

'APR 28 1988

Decision SS 04 062 APR 27 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 PACIFICORP, dba PACIFIC POWER &)
 LIGHT COMPANY, a Maine Corporation)
 (PACIFICORP MAINE), and PC/UP&L)
 MERGING CORP., to be renamed)
 PACIFICORP, an Oregon corporation)
 (PACIFICORP OREGON), for an order)
 authorizing the merger of PACIFICORP)
 MAINE and UTAH POWER & LIGHT COMPANY)
 (UTAH POWER) into PACIFICORP OREGON,)
 authorizing the issuance of)
 securities by PACIFICORP OREGON, and)
 authorizing the initial California)
 rate tariffs of PACIFICORP OREGON.)

Application 87-09-043
(Filed September 30, 1987)

In the Matter of PACIFICORP OREGON)
 for an order exempting it from)
 regulation under Article 5, Chapter)
 4, Part 1, Division 1, and under the)
 certain provisions of Section 851 of)
 the Public Utilities Code, pursuant)
 to Sections 829 and 853 of the)
 Public Utilities Code.)

Stoel, Rives, Boley, Jongs & Grey, by
Marcus Wood, Attorney at Law, for
 Pacific Power & Light Company,
 applicant.
 Kimball, Parr, Crockett & Waddoups, by
Dale A. Kimball, Attorney at Law, for
 Colorado River Energy Distributors
 Association (CREDA); Roger J. Peters,
 Attorney at Law, for Pacific Gas and
 Electric Company; and Nicholas Tibbetts,
 for Congressman Douglas Bosco;
 interested parties.
Timothy E. Treacy, Attorney at Law, and
K. K. Chew, for the Division of
 Ratepayers Advocates.

OPINION

I. SUMMARY

We approve a merger between PacifiCorp Maine and Utah Power into PacifiCorp Oregon. We also exempt PacifiCorp Oregon from provisions of the Public Utilities Code relating to stocks and securities transactions and the encumbrance of utility property.

II. Background

PacifiCorp Maine provides electric service to 670,000 customers in California, Idaho, Montana, Oregon, Washington, and Wyoming. For the year ended December 31, 1986, PacifiCorp Maine's electric utility revenues were \$920,150,000. PacifiCorp Maine serves about 35,300 customers in California. Its California electric revenues for the year ended December 31, 1986 were \$46,275,000, about 5% of total electric revenues. PacifiCorp Maine currently serves California ratepayers in the Counties of Del Norte, Modoc, Shasta, and Siskiyou.

Utah Power provides electric service to 510,000 customers in Utah, Idaho, and Wyoming. For the year ended December 31, 1986, Utah received electric revenues of \$889,601,000.

PacifiCorp Maine and Utah Power have agreed to merge into a new entity, PacifiCorp Oregon. If the merger is approved, PacifiCorp Oregon will provide electric service to 1,180,000 customers throughout California, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. Based upon 1986 recorded data, California customers will provide 2.56% of PacifiCorp Oregon's total electric revenues.

Under the terms of the Merger Agreement, PacifiCorp Oregon will continue to do business in all areas previously served

by PacifiCorp Maine under the assumed business name of Pacific Power & Light Company (PP&L) and in all areas previously served by Utah Power under the assumed business name of Utah Power & Light Company (UP&L). However, when the merger becomes effective, the separate existences of PacifiCorp Maine and Utah Power will cease and PacifiCorp Oregon will succeed to all rights and obligations of PacifiCorp Maine and Utah Power.

A public hearing was held on February 3, 1988 in Yreka, California. The applicant and the Division of Ratepayer Advocates (DRA) presented witnesses. Several public witnesses also entered statements on the proposed merger. All participants supported the merger.

III. Applicant's Showing

The applicant sponsored the testimony of David F. Bolender, President of Pacific Power & Light Company, Fredric D. Reed, Senior Vice President, Rodney M. Boucher, Vice President of Power Systems, and Dennis P. Steinberg, Director of Power Planning.

Bolender stated in his testimony that the proposed merger will have several benefits:

1. The merger will increase firm and nonfirm access to the wholesale power markets, facilitating the disposition of available power supplies.
2. The merger will enhance the ability of both companies to take advantage of low-cost power supplies which are available in the short term.
3. Since Pacific Power is a winter-peaking utility and Utah Power is a summer-peaking utility, benefits will be gained from the greater diversity of the interconnected systems.

