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STATE OF UTAH
DEPARTMENT OF
BUSINESS REGULATION

NORMAN H. BANGERTER, GOVERNOR
WILLIAM E. DUNN, EXECUTIVE DIRECTOR

October 9, 1987

Utah Power & Light Company
Mr. Thomas W. Forsgren, Esq.
P O. Box 899
1407 West North Temple
Salt Lake City, Utah 84110

Dear Mr. Forsgren,

Please find enclosed the Division of Public Utilities' first set of information requests regarding Utah Public Service Commission Case No. 87-035-27.

Yours truly,

Michael Ginsberg
Assistant Attorney General

3456W

Utah Division of Public Utilities
Information Request #1

To: Utah Power & Light Company (UP&L)
PacifiCorp
PC/Merging Corp.

Re: PSCU Case No. 87-035-27: UP&L/PacifiCorp Merger.

1. Please provide all documents, studies, and memoranda employed as supporting evidence for the pre-filed direct testimony of Frank N. Davis, including:
   a. Studies supporting the assertions made on page 3, lines 14-18 that the proposed merger will decrease rates "5% to 10%" over the next four years.
   b. Studies supporting the assertions made on page 4, lines 2-10 that the proposed merger will "enhance economic development in the Company's service area".
   c. Studies supporting the assertions made on pages 9 (beginning on line 22) through 11 (ending on line 10) that the proposed merger will:
      1) Better utilize existing and potential resources;
      2) Result in more efficient use of power resources;
      3) Enhance the efficiency and reliability of service;
      4) Increase the access to low cost power supplies;
      5) Enhance the prospect of wholesale power sales to the southwestern United States;
      6) Postpone the costly addition of resources for both companies;
      7) Create economies of scale;
      8) Create operating savings through integrated system dispatch and unit commitment;
      9) Create operating savings through consolidation of inventories;
      10) Increase the flexibility of generation plant maintenance and shared services between operating divisions;
      11) Create a surviving corporation financially stronger than either company operating separately.

2. Please provide all documents, studies, and memoranda employed as supporting evidence for the pre-filed direct testimony of David F. Bolender, including:

   a. Studies supporting the assertion made on page 7, lines 7-9 that PacifiCorp's "twenty year forecast predicts an annual growth rate of only 1.7 percent in electric sales."

   b. Studies supporting the assertion made on pages 9 (beginning on line 25) through 10 (ending on line 2) that PacifiCorp's commitment to economic development has "helped to attract or retain more than 2,500 jobs in our service territory."

   c. Studies supporting the assertions made on pages 12 (beginning on line 7) through 13 (ending on line 16) that the proposed merger will:

      1) "[I]ncrease firm and nonfirm access to existing and new wholesale power markets, facilitating the profitable disposition of available power supplies.";

      2) "[E]nhance both companies' ability, through expanded interconnections, to take greater advantage of low-cost power supplies which are available in the short term but which likely will not be available in the long term, absent an early commitment.";

      3) Create "substantial benefits" from the diversity of the UP&L and PacifiCorp systems;

      4) "[R]educe system operating costs through the integrated economic dispatch of generation.";

      5) "[R]educe system reserve requirements and improve system reliability because of expanded transmission interconnections.";

      6) "[P]ermit the consolidation of duplicative activities, resulting in future operating savings.";

      7) "[P]rovide enhanced opportunities for employees of both companies.";

      8) Reflect "an extraordinary strategic and geographic fit" of UP&L and PacifiCorp;"

   d. Studies supporting the assertion made on page 13, lines 16-19 that "additional major interconnections can be made on a cost-effective basis."

e. Studies supporting the assertions made on page 13, lines 20-23 that the benefits of the merger "will help reduce and stabilize the power prices to Pacific Power and Utah Power customers, thereby stimulating additional growth and mitigating competitive threats."

f. Studies supporting the rationale, basis, justification and prudency of the merger agreement term stated on page 14 lines 13-16 that "Utah Power's common shareholders will receive between .909 and .957 shares of the new PacifiCorp stock and will own more than 40% of the shares of the new corporation."

g. Studies supporting the assertions made on pages 17 (beginning on line 23) through 18 (ending on line 8) that "a profit center orientation is often useful in maintaining accountability for controlling costs and lowering prices to our customers."

h. Studies supporting PacifiCorp's 'confidence' (page 21, lines 6-11) that the benfits of the merger will enable Utah Power's rates to be lowered by a total of 5 to 10 percent over the next four years.

