

PUBLIC UTILITY SYSTEM INTEGRATION

A STUDY FOR FUTURE PROGRESS

An Address by
Donald C. Cook
Chairman
Securities and Exchange Commission

The Public Utility Executive Program
University of Michigan
School of Business Administration
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Mr. Chairman and Friends;

It is a real pleasure to participate in this public utility executive program. It is particularly enjoyable to me because, as a Michigan alumnus, it represents a sort of "bonus" reunion -- an additional occasion to renew old and good friendships.

In 1935 after I was graduated from the Michigan School of Business Administration I succeeded in obtaining a position as a financial examiner in the Registration Division of the Securities and Exchange Commission. Three years later I transferred to the Public Utilities Division and for seven uninterrupted years, 1938 to 1945, I remained in that Division. After a few years in other pursuits, both governmental and private, in 1949, I came back to the SEC as a member of the Commission.

Over the past fourteen years I have lived very closely with many of the numerous and complex problems related to the gas and electric utility industries. During this period the Commission has done pioneer work in reorganizing and regulating public utilities and its record of accomplishments is noteworthy. I have thoroughly enjoyed every minute of my experience in this fascinating and important field.

After accepting the invitation to speak here today, I wrote to Professor Ben Lewis, who was in charge of arrangements for this part of the program, and asked him for a suggested topic. He replied that I could select any phase of the field of regulation of utilities. This was indeed generous and I immediately wrote and obtained his concurrence in a subject about which I have been wanting to do something for a number of years.

I refer to a little known section of the Public Utility Holding Company Act of 1935, Section 30. This provision in the Act has received scant attention in recent years, although at one time the Section figured prominently in disputes over the Commission's early administration of the Act.

I want to speak today about that part of Section 30 which directs the Commission to make studies and investigations of public utility systems for the purpose of recommending in public reports the "type and size of geographically and economically integrated ... systems which having regard for the nature and character of the locality served, can best promote and harmonize the interests of the public, the investors, and the consumer."

Section 30 is the obverse of Section 11. Section 11 directed the Commission to reduce uneconomical holding company systems to integrated systems. Section 30, on the other hand directs the Commission to report on how the utility facilities of our country may be more economically combined.

While the Commission to date has not had occasion to issue a comprehensive Section 30 study, labelled as such, it has in connection with the reorganization and simplification of holding companies taken up many questions which would be within the scope of such a study. And it has also issued numerous reports under Section 11(a) which have many of the characteristics of such a study. But the great potentials of this Section, including what it can contribute toward achieving a more efficient, economical and dependable power supply for the nation, has never really been explored.

I want to discuss these potentialities with you.

As a starter, let us take a look at the legislative history of the Section (scanty though that history be) and endeavor to ascertain the Congressional intent behind it. A provision substantially the same as Section 30 appeared in the bills as initially introduced in both houses. An analysis of the Senate Bill, submitted to the Senate Committee by Senator Wheeler stated, in part, with regard to this provision: "This Section is designed to promote the gathering of information and data which will serve as the basis not only for the reorganization and simplification of holding companies preparatory to their dissolution, but also as a basis for future action by operating companies in organizing themselves so as best to serve the public."

It seems clear from this statement that Section 30 was to be utilized not only in connection with the reorganization and simplification of holding companies pursuant to Section 11, but for a second purpose as well. That second purpose involved the examination of the entire electric industry and the entire gas industry to see whether the resources represented thereby could be more efficiently and economically utilized for the benefit of the American people.

When the Holding Company Act was passed in 1935, the Commission's primary duty was to achieve compliance with Section 11, both Sections 11(b)(1) and 11(b)(2). As I am sure you all know, Section 11 requires the elimination of useless holding companies, the divestment of properties not part of a geographically integrated system, and a requirement that both registered holding companies and their subsidiaries take such steps as the Commission shall find necessary to ensure that the corporate structure or continued existence of any company in the holding company system does not unnecessarily complicate the structure or distribute voting power inequitably. It is, as the Congress stated, the "heart" of the statute, and the Commission was instructed to carry out its provisions "as soon as practicable."

