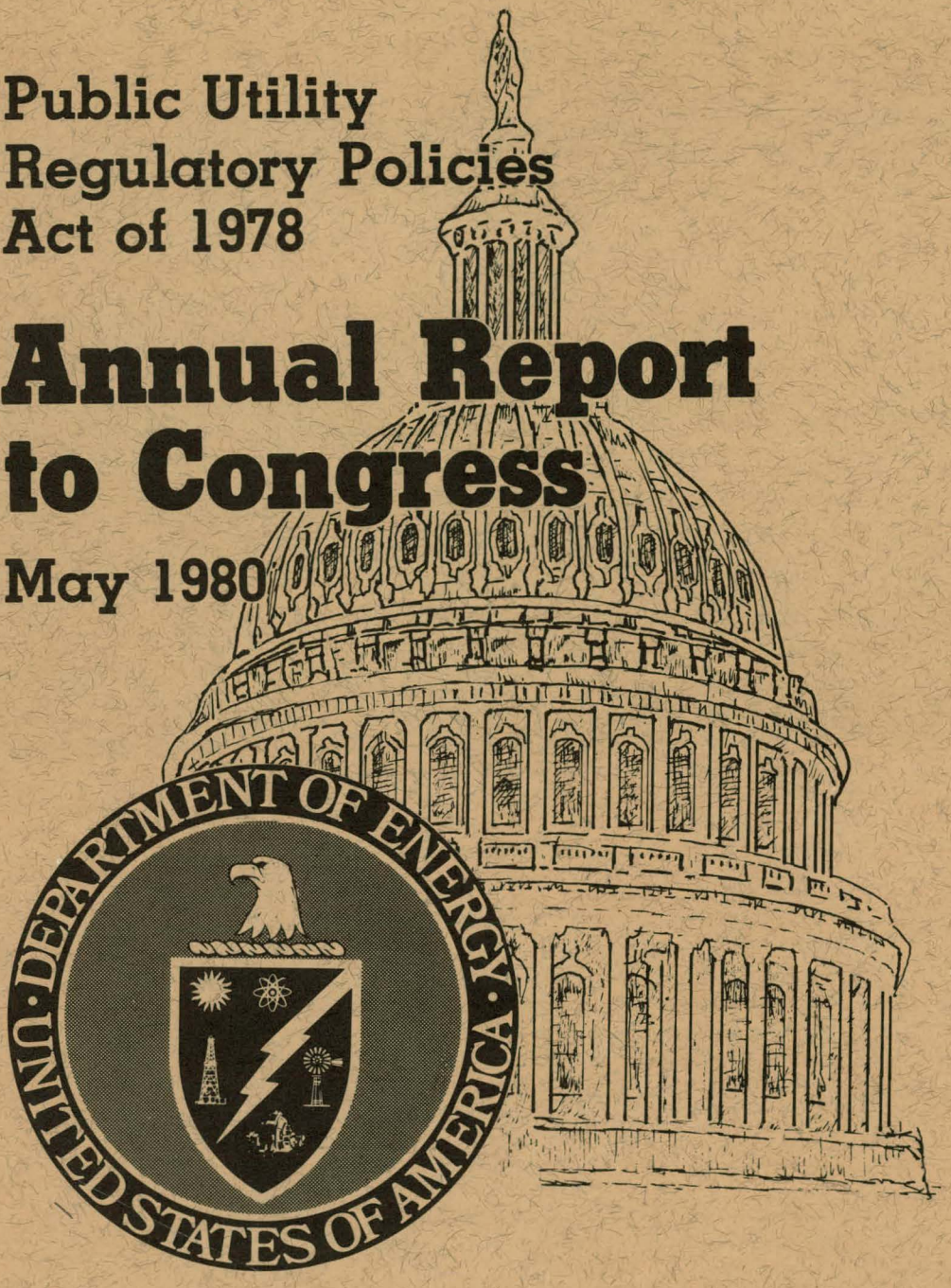
Public Utility Regulatory Policies Act of 1978