3. Please provide all documents, studies, and memoranda employed as supporting evidence for the pre-filed direct testimony of Rodney M. Boucher, including:

a. Studies supporting the assertion made on page 3, line 19-22 that the power systems operated and planned on a "single utility basis" will "maximize benefits for the custcmers of both divisions."

b. Studies supporting the assertion made on page 10, lines 24-26 that resource planning benefits "will lower the combined system's future capacity requirements by over 350 MW."

c. Studies supporting the assertions made on page 12, lines 2-7 that a new transmission link between the Jim Bridger system and Utah Power's Treasureton substation "would increase the Pacific Power - Utah Power transfer capability by 500 to 700 MW at a cost of between $25 million and $40 million."

d. Studies supporting the assertions made on page 12, lines 20-25 that the "merging of the systems and expanded interconnections will allow a greater use of all available resources for both long-term power needs and short-term operating efficiencies" and "facilitate the attainment of least-cost planning goals and objectives for both divisions."

e. Studies supporting the assertions made on page 13, lines 8-13 that "in the absence of merger, Pacific Power's projected energy resource requirements would outpace the Company's existing energy resources in the 1993-1994 time frame. The merging of the systems will postpone the energy needs of the combined systems until 1998-1999."

f. Studies supporting the assertions made on page 14 (beginning on line 22) through 15 (ending on line 11) that "Pacific Power anticipates that significant benefits will be derived through our ability to adopt both joint unit commitment ... and dispatch. We believe that these joint operations will allow the merged system to take advantage of our fuel cost diversities and improve overall generating unit operating efficiencies, resulting in significant total fuel cost savings. ... our combined ability to take greater advantage of purchased power supplies will also contribute to lower system operating costs. Also, ... one of the major benefits to Pacific Power is the acquisition of additional load following capability."

g. Studies supporting the assertions made on page 16 (beginning on line 22) through 17 (ending on line 3) that "The diversity of the combined system and its larger load base should reduce the burden placed on Pacific Power's Mid-Columbia resources as well as Utah Power's AGC thermal resources. This should result in improved Mid-Columbia and thermal operating efficiency and lower system operating costs, prolonged facility life, and the elimination of Pacific Power's need to retrofit its own generating units with expensive AGC equipment."

h. Studies supporting the assertions made on page 17, lines 23-26 that "Wholesale power sales benefits will accrue to the merged system through increased sales margins, and through enhanced firm and nonfirm power sales opportunities."

i. Studies supporting the assertion made on page 18, lines 1-4 that "the costs associated with delivering power to wholesale customers will be lower due to the diversity in energy production costs and other operating efficiencies."

j. Studies supporting the assertion made on page 18, lines 4-8 that "Sales margins are also expected to improve due to the combined systems' ability to offer a wider variety of valuable energy services to existing and potential purchasers, thereby commanding better prices."

k. Studies supporting the assertion made on page 19 (beginning on line 18) through 20 (ending on line 4) that the systems of Pacific Power and Utah Power will afford "the combined system a greater opportunity to maximize allowable wholesale power prices. These melded attributes should allow the merged systems to respond to ever-increasing competition in wholesale power markets."

l. Studies supporting Mr. Boucher's "expectation of increased power sales" based on "our combined ability to maximize the use of the merged system's total available market through joint energy supply control ..., price competitive[ness] as a result of operating efficiencies, and ... combined market access." (page 22, lines 16-23);

m. Studies supporting the assertion made on page 22, lines 22-25 that "Our combined ability to increase sales should also be enhanced through our greater overall supply reliability";

n. Studies supporting the assertion made on page 24, lines 8-9 that "other benefits can be realized regardless of uncontrollable circumstances."

o. Studies supporting the assertion made on page 24, lines 10-13 that "The benefits I have described will contribute substantially to the savings and efficiencies from the merger and the retail price reduction plan";

4. Please provide all documents, studies, and memoranda employed as supporting evidence for the pre-filed direct testimony of Orrin T. Colby, including:

a. Studies supporting the assertions made on page 11, lines 1-3 that "Utah Power's present financial stability, as measured by cash generation, is strong and would be expected to become stronger regardless of the merger consideration."