The Commission at the outset faced a choice of whether to proceed with enforcement of these provisions under either Section 11(d) -- the so-called compulsory provision, or under Section 11(e) -- the so-called voluntary route. The Commission has the power both to draw up plans of its own and through court proceedings force its program of compliance on the companies, or it can encourage the filing of voluntary plans by the various company managements, and leave to them the choice of the wide range of fair and lawful methods for achieving compliance.

Had the Commission chosen the first alternative, it would have had to map out a blue-print of its program for each system, and would probably have written comprehensive Section 30 Reports in connection with the formulation of such proposals. I might note in passing, that during the early days, between 1935 and 1938 before the Commission had decided which course it would follow, and while the constitutionality of the Act was in litigation, the staff of the Commission did prepare a large number of reports which might have been made public as Section 30 Reports if the Commission had chosen to follow the Section 11(d) route. Many of these blue bound volumes, of great use in connection with our administration of Section 11, still reside in our files. But in the main their purposes have already been accomplished and the changes which have been wrought by the Act and the growth of the industry since that time now call for up-to-date, comprehensive studies.

Had the Commission followed the procedure of forcing Section 11(d) plans upon the various managements extended litigation would undoubtedly have resulted and we would still be far from the substantial compliance with Section 11 which we have now attained.

But, very wisely in my opinion, the Commission chose the other route of company plans voluntarily formulated. Although these have entailed extended litigation in some instances, progress has undoubtedly been expedited by this choice. By choosing this route, however, the Commission made Section 30 Reports an unnecessary step in the formulation of a plan of compliance. Furthermore, to have written Section 30 Reports at a time when all of the staff's time was urgently needed to administer programs of voluntary compliance with Section 11, would have been an uneconomical and delaying course of action.

The time is fast approaching when Section 11 compliance will have been accomplished. While there are a number of difficult individual problems still to be solved, we are certainly more than three-fourths of the way toward our final goal. Thus, where there were 211 holding companies subject to the Act in 1938, there were only 58 as of June 30, 1952. And many of those remaining to be eliminated are in the final stages of compliance. However, about 20 holding companies will continue in existence under our jurisdiction as regional, integrated systems.

But let us turn now from considering Section 30 with reference to Section 11 compliance. Let us think of it in the other, and to me, the more promising purpose of the Congress. That is, in terms of a positive program of recommendations for action to be taken by operating companies

to enable them better to serve the interests of their investors and consumers as well as the public interest.

In this connection, it should be noted that the language of Section 30 does not restrict the studies and recommendations to be made to subsidiaries of registered holding companies. Rather the Commission is directed to study the situation with respect to all operating electric and gas utility companies.

The statutory directive is, of course, very general, and in order to implement it we must get down to brass tacks. Just exactly what data would be gathered in a Section 30 Report? And what kind of recommendations might be made based upon such data?

Counting a combination gas and electric company as two separate companies, there are approximately 860 privately owned electric utility companies in the United States, and about the same number of privately owned gas utility companies. In making studies of the electric utility industry, in addition to gathering information on the private companies, data will also have to be compiled on the 900 cooperatives, and the 2,100 municipal, state and other publicly owned utility systems.

From an organizational point of view, it would appear desirable to set up a group in the Commission's Division of Public Utilities which would work exclusively on Section 30 Reports and recommendations. The Division is now divided into several Sections, each handling the various proceedings with respect to designated holding company systems. It is doubtful if these groups could accomplish much under Section 30 while continuing their other work. Even if they could there would be the added work of coordination between sections.

I might point out here, as an aside, that the Hoover Commission confirmed our experience at the SEC when it observed that those wrapped up in the day-to-day operations generally do not have the time for the reflection and deliberation required for long range planning, and that since efficient management requires policy planning, the assignment should go to persons specially appointed for that purpose.

A Section 30 group would necessarily have to have engineers, analysts and, no doubt, the ubiquitous lawyer.

