

PROPOSED AFFILIATE TRANSACTIONS RULES

➤ Basic Economic Principles:

Economies of Scale & Scope \Rightarrow Competitive Advantage for the Utility

- ① Exist because of the utility's *unique status* as a *regulated monopoly*?
- ② Cannot *effectively be duplicated* by competitors because of great cost in time or resources?

Level Playing Field: A market environment in which all competitors have the same opportunity to succeed or fail based on their competitive merit.

➤ Cross-Subsidization: Fully Allocated Cost vs. Good Business Practice

- ① Should SEC fully allocated cost require the utility to sell to an affiliate at below market price?
- ② Should SEC fully allocated cost require the utility to buy from an affiliate at above market price?

➤ Preferential Access: Essential/Exclusive vs?? Unfair Competitive Advantage

- *Essential:* "Services and facilities that cannot be practicably or efficiently duplicated by each competing firm in the market."
- *Exclusive:* "Information of competitive significance about a utility's regulated operations which it acquired because of its regulated monopoly status."

Exhibit No. 7
Date 9/14/99 Case No. EX-99-442
Reporter KEM

Listing of Essential Services, Facilities & Exclusive Information
vs.
Case-By-Case Determination of Services, Facilities & Information

- *Preferential service:*

Information or treatment or actions by the regulated electrical corporation which places the affiliated entity at an unfair competitive advantage over its competitors. (1)(F)

- *Unfair Competitive Advantage:*

Any competitive advantage that cannot be obtained by a non-utility affiliated entity or can only be obtained at great cost in either time or resources. (Can be added as definition, if needed)