b. Studies supporting the assertions made on page 11, lines 11-18 that the proposed merger will enhance UP&L's financial stability because: "Integration of the systems will defer the need for additional generation requirements, improve system reliability through greater reserve sharing and reduce system operating costs through central dispatch. These, and other benefits, will help to stabilize rates and allow the merged company to be more competitive in the market place, thus overall creating a more healthy, vitalized and diverse utility."

c. Studies supporting the assertions made on page 12, lines 5-10 that "After some period of joint operation ... the financial indicators for the new company should be better than would have been possible for either of the separate companies as a result of system diversity and other synergies which will occur."

d. All studies, documents, and memoranda reviewed by Mr. Colby in his consideration of the question posed to him on page 12, line 12: "What effect will the merger have on bond ratings?";

e, Studies supporting the assertions made on page 14, lines 19-24 that "the capital markets' response will parallel the behavior of the financial indicators I discussed earlier. The intent is that in the long run the proposed merger will result in financial performance better than either company could achieve separately. As that occurs, the capital markets will respond accordingly."

f. Studies supporting the assertions made on page 17 (beginning on line 26) through 18 (ending on line 2) that "AMT may be minimized or avoided for non-regulated subsidiaries as a result of filing a consolidated tax return."

g. Studies supporting the assertion made on page 18, lines 25-26 that "Merger costs will generally be capitalized and amortized over a reasonable period."

h. Studies supporting the assertion made on page 21, lines 12-13 that "The merger would not decrease regulation by the state public utility commissions."

5. Please provide all documents, studies, and memoranda employed as supporting evidence for the pre-filed direct testimony of Fredric D. Reed, including:

   a. Studies supporting the rationale, basis and justification for the "two percent reduction" in prices to Utah Power regular firm customers (page 2, lines 17-21).
   b. Studies supporting the assertion made on page 3, lines 11-13 that "the merger should result in lower prices to Utah Power and Pacific Power customers than would be the case absent a merger.
   c. Studies supporting the assertion made on page 3, lines 18-21 that "Rate reductions will be possible because of cost saving measures that have already been put in place by Utah Power management and because of savings and efficiencies resulting from the merger."
   d. Studies supporting the assertion made on page 3, lines 21-25 that "It is unlikely that in the first sixty days following the merger, sufficient cost savings will have been actually generated to justify the proposed two percent price reduction."
   e. Studies supporting the assertion made on page 4, lines 16-23 that "a consolidation of certain duplicative functions or programs within areas such as auditing, data processing, inventories, insurance, legal, shareholder relations, and power plant maintenance scheduling should produce substantial savings after the merger is fully implemented."
   f. Studies supporting the assertion made on page 5, lines 2-11 that "a five percent reduction in Utah Power's current prices may well produce a material increase in sales. We would also expect increased sales to result from enhanced economic development activities".

6. Please provide all studies, documents, and/or memoranda developed or employed by UP&L, its Board of Directors, Executive Officers, and/or Company management and/or PacifiCorp, its Board of Directors, Executive Officers, and/or Company management in their assessment of the merits, detriments, prudencies, benefits and/or costs attending the merger of UP&L and PacifiCorp, including:
   a. Studies investigating the relative merits and prudencies of the UP&L/PacifiCorp merger versus other forms of intercompany operational cooperation/coordination and/or contractual dealing.
   b. Studies investigating the relative merits and prudency of merger as the most appropriate mechanism by which to conjugate the UP&L and PacifiCorp entities.
   c. Studies investigating the prospective benefits and/or costs to inure from the merged financial structure of UP&L and PacifiCorp relative to independent ownership of the two companies, including:
      1) Studies employed in the evaluation of PacifiCorp's and Pacific Power's current and projected leverage capital requirements with and without the proposed merger;
      2) Studies employed in the evaluation of UP&L's current and projected leverage capital requirements with and without the proposed merger;
      3) Studies employed in the evaluation of PacifiCorp's projected bond ratings and costs of leverage capital with and without the proposed merger;
      4) Studies employed in the evaluation of UP&L's projected bond ratings and costs of leverage capital with and without the proposed merger;
      5) Studies employed in the evaluation of PacifiCorp's and Pacific Power's current and projected equity capital requirements with and without the proposed merger;
      6) Studies employed in the evaluation of UP&L's current and projected equity capital requirements with and without the proposed merger;