Such a group would undoubtedly commence by identifying the major economic areas or regions in the United States and then proceed with more detailed studies area by area. For each area it would list the electric and gas utilities operating therein and would compile data concerning each company.

Let us consider some of the data that might appropriately be analyzed. Since the objectives of the study would include arriving at conclusions and recommendations concerning improvements in efficiency that might be effected, the data collected should necessarily include

appropriate measures of each company's efficiency. For example, in a study of the electric utilities for a particular area, the size of each company could be indicated by various criteria such as number of dollars invested, annual revenues, kilowatts of capacity, kilowatt hours generated, number of customers, service area, etc. A cost study could also be made of each company, which might show, among other things, production, transmission and distribution costs per kilowatt-hour sold, investment cost per kilowatt installed, capital costs, rate of return and various operating ratios.

From a collection of these and other data, it might well be developed that certain electric systems in the area are at a disadvantage because of factors which could be corrected, such as by wider interchange of power; the purchase, sale or exchange of properties; increased investment in generating facilities; the greater development of hydro-electric facilities; or other factors.

Incidentally, in a report entitled "The New England Economy", prepared by the Council of Economic Advisers, there is a fifteen page chapter on "Fuel and Power Costs", which might be indicative at least in part of the approach of a Section 30 investigation report and recommendations.

The Council's report, in summary, presents facts concerning the installed power capacity in New England, broken down by areas and by type of generation, whether steam, hydro, or internal combustion; the growth of the industry, reserve capacity, and the percentages of use by residential, commercial, and industrial consumers. It then takes up the level of fuel and power costs in New England as compared with the average for the United States. After finding that the causes of higher costs in New England are primarily due to higher fuel costs, it calls attention to other underlying reasons for the greater costs, and hence higher rates of New England's electric utilities. Thus, the number of employees per 100 million kilowatt-hours generated was 31 in New England as against 22 in the United States; the percentages of turbo-generators installed before 1926 were 48% and 39%, respectively; the costs of plant per kilowatt of installed capacity were \$115 and \$97, respectively; the average B.T.U. consumption per kilowatt-hour generated in steam plants was 15,650 and 14,640, respectively. As a result of these and other factors which primarily affected production costs, total operating expenses including depreciation and taxes were 1.60¢ per kilowatt-hour sold in New England as against 1.27¢ in the United States, and the rates in New England were such as to yield 1.93¢ per kilowatt-hour as against 1.61¢ for the entire United States.

The report points out that one of the economic consequences of the higher costs and rates in New England was to cause industries which have a high proportion of their expenses in power costs to locate elsewhere than in New England, or even to migrate from New England. It recommends, among other things, that everything possible be done to reduce transportation costs of fuel, such relatively high transportation costs being an underlying cause of the higher fuel costs. It also recommended that action be taken to develop New England's remaining hydro resources and to

remove all barriers for pooling power resources, particularly to repeal Maine's Fernald Law which prevents the export of power from that State.

Now it seems to me that a Section 30 investigation might well begin at the point where this report left off. In other words, the same sort of facts and comparisons would be developed not for the entire industry within the area as compared with the United States, but rather for each system or company within the area as compared with each other system. The rates of the various systems would be analyzed not only from the point of view of the over-all average revenues per kilowatt-hour sold, but also from the point of view of each classification, residential, commercial and industrial.

Let us assume that a study such as I have described has been made and that the pertinent facts concerning an area's electric utility industry are at our finger tips. Examination of these data shows clearly that one utility has a large, interconnected, integrated, and efficient system, with low costs and low rates. In juxtaposition to this system, let us assume another, a small system whose costs and rates are high as compared with the large system and which is not interconnected with the large system. Although at least some economies might be obtained through contracts between systems, as I shall discuss later, it is clear that acquisition by the large system of the small system would lead to interconnection of the two, elimination of high cost generating facilities (or at least the relegation of the small system's high cost plants to stand-by) with resulting lower costs and rates in the small system's territory. In summary, the assumed facts demonstrate that the large system will gain from the acquisition of the small system even though lower rates are put into effect.

But would the large system be willing to purchase the small system, and would the small system be willing to sell to the large system?

