Exhibit B

UNITED STATES OF AMERICA

BEFORE THE

NUCLEAR REGULATORY COMMISSION

IN THE MATTER OF THE	)	EXHIBIT B to Facility
APPLICATION OF PACIFICORP	)	Operating License No. NPF-1
FOR CONSENT TO THE TRANSFER	)	Indemnity Agreement No. B-78
OF LICENSES	)	

REBUTTAL TESTIMONY OF ORRIN T. COLBY, JR.

Exhibit 203

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Utah Power & Light Company	)	
PacifiCorp	)	Docket No. EC88-2-000
PC/UP&L Merging Corp.	)	

REBUTTAL TESTIMONY
OF
ORRIN T. COLBY, JR.
ON BEHALF OF
UTAH POWER & LIGHT COMPANY
PACIFICORP
PC/UP&L MERGING CORP.

February 24, 1988

SUMMARY OF REBUTTAL TESTIMONY
OF
ORRIN T. COLBY, JR.

Issues Addressed

I. Rate Discrimination between Wholesale & Retail

A. Issues Addressed by:

1. FERC Staff witness Jonathan L. Siems' Exhibit No. 102, pp. 21-26

2. Sierra Pacific Power Company (SPPC) witness George T. Smith's Exhibit No. 16, pp. 11-17

3. Nucor Steel witness Matthew I. Kahal's Exhibit No. 18, pp. 24-28

4. CREDA witness David T. Helsby's Exhibit No. 134, pp. 9-16

II. UP&L Fuel Adjustment Clause

A. Issue Addressed by:

1. FERC Staff witness Jonathan L. Siems' Exhibit No. 102, pp. 11-19; 23-24

2. Sierra Pacific Power Company (SPPC) witness George T. Smith's Exhibit No. 16, pp. 8-11

3. Nucor Steel witness Matthew I. Kahal's Exhibit No. 18, p. 6, 22-28

4. CREDA witness David T. Helsby's Exhibit No. 134, pp. 9-15

III. BPA Considerations

A. Issue Addressed by:

1. FERC Staff witness Jonathan L. Siems' Exhibit No. 102, pp. 27-33

2. Public Power Council (PPC) and Northwest PPA witness William K. Drummond's Exhibit No. 27, pp. 10-16

IV. Scrutiny of Certain Merger Benefits Quantified by UP&L

A. Issues Addressed by:

1. CREDA witness Curtis K. Winterfeld's Exhibit No. 125, pp. 10-13; 22-24

V. Efficiency of Certain UP&L Coal Plants

A. Issue Raised by:

1. CREDA witness Lon L. Peters' Exhibit No. 36, pp. 14-15

VI. Merger Cost Amortization

A. Issue Raised by:

1. CREDA witness David T. Helsby's Exhibit No. 134, pp. 8-9.

CONTENT AND CONCLUSIONS

Rate Discrimination

The Applicants have offered to reduce UP&L wholesale rates by 2% effective 60 days after the consummation of the merger. This represents a good faith effort to treat wholesale and retail customers' rates consistently with respect to merger benefits. This reduction, along with future cost of service filings, will assure wholesale customers of receiving their share of those merger benefits.

The Applicants are committed to rate stabilization and will not decrease Utah Power rates at the expense of increasing Pacific Power rates. Therefore, the idea of rolled-in ratemaking, at this time, is not feasible.

Wholesale Fuel Adjustment Clause

The applicants propose to freeze the UP&L Fuel Adjustment Clause (FAC) at 13 mills per kwh and implement a 2% base rate reduction that would initially reduce wholesale rates in excess of merger benefits and cost justified rate decreases. This freezing of the FAC would insure UP&L's wholesale customers of an immediate rate reductions and allow the Applicants time to resolve allocation issues. Merger benefits that would have gone through the FAC in excess of the 2% reduction, if any, would be refunded retroactively to the date of the merger. In addition, the

Company offers to submit an allocated cost of service study equivalent to Statment BK each year which will allow the FERC staff and interested wholesale customers the opportunity to assure themselves that merger benefits are properly reflected in wholesale rates and that the level of those rates are appropriate.