7) Studies employed in the evaluation of PacifiCorp's current and projected cost of equity capital with and without the proposed merger;
8) Studies employed in the evaluation of UP&L's current and projected cost of equity capital with and without the proposed merger;
9) Studies employed in the evaluation of the current and projected financial and operational health of PacifiCorp's current and foreseeable non-utility subsidiaries with and without the proposed merger;
10) Studies employed in the evaluation of the current and projected financial and operational health of UP&L's current and foreseeable non-utility subsidiaries with and without the proposed merger;
11) Studies employed in the evaluation of the current and projected tax liabilities of PacifiCorp with and without the proposed merger;
12) Studies employed in the evaluation of the current and projected tax liabilities of UP&L with and without the proposed merger.
13) Studies employed in the evaluation of current and prospective financial cost savings not achievable by either PacifiCorp or UP&L without the proposed merger.
14) Studies employed in the evaluation of the current and projected total utility financial costs of PacifiCorp with and without the proposed merger;
15) Studies employed in the evaluation of the current and projected total utility financial costs of UP&L with and without the proposed merger;

d. Studies investigating the prospective benefits and/or costs inuring to the merged operational structure of UP&L and PacifiCorp relative to independent ownership of the two companies, including:
1) Studies employed in the evaluation of the current and projected utility organizational structure of PacifiCorp with and without the proposed merger;

2) Studies employed in the evaluation of the current and projected utility organizational structure of UP&L with and without the proposed merger;
3) Studies employed in the evaluation of the current and prospective jurisdictional electric loads of PacifiCorp with and without the proposed merger;
4) Studies employed in the evaluation of the current and prospective jurisdictional electric loads of UP&L with and without the proposed merger;
5) Studies employed in the evaluation of the current and prospective jurisdictional customer class mix of PacifiCorp with and without the proposed merger;
6) Studies employed in the evaluation of the current and prospective jurisdictional customer class mix of UP&L with and without the proposed merger;
7) Studies employed in the evaluation of the current and prospective off system firm sales and other sales of energy and capacity by PacifiCorp with and without the proposed merger;
8) Studies employed in the evaluation of the current and prospective off system firm sales and other sales of energy and capacity by UP&L with and without the proposed merger;
9) Studies employed in the evaluation of the current and prospective load shape diversities of PacifiCorp and UP&L and the optimum methods available to exploit them;
10) Studies employed in the evaluation of the current and prospective potential of commercial and industrial bypass of PacifiCorp's utility system with and without the proposed merger;
11) Studies employed in the evaluation of the current and prospective potential of commercial and industrial bypass of UP&L's utility system with and without the proposed merger;
12) Studies employed in the evaluation of the current and prospective transmission system of PacifiCorp with and without the proposed merger;

13) Studies employed in the evaluation of the current and prospective transmission system of UP&L with and without the proposed merger

14) Studies employed in the evaluation of the prospective operational economies of scale available to the merged company;

15) Studies employed in the evaluation of the current and prospective total operational costs of PacifiCorp with and without the proposed merger;

16) Studies employed in the evaluation of the current and prospective total operational costs of UP&L with and without the proposed merger.

e. Studies investigating the prospective benefits and/or costs inuring to the merged resource structure of UP&L and PacifiCorp relative to independent ownership of the two companies, including:

1) Studies employed in the evaluation of the current and prospective generating resource needs of PacifiCorp with and without the proposed merger;

2) Studies employed in the evaluation of the current and prospective generating resource needs of UP&L with and without the proposed merger;

3) Studies employed in the evaluation of the current and prospective ability of PacifiCorp to purchase capacity resources with and without the proposed merger;

4) Studies employed in the evaluation of the current and prospective ability of UP&L to purchase capacity resources with and without the proposed merger;

5) Studies employed in the evaluation of the current and prospective impact of PURPA and cogeneration on PacifiCorp's strategic resource plans with and without the proposed merger;

6) Studies employed in the evaluation of the current and prospective impact of PURPA and cogeneration on UP&L's strategic resource plans with and without the proposed merger;

