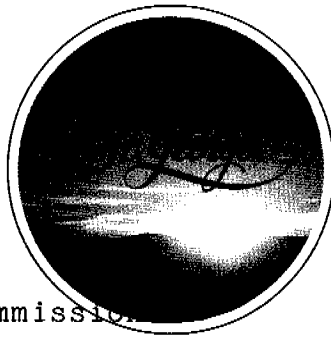


September 25, 1987



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UTAH PUBLIC
SERVICE COMMISSION

Ted Stewart, Chairman
Utah Public Service Commission
160 East 3rd South
Salt Lake City, UT 84111

Dear Ted:

We appreciated the opportunity to meet with you and the other members of the commission recently to discuss some of our concerns regarding the adequacy of electrical transmission capacity to southern Utah and specifically recent events that may be impacting your interim order to build additional transmission in Iron and Washington County.

As of the end of August the demand growth rate for the St. George power system is 8% with a range difference between last year and this year of -10% to +27% on a monthly basis. The peak demand for this year occurred in January at 65.3 MW or a 27% increase over 1986. UP&L was able to cover about half of the increased demand over the transmission system, and we covered half the increase by putting one of the two new diesel engines in operation this last winter. If the new transmission line segment being built under your interim order increases the transmission capacity by 13MW by January as predicted and with the city having one additional diesel operating we should have an additional 20MW capacity to cover demand increases in the upcoming winter season.

Demand is effected by many variables. Consequently even though demand is the most critical factor when trying to measure the adequacy of transmission lines and/or generation we normally measure growth rates in meter counts. During the hearing I indicated that St. George was growing at about 19% during 1986. The actual year end rate was 15.1%. The difference between this growth rate and the demand increase could be accounted for by weather patterns, use patterns, customer mix, etc. This year we are currently experiencing a growth rate in meters of about 6.0%. If the year ends up at this number and weather patterns etc. remain the same this year as last year demand will increase 6.0% also or to 69.2MW. The heating season of 1988-89 would surely be expected to use the remaining 16.1MW of capacity available to St. George. This analysis only considers the growth of St. George. The REA, other municipals and the UP&L service area would certainly make the supply demand outlook even closer for Washington County. Also recent business interest in this area and St. George recently being ranked as the 6th best retirement community in the country and with increased water supplies becoming available through the recently completed Quail Creek

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Reservoir system it would appear demand for services could increase faster than outlined in the above scenario. Our primary concern is that we have either increased transmission capacity to the area or additional local generation by the 1989-90 heating season. With the excess generation that already exists in the state it would appear that additional transmission to the area would be preferred.

We understand that the plan of UP&L to sell power to NPC had been delayed and is now scheduled for review by the Nevada PSC beginning in mid October. We understand that once the hearings begin the NPSC must rule within 60 days. However we are concerned that future hearing dates may be delayed by proposing the hearing start date.

If the sale is approved UP&L will be able to proceed on schedule to complete the 345 line to Siguard by the heating season of 1989-90. However because the NPSC denied a similar application less than a year ago we believe the most likely scenario is that the current application will also be denied. We are also concerned that the proposed merger between UP&L and PP&L may result in delays due to reprocessing the project/sale through the PP&L management system.

If the Nevada sale is not approved, we will have to decide on an alternative transmission line project. Because we believe an alternative will be needed eventually we recently requested Mr. Anton Tonic of ICPA prepare a discussion paper on the alternative transmission projects considered feasible for this area. The paper has been forwarded to Mr. John Bohling of UP&L suggesting a group be organized of UP&L, municipals, and REAs to develop an alternative plan acceptable by the concerned participants.

Due to the merger and other priorities in UP&L, the discussion of alternatives has not progressed as much as we would like in the last two months. We recommend you and your staff encourage UP&L place a higher priority on working out a contingency plan in the event the Nevada sale is not realized.

In addition, we are concerned with UP&L's recent application for the 345 line to Nevada. We understand it does not mention joint ownership with St. George or UAMPS. Please be advised that we will not hesitate to ask FERC to intervene in our behalf in this regard if necessary to obtain a joint ownership right in this line.

Sincerely,


Shirl H. Pitchforth, Chairman
Water & Power Board