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UTAH PUBLIC
SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF UTAH POWER & LIGHT COMPANY, AND PC/UP&L MERGING CORP. (TO BE RENAMED PACIFICORP) FOR AN ORDER AUTHORIZING THE MERGER OF UTAH POWER AND LIGHT COMPANY AND PACIFICORP INTO PC/UP&L MERGING CORP. AND AUTHORIZING THE ISSUANCE OF SECURITIES, ADOPTION OF TARIFFS, AND TRANSFER OF CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY AND AUTHORITIES IN CONNECTION THEREWITH.	BRIEF OF THE COMMITTEE OF CONSUMER SERVICES Case No. 87-035-27

I

NON-POWER SUPPLY SAVINGS RESULTING FROM THE MERGER

A primary area of non-power supply benefits attributable to the merger as put forth by the applicants in their presentation deals with the area of economic development. This economic development is attributable to the importation and implementation of the economic development program under taken by Pacific Power & Light in its territory to the Utah Power & Light service territory. The applicants' presentation of the effectiveness of the PP&L economic development program is not well established in the record. This is perhaps due to the failure of the applicants to present a witness who was fully familiar with the PP&L program. The documentation belatedly

applied by the applicants in their presentation is inconveniencing in establishing that the PP&L economic development program is really effective. The entities whose letters are contained in the presentation of the applicants did not indicate that it is a unique attribute of the PP&L Economic Development program which assisted those entities in locating in the PP&L territory, the majority indicate that it was economic incentives, not the economic program itself, which drew them to the PP&L territory.

Evidence was presented to the Commission which indicates that whatever effects that PP&L Economic Development Program has, has been diminishing in the last years. In light of all the evidence before the Commission, it cannot be said that the importation of PP&L's Economic Development Program to the Utah Power & Light service territory will bring the economic development benefits proposed by the applicants.

The applicants have provided no substantive evidence of their assessment of the current in place economic development programs operating in Utah. Nor have the applicants sufficiently established justified reliance upon their methodology of calculating the incremental benefit that would result from implementation of the PP&L Economic Development Program and its overlay over the current in place economic development program currently in existence in the State of Utah.

The applicants have failed to identify aspects of the PP&L Economic Development Program which are truly unique to it

and which will compliment or supplement the programs currently operating within the State of Utah. Even had the applicants made such identification and quantification, the applicants have presented no justification for a determination that such supplemental and complementary economic development undertakings are achievable only through the merger and could not be undertaken by Utah Power and Light without the merger or any other economic development program operating within the State of Utah. Although the applicants posit that the target industry approach and the "Seed" program of Pacific Power & Light is unique to the Pacific Power & Light Economic Development Program, applicants have not identified how the target industry approach undertaken by PP&L is any different than the target industry approaches taken by other agencies within the State of Utah promoting economic development with the State of Utah.

The applicants, however, have indicated that the basic industries typically expected in the Utah Power & Light service territory are different that those basic industries typically located in the PP&L service territory and thus the PP&L target industry approach would have to be modified for application to the UP&L territory. The applicants have presented no information whatsoever relative to establishing that the target industry approach undertaken by Pacific Power & Light is a fungible program which may be transferred from one geographic area with differing basic industry attributes.

The applicants have been remiss in establishing, with any sufficient degree of confidence, what economic development

benefits are truly incrementally derived from the PP&L Economic Development Program. Nor those which could not be achieved by the current in place economic development programs within the State of Utah or the expansion of such programs absent the merger.

The Committee of Consumer Services believes that the applicants have failed in establishing that the economic development benefits, which they have included in their merger benefits, are actual benefits. Benefits which will accrue to the State of Utah solely because of the merger and the importation of the PP&L Economic Development Program; over and above what economic development would be established due to the current in place economic development programs operating within the State of Utah.