I should like to give you an illustration taken from our files, of why both the buyer and seller under the circumstances outlined above would have positive incentives for accomplishing what is obviously in everybody's interest.

In the fall of 1950, American Gas and Electric Company filed an application with the Commission for permission to purchase the common stock of Central Ohio Light & Power Company. American Gas is one of the largest and well regarded holding company systems in the country with consolidated revenues of \$160,000,000. Its subsidiaries, which form an interconnected and integrated system, operate in Michigan, Indiana, Ohio, West Virginia, Virginia, Kentucky and Tennessee. Its principal subsidiary in Ohio is The Ohio Power Company, which has utility assets of about \$217,000,000 and annual revenues of \$55,000,000.

Central Ohio was a small independent company having utility assets of \$12,500,000 and operating revenues of approximately \$4,000,000. Its service area was divided into two parts, which were 100 miles apart and not connected. The Eastern Division had no generating facilities, and purchased all of its energy from a non-affiliated company, Ohio Edison Company. The Western Division generated its own requirements in three steam stations. Our engineering studies showed that Central Ohio's average generating costs ran 7.2 mills per kilowatt-hour as against 2.9 mills for the American Gas subsidiary, Ohio Power, while its rates were such as to yield 1.91¢ per kilowatt-hour as compared with 1.14¢ for Ohio Power.

The common stock of Central Ohio was held by about 2300 stockholders, with about 4% in the hands of its president.

The transaction as proposed by American Gas was to offer 72/100 of a share of American Gas common stock for each share of Central Ohio common stock outstanding. Prior to the filing, American Gas stock, which was listed on the New York Stock Exchange, was selling for about \$50, or \$36 for 72/100 of a share while the Central Ohio stock was quoted over-the-counter at approximately \$30 per share. The earnings of American Gas were \$3.24 for 72/100 of a share, as against pro forma earnings of \$3.11 per share for Central Ohio. The dividends then being paid by American Gas were \$2.16 per 72/100 of a share as against \$1.80 on the Central Ohio stock. While both stocks were selling on approximately a 6% dividend yield basis, the common stock of American Gas was selling on a 15.4 times earnings basis, while the Central Ohio stock was selling at less than 10 times earnings.

Now obviously this was a very advantageous offer to the Central Ohio stockholders, but at first blush not a desirable one from the point of view of American Gas. Thus, on the basis of the foregoing American Gas was offering a market value of \$36 for \$30, or a 20% premium, \$3.24 for \$3.11 of earnings, or a 4% premium, and \$2.16 for \$1.80 of dividends, or again a 20% premium.

However, substantial advantage to American Gas lay in the economies which the purchase would effectuate and which were not reflected in the past history of pro-forma earnings of Central Ohio. Those economies were to be brought about primarily by interconnections with Ohio Power which as I previously stated is an American Gas subsidiary operating in Ohio, and by utilization of Ohio Power's low cost generating facilities instead of Central Ohio's high cost facilities. American Gas estimated that because of these economies, Central Ohio's earnings would rise from \$3.11 per share in 1950 to approximately \$4.00 per share during the next three years, even after putting into effect the lower rates of Ohio Power. Thus, the American Gas earnings, and hence the value of its equity, would be enhanced by the transaction rather than diluted, since from a near term point of view it would be exchanging \$3.24 of earnings for \$4.00 of earnings.

I should like particularly to call attention to the fact that the disparity in market values illustrated by this case is really of little significance to the purchasing company, in this case American Gas. Thus, while American exchanged some \$36 of market value for \$30, or as I noted previously a 20% premium to Central Ohio's stockholders, its stock was selling at better than 15 times earnings whereas Central Ohio's quotations showed a market value of only ten times earnings. This kind of disparity in times earnings ratios no doubt would be typical where a large, well managed, integrated system with listed securities is purchasing a small, non-integrated, little known company, with unlisted securities. This, of course, permits the large company to purchase the small with little or no dilution of earnings, at a price which is highly advantageous to the owners of the small company, and with the advantage to the large company that it obtains for its security holders (including the previous owners of the small company pro rata) substantially all of the benefits finally resulting from the acquisition.

