before us.

Please feel free to contact me or the staff if you have any questions or comments regarding this issue.

Sincerely,

Brian T. Stewart
Chairman

BTS/bw

Enclosure



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MEMORANDUM

COMMISSIONERS
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TO: PUBLIC SERVICE COMMISSION
FROM: Staff
DATE: October 5, 1987
SUBJECT: Evaluation of Prefiled Testimony in Merger Case
(87-035-27)

Summary

We find the Prefiled Testimony submitted by Utah Power and Light Company and PacifiCorp in the subject case inadequate and unacceptable.

Evaluation

We have reviewed the Prefiled Testimony filed by Utah Power and PacifiCorp in the Merger Case (87-035-27). We find the testimony to be markedly deficient as an affirmative case in support of approval of the Merger by this Commission. This is the single most significant electricity industry case to appear before this Commission in decades. It is literally a multi-billion dollar decision. The Commission must have adequate information.

Utah Power and PacifiCorp have provided only unsupported expectations about the future direction of the economic consequences of the merger. They have not provided information regarding the magnitude and timing of expected economic changes due to the merger. It is asserted that this information will be forthcoming in future hearings before the PSC on specific matters but is not relevant to the Commission evaluation of the merger application. We cannot accept this limitation on the scope of approval issues.

The Commission has gone out of its way to make its information and analysis requirements clear to all involved, and to outline the Commission's approach to the case. On at least three occasions¹, the Companies have been informed that the Commission would require a comprehensive, detailed, quantitative analysis of all aspects of the Merger. The testimony does not respond to this requirement.

¹ The letters from the Commission to Utah Power of August 6, and September 15, 1987, and the verbal statements of Mr. Kirk at the Boise meetings of August 26 and 27, 1987.

We have structured our evaluation of the testimony around our September 15, 1987, memo to the Commission in which we set out a detailed list of questions and issues which the companies were required to address in their affirmative case. (This memo was transmitted to the companies in your letter to Utah Power of the same date.) We have prepared a table evaluating responses to each of the questions in the September 15, memo.

We have also underlined for emphasis the parts of the PREFACE to our September 15, memo that clarify the context within which the questions should have been addressed and which the testimony ignores completely. For emphasis, we repeat that responses must be framed in terms of a quantitative, analytical comparison of the conditions expected to be faced in the future if the merger is completed with those conditions to be expected if the merger does not occur. We recognize the difficulty of the required analyses. We cannot accept that difficulty as justification for not doing them. Further, we are confident that the companies have done most of these analyses, at least in first approximation form. These should be provided. We cannot believe that the decision to merge was based on the unsupported assertions of expectations and faith which constitute the Prefiled Testimony.

An additional concern we have with the Prefiled Testimony is its offer of a two percent rate reduction immediately upon approval of the merger application. If this offer is accepted, rates would not be based on a determination of costs. This may be an inappropriate precedent.

As Staff we are less concerned with the support and documentation of the suggested five to ten percent future rate reduction, per se, than we are with deriving reasonable and analytically based expectations of the future economic impacts of the proposed merger. This includes the timing and magnitude of future cost reductions as well as an assessment of the risks involved.

One final point: The exhibits accompanying the testimony do not conform to Commission Rules of Practice and Procedure regarding form and documentation, in particular rule number R750-100-9 B.6.(b)(2). This should be corrected in all filings in this case.



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NORMAN H. BANGERTER
GOVERNOR

MEMORANDUM

TO: PUBLIC SERVICE COMMISSION
FROM: Staff
DATE: September 15, 1987

COMMISSIONERS
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PREFACE

The Commission should give very serious consideration to the impact on UP&L's ratepayers of the proposed merger with Pacificorp. In order to approve or disapprove the merger, we suggest that a complete economic analysis of the benefits and costs, plus who bears the burden or reaps the gains, be performed by UP&L and Pacificorp. The basis for this analysis would be a comparison of the with-merger and the without-merger cases.

In the context of such an analysis, the issues set out below should be addressed, and all necessary supporting information should be provided. The analysis should be completed at the earliest possible date. We have confined this list to those issues and questions to which a Utah Power and/or PacificCorp response should reasonably be expected.

The without-merger case would simply be UP&L as we know it. The company's history would be recounted only insofar as is necessary to explain the current situation and as it may bear on the future. The future itself would be described as evolving from the most likely pattern of investment, operational, organizational and regulatory decisions. In the with-merger case, this future would of course be modified by a new, more complex organizational structure and by a new pattern of management and regulatory decisions. To show what happens to UP&L's ratepayers in both cases would be the desired outcome of the analysis. A question of particular interest is the identification of sources of the claimed five to ten percent Utah rate reduction, its implications for other parts of the merged system, and the likely path of future electricity prices after the price reduction years are over.