Annual Report to Congress

May 1980



Economic Regulatory Administration
U.S. Department of Energy

Volume 1

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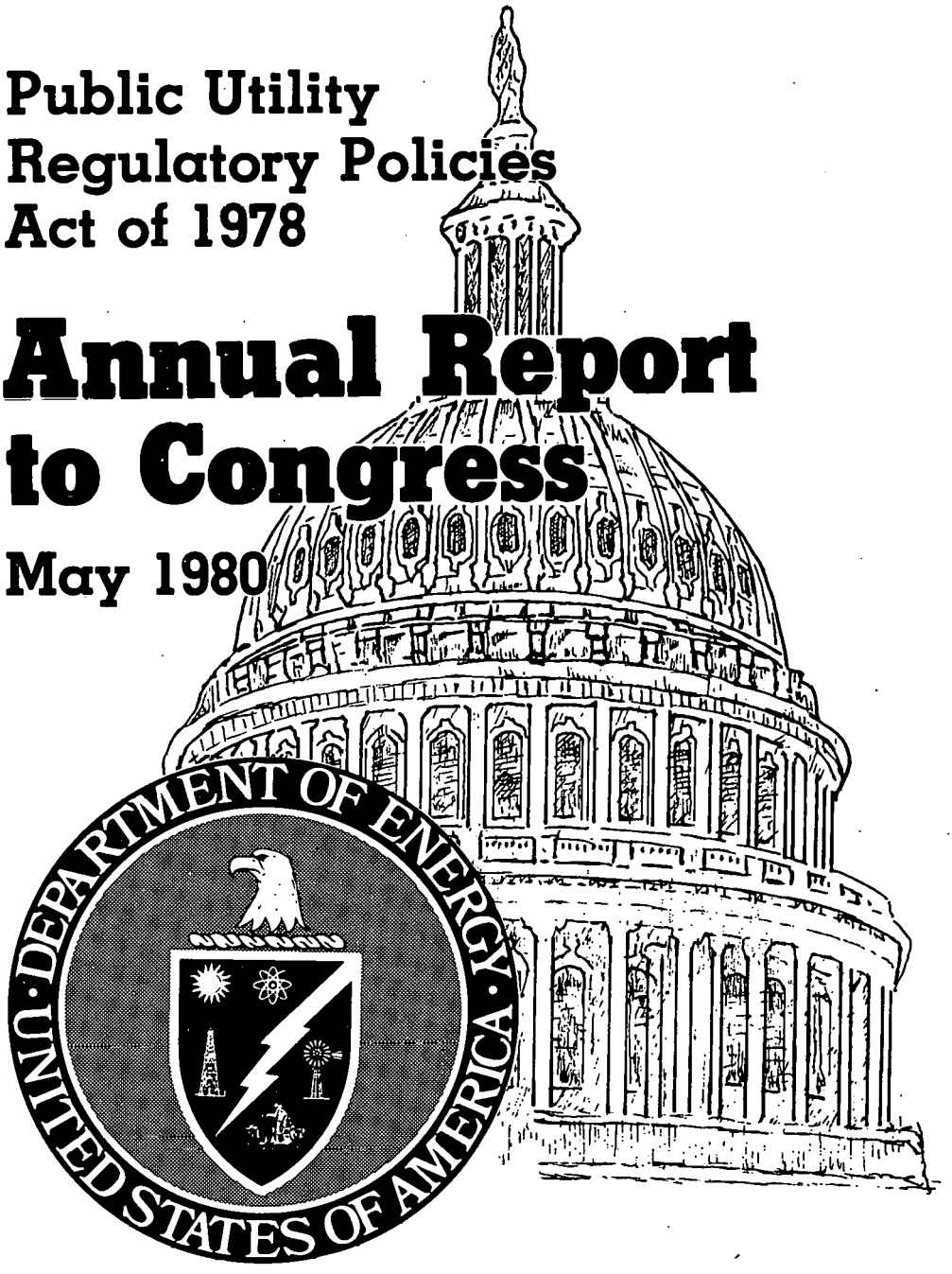

Economic Regulatory Administration
U.S. Department of Energy
Washington, D.C.