I think you can see from this illustration that both the security holders of the purchaser and those of the purchased company stood to gain substantially by this exchange. Likewise, the consumer would receive the benefit of lower rates, and the economic interests of the area would be served through the greater efficiency of operation. Incidentally, more than 98% of the stock of Central Ohio was exchanged for the stock of American Gas. Eventually Central Ohio will be merged into The Ohio Power Company.

In the case of the acquisition by American Gas of Central Ohio, the entire transaction was initiated and sponsored by the respective managements of these companies. It was submitted to the Commission for approval under the Holding Company Act because American Gas was a registered holding company.

We need not pause to determine whether a Section 30 study would have led us to the conclusion that Central Ohio should have been acquired by American Gas or some other system or company. It is sufficient

to note that it is at least one type of transaction that might be sparked by Section 30 reports and recommendations.

Another illustration of the financial and operational advantages of an acquisition is demonstrated by the proposal of Kansas City Power & Light Company to acquire a controlling stock interest in Eastern Kansas Utilities Company. Kansas City offered the stockholders of Eastern Kansas the book value or approximately \$17.70 per share for all outstanding shares -- shares which sold not too long before at about \$7 per share.

How did it come about that the management of Kansas City was able to conclude that a stock which not so long ago sold for about \$7 per share could be advantageously acquired at \$17.33? Several factors explain this. In the first place, the management of Kansas City arranged to dispose of a large part of the property to a neighboring utility, an arrangement they had been unable to make previously although the possibility was certainly present. Further it looked as though the local co-ops might acquire it if Kansas City didn't. The management of Kansas City freely admitted the strong motivation of that possibility. But more significant for our purposes, and for purposes of those regulatory bodies which have approved the purchase, in a very careful study of the properties Kansas City reviewed operating relationships and contracts, costs, labor, rates, territory, etc., and found numerous ways in which, by integrating with their own property or with another company to the south, economies could be effected which would raise the net income of these particular properties. In fact, it should even be possible to reduce rates to consumers.

This transaction is one of numerous instances in recent years where an acquiring operating company becomes a holding-operating company temporarily because it is purchasing stock instead of assets. The Commission's policy under these circumstances has been, and would continue to be, to grant the resulting holding-operating company an exemption under Section 3(a)(2), provided, of course, the transaction is otherwise fair and meets all the standards of the Act.

Another type of transaction which Section 30 studies might encourage would involve not the purchase of a controlling common stock interest in a company, but rather the direct acquisition of physical assets. Such acquisitions might be effected either through cash purchases, exchange of properties, or a combination of the two. Illustrative of the last is the case of Indiana and Michigan Electric Company and Public Service Company of Indiana, two completely unaffiliated companies. The transactions involved were consummated in early 1950.

Indiana and Michigan, which I will refer to as "I & M", is another major subsidiary of American Gas. Two years previously, in the process of acquiring and merging another company, I & M had acquired assets which were in the service area of Public Service Company of Indiana. Similarly, Public Service Company of Indiana had properties which were in the service area of I & M. The two companies arranged a swap of properties, but since earnings were greater from the Public Service than from the I & M proper-

ties, I & M paid \$235,000 in cash in addition to the properties transferred. I & M estimated that the transaction would increase net income about \$40,000 or approximately 18% of the cash outlay. Similarly, Public Service Company of Indiana estimated that, because of savings from integration, it would receive nearly as much income from the properties transferred as it had been receiving previously, and in addition would have the \$235,000 cash received in the trade.

Now I have been recounting transactions here which involved making large systems into even bigger systems. Please do not infer from this that I favor the complete elimination of all small systems, or that I am biased in favor of big systems. The Holding Company Act, both for economic and public policy reasons contains a prohibition against a system's becoming "too big." Nevertheless, there is such a thing as too small a company. The utility business is big business. It does not exist in this country as a competitive industry in which as a matter of national policy the entities are kept comparatively small in order to stimulate competition. As regulated monopolies, utilities are to be encouraged to operate as efficiently and economically as possible and today this means companies of fairly large scope. What we must guard against is the conglomeration of properties so large as substantially to affect the political life of the area and thwart local regulation.