Bonneville Power Administration

The Applicants have made a commitment that there would not be rate decreases to Utah Power customers that would come at the expense of rate increases to Pacific Power customers. Allocation procedures will insure proportionate cost assignments will occur. Thus, the concerns of detrimental impact on Bonneville Power Administrative (BPA) should not exist.

Justification of Merger Benefits

The management of the merged company has made a firm commitment to reduce construction expenditures in all facets of its operations. These areas include Economic Development, Inventories, Transmission and Distribution, and the General Office addition.

The consolidation of Pacific Power's outside health insurance coverage into Utah Power's mutual insurance companies will result in large savings due to the small incremental costs to service the additional claims. The Utah low-cost insurance system has the capacity to handle the additional claims with a nominal variable cost.

Efficient Coal Plants

The study used to make the analysis concerning the efficiency of certain Utah coal plant was based on a preliminary report prepared without sufficient knowledge of all circumstances involving Utah Power generation operation. This section of the report has since been considered inaccurate by both companies.

Merger Cost Amortization

The merger costs of some $18.5 million have not been included in the merger benefits study. The amortization of these costs over 40-years and other financial impacts have, however, been included in the companies' 5-year forecast. Therefore, merger benefits reflected in the 5-year forecast have been offset by an appropriate amount of cost amortization.

QUESTION

Please state your name.

ANSWER

Orrin T. Colby, Jr.

QUESTION

Are you the same Orrin T. Colby, Jr. who testified earlier in this case?

ANSWER

Yes.

QUESTION

Has there been any change in your responsibilities since the filing of the direct case?

ANSWER

In addition to my duties as Controller and Chief Accounting Officer, I was elected Vice President on February 17, 1988.

QUESTION

Mr. Colby, what are the specific areas that you will address in your rebuttal testimony.

ANSWER

I am providing rebuttal testimony on the following topics:

I. Rate Discrimination between Wholesale & Retail

A. Issue Addressed by:

1. FERC Staff witness Jonathan L. Siems' Exhibit No. 102, pp. 21-26

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VI. Merger Cost Amortization

A. Issue Raised by:

1. CREDA witness David T. Helsby's Exhibit No. 134, pp. 8-9.

QUESTION

Mr. Siems' Exhibit No. 102, Page 22, Mr. Smith's Exhibit No. 16, Page 11-12, and Mr. Helsby's Exhibit No. 134, Page 15-16 discuss concerns relative to discriminatory rates between retail and wholesale customers because of post-merger rate decreases being offered to UP&L's retail customers and the absence of such proposals to the wholesale customers. In addition, Mr. Siems' Exhibit No. 102 at Pages 11-12 and Mr. Smith's Exhibit No. 16 at Page 8 expressed concern over the Fuel Adjustment Clause (FAC) and its administration relative to the realization of merger-related power supply benefits. Relative to these concerns, what do the Applicants propose, in simple terms?

ANSWER

Although we believe cost assignments, allocations and related concerns could be worked out reasonably as initially proposed, we are of the opinion that a better option exists to address this specific issue. Therefore, we propose the following approach:

a. Freeze the UP&L FAC, as of the effective date of the merger, at an average level.

b. Reduce firm UP&L wholesale rates 2% effective 60 days after consummation of the merger.

c. File an allocated cost of service study within nine months after the merger occurs for the UP&L FERC jurisdiction, including related merger benefits, equivalent to a Statement BK as described in 18CFR Section 35.13.

d. File, if the Commission desires, annually through 1991, an allocated cost of service study and related merger benefits study.

In addition, relative to the freezing of the FAC, in order to assure all parties that they will receive a substantial and fair portion of the merger benefits, the company also proposes:

1. The frozen FAC will be subject to refund during the period until resolution of allocation issues between the Utah and Pacific Division.

2. Once an agreed upon allocation methodology is determined and implemented, Utah Power will recalculate all FAC billings that would have been rendered had the agreed upon allocation methodology been in effect during the interim

period.

3. To the extent such revised FAC billings would have resulted in larger reductions in Utah's wholesale customers' bills than afforded them during the interim period with the 2 percent general decrease, additional decreases will be made to these customers retroactively, including interest at the applicable FERC regulated rates, to the date the FAC was frozen.