One disturbing aspect of the applicants' calculation of the benefits which they attribute to the economic development program is their inclusion, in the economic development benefits, of a substantial rate decrease in the rate charge for electrical use by industrial customers from the year 1989 to 1990. Calculations of the applicants include a rate decease for industrial customers from firty-one mills/kwh to thirty-eight mills/kwm, in 1990, which coincides with a three fold increase in the economic development calculated for that time period. In the applicants' presentation, there has been no justification to account for this three fold increase in economic development benefits without the industrial rate decrease which is included

in the calculation. Although the applicants did identify the portion of the economic development benefits which they attribute to this substantial decrease in industrial rates, they gave no justification or explanation for the substantial increase in economic development benefits which would not be attributed to the decrease in the industrial rate. Even the applicants' explanation of the calculation of the economic development which they attribute to the decrease in industrial rate is at odds with their attribution of such economic development solely as a result of the merger and not achievable absent the merger.

The last item relating to the applicants' position regarding economic development which results from the merger, and another disturbing aspect, is the appearance that the economic development benefits, which the applicants posit will occur in the Utah Power & Light territory, really represent a change in priority of fostering economic development, as opposed to incremental economic development benefits which are solely attributable to the merger.

Whether or not a effective economic development program in the Utah Power & Light service territory is not soley a change in priority, the applicants have presented insufficient convincing evidence to make a determination that the economic benefits which they attribute to the merger cannot be replicated by Utah Power & Light and/or other in place Utah economic development programs without the merger.

Although the applicants propose that the importation of the PP&L Economic Development Program will shorten the lead time

o establish an effective economic development program by Utah Power & Light, the applicants have failed to provide any calculation or determination of what opportunity costs would be entailed in making a reasoned assessment of a economic development that would truly compliment and supplement the current in place Utah economic development programs as opposed to making a hasty attempted implementation of a questionable economic development program to a new geographic area.

The timing aspect of developing an effictive economic development program is tied to the consideration of attempting to determine when the costs of such economic development out weigh any benefits which might be derived from such an economic development program. While the applicants put forth a position that we need not now be concerned with determining the outer limits of when economic development is no longer beneficial, the applicants have made no effort, other than an off hand observation that their economic development program can be turned on and off, to make any consideration of the impact an economic development program will have on the future resource needs and expansions of the electric utility, mergered or nonmergered. One must consider the residual from a "turned off" economic development program of the utility and the continued efforts of current in place economic development programs within the State of Utah to determine the appropriate timing of an economic development program to be undertaken by the company. The current record put forth by the applicants make no such attempt, formal

otherwsie, in establishing the appropriate timing for implementation of an economic development program; if the applicants truly believe that the PP&L program will bring benefits to the Utah Power & Light service territory.

A further area of non-power supply benefits put forth by the applicants is the area of reduced construction expenses for the merge company verses the stand alone scenarios. The applicants have represented that the PP&L division will experience reduced construction expenses due to deferral of plant refurbishment of the Jim Bridger and Centralia plants as a result of the merger, ostensibly due to reduced operation and electrical generation from such plants. However, the PD Mac modeling of the merged and PP&L stand alone scenario does not show such reduced operation and generation from those plants in the merged system. Indeed, in the PP&L stand alone scenario, these plants do not receive such plant refurbishment in the 1988 thru 1992 time period; the period during which the applicants represent that the merger is to be attributed with the deferral of this plant refurbishments.

It is inappropriate for the applicants to include a benefit of reduced construction for deferred refurbishment of these plants as a benefit of the merger if such construction expense would not be incurred in the PP&L stand alone scenario. Nor would operation of the plants in the merged system scenario justify such deferral. Additional skepticism of such plant refurbishment deferrals actually occurring as a result of the

rger is a recollection that such plants are jointly owned and not solely operated by PP&L. The decision of such plant refurbishment postponement is not solely that of PP&L, or the merged company. The other utilities, who are joint owners of the plants, may not acquiesce in the decision to postpone plant refurbishment, since such refurbishment would improve the operation and efficiency of such plants inorring to the benefit of the other joint owners of the plants; irrespective of any benefit postponement of such refurbishment may occur to the PP&L or merged company.