7) Studies employed in the evaluation of the current and prospective energy production costs of PacifiCorp with and without the proposed merger;
8) Studies employed in the evaluation of the current and prospective energy production costs of UP&L with and without the proposed merger;
9) Studies employed in the evaluation of the current and prospective benefits and/or costs inuring to PacifiCorp and its ratepayers from a sale of UP&L coal mine properties to the NERCO subsidiary;
10) Studies employed in the evaluation of the current and prospective total resource costs of PacifiCorp with and without the proposed merger;
11) Studies employed in the evaluation of the current and prospective total resource costs of PacifiCorp with and without the proposed merger.

f. Studies investigating the prospective benefits and/or costs inuring to the merged administrative structure of UP&L and PacifiCorp relative to independent ownership of the two companies, including:
1) Studies employed in the evaluation of the prospective administrative economies of scale available to the merged companies;
2) Studies employed in the evaluation of the current and prospective total adminstrative costs of PacifiCorp with and without the proposed merger;
3) Studies employed in the evaluation of the current and prospective administrative costs of UP&L with and without the proposed merger.
4) Studies employed in the evaluation of PacifiCorp's current and prospective employment levels and practices with and without the proposed merger.
5) Studies employed in the evaluation of UP&L's current and prospective employment levels and practices with and without the proposed merger.

g. Studies investigating the prospective benefits and/or costs inuring to the merged power marketing structure of UP&L and PacifiCorp relative to independent ownership of the two companies.

h. Studies investigating the prospective benefits and/or costs inuring to UP&L/PacifiCorp as a result of an optimum interutility (UP&L and Pacific Power) power exchange configuration.

i. Studies investigating the prospective benefits and/or costs inuring to the merged regulatory structure of UP&L and PacifiCorp relative to independent ownership of the two companies, including:

   1) Studies investigating PacifiCorp's preferred jurisdictional and interjurisdictional cost allocation methods with and without the proposed merger;
   2) Studies investigating PacifiCorp's optimum regulatory preference regarding energy cost recovery;
   3) Studies conducted by PacifiCorp investigating the desirability and optimum disposition of the Energy Balancing Account cost recovery mechanism in light of the proposed merger.

j. Studies investigating the prospective benefits and/or costs inuring to UP&L and/or PacifiCorp utility customers as a result of the proposed merger relative to independent ownership of the two companies.

k. Studies investigating the prospective benefits and/or costs inuring to UP&L and/or PacifiCorp common and preferred shareholders as a result of the proposed merger relative to independent ownership of the two companies.

l. All studies produced by external consultants, experts and/or other entities on behalf of UP&L and/or PacifiCorp that were employed by UP&L and/or PacifiCorp in the evaluation of the benefits and/or costs associated with the merger decision.

7. As stated on page 18, lines 25-26 of the direct pre-filed testimony of Orrin T. Colby, UP&L/PacifiCorp will account for the "costs of the merger" by capitalizing and amortizing these costs over a reasonable period. Please provide a complete specification of the nature and magnitude of the merger costs alluded to by Mr. Colby, including:

a. All studies, documents, memoranda and workpapers employed by UP&L and/or PacifiCorp in the assessment and evaluation of the current, prospective and total "costs of the merger";

b. Specification of the current, prospective and total legal and administrative costs of the merger, including:
   1) Specification of those costs incurred in the production of studies and/or investigations of merger viability and/or the prudency of the merger outcome;
   2) Specification of the total adminsistrative and legal costs to be incurred in securing ultimate regulatory and shareholder approval of the proposed merger.
   3) Specification of any incremental contractual penalties attending reorganization and/or consolidation;
   4) Specification and quantification of any present or foreseeable legal and/or financial liabilities which may be transferable to either merging party;
   5) Specification of the proposed jurisdictional allocation of all incremental legal and administrative costs and/or the UP&L/PacifiCorp corporate cost absorption plan.
   6) Specification of the proposed disposition of all incremental legal and administrative costs in the event the proposed merger fails to be consumated.

c. Specification of the current, prospective and total financial reorganization costs, including:
   1) Specification of the total debt restructuring costs to be incurred as a result of corporate reorganization;
   2) Specification of the total equity restructuring costs to be incurred as a result of corporate reorganization;
   3) Specification of any incremental tax liabilities incurred or to be incurred as a result of corporate reorganization;
   4) Specification of the proposed jurisdictional allocation of all incremental financial reorganization costs and/or the UP&L/PacifiCorp corporate cost absorption plan.
   5) Specification of the proposed disposition of all incremental financial reorganization costs in the event the proposed merger fails to be consumated.