The Holding Company Act in Section 2 and Section 10 sets the standard. Section 10(c)(2) prohibits an acquisition unless it will serve the public interest by tending towards the economical and efficient development of an integrated public utility system. An "integrated public utility system" is defined in Section 2(a)(29) as a system which may be economically operated as a single interconnected and coordinated system, confined in its operations to a single area or region, in one or more states, and "not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation."

There undoubtedly are many instances where the merging of small systems into a neighboring large system would not violate the size standard. One way or another, the economies of large scale utility operations leading to lower rates as they surely must, should be made available to the American public and American industry. Section 30 studies might well point the way.

On the other hand, in many instances, these economies may be substantially realized through contractual arrangements rather than through outright acquisitions. This potentiality is amply demonstrated by the various power pools which have grown up over the past couple of decades.

Specifically, as examples of such power pools, there are the Pennsylvania-New Jersey Interconnection and the Northwest Power pool. The former is operated under a contract which was entered into in 1927 between Pennsylvania Power & Light Company, Philadelphia Electric Company and Public Service Electric and Gas Company of New Jersey, a group not now otherwise affiliated. The purposes of the contract were

generally to secure the benefits of coordinated development as well as operation, to reduce the investment necessary for the required production of energy, and to secure the most economical operation of the plan for the parties. Testimony before the S.E.C. indicated that the economic advantages resulting from the pool, especially due to the sharing of reserve capacity, both cold and spinning, and to the coordination of all the production plants to secure the minimum operating costs for the whole combined system, have proved to be more than were expected, and these advantages have increased as the loads and technique of coordination have developed.

The other example which I mentioned was the Northwest Power pool. The capacity of this pool amounting to some 4,000,000 kilowatts belongs to widely diversified interests, including Puget Sound Power & Light Company, The Washington Water Power Company, Pacific Power & Light Company, Bonneville Power Administration, and several municipalities. It has been estimated that through the coordinating operations of this pool, the necessity of adding 100,000 kilowatts of installed capacity was obviated with resultant savings at present day prices of about \$20,000,000 in capital costs.

I mention these pools, and there are many others, because Section 30 investigations might in many instances lead to recommendations either for acquisitions of properties or in the alternative the entering into of contracts which will afford the benefits of coordination, even though the systems remain independent.

Certainly there is a wide field for improving the various operating systems, either through acquisitions, exchange of properties or contractual arrangements. One has only to look, for example, at the utility map of Ohio, greatly improved though it has been in recent years, to see that the serving areas of the various systems, including cooperatives and municipally owned systems, constitute a gerrymander patchwork, which like Topsy apparently "just grewed." It would indeed be a miracle if studies of such crazy quilts did not bring out many opportunities for substantial economies in the areas served. There are other states which are in the same condition. Generally speaking, in the present state of the art of power generation, transmission, and distribution, a system, whether or not it is all under common control, must reach a fairly large size before it can realize the economies arising from low investment and operating cost per kilowatt hour of output.

The lowering of costs by means of improved integration of electric and gas facilities in an area is only one of the objectives of Section 30. Another major objective would be that of improving rate structures.

As you all know, the usual rate structure for electric utilities provides for three principal rate classifications--residential, commercial and industrial. Generally, the residential rate is a simple block rate. The smaller commercial service rates are also frequently of the block type with a minimum charge, but with the size of the blocks sometimes determined

by the customer's demand. The larger commercial customers and industrial customers are served on two-part rates based upon billing demand and energy consumption. As a result of this sort of rate structure, residential customers usually pay substantially more per kilowatt-hour than commercial and industrial customers.