We believe the foregoing proposal eliminates rate discrimination, maintains present parity between retail and wholesale rates, eliminates concerns relative to the FAC administration, assures realization of merger benefits, provides a verifiable procedure for quantifying and valuing merger-related benefits, and provides assurance that rates will be determined at cost of service-justified levels.

QUESTION

Mr. Colby, in order to eliminate any perceived confusion relative to the 2% rate reduction and the related freezing of the FAC, is the 2% rate reduction offered the floor or the ceiling related to decreases being offered to wholesale customers of Utah Power?

ANSWER

The 2% general rate decrease is the floor. By that, I mean, Utah Power's wholesale customers will fair no worse than a 2% decrease. To the extent that merger savings applied to retroactive FAC calculations generate additional rate reductions that had not been included in the 2% general rate decrease, such additional savings will be refunded with interest.

QUESTION

Mr. Colby, with respect to concerns relative to rate reductions and perceived inconsistencies in the administration of the FAC, what other options have you considered?

ANSWER

Messrs. Smith and Siems both recognize, and we agree, that surplus sales, in part, are excluded from the FAC under present FERC regulation (18 CFR Section 35.14). Therefore, only a small portion of power supply benefits would automatically flow-through the FAC. Accordingly, the majority of the savings could only be translated into rate reductions upon filing a general rate case. We had earlier anticipated a larger proportion of the savings would have flowed through the FAC.

One option would be to adjust the present FAC such that some portion of the margin on surplus sales would translate into additional reductions for wholesale customers.

A temporary freeze of the FAC, without rate adjustment, while allocation issues are being resolved, was another option.

In our review, the preferable option would be to implement a 2% reduction, freeze the FAC at a reasonable level, and file further information as I just explained.

The merged company believes the 2% reduction, similar to that being offered to state jurisdictional customers, with the addition of freezing the FAC offers the best position for wholesale customers in that it resolves, on an interim basis, the FAC issues, the allocation of benefits issue and the concern over benefits being passed on immediately.

QUESTION

Why freeze the FAC and offer retroactive adjustments?

ANSWER

This procedure offers the wholesale customers a larger reduction than merger benefits which would normally flow through the FAC would provide, yet protects the company from passing on merger benefits twice (once through the FAC and also through a general rate reduction). This procedure also eliminates the fears expressed on behalf of some wholesale customers that they would not receive a full share of merger benefits.

QUESTION

How and at what level would the Company propose to freeze the FAC?

ANSWER

We recommend the FAC be frozen at 13 mills/kwh. The Exhibit No. 204, Schedule 1 is a summary of the Company's computation and was prepared under my supervision and direction. Page 1 of the exhibit is a graphical presentation which reflects actual monthly FAC energy cost rates for the years 1986 and 1987 and estimated annual FAC energy cost rates for the years 1988 through 1992. For the years 1986 and 1987 it shows the mean and median for the period. Because there are fluctuations on a monthly basis, we believe it would be appropriate to employ some type of averaging mechanism. Based upon this historical information, a range of 12.9 to 13.2 mills appears to be reasonable, with 13 mills as the company's recommendation.

Pages 2 and 3 of the schedule reflects, in tabular form, the data employed in determining the Company's recommendation discussed above.

QUESTION

You indicate the 2% decrease is greater than the amount of merger benefits which would flow through the FAC as presently exists. Please explain.

ANSWER

We have made two comparisons to assure ourselves of this. The 2% decrease would be some $503,000, annualized, based on 1988 revenues. This compares to our estimate of an increase of $7,000, annualized, based on

1988 revenues annualized via the present FAC which exclude the margin on surplus sale. A decrease of $284,000 annualized, would be realized based on 1988 revenues annualized, if such benefits were increased to include the surplus sales margin. These comparisons give a fair assessment.

QUESTION

Mr. Siems has proposed (Exhibit No. 102, Pages 17-18) that a detailed plan regarding implementation of the FAC under the merger be filed within 30 days of Commission approval. Please respond.