The following questions are designed to elicit information from which resolutions of these major issues can be developed. Note that similar concerns arise several times in various contexts. This repetition is appropriate in emphasizing important relationships.

EVALUATION OF UP&L / PACIFICORP PREFILED TESTIMONY
MERGER CASE 87-035-27

This table lists the questions submitted to the companies in the Commission's September 15, 1987 letter and indicates the status of the companies' response(s) to each question.

| Question | Ade- quate Answer | Part- ial Answer* | Unsup- ported Answer | No Answer |
|---|-------------------------|-------------------------|----------------------------|--------------|
| <u>PREFACE</u> | | | | |
| Requiring complete analysis of with and without merger conditions | | | | X |
| <u>1. ORGANIZATIONAL STRUCTURE</u> | | | | |
| Existing PacifiCorp | DFB2 Ex2.1 Ex2.2 | | | |
| Alternative Structures | | | | X |
| UP&L Separation - Status | | DFB15 | DFB15 | |
| Proposed Structure & Why? | FND7 DFB15 | OTC9 EX4.2 | OTC9 EX4.2 | |
| Benefits Requiring Merger | | | FND10 | |
| Dis-integration | DFB17 | | | |
| <u>2. JURISDICTION</u> | | | | |
| Jurisdictional Cost Allocations | FDR5 | OTC21 | OTC21 | |
| EBA | FDR7 | RMB25 OTC21 | RMB25 OTC21 | |
| FERC Jurisdictional Customers | FDR8 | OTC21 | OTC21 | |
| Least Cost Planning | RMB3 RMB27 | OTC21 | OTC21 | |
| Non-subsidy of Non-utility Subsidiaries -- Possible Imposition of Conditions & Restrictions | | OTC21 | FDR6 OTC21 | |

| <u>Question</u> | <u>Ade- quate Answer</u> | <u>Part- ial Answer*</u> | <u>Unsup- ported Answer</u> | <u>No Answer</u> |
|--|----------------------------------|----------------------------------|-------------------------------------|----------------------|
| 3. FINANCIAL ISSUES | | | | |
| Detailed UP&L Financial Description with & without Merger | OTC12 APPLIC | | | |
| Sources & Uses of Funds | APPLIC | | | |
| Dividend Policies | OTC15 | | OTC15 | |
| Bond Rating Effects | OTC15 | | | |
| Cost of Capital Effects | OTC14 | | OTC14 | |
| Tax Considerations | OTC16 | | OTC16 | |
| UP&L Access to Capital Markets | DFB18 | | | |
| 4. CURRENT & PROSPECTIVE LOADS AND LOAD SHAPES | | | | |
| a. Jurisdictional | | | | |
| Recent MW & kWh Experience (Separate) | RMB4 F3.5 EX4.4 | | RMB4 F3.5 EX4.4 | |
| Recent MW & kWh Experience (If Combined) | RMB4 F3.6 | | RMB4 F3.6 | |
| Recent Customer Class Mix (Separate) | EX4.4 | | EX4.4 | |
| Recent Customer Class Mix (If Combined) | | | | X |
| Load Forecasting Methods & Models (Peak & Energy) | | | | X |
| b. Off-System | | | | |
| Recent Sales (Separate & If Combined) | RMB17 F3.9 | | RMB17 F3.9 | |
| Future Sales (Separate & If Combined) | RMB17 | | RMB17 | |
| Surplus Sales Projection Methods & Models | | | | X |
| Firm Sales Projection Methods & Models | | | | X |
| c. Load Diversity | | | | |
| Diversity Opportunities & How to Exploit Them | FND10 RMB10 F3.5 F3.6 | | FND10 RMB10 F3.5 F3.6 | |
| d. Self-Generation Industrial Customer Bypass | | | | |
| Potential Impact | DFB11 | | DFB11 | |
| Response (Separate & Merged) | DFB11 | | | |

* Some Partial Answers are just mentions of the subject.