4. System operating costs will be reduced through the integrated economic dispatch of generation.
5. System reserve requirements will be reduced because of expanded transmission interconnections.
6. The merger will permit the consolidation of duplicative activities, resulting in operating savings.
7. The merger will provide more opportunities for employees of both companies.

Bolender explained that the merger will bring about an extraordinary strategic and geographic fit of the two companies. While Pacific Power has access to low-cost Northwest hydroelectric resources and the Pacific Northwest-Pacific Southwest Intertie, Utah Power has a substantial transmission network and access to wholesale markets unavailable to Pacific Power. Bolender concludes that the merger will reduce and stabilize power prices to PP&L and UP&L customers.

Reed testified on the cost savings of the proposed merger that should accrue to the customers of both utilities. He estimates the total benefits of the merger to be \$48 million in 1988 increasing to \$158 million in 1992. Reed also stated that there is no detailed proposal for the interjurisdictional or interclass allocations. He expects the allocation issue to be addressed by this Commission and other Commissions in future rate proceedings. In the meantime, he stated that Pacific Power will seek no Electric Revenue Adjustment Mechanism (ERAM) price increase, attrition price increase, or other rate increase throughout 1988 and 1989. In this way, he states that the merger will at least have a rate stabilizing impact on customers and also may result in significant price decreases.

Boucher discussed the major power supply benefits he expects to accrue from the merged power systems. He testified that

the two systems will be operated and planned on a "single utility basis." Because of diversity in the two systems' capacity resources and energy supplies, Boucher expects considerable savings to occur from the dispatch of the "single utility." Boucher also explained that several transmission lines will have to be built to improve the transfer capability between the two systems.

Steinberg testified to the estimated power supply benefits of the proposed merger. His analysis shows net power cost savings of \$16.7 million in 1988 increasing to about \$44.2 million in 1992. Net savings in new generation and transmission capacity are: \$1.8 million in 1988 and \$8.5 million in 1992. The total savings then start at \$14.9 million in 1988 and are projected to increase to \$52.7 million in 1992.

Finally, at hearing, the applicant stated that it would not object to a Commission order directing that the merger is approved subject to the condition that PacifiCorp foregoes both ERAM and attrition rate increases from 1988 through 1991, a four-year period.

IV. DRA Report

DRA recommends conditional approval of the proposed merger as it believes certain conditions are necessary to ensure that California ratepayers are not harmed by the merger.

DRA points out that PacifiCorp has promised a rate reduction of 5-10% over the next four years for Utah ratepayers. This rate reduction is estimated as a \$35-70 million decrease over the four-year period. DRA believes that this rate reduction promised to Utah ratepayers should not be subsidized with the savings and benefits that are more properly assigned to other jurisdictions such as California.

To prevent an unfair subsidy from California to Utah, DRA recommends that the applicant should submit a proposed allocation

methodology to the Commission. Specifically, DRA recommends that PacifiCorp should reconvene the Allocation Committee¹ six months after the merger is approved. ✓

DRA concludes that California ratepayers should be indifferent to the merger as long as rates and service are not adversely affected by the proposed merger.

V. Discussion

We approve the proposed merger on the condition that PacifiCorp, the successor to PP&L and UP&L, forego ERAM² and attrition rate increases for the four-year period 1988 to 1991. While the opportunities for substantial cost savings have been shown by the applicant, we believe this promise of rate stability for the next four years will protect California ratepayers from any unforeseen developments.

From the testimony submitted by the applicant, we are persuaded that the merger should yield significant savings for all ratepayers of the merged utilities. The opportunity to dispatch both utility power systems on an integrated basis will allow PacifiCorp to match the utilities' diverse energy resources with

1 The Allocation Committee should be composed of representatives from each state served by PacifiCorp.

2 The ERAM has a balancing account and although the applicant stated that it would forego ERAM increases in the years 1988-1991, it may seek to recover any undercollections accumulated in the ERAM balancing accounts after the four-year period of rate stability is over. Under existing ERAM procedures, PacifiCorp may attempt to recover in 1992 or later years the ERAM increases it deferred from 1988-1991. However, PacifiCorp has stated that it will not use foregone ERAM revenues from 1988-1991 to justify a post 1991 rate increase. Since there is no balancing account for attrition, PacifiCorp may not recover in later years any attrition rate increases it gives up for the years 1988-1991.

their different load needs. The applicant estimates that savings of the merger due solely to power system operating efficiencies will be about \$5-9 million per year. The applicant also expects to accrue significant benefits from wholesale sales revenues. While the applicant does not believe these benefits to be unduly optimistic, we do not rely upon them here as their realization is dependent upon the dynamics of the wholesale power market.