ANSWER

We believe that Mr. Siems' interest expressed on behalf of the customers has been met via the company's proposal to unilaterally reduce general rates and freeze the FAC with retroactive adjustment to the time of merger. We understand his concern relative to this matter; however, the 30-day time period would simply be too short to resolve this matter. In any event, any date should be tied to the actual merger date, not the date of FERC approval. The proposal we have offered, in our opinion, reflects the good faith intentions of the company, at no risk to the customer.

QUESTION

A concern was expressed by Mr. Siems (Exhibit No. 102, Pages 13-14) that there is incentive for allocation manipulation between Pacific and Utah relative to interdivision power sales because Utah's FAC mechanism could then result in a purported "windfall to the corporation." What is the Company's position relative to this matter?

ANSWER

The Company's proposal of general rate reduction and retroactive adjustment of the frozen FAC provides interim assurance until the time that allocation principles and procedures are adopted. The process for approval of allocation issues provides protection because all parties, including customers and FERC staff, will be able to participate.

QUESTION

Mr. Colby, how do you respond to Mr. Siem's concerns (Exhibit No. 102, Pages 23-24) and Mr. Smith's concerns (Exhibit No. 16, Page 8) that wholesale customers are being discriminated against because they were not offered rate reductions related to non-power supply related savings?

ANSWER

The offer presented herein was not formally a part of the application because the Company assumed these savings would be reflected through the normal rate process before this jurisdiction. That is, when merger savings justified rate adjustments, appropriate applications would be filed.

The proposal presented herein regarding the 2% rate reduction demonstrates the Company's good faith effort to reduce rates for cost reductions relative to all merger benefits. Sixty days subsequent to the consummation of the merger, a 2% reduction may not be cost justified. However, this exact procedure has been offered to Utah Power's retail customers and now to its wholesale customers.

QUESTION

How does the company propose to provide information regarding ongoing merger benefits and whether further rate reductions are justified?

ANSWER

The Company has currently committed to the Utah Division of Public Utilities to file a 1989 jurisdictional cost allocation study within the first quarter of 1989. This would enable determination of what additional benefits of the merger should be passed on to Utah ratepayers in the form of rate reductions in 1989. The Company suggests providing similar information, basically equivalent to a Statement BK based on a Period II of 1989, as described in 18CFR Section 35.13, to FERC Staff and wholesale customers within nine months of the date the merger occurs. This information would allow all parties the opportunity to review the Company's earning level along with the associated merger benefits and determine what level of rate reduction is justified for the wholesale customers at that time. Exhibit No. 204, Schedule 2, which was prepared under my direction and supervision, is a copy of the letter filed with the Utah Division of Public Utilities committing UP&L to file a compliance interjurisdictional allocation in the first quarter of 1989. The purpose is to demonstrate the company's commitment to allow regulators in the Utah jurisdiction to monitor cost of service under the merger.

QUESTION

How does this letter to the Utah Division of Public Utilities relate to Mr. Smith's concern that the burden to initiate a rate filing for decreases in subsequent years will be upon the FERC staff or wholesale customers?

ANSWER

Providing the same information to FERC Staff and wholesale customers as we have offered in Utah, as indicated, should allay concerns related to rate discrimination. The Company is willing to submit this same jurisdictional allocation data on an annual basis during the next four or five years for review and determination that there is an appropriate flow-through of merger benefits to wholesale customers and to serve as the basis for additional rate adjustments. Should such informational filings indicate a rate reduction adjustment is justified, we would file accordingly in the appropriate manner.

QUESTION

As a result of the 2% rate decrease, is the Company then flowing through a portion, if not all, of the margin on surplus sales?

ANSWER

Yes.

QUESTION

Mr. Colby, what is your response to the request by Mr. Smith, Exhibit 16, pp. 16-17, for the Company to file a four year future test period which would allow the FERC to set rates through 1992?

ANSWER

Section 35:13(d) of Title 18 of the Code of Federal Regulations contains the parameters which the FERC allows concerning general rate proceedings. This section provides for a single forward test period. The proposed four year test period is therefore inconsistent with these FERC regulations. As stated previously in my rebuttal testimony, the Company is prepared to file annually the equivalent of a Statement BK, which may translate into additional rate decreases if the respective cost of service justifies. This procedure should be even more reassuring than Mr. Smith's "condition".

