

WEXPRO COMPANY

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December 19, 1989

Mr. Darrell S. Hanson
Manager, Gas & Water
Division of Public Utilities
Heber Wells Building
160 East Third South
Salt Lake City, Utah 84111

RECEIVED

JAN 10 1990

UTILITY DIVISION
SALT LAKE CITY

Dear Mr. Hanson:

Re: 1989-90 Base Rate of Return
Under the Wexpro Agreement

This letter confirms the agreement between the Utah Division of Public Utilities and Wexpro regarding the 1989-90 base rate of return. As we discussed with Mr. Sullivant, this proposal is part of the combined settlement of this issue and of the Joint Account Overhead Fees letter of November 21, 1989. We are asking for Monitor, Division, and Wyoming Staff written approval of this letter.

As background, Schedule 1 of the Wexpro Agreement lists twenty companies. The percentage return on equity ("ROE") from these companies is used to calculate the base rate of return index. In 1989, only eleven companies now have ROE's. The other nine have only a composite dollar settlement or the applicable PSC/FERC Rate Order states an overall cost of capital. For example, in 1988, in the case of PP&L the Commission only stated that "no specific finding be made concerning the cost of equity."

PROPOSAL

Currently, the Division and Price Waterhouse have proposed a base rate of return of 15.12%. Wexpro's methodology would result in 15.33%. We have agreed that this year's settlement is 15.23% base rate of return for the period August 1, 1989 to July 31, 1990. This is the mid-point between our various positions.

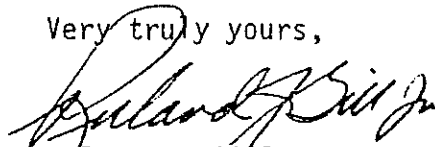
After July 31, 1990, the index will be calculated using the remaining companies on Schedule 1 with commission approved ROE's. The index will be calculated by using the remaining companies' average base return on May 31, 1981 as shown on Schedule 1 and the current ROE as of August 1 of the current year. As an illustration of how this would work, if on August 1, 1990 there were only eleven companies with the appropriate returns, we would average the ROEs for only those eleven companies for 1981 and prepare an index of the 1990 change of the returns for those companies. That index would then be used to adjust 16%. The equation in this example would be $r = 16.00 + (11 \text{ company current average} - 11 \text{ company base average})$.

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This letter, in total, is expressly conditioned upon the understanding that as of July 31, 1990 and beyond (1), if this downward trend continues with less of the twenty companies remaining each year or (2) if any party to the Wexpro Agreement is no longer satisfied with this settlement, then this proposed index calculation procedure will end and the parties will negotiate an alternative solution. Consistent with the agreements made for 1983 and 1988 this compromise will not have any precedential effect on any party to the Wexpro Agreement. It is further conditioned on the full signing of both this letter and the joint account overhead letter of November 21, 1989.

We trust this letter contains our compromise. Should you agree, we would appreciate a speedy execution by Mr. Johnson, an authorized signatory for Price Waterhouse and The Staff of the Wyoming Public Service Commission. Please let me know if you would like us to distribute the executed copies.

Very truly yours,



Ruland J. Bill, Jr.
Managing Attorney

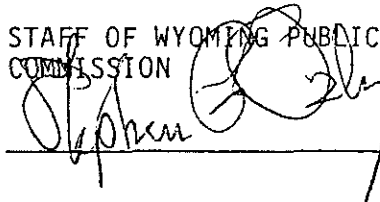
pf

cc: J. L. Balthaser
M. A. Howerton
J. W. King
M. R. Jensen
G. L. Nordloh
G. H. Robinson

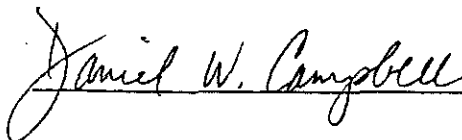
UTAH DIVISION OF PUBLIC UTILITIES

 12-20-89
Date

STAFF OF WYOMING PUBLIC SERVICE
COMMISSION

 12.21.89
Date

PRICE WATERHOUSE

 1-4-90
Date