d. Specification of the current, prospective and total operational reorganization costs, including:
   1) Specification of the costs of any additional intangible utility plant required for consolidation and/or the maximization of interutility operational benefits;
   2) Specification of the costs of any additional utility production plant required for consolidation and/or the maximization of interutility operational benefits;
   3) Specification of the costs of any additional utility transmission plant required for consolidation and/or the maximization of interutility operational benefits;
   4) Specification of the costs of any additional general utility plant required for consolidation and/or the maximization of interutility operational benefits;
   5) Specification of the proposed jurisdictional allocation of all incremental operational reorganization costs and/or the UP&L/PacifiCorp corporate cost absorption plan.
   6) Specification of the proposed disposition of all incremental operational reorganization costs in the event the proposed merger fails to be consumated.

8. In Exhibit A, Applicant presents the Agreement and Plan of Reorganization and Merger. In Article 1.3 of this Agreement, the manner and basis of converting the shares of the merging corporations is delineated. With reference to these provisions, please provide the following information:
   a. Specification of the rationale, justification and financial basis for the alternative range of UP&L Common Stock conversion ratios described in Article 1.3.3 (a)-(d);
   b. Specification of the rationale, justification and financial basis for the definition "PacifiCorp Closing Price" contained in Article 1.3.3;
   c. Specification of the projected level of cash exchange requirements for the cumulative fractional UP&L shares outstanding as described in Article 1.3.8;
   d. Specification of the intended capitalization form of any cash exchanges contemplated in Article 1.3.8.

9. With respect to UP&L's and Pacific Power's affiliated interest companies, please provide the following:
   a. A list of all Pacific Power's and UP&L's affiliated interest companies, including specification of:
      1) From which companies UP&L currently procures goods and services;
      2) To which companies UP&L currently sells goods and services.
   b. A copy of UP&L's current transfer-pricing policy for goods and services sold or purchased from an affiliated company.
   c. A copy of Pacific Power's current transfer-pricing policy for goods and services sold or purchased from an affiliated company.
   d. For each affiliated interest company from which UP&L and Pacific Power currently procures goods and services, specify:
      1) The dollar magnitude of payments for goods and services on a cost basis;
      2) The dollar magnitude of payments for goods and service on a market-priced basis.
   e. For each affiliated interest company to which UP&L and Pacific Power currently sells goods and services, please specify:
      1) The dollar magnitude of revenues for goods and services on a cost basis;
      2) The dollar magnitude of revenues for goods and service on a market-priced basis.
   f. Specification of all affiliated interest companies, including:
      1) From which companies UP&L/Pacific Power will procure goods and services after the merger;
      2) To which companies UP&L/PacifiCorp will sell goods and services after the merger.
   g. A copy of the merged corporation's prospective transfer-pricing policy.
   h. For each affiliated interest company from whom the merged utilities will obtain goods and services, specify:
      1) Projected dollar magnitude of payments for goods and services to be obtained on a cost basis;
      2) Projected dollar magnitude of payments for goods and services to be obtained on a market priced basis.

i. For each affiliated interest company to whom the merged utilities will sell goods and services, specify:
   1) Projected dollar magnitude of revenues from sales of goods and services to be obtained on a cost basis;
   2) Projected dollar magnitude of revenues from sales of goods and services to be obtained on a market priced basis.

j. A copy of the prospective overhead cost allocation plan affecting the merged utility and any other affiliated company who will provide goods and services on a cost basis.

k. Pleases identify key individuals responsible for:
   1) Affiliated company complaint and problem resolution;
   2) Overhead allocations;
   3) Transfer pricing.

10. Please provide all studies, documents and memoranda evaluating the uniformity and/or consistency of UP&L and PacifiCorp accounting policies and financial statements, including accounting procedures related to:
    a. The timing of expense recognition;
    b. The treatment of intangible assets and internal costs;
    c. Depreciation and depletion methods;
    d. Investment tax credit treatment;
    e. The treatment of contingent liabilities and assets;
    f. The treatment of management compensation;
    g. Asset valuation methods;
    h. The treatment of extraordinary items;
    i. The computation of book value and earnings per share;
    j. Inventory treatment.