| Question | Ade- quate Answer | Part- ial Answer* | Unsup- ported Answer | No Answer |
|--|-------------------------|---------------------------------------|---------------------------------------|--------------|
| 5. RESOURCES | | | | |
| a. <u>Current Generation Resources</u> | | RMB5 RMB15 F3.1 F3.2 F3.4 | RMB5 RMB15 F3.2 F3.2 F3.4 | |
| <u>Detailed Description of Resources</u> | | EX4.4 | EX4.4 | |
| <u>Reserves (Actual/Desired/Planned) (Separate)</u> | | RMB11 F3.1 F3.2 F3.7 | RMB11 F3.1 F3.2 F3.7 | |
| <u>Reserves (Actual/Desired/Planned) (If Combined)</u> | | RMB11 F3.7 | RMB11 F3.7 | |
| <u>Recent Off-system Purchases (Separate)</u> | | RMB6 RMB8 | RMB6 RMB8 | |
| <u>Recent Off-system Purchases (If Merged)</u> | | RMB6 RMB8 | RMB6 RMB8 | |
| b. <u>Expected Future Generation Resources (Own & Purchased)</u> | | | | |
| <u>If Separate</u> | | | | X |
| <u>Specific Changes if Merged</u> | | RMB12 | RMB12 | |
| c. <u>PURPA</u> | | | | |
| <u>Potential Impact (Separate & Merged)</u> | | RMB13 | RMB13 | |
| <u>Changes in QF Markets Resulting From Merger</u> | | RMB14 | | |
| 6. TRANSMISSION | | | | |
| a. <u>Control Areas</u> | | | | |
| <u>Describe Current Structure & Operation</u> | | | | X |
| <u>Changes Expected from Merger</u> | | | RMB4 | |
| b. <u>Control Area Relationships</u> | | | | |
| <u>Existing UP&L - PP&L Interconnections</u> | | RMB11 F3.8 | | |
| <u>Existing Interties with Other Utilities</u> | | | | X |

| Question | Ade- quate Answer | Part- ial Answer* | Unsup- ported Answer | No Answer |
|---|-------------------------|-------------------------|----------------------------|--------------|
| 6. TRANSMISSION (CONTINUED) | | | | |
| c. <u>Expected Future System</u> | | | | |
| <u>If Developed Separately</u> | | | | X |
| <u>If Merged -- Present Details of Coordination Opportunities</u> | | RMB12 F3.8 | RMB12 F3.8 | |
| <u>Merger Impact on Transmission Investment</u> | | RMB12 F3.8 | RMB12 F3.8 | |
| <u>Substitution of Investment in Transmission for Investment in Generation</u> | | | | X |
| <u>Quantify Costs & Benefits of Merger-Based Coordination Increases</u> | | | | X |
| d. <u>Wheeling</u> | | | | |
| <u>Wheeling Sales & Revenue Opportunities Separate & Merged</u> | | | | X |
| <u>Wheeling Policy -- Merged</u> | | | | X |
| <u>Wheeling Prices -- If Merged -- Levels and Methods of Establishment</u> | | | | X |
| 7. CHANGING RELATIVE ENERGY PRICES IMPACT | | | | |
| <u>Efforts to Counter Low Electricity Sales Growth Rates</u> | | DFB5 | DFB5 | |
| <u>Expectations and Plans if Prices of Alternatives Increase</u> | | | | X |
| 8. QUANTIFICATION OF BENEFITS AND COSTS OF MERGER | | | | |
| a. <u>Capacity Expansion Plan</u> | | | | |
| <u>Quantify Present Value of Future G & T Additions with & without Merger</u> | | | | X |
| b. <u>Future Operating Costs</u> | | | | |
| <u>Quantify Future Operating Costs with & without Merger</u> | | | | X |
| c. <u>Off-System Transactions</u> | | | | |
| <u>Sales Revenues, Purchase Costs, Wheeling Revenues, with & without Merger</u> | | | | X |

* Some Partial Answers are just mentions of the subject.

| <u>Question</u> | <u>Ade- quate Answer</u> | <u>Part- ial Answer*</u> | <u>Unsup- ported Answer</u> | <u>No Answer</u> |
|---|----------------------------------|----------------------------------|-------------------------------------|----------------------|
| 8. QUANTIFICATION OF BENEFITS AND COSTS OF MERGER (CONTINUED) | | | | |
| d. <u>Customer Class Costs & Prices</u> | | | | |
| <u>Quantify Class- & Jurisdiction-Specific Net Cost of Service Impact of Merger</u> | | | | X |
| <u>Class- & Jurisdiction-Specific Average Revenue with & without Merger</u> | | | | X |
| e. <u>Discuss Merger Costs & Benefits with respect to:</u> | | | | |
| <u>UP&L Ratepayers</u> | | | FND3 FND11 FDR2 | |
| <u>UP&L Shareholders</u> | | | FND3 FND11 | |
| <u>State of Utah in General</u> | | | FND4 FND11 | |
| <u>Other</u> | | | FND4 | |