

April 26, 1938

Memorandum to: Judge Healy

From: Chairman Douglas

I think one of the major bones of contention lying ahead in our administration of the Public Utility Holding Company Act will be the validity of the integration theory. As you know, I personally think the theory of Section 11 is eminently sound. But in any event, it is on the books and is something which we all agree we must enforce. If the public utility groups form a committee of the industry along the lines suggested by Carlisle, Fogarty, and Groesbeck, this question of integration is apt to be the major bone of contention.

Accordingly, it is my belief that one of the profitable things that we could do to get ready for the onslaught would be to put some of our men to work on an examination of a typically disintegrated system and to make a statistical study of underlying companies. I suggest that it be done somewhat along the following lines.

For the system in question, I think we should cover all the underlying companies from 1926 to 1936 on the following matters:

1. Total kilowatt hours sales

- a. residential
- b. commercial
- c. industrial

2. Total revenues

- a. residential
- b. commercial
- c. industrial

3. Total operating expenses
 - a. residential
 - b. commercial
 - c. industrial
4. Operating income
 - a. residential
 - b. commercial
 - c. industrial
5. Growth of fixed capital
 - a. residential
 - b. commercial
 - c. industrial
6. Number of customers
 - a. residential
 - b. commercial
 - c. industrial
7. Rate reductions
 - a. residential
 - b. commercial
 - c. industrial

In addition to such a statistical study a control study ought to be made of an integrated system along the same lines. That is to say, a system in a limited territory which has a pretty good cross section of dense population areas, heavy industrials and rural.

It seems to me that by the collection of such basic statistical data, we can begin to get some slants, at least from the operating point of view, of the validity of the theory of Section 11.