An investigation of rates within an area as well as between areas would undoubtedly show not only wide variations in the general level of rates, but also in the structures. For example, in the case of a large electric company in Ohio commercial and industrial customers in 1949 paid an average of 1.18¢ per kilowatt-hour, whereas residential customers paid an average of 2.9¢, or almost two and one half times as much. On the other hand, a smaller neighboring company had rates which over-all were 67% higher than those of the larger company, but had a structure in which the residential rates were only 153% of the commercial and industrial rates compared with 245% in the case of the larger company. Examination of several other systems in Ohio, shows similar variations in both the general level and structure of rates.

There are undoubtedly perfectly good reasons for variations as between systems both with respect to the general level of rates and rate structures. On the other hand, it may frequently be the case that a change in rate structure will result in a more efficient use of generating facilities through encouraging use in off-peak hours or seasons with consequent improvement of the load factor, and, with such improvement, it is frequently possible to lower the general level of rates. Furthermore, wide disparity of rates and rate structures within a given area lead at least to a suspicion of undue and unfair discrimination. For example, there must come a point where, if residential rates are abnormally higher than commercial and industrial rates, it must be concluded that residential consumers are subsidizing industry. On the other hand, if managements set up rate structures which have no promotional features, they are likely to thwart the most economical use of their facilities and stifle the economic development of their areas.

The more economical use of our power resources, and the improvement of rate structures are but two of the desirable potential consequences of Section 30 studies. The carrying on of such studies would certainly develop additional objectives which also might lead to lower costs and rates and wider use of our energy resources.

There is, however, one aspect of the power problem which I think the Securities and Exchange Commission should studiously avoid. The Commission should not take sides in the public power - private power controversy. As a part of our investigations we shall have to examine the integration possibilities and rates of all electric systems within an area, but we should not and will not show bias in favor of one form of ownership over another.

I have generally confined my discussion of Section 30 to its impact on the electric industry. The same general objectives and same kind of

studies would also be appropriate for the gas industry. Because of unique features in that industry, as for example the existence of by-products in the manufactured gas industry, the fact that natural gas is a wasting asset, and is transmitted much greater distances than is electricity, the Section 30 studies of the gas industry will have to go into many different kinds of facts than would be contained in an electrical study. Here again, the kind of facts to be developed will appear as the studies are made.

I have attempted to indicate some of the objectives at which we would aim in preparing Section 30 studies. Let us consider briefly how these objectives could be attained after we have arrived at specific recommendations.

Under the Holding Company Act, the Securities and Exchange Commission has no mandatory power to enforce the recommendations it might make under Section 30. However, certain kinds of recommendations having to do with integration of power facilities could be made mandatory under the Federal Power Act. Section 202(b) of that Act provides that the Federal Power Commission, upon application of any State Commission or of any person engaged in the transmission or sale of electric energy, and after opportunity for hearing, may by order direct a public utility to establish physical connection with the facilities of one or more other persons and to sell or exchange energy with such persons. Thus, by working in close liaison with the Power Commission, it might be possible to make certain of the recommendations mandatory.

In any event, our Section 30 group would necessarily work closely with the Federal Power Commission and with state regulatory commissions for, as you know, Section 311 of the Federal Power Act makes of the Federal Power Commission a vast repository of information on the capacities, rates, and operating relationships of the electric industry.

It would seem to me that for the most part any recommendations made under Section 30 would be adopted voluntarily by the companies or systems concerned. If the recommendations are based on facts, add up to good sense, have the support of other regulatory bodies, and are in the public interest, it should be possible around the conference table to persuade the systems affected to cooperate. This is particularly the case since as I see it a large proportion of our recommendations would be advantageous to all concerned.

In conclusion, I should like to remind you again that Section 30 is a mandatory provision of the Holding Company Act. Under it the Securities and Exchange Commission is directed to make studies, investigations, and recommendations from time to time concerning the electric and gas industries. With the winding up of our Section 11 work, we intend to begin to implement the provisions of Section 30 in an effective manner.

With a properly planned and executed program, Section 30 will, I believe, finally get its place in the sun as a highly useful and effective part of the statute, with important benefits to our country's defense effort and to investors and consumers. Whoever engages on this task has a real opportunity to serve the public interest in a vital area of the national economy.