Another instance of incongruities between reduced construction benefits attributed to the merger and PD Mac modeling is the inclusion in reduced construction benefits of reduced maintance to the Carbon plant, even though the PD Mac modeling of the merged company shows there is only a slight decrease in the production in the Carbon plant which does not appear to justify the reduced maintenance attributed as a benefit of the merger.

Since the applicants have failed to make any identification of projects in Utah Power & Light distribution construction reductions, the merger benefits attributable within such area are truly not project specific but rather goals, which indeed may not be achieved due to lack of adequate analysis. One must be skeptical of purported construction reductions in distribution plant when at the same time the applicants represent that local operations are to remain and continue as they are

rrently constituted, relative to the distribution operation within the two division of the merged company. The Committee of Consumer Services still is not convinced that the applicants have not engaged in double counting by including in general plant reductions, reductions due to reduced personnel requirements which also appear to have been included in the calculation of merger benefits the applicants attribute to manpower saving.

There is further doubt of achieving reduced construction expenses when, at the same time, the applicants count as a benefit of the merger an increased load, and necessarily distribution facilities to meet such increased load, which will be derived by the merged company's economic development program.

The remaining area in this category is transmission construction to improve transmission and interconnection capability between the two divisions of the merged corporation. In this regard, the applicants appear to have purposeful ignorance in not determining the amount of transmission and intertie capacity which is necessary for the applicants to achieve the range of benefits which the applicants conservatively estimate will result from the merger. The applicants submit that they have undertaken no studies and none are available for presentation to the Commission for determination as to the capacity needs for the applicants to achieve their full merger benefits; however, closer examination of the benefits, categorized by the applicants as resulting from the merger, show

that a substantial portion of such benefits appear to have a coincident peak during the summer. Yet such does not move the applicants to go beyond a judgment call to determine whether their projected transmission augmentation will be adequate for such merger benefits to flow between the two divisions and be achieved by the merged company. If the transmission and intertie augmentation between the two divisions prove to be inadequate, the advancement of the Treasureon Loopin or use of other utilities' transmission capabilities reduces the merger benefits. The applicants have also neglected to include in their calculations of merger benefits the increased transmission losses which will occur due to the augmented transmission between the two divisions and netting such transmission losses against other merger benefits. Although the applicants indicate that such losses will be offset by reduced power supply costs, they have not quantified nor identified where in their calculations such netting has occurred in establishing over all merger benefits.

II

CAPACITY SAVINGS RESULTING FROM THE MERGER

The applicants assert that a two hundred MW reduction in reserve requirements would result from the merger. The applicants maintain that although such reduction was contractually possible prior to the merger, it was not undertaken due to consideration and concerns of transmission capability and available capacity to the PP&L system. Now, however, the applicants position is that with only three hundred and thirty MW

augmentation of the transmission capabilities between the two divisions, which augmentation must also be available to flow through the other power related benefits of the merger, such reserve reduction is possible. In considering the questionable adequacy of the transmission augmentation to handle the entire range of power related benefits attributed to the merger by the applicants, one must question whether the two hundred MW reserve reduction is really attainable. If one solely considers the seasonal diversity and Mid-Columbia rating modification resulting from the merger and the Nevada Power Sale, it appears as if the transmission augmentation projected by the applicants is insufficient for any other power related benefits to flow between the two division. Due to the reliance on transmission capabilities between the two divisions for the merged company to achieve its merger benefits, the other members of the PNCA may not acquiesce, as in the past, in PP&L's calculation and treatment of non-regional loads in establishing reserve requirements.

The capacity benefits that do appear to be achievable as a result of the merger, over the limited time frame analyzed by the applicants, appear to substantially accrue to the benefit of the PP&L division, this factor highlights the necessity of developing an appropriate allocation methodology to assure that the benefits which were achieved from the merger are appropriately shared by the two divisions and the customers of the respective divisions.