Volume 1

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PREFACE

This is the first Annual Report from the Department of Energy (DOE) to the President and Congress pursuant to sections 116 and 309 of the Public Utility Regulatory Policies Act of 1978 (PURPA) and also satisfies the reporting requirement of section 206 of the Energy Conservation and Production Act of 1976 (ECPA). This report covers:

- Progress made by State regulatory authorities and covered nonregulated utilities, through June 30, 1979, in considering and implementing (with respect to the six ratemaking standards) or adopting (with respect to the five regulatory standards) the Federal standards established by Titles I and III of PURPA.
- DOE's calendar year 1979 activities under Titles I and III of PURPA, and Title II of ECPA, to assist State regulatory authorities and nonregulated utilities in carrying out their responsibilities.

Volume I of the report presents a summary analysis of the data received from State regulatory authorities and covered nonregulated utilities on Form ERA-166. Volume II contains a more detailed analysis, more suitable for an in-depth assessment of particular State regulatory authorities and nonregulated utilities.

No legislative recommendations are included in this report. Next year's report will compare progress against the baseline established this year and will provide a more solid basis for assessing any need for legislative action.

Table of Contents

List of Exhibits

Executive Summary

The Public Utility Regulatory Policies Act of 1978 (PURPA) requires State regulatory authorities and nonregulated utilities to consider and make determinations regarding a set of Federal standards that show promise of furthering three statutory purposes: end-use conservation, utility efficiency, and equitable rates. PURPA sections 116 and 309 require the Secretary of Energy to report annually to Congress regarding the progress of these State regulatory authorities and nonregulated utilities in carrying out their PURPA obligations. DOE is also required to report on its own PURPA-related activities and to recommend any further Federal initiatives, including legislation, that may be necessary to carry out the purposes of the Act. In addition, section 206 of the Energy Conservation and Production Act of 1976 (ECPA) requires DOE to report annually regarding its activities under Title II of ECPA. This document fulfills these statutory reporting requirements for 1980, and assesses the progress made by State regulatory authorities and nonregulated utilities prior to June 30, 1979, in carrying out their PURPA duties and responsibilities.

The report concludes that while there was more progress made on the regulatory standards than on the ratemaking standards, progress on all standards as of June 30, 1979, was limited. The consideration process had not begun for over 60 percent of the required electric determinations and almost 40 percent of the required gas determinations. With respect to the Federal ratemaking standards, DOE is particularly concerned that consideration of the Cost of Service Standard had not begun in about 65 percent of the cases. This concern stems from the fact that the Cost of Service Standard not only is a crucial concept *per se*, but also lays the groundwork for consideration of the other five ratemaking standards and two of the regulatory standards.

The report further indicates that of the nearly 3,900 separate determinations required by the Act, 722 (18.5 percent) had been made prior to June 30, 1979. With respect to these 722 determinations, of which 556 had actually been made prior to enactment of PURPA, DOE notes that:

(1) More than one-third of the determinations were made without specific regard to end-use conservation, utility efficiency, and equitable rates;

(2) Major inconsistencies exist between the standards specified in PURPA and those for which determinations had been made. In 17 of the 51 determinations on the Cost of Service Standard, for example, costs were determined only by an embedded cost method. Such methods, by definition, do not take into account the cost consequences of additional kilowatt-hour usage or peak kilowatt demand, as specifically required by PURPA; and

(3) Of the 26 State regulatory authorities and 11 nonregulated utilities reporting at least one determination, 13 State agencies and no nonregulated utilities had provided for intervenor compensation or alternate means of supporting consumer representation.

The report also describes DOE's efforts to assist State regulatory authorities and nonregulated utilities in carrying out their PURPA responsibilities. In 1979, DOE awarded 106 grants and cooperative agreements, intervened in six State (or local) regulatory proceedings, issued two guidelines, established the annual reporting requirements, compiled and distributed an annotated summary of PURPA-related studies, and otherwise laid the groundwork for its oversight of, and participation in, the PURPA-related activities of State regulatory authorities and nonregulated utilities.

DOE must emphasize that this first report can be little more than an authoritative baseline survey. Next year's report will compare progress against the baseline established this year, and will provide a more solid basis for assessing progress made under the Act and any need for amending the statute.

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Chapter 1
Introduction

NATIONAL OBJECTIVES

The nation is facing a prolonged energy problem which necessitates a transition from an economy heavily dependent upon oil to an economy using a variety of energy sources. In order to achieve this goal, national energy policy is directed along two parallel tracks—developing alternative energy resources and increasing efficiency in energy production and use.