QUESTION

Mr. Siems (Exhibit No. 102, Page 10) recognized the impact of cost allocation on both wholesale base rates and the corresponding FAC charge and recommended that a plan should be filed within 90 days after the merger becomes effective. Do you have any comments relative to these concerns?

ANSWER

Yes. Mr. Reed has indicated that within six weeks subsequent to the consummation of the merger that allocation discussions will commence with the various regulatory bodies. This, coupled with the company's offer of a general rate decrease and retroactive adjustment of the FAC following the determination of allocation procedures, should settle any dispute relative to this matter. Again, however, any deadlines should be measured from when the merger is effected, not from the date of any Commission's order.

QUESTION

Mr. Siems infers (Exhibit No. 102, Pages 7-10) that the Applicants are not requesting threshold approval by FERC of a particular concept of cost separation. Do you agree?

ANSWER

Yes. It should be made perfectly clear that this proceeding is not dealing with the establishment of rates but rather whether the merger is in the public interest and should be approved. To the extent there are rate concerns, we believe that the 2% general rate decrease and the retroactive application of the FAC sets aside the issue of rates yet assures customers both rate protection and appropriate rate adjustments afforded by the merger benefits.

QUESTION

Mr. Siems (Exhibit No. 102, Pages 16-17) has expressed concerns related to auditing power supply benefits in the FAC. Please describe the audit records that are in place or will be developed to assure proper allocation of merger-related power supply benefits?

ANSWER

Since the parties and FERC staff will be able to participate in the development of allocation procedures, a standard which can be audited will be established and the parties will have an opportunity for input into such audit records as are deemed necessary to satisfy concerns for both accounting and ratemaking.

The management information and accounting and responsibility reporting systems currently in place at both Pacific Power and Utah Power will be the basis for auditing merger benefits. The accounting, operations, and customer records are supported by payroll systems, procurement and warehousing systems, cash vouchers, journal entries, revenue systems, power accounting systems, generation and interchange logs, metering systems, work in progress job order systems, contract tracking and a full array of identified costing and aged asset records. These systems provide the ability to isolate transactions by account, category of cost, and type of activity, location, etc. with the ability to separate and report joint operational benefits in any needed detail.

QUESTION

Mr. Colby, is Mr. Smith's argument (Exhibit No. 16, pp. 4-7), that the two divisions should be combined for ratemaking purposes because of this Commission's preference for rolled-in pricing persuasive?

ANSWER

As Mr. Reed demonstrates in his rebuttal testimony, an immediate consolidation of the companies for ratemaking purposes would result in a price increase for Pacific Power's customers, an unacceptable alternative. The merged company is firmly committed to stabilization of prices and does not want to have the reduction in price disparity come at the expense of an increase to Pacific Power customers. This is a ratemaking not a merger issue and should be treated in the proper forum.

QUESTION

Mr. Smith (Exhibit No. 16, p. 4) asserts that the Applicants' pricing proposals would result in haphazard ratemaking policies that are unfair to UP&L's wholesale customers. Please respond.

ANSWER

Mr. Smith is referring to the proposal not to roll-in the two divisions for allocation purposes. He views this as a departure from the commission's past practice of rolled-in ratemaking and considers it haphazard ratemaking. His ratemaking argument has no bearing on whether the merger should be approved so his company and all our other customers can benefit.

This Commission has generally required the rolled-in approach only for generation and transmission plant. To my knowledge, the Commission has not addressed whether two divisions need to be rolled together in the context of a merger.

QUESTION

Mr. Smith attempts to compare Utah Power's retail fuel adjustment and wholesale fuel adjustment clauses stating that because there are differences in these clauses, they create unequal and unjustified treatment. Would you please comment?

ANSWER

It is true that the state and federal fuel adjustment clauses are different, as are many other ratemaking practices at the state and federal level, and they should be for they to involve different classes, kinds and categories of customers and different needs and preferences of regulatory commissions. That, however, does not cause "unjustified treatment" but simply different treatment. At FERC, revenue from surplus sales are included in base tariffs where in Utah they are included in the energy clause. Therefore, when base and energy clause tariffs are considered together, there is both equal and justified treatment for retail and wholesale customers with regard to pricing policies.