Firm energy benefits attributed to the merger have been calculated based upon utilization of a critical water year occurring in every year of the time horizon. While the use of a critical water year has application in planning the power system, calculating benefits that would derive from the merger and the power system operation utilizing such an assumptions places heavy emphasis upon energy deferral, even though the system would not actually be run this way in actual operations over the time horizon undertaken. Actual operations would have greater use of hydrogeneration and non firm purchases over the time period as opposed to an analysis which assumed critical water years occurring each year on the time horizon. Thus operational benefits attributed to the merger using a critical water year assumption would be much greater than one would expect in the actual operation of a single despatch power system. The utilization of an average water year as opposed to a critical water year in determining merger benefits is recognized by the applicants and their use of, essentially, an average water year calculation methodology in the PD Mac modeling in establishing merger benefits. This calculation of merger benefits in firm capacity deferral or displacement resulting from the merger based upon critical water assumptions is not consistent with other benefit calculations and inappropriately increases the resulting benefits which are calculated from the merger; even though actual operations would not be expected to capture such benefits calculated.

Firm energy benefits also assume that BPA Power would be used to replace future Utah Power and Light coal plants. For such power to be delivered, transmission interconnections will necessarily be substantially greater than that projected by the applicants in the short horizon analyzed by the applicants in their presentation. The costs of such interconnection between the divisions may well offset by the assumed lower costs of BPA Power. The assumptionn of BPA power being cheaper, in the future, than Utah Power & Light coal fired generation itself, is subject to substantial skepticism in light of consideration of the assumptions upon which the BPA Power costs are based.

III

POWER COST SAVINGS RESULTING FROM THE MERGER

There is substantial disagreement between the Committee of Consumer Services' analysis and that put forth by the applicants in the area of power cost savings to be attributed from the merger. It must be noted that, in reviewing this highly contested area, one may not simply pick and choose the different assumption results one ultimately desires to use, in making a comparative analysis. The PD Mac modeling is not the additive sum of different scenarios of changing only one or two assumptions; indeed it iterates the whole of all the assumptions in data input. Thus, once one had determined what inputs one desires, one must run the program to make a comparative analysis of the benefits that are calculated from the merger compared with the stand alone scenarios of the two divisions.

One area of substantial disagreement is that of the firm sale, either in the stand alone or the merged scenario. Prospects of a firm sale by the merged company is subject to some skepticism due to the California Utility Commission's OIR2 decision language. This language change from the ALJ's draft order, adopted by the California Commission, indicates that California utilities are to be looking to QF bid procurement for energy/capacity needs, they may have very limited ability to access out of state resources for power needs. One must also temper the expectation of a firm sale to Southern California utilities due to the expected reluctance of such utilities to use up their Four Corner's Intertie or Southwest Intertie capacity when there is Pacific Northwest Intertie capacity available to transact such a firm sale. These factors tend to reduce the benefits or prospects of the postulated firm sale resulting from the merged company. In a comparative analysis of the merged sale verses the independent stand alone scenario, one must also consider that a firm sale by PP&L in the stand alone scenario seems just as likely within the time span analyzed by the Applicants in their merger scenario. The various means for such a firm sale to be undertaken by PP&L alone still exists, the SL-87 rate was not the exclusive mechanism to effect such a sale. The difficulties associated with the alteratives available to PP&L alone to make such a sale are just as great, if not less, than the difficulties that face the merged company in effecting such a sale.

In the exchange of opinions and assertions relating to the Block 4 energy, which was modeled in the PD Mac simulations of the merged and the stand alone scenarios, it is necessary to recall that it is not only the timing, but also the pricing of such Block 4 energy which is to be a consideration in the comparative analysis. The difference in pricing assumptions of such purchases and impact such price differential has on the stand alone and merged case scenarios, of the PD Mac modeling, create substantial disagreement as to the amount merger benefits. It appears that the Applicants modeling still assumes that the PP&L division can "sell" Block 4 energy to the UP&L division at five mills/KWH less in the merged scenario than in the stand alone scenarios. No justification has been presented to support this substantial price reduction assumption. It must also be questioned that if this price differential does indeed exist in the merged companies operation, whether the modeling has assumed and has held constant the PP&L division's margin of profit of selling such power has included in the stand alone scenario with the five Mills/KWH markup.