Gas and electric utilities play major roles in our energy economy. Approximately 57 percent of the U.S. energy consumption passes through the utility sector (27 percent for electric; 30 percent for gas). In 1978 the electric utility industry used 11 percent of the oil and 17 percent of the gas consumed in the United States to generate electricity. Utilities serve and affect every home, commercial establishment and factory in the nation. Consequently, gas and electric utilities, and the State and local authorities which regulate them, play a crucial role in the transition from an oil-dependent economy to an energy-diversified one.

This report analyzes the progress made by State utility regulators and nonregulated utilities in furthering the national energy goals established by Titles I and III of the Public Utility Regulatory Policies Act of 1978 (PURPA or the Act). The three purposes of these titles are: conservation of energy supplied by utilities; efficiency in the use by utilities of their facilities and resources; and equitable rates for utility consumers. To carry out these purposes, PURPA established six ratemaking standards (1 through 6 below) and five regulatory standards (7 through 11), and required State regulatory authorities (commissions) and large nonregulated utilities to comply with specified procedural requirements in considering these standards. The State commissions and nonregulated utilities are required to consider each Federal standard in a public hearing and make a determination whether to "implement" the ratemaking standards or to "adopt" the regulatory standards. The three purposes of PURPA supplement State law and provide additional criteria for both the determination process and any subsequent judicial review.

The electric utility standards, presented verbatim elsewhere in this report, may be summarized as follows:

(1) *Cost of Service Standard:* Rates to each class of consumer shall be designed to the maximum extent practicable to reflect the costs of providing service to that class, including the cost consequences of both additional kilowatt-hour usage and peak kilowatt demand;

(2) *Declining Block Rates Standard:* Declining block energy charges that are not cost-based shall be eliminated;

(3) *Time-of-Day Rates Standard:* Time-of-day rates shall be established, if cost-effective, where costs vary by time-of-day;

(4) *Seasonal Rates Standard:* Seasonal rates shall be established where costs vary by season;

(5) *Interruptible Rates Standard:* Interruptible rates based on the costs of providing interruptible service shall be offered to commercial and industrial customers;

(6) *Load Management Techniques Standard:* Load management techniques shall be offered to consumers where practicable, cost-effective, reliable and useful to the utility for energy or capacity management;

(7) *Master Metering Standard:* Master metering shall be prohibited or restricted for new buildings to the extent necessary to carry out the purposes of Title I of PURPA;

(8) *Automatic Adjustment Clauses Standard:* Automatic adjustment clauses shall not be allowed unless they provide efficiency incentives and are reviewed in a timely manner;

(9) *Information to Consumers Standard:* All consumers shall receive a clear and concise explanation of applicable and proposed rate schedules, and annual consumption, upon request;

(10) *Procedures for Termination of Service Standard:* Service shall not be terminated except pursuant to certain enumerated procedures; and

(11) *Advertising Standard:* Political or promotional advertising shall not be charged to ratepayers.

The latter two standards are established for gas utilities as well as electric.

COHESIVENESS OF STANDARDS AND PURPOSES

DOE believes that, as a general proposition, the relationship of the standards to each other and to the purposes of PURPA is consistent and mutually reinforcing. For example, end-use conservation of energy supplied by a typical electric utility ought to result when the electric rates reflect, to the maximum extent practical, the cost consequences imposed on the utility by a consumer's decision to use or, alternatively, conserve electricity. All six ratemaking standards applicable to electric utilities, in fact, ought generally to promote the "conservation" purpose by causing rates to reflect the consequences of consumer decisions. Rates which reflect these consequences, expressed in terms of costs, provide consumers with the information they need to determine whether they wish to conserve or consume. Similarly, two of the regulatory standards ought, for a typical utility, to promote end-use conservation. The Information to Consumers Standard should heighten consumer understanding of rates and the extent to which end-use conservation measures reduce electricity bills. The Master Metering Standard would confront the consumer who actually makes usage decisions with the cost consequences of those decisions.