II. <u>BPA Considerations</u>

<u>QUESTION</u>

Regarding the possible exception discussed by Mr. Siems (Exhibit No. 102, pp. 27-33) under which BPA's costs would not be reduced under the merger, is it likely that the circumstances assumed by Mr. Siems could occur?

<u>ANSWER</u>

It is very unlikely. His Exhibit Nos. 111, 112 and 113, assume rates will be set based on consolidating costs of the two divisions. This is not the structure proposed by the applicants. Pacific's jurisdictions would not consent to higher rates based on blending the higher costs of the UP&L system with the lower costs of the PP&L system, nor would the Applicants propose such. This is not how the merger is intended to produce benefits. Also, under the ASC Methodology, Bonneville has authority to conduct an independent review of and deny an exchanging utility's costs. This procedure protects Bonneville from any allocation procedures it deems inequitable, even if such procedures are approved b, state regulators.

QUESTION

Has Mr Siems himself recognized the implausibility of these scenarios?

ANSWER

Yes. He states that such detrimental effects to BPA would not occur so long as PP&L honors its commitment not to increase its retail rates in any jurisdiction. Overall Mr. Siems correctly expects cost savings from the merger will serve to reduce Bonneville's costs.

QUESTION

Mr. Drummond (Exhibit No. 27, p. 12) discusses two scenarios under which Bonneville's costs may be greatly affected. His scenarios consist of allocating merger benefits entirely to Pacific Power and entirely to Utah Power. Do you agree with his analysis?

ANSWER

No. While Bonneville's costs are somewhat sensitive to the methods ultimately adopted to allocate merger benefits, reasonable allocation methods will be used. The regional exchange impacts will be a by-product of, not a determining factor in, the choice of allocation methods. State commission orders are the starting point for BPA's Average System Cost review in accordance with the Average System Cost methodology. We do not expect state commissions to authorize bizarre allocation schemes to shift savings away from their state's customers simply to increase BPA's costs. Should they do so, however, BPA still has the right to conduct an independent evaluation.

III. Merger Benefits

QUESTION

On Page 11, Lines 15-18 of Exhibit No. 125, Mr. Winterfeld claims there is a lack of evidence for transmission and distribution-related construction reductions shown for the Utah division. Do you have additional information related to these construction savings?

ANSWER

To date, specific projects have not been targeted for reductions other than the overall functional area targets shown. As time allows us to properly examine construction costs, there will be opportunity to actually isolate specific projects. We are confident the end result will be greater, not lesser, construction reductions occasioned by the merger. In evaluating the estimates of construction savings for Utah Power, we see no reason that the merger will not reduce capital expenditures in all functional areas at UP&L. Some of the reasons include: 1) UP&L staff in Wyoming can stock less materials and supplies due to their access to inventories in Pacific's Wyoming service area, 2) Plant expenditures in other functional areas can be delayed, modified, or cancelled as a result of the addition of backbone transmission, 3) Economic development may cause load shifting so that construction in functional areas can be delayed or modified, 4) Construction costs associated with economic development were included in determining those savings and affected items are eliminated here to avoid duplication and proper recognition, and 5) Volume purchasing contracts will reduce the level of capital expenditures.

The $35 million referred to represents gross construction expenditures as opposed to the annual revenue requirement. Therefore the impact of this amount on merger benefits is the revenue requirement for this amount of plant of some $5 million annually by 1992. Total UP&L construction savings in 1988 produce annual revenue reductions of $2 million or 4% of total merger savings expected in that year.

I would also assure the Commission there is no "double-counting" as alleged by Mr. Winterfeld at Page 11 of Exhibit No. 125.

QUESTION

On Page 16, Lines 25 through Page 17, Line 1 of Exhibit No. 125, Mr. Winterfeld states,

> "The difference between per unit fees multiplied by PP&L's base would then yield a reasonable estimate of savings -- if any -- for PP&L adopting the mutual insurance program approach.