Critique was given by the applicants to the Committee of Consumer Services' stand alone UP&L secondary sales levels. Such critique seems to overlook that such sales were projected by use of the PD Mac Model, which set the sales price and shows such sales are below the target price set. The critique is also not consistent with the applicant of the PD Mac Model to the merged system. I.e., why is a limitation placed on Utah Power &

ight stand alone PD Mac Modeling of secondary sales but the same limitation is not applied to the merged company PD Mac Modeling? If there is a "black hole" for below target price electricity in the merged system modeling, why doesn't it exist in the UP&L modeling; if the true intent is a comparative analysis of the two scenarios being examined?

A further area of consideration of power supply benefits is the application of the EBA, or rather the application of modeling to the EBA established by the Utah Commission. One must truely question whether it is contemplated that this Commission will embark, again, upon disputed projections of levels of sales, projections of costs, projections of purchases, etc. for EBA operations in light of the historic setting in which the EBA was originally created. A response maybe found in the acceptance by the applicants to the possibility of applying the EBA on an actual costs basis after the Commission is determined and implemeted an allocation methodology. But the application of the EBA with actual costs is still important during the interim period, until such allocation determination is made by the Commission. It would be reasonable to expect that the reconciliation would be easier from a regulatory viewpoint, and an operational stand point, to start from actual system wide EBA expenses and move to an allocated EBA basis. This based upon the merged company's documentation of actual operation of the single system dispatched power production with which the company will be intimately familiar and upon which the company will have

intained adequate records, rather than starting from a disputed Utah Power & Light stand alone scenario and moving to an allocated EBA balance, with the regulators attempting to reconstruct the operation of an actual single dispatched power system, with the limited familiarity and experience of the regulators in the operation of the system combined with limited knowledge of records which were or could have been maintained to assist in the reconstruction efforts. Since the Committee of Consumer Services has suggested that no rate changes be based upon the EBA balance until this reconciliation is undertaken and completed, there will be no transfer of benefits from the PP&L division to the UP&L division based upon any differences that exists in EBA component expenses. But, actual EBA operation and cost accounting would be easier for regulators and still send the appropriate signals to the system operators to minimize EBA component costs.

IV & V

ALLOCATIONS/REGULATORY BURDEN ASSOCIATED WITH THE MERGER AND LOCAL CONTROL ISSUES

The limited allocation discussion which has been presented in these proceedings results from the applicants concerted effort to ignore such issue. With the applicants' "manyna" attitude the efforts of any intervenor, singularly or combined, has been insufficient to over come the inertia. What has been agreed upon, is, solely, the general principals or the "destination chosen" and the acknowledgment that various paths to

e chosen destination exists. "Manyna" will come, by its very nature. Then we will be faced with attempting to deal with the short and long term anomalies that exist in the paths from which to choose; anomalies that necessarily exists due to the inter play between desired consistency, both chronology and interjuridicational, and the general principles acknowledged by the participants. Burdens of developing allocations and regulating a merged company fall within the colloquialism "lives a bitch and then you die." Recognition of the vagaries that will result from the merger does not avoid them. Attempts can be made to postpone them, as was done in this case, but it simply postpones them it does not eliminate them nor does postponement necessarily make resolution any easier.

The record on allocation and regulatory burdens will have to be made in the next proceeding undertaken by the Commission. Affiliated interest and organizational matters are issues which cannot be fully anticipated, due to their possible permutations. Such issues will be faced when they occur. This Commission's authority/ability to deal with them will be what it is when such issues are before it; postulations now will not effect the outcome nor will they prove beneficial.