We also adopt DRA's recommendation that the Allocation Committee should be reconvened within six months of the merger's approval. Since California ratepayers will be a small percentage of the merged utilities' total customers, a fair allocation among the jurisdictions will be an important determination for this minority group. The Executive Director should appoint a member of the staff to serve on this committee to protect California's interests through its participation on this committee.

Findings of Fact

1. PacifiCorp Maine and Utah Power have agreed to merge into a new entity, PacifiCorp Oregon.
2. The applicant alleges that total benefits of the merger will be \$48 million in 1988 increasing to \$158 million in 1992.
3. The applicant estimates that power system operating benefits of the merger will be \$5 to \$9 million per year.
4. California ratepayers are projected to provide only 2.56% of PacifiCorp Oregon's total electric revenues.
5. The applicant has stated that to ensure rate stability to California ratepayers after the merger, it will not seek an ERAM or attrition rate increase in the four-year period 1988-1991.
6. DRA recommends that the Allocation Committee should be reconvened within six months after the merger is approved so that this Commission and other Commissions can determine a fair allocation procedure among the various jurisdictions.

Commission and in effect at the time of the merger.

2. PacifiCorp Oregon is exempt from the provisions of the Public Utilities Code relating to stocks and securities transactions and the encumbrance of utility property.

3. If the requested merger is approved, PacifiCorp Oregon shall not request an increase in its overall average rates for the years 1988, 1989, 1990, and 1991. PacifiCorp Oregon, however, shall continue to file applications and advice letters in these years so that the Commission can determine whether ERAM or attrition rate decreases are appropriate.

4. Within six months of approval of the merger, PacifiCorp Oregon shall reconvene the Allocation Committee to determine a fair allocation among the various jurisdictions.


5. The Executive Director shall appoint a member of the staff to serve on the Allocation Committee.

This order becomes effective 30 days from today.

Dated April 27, 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Weisser, Executive Director

AB

CORRECTION

THIS DOCUMENT HAS

BEEN REPHOTOGRAPHED

TO ASSURE

LEGIBILITY

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Conclusions of Law

1. The proposed merger should be approved as the applicant has shown significant benefits may accrue to ratepayers of both utilities and has agreed to forego any ERAM or attrition rate increase from 1988 until the end of 1991.

2. PacifiCorp Oregon, the successor to PacifiCorp Maine, should be exempted from provisions of the Public Utilities Code relating to stocks and securities transactions and the encumbrance of utility property.

ORDER

Therefore, IT IS ORDERED that:

1. The proposed merger between PacifiCorp Maine and Utah Power into PacifiCorp Oregon is approved as requested in Application 87-09-043. Specifically:

- a. Pursuant to Sections 830, 851, 852, and 854 of the Public Utilities Code applicants are authorized to merge PacifiCorp Maine and Utah Power into PacifiCorp Oregon with PacifiCorp Oregon to be the surviving corporation and to assume the liabilities of PacifiCorp Maine and Utah Power in accordance with an agreement and plan of organization and merger among PacifiCorp Maine, PacifiCorp Oregon and Utah Power dated August 12, 1987 (Merger Agreement).
- b. Pursuant to Section 818 of the Public Utilities Code, PacifiCorp Oregon is authorized to issue shares of its common and preferred stock upon conversion of the outstanding shares of common and preferred stock of PacifiCorp Maine and Utah Power in accordance with the terms of the Merger Agreement.
- c. Pursuant to Section 491 of the Public Utilities Code, PacifiCorp Oregon is authorized to adopt all tariffs of PacifiCorp Maine on file with the

Commission and in effect at the time of the merger.

2. PacifiCorp Oregon is exempt from the provisions of the Public Utilities Code relating to stocks and securities transactions and the encumbrance of utility property.

3. If the requested merger is approved, PacifiCorp Oregon shall not request an increase in its overall average rates for the years 1988, 1989, 1990, and 1991. PacifiCorp Oregon, however, shall continue to file applications and advice letters in these years so that the Commission can determine whether ERAM or attrition rate decreases are appropriate.

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From the testimony submitted by the applicant, we are persuaded that the merger should yield significant savings for all ratepayers of the merged utilities. The opportunity to dispatch both utility power systems on an integrated basis will allow PacifiCorp to match the utilities' diverse energy resources with their different load needs. The applicant estimates that savings

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