Of course, this approach is available to PP&L regardless of the merger with UP&L."

Mr. Colby, could you please explain the philosophy behind the mutual insurance companies and why bringing the Pacific Power program into the mutual insurance company would result in substantial savings for the merging companies?

ANSWER

Mr. Winterfeld does not understand some of the special aspects associated with the mutual insurance company arrangement referred to. This is not a savings PacifiCorp could have accomplished without the merger simply by forming their own mutual insurance company, as Utah Power did. Utah Power, over a decade ago, was able to acquire a shell insurance company formed under an antiquated section of the Utah Insurance Code which provided for the establishment of mutual benefit associations commonly called Voluntary Employee Benefit Associations (VEBA) today. This mutual benefit association, pursuant to law, was exempt from Federal and State income taxes. This approach offered a number of advantages not available through traditional insurance programs, insurance companies or VEBA trusts. Among those advantages were the tax exemption of earnings, the ability to actuarially determine reserves for losses, and the ability to perform in other aspects as a bona fide insurance company with protections under the law to employer and employees. These protections are greater than those offered through traditional VEBA trusts.

It is not appropriate to determine what the savings would be by comparing the mutual insurance companies cost per claim processed with that of the independent Third Party Administration (TPA) used or available to PacifiCorp. The appropriate way is to compare the incremental costs the mutual insurance company would incur, which are small enough that the savings in Mr. Reed's exhibit are understated by a substantial amount. This savings is available only with the merger.

IV. UP&L Coal Plant Operations

QUESTION

Mr. Peters claims (Exhibit No. 36, p. 14-15) there are operational inefficiencies in UP&L's coal plant operations. Please comment.

ANSWER

Mr. Peters' point seems to be that efficiencies of operation claimed for the merger can be disproved if he can establish inefficiencies in current operations. The basis of his claim resulted from a comment in Exhibit No. 41. This internal preliminary report was prepared by Pacific Power in advance of the merger agreement and prior to a full analysis and investigation of the UP&L system operations. Both companies are in agreement that that particular statement was inaccurate. Further, the four commissions which regulate UP&L have not disallowed UP&L coal plants from "used and useful" plant based on considerations of inefficiency.

V. AMORTIZATION OF MERGER-RELATED COSTS

QUESTION

Mr. Helsby, in Exhibit No. 134, pp. 7-9, criticizes the Applicants for not including amortization of the $18 million merger-related costs as an offset to the benefits quantified in Mr. Reed's Exhibit No. 4, Schedule 3. Will you please respond to this criticism?

ANSWER

Mr. Reed did not include amortization of the merger-related costs referred to when he quantified merger benefits in his Exhibit No. 4, Schedule 3. This approximate $450,000 per year amortization charge referred to was, however, along with Mr. Reed's merger benefits and all other financial impacts, included in my five-year forecast submitted in Exhibit 6, Schedule 2. The $450,000 was based on a 40-year amortization period, which period was deemed reasonable as merger benefits will occur for many years beyond the initial five-year period and is appropriate as that is the approximate life of the depreciable assets of the companies.

QUESTION

Does this conclude your rebuttal testimony?

ANSWER

Yes, it does.

ITED STATES OF AMERICA

BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION

Utah Power & Light Company	)	
PacifiCorp	)	Docket No. EC88-2-000
PC/UP&L Merging Corp.	)	

AFFIDAVIT

STATE OF UTAH)
: ss.
COUNTY OF SALT LAKE)

Orrin T. Colby, Jr., being first duly sworn, deposes and says: that he has read and is familiar with the contents of the foregoing testimony of Orrin T. Colby, Jr.; that if asked the questions contained in said Testimony, the answers and response hereto would be as shown in said Testimony; that the facts contained in said answers are true to the best of his knowledge, information and belief; and that he adopts these answers as his own.

Orrin T. Colby, Jr.

Orrin T. Colby, Jr.

SUBSCRIBED AND SWORN to before me this 22nd day of February, 1988.

Joyce A. Byington

Notary Public

My Commission Expires

May 23, 1989

Residing at:

Salt Lake County, Utah