VI

EFFECT OF MERGER ON RETAIL PRICES

It has been interesting to note the transition of the applicants' position. From a position of letters to residential customers soliciting support for the merger by representing rate

ductions of 8.6% and rate stability due to the merger to the current position of a 2% reduction, if cost of service justified, and a sometime aggregate 5% rate reduction, however short lived, which could be based on non-merger related factors. The aggregate verses specific commitments or guarantee, however denominated, are the heart of the issue in determining whether the majority of customers will really see benefits from this merger; i.e. will captive customers experience any rate benefit or will competitively vulnerable customers and/or the company be the beneficiaries of the merger? If regulators are concerned about sending signals, signals are sent to more than investment bankers and the like. Some signals are also sent to a large group of individuals who are reminded on a monthly basis of what was promised and what is delivered. The impact on retail rates will be much more critical if the optimism and the enthusiasm of the applicants are insufficient to achieve the merger benefits projected by the applicants. As the pie gets smaller, will there still be crumbs for the masses? And when will invitations to the repast be sent? These are not rhetorical questions but issues that must be faced in approving the proposed merger and establishing concomitant conditions. The Committee of Consumer Services cannot address this area other than as indicated. The rate reductions are on an aggregate basis and the residential and small business customers, represented by the Committee of Consumer Service in these proceeding, may indeed see no benefit

om the merger. They may, indeed, see their rates rise post merger contrary to the representations of rate stability as a benefit from the merger.

VII

EFFECTIVE MERGER ON MAJOR INDUSTRIAL CUSTOMERS

(See special contracts applications and proceedings to be held in the future.)

VIII

COAL ISSUES RELATED TO THE MERGER

(See Least Cost Energy case.)

IV

MERGER COSTS

The sole merger costs addressed by the Committee of Consumer Services relates to the $18.5 million of expenses incurred to effect merger approval by shareholders and regulatory agencies.

Not much may be said at this point, other than noting the two choices available to the Commission: Denial of any recovery or issuance of an accounting order permitting recovery of expenses with an appropriate return. No party has advocated non-recovery and all agree on an accounting order permitting recovery of these expenses. Disagreement exists, however, on the appropriate return to be allowed in the amortzation of these expenses. The current record is insufficient to establish any specific rate, e.g. authorized rate of return, incremental debt rate or someother rate. If the merger is approved, the order

need not specify the rate of return but could defer establishing the rate until the 1989 proceeding when specific information will be presented to the Commission relative to setting an authorized rate of return for the merged company, the merged company's incremental cost of debt or someother rate of return that the Commission feels is appropriate in allocating the burden of these costs. At such time, the actual costs associated with the merger will be known as a total; after they have been audited and subject to a prudency review by the regulators.

X

PROPOSED CONDITIONS

Of the conditions suggested by the Committee of Consumer Services, and deemed unacceptable by the applicants, all but two are designed to insure that customers of this merged company timely benefit from the cost reductions which the applicants argue they "conservatively estimate" will result from the merger. The other two deal with the Committee of Consumer Services' participation in interdivisonal and meetings and the reimbursement of Committee of Consumer Services' expenses to obtain access and use of merged company records, if the company's records maintained in UP&L offices are insufficient. The Committee of Consumer Services' involvement in allocation activities is to insure that the interest of Utah residential and small commercial customers are represented and protected at such allocation meetings. The concern over the impact that the merger will have on these classes of customers is accentuated as the Committee of Consumer Services has watched the applicants' case

blossom. This burgeoning, as noted above, has laid the under lying amaranthine predicated and structure to channel benefits, if achieved, away from residential and small commercial customers of the merged company. The records related condition was felt to be innocuous as the alterative is the statutory requirement that such records, or verfied copies, be produced in Utah, see UCA §54-7-8.

The applicants original critique of the rate reduction conditions was that the conditions were too restructive; the conditions would not accomadate factors beyond the applicants' control which could preclude the set role reductions. The applicants' ardently argued that it was not due to a lack of confidence in their projections of 5 to 10% rate reductions and rate stability (based upon their conservatively estimated merger benefits) that made the Committee's set rate reduction conditions to achieve a 10% rate reduction: five years, and 1% rate increases for the next ten years unacceptable, but the failure to acknowledge factors beyond the calculations and acheivement of merger related benefits. When the conditions were later modified to allow factors beyond the applicants' control to offset the stated reductions, the conditions were still deemed unacceptable. We have no benefit, other than that gleaned from across examination questioning of Committee witness Williams, as to why the modified set rate reductions and rate stability conditons of the Committee of Consumer Services are unacceptable.

The applicants have quaranteed a 2% rate reduction within the first 60 days of the merger, whether or not it is cost

sed (even committing to a 5% rate reduction which may not be cost based), and (conservatively) project up to 10% over five years. The Committee of Consumer Services proposes that the applicants quarantee reductions of 2% per year for each of the first five years, but this could be adjusted downward of the applicants demonstrate that global factors beyond their control would not permit them to achieve the reductions. The applicants' protestations not withstanding, the objection to the conditions appear to be lack of condifence in achieving the conservatively estimated merger benefits. Factors beyond the merged company's control are now recognized in the conditions, they require only the recognition, in rates, of what the applicants present as a conservative expectation from the merger. Unless the global factor aspect is misunderstood as being redundant of abilities a utility ahead, has in rate considerations, the parties differing position on rate reductions are solely based upon the Committee's reliance of the applicants' calculation of merger benefits and the applicants refusal to so rely.

It was suggested that there is no need for a global factor aspect as utilities always have the ability to request rate increases for such factors. However, while it is true that utilities can and regularly do come in for rate increases based upon changes in such global factors, in the Committee's conditions, it is not only that. Rather the Committee ties such a request from the merged company with its supporting analysis and its results to the rate decrease and/or increase established in the Committee's conditions.

While ordinarily the company, upon demonstrating the imact of such global factor, would ordinarily have that impact directly inbodied in rates, the Committee proposes that it be netted against the merger related rate guarantees. For example, suppose the only global factor at issue in the 1988 to 1992 period were inflation and the company demonstrated that it was at 8%/yr. Ordinarily, the full 8% would be embedded in rates and rates would increase accordingly. Thus, all else equal, of the inflation sensitive part of rates were 25%, the ordinary rate increase would be 25% of 8% in other words, a 2% rate increase.

But, in the Committee's proposal, only the additional inflation above the 4% level used by the applicants is estimating their merger benefits would effect rates, and then only as an adjustment to the rate quarantees. Thus, the additional 4% inflation rate increment times the above assumed 25% inflation sensitive part of rates would establish a 1% rate increase due to higher than modeled inflation, which 1% rate increase would be netted against the annual 2% rate reduction guarantee. Therefore, instead of rates increasing by 2% as a result of global factors (which they would ordinarily), under the Committee's conditions, rates would decrease by 1% (i.e. the 2% rate decreaase guarantee neeted against a incremental 1% global factor increase). The Committee's conditons are reasonable conditions if one takes, as the underlying bases, the applicants' calculations of merger benefits and their promises of rate

stability and that customers will be no worse off due to the merger.

Respectfully submitted this 3rd day of June, 1988.

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CERTIFICATE OF MAILING

I hereby certify that on the 3rd day of June, 1988, a true and correct copy of the foregoing Brief of the Committee of Consumer Services was mailed first class, postage prepaid, to the following:

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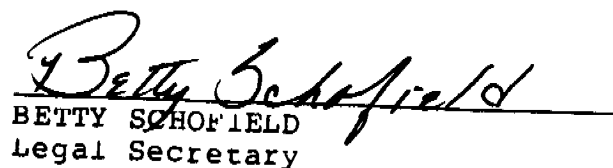

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