The second purpose, efficient use by utilities of their facilities and resources, relates to minimizing the total costs of meeting "efficient" demand patterns. Here again, attainment of the purpose would generally imply electric rates that reflect the utility cost consequences of consumer decisions. The six ratemaking standards, by their very definition in the Act, contemplate rate structures which more accurately reflect these cost consequences at different times and for varying amounts. Such rate structures should influence the demand patterns of the utility customers in ways that allow the utility to be as efficient as possible in supplying electricity. The Automatic Adjustment Clauses Standard, to take another example, ought to encourage directly utility efficiency in the production of power by requiring that any procedure permitting automatic pass-through of costs provide incentives to the utility to reduce its cost of production.

The third purpose, equitable rates to consumers, also implies a policy of charging each individual or class of consumers a rate which reflects the cost consequences of their decisions to use or consume electricity. Equitable rates would treat each consumer according to a single criterion: each user, large or small, should pay for the costs incurred by the utility as a consequence of that user's decision to consume or conserve electricity.

DOE believes, therefore, that the internal logic of Titles I and III is compelling, and that the overall structure of the standards and purposes is cohesive. Although DOE recognizes, as did the PURPA conferees, the need to adapt the standards to local conditions and particular situations, we believe them to be supportive of national energy policy.

PUBLIC PARTICIPATION IN THE REGULATORY PROCESS

Electric and gas utility customers, faced with rapidly increasing utility rates, are encouraged to participate in the public decision-making process concerning utility rates and regulatory policies. PURPA encourages public involvement in utility regulatory matters in two ways. First, there are procedural requirements governing the consideration process of both State regulatory authorities and nonregulated utilities. These are designed to guarantee the right of public participation through: advance notice of hearings; intervenor participation and compensation; written determinations and decisions; and judicial review of decisions. In addition, PURPA authorized continued funding for State Offices of Consumer Services to provide such assistance to consumers as education, direct support to consumer groups, and representation of consumer interests in electric utility regulatory proceedings.

NEED FOR THIS REPORT

The requirements of Titles I and III of PURPA place a responsibility on State regulators and nonregulated utilities to consider and make determinations regarding the implementation or adoption of Federal standards that show promise of furthering the three purposes: end-use conservation, utility efficiency, and equitable rates. In order to assess the extent to which the PURPA initiatives for regulatory reform are actually contributing to the achievement of these energy goals, Congress has required DOE to annually evaluate and report on State progress for 10 years. These Annual Reports will also provide Congress with recommendations for any new or expanded Federal activities, including legislation, which may be necessary to achieve the purposes of the Act.

The elements of State activity assessed by DOE are the following:

(1) the progress made by State regulatory authorities and nonregulated utilities in considering and implementing (adopting) the Federal standards;
(2) the procedures followed in the consideration process;
(3) the salient characteristics of those standards for which State regulatory authorities

and nonregulated utilities made a determination to implement (adopt); and

(4) the number of customers covered by those standards for which State regulatory authorities and nonregulated utilities had made a determination to implement (adopt), and which were subsequently put into effect by utilities.

LIMITATIONS

This report covers only the 8 month period beginning with the enactment of PURPA on November 9, 1978. The data it presents are considered baseline and should be viewed primarily as a foundation for judging future progress under PURPA. However, this first report is particularly significant for two reasons. First, it establishes authoritatively the extent to which, on June 30, 1979, work remained to be done to carry out the letter and spirit of PURPA; this may then be compared to earlier statements about State progress in these areas. Second, the 8 month period covered by this report represents one-third of the time allowed for starting the consideration process for the ratemaking standards and completing the consideration process for the regulatory standards.

FURTHER FEDERAL INITIATIVES

Sections 116 and 309 of PURPA require DOE to submit recommendations for such further Federal action, including legislation, as may be necessary to carry out the purposes of Titles I and III. In this first annual report, DOE is not recommending any new Federal initiatives. This report is essentially an authoritative baseline survey of State progress as of June 30, 1979. The report does not provide a sufficient basis for judging the effectiveness of the Federal initiatives now in place.

ECPA REPORTING REQUIREMENT

Title II of the Energy Conservation and Production Act of 1976 (ECPA) directs the Federal Energy Administration (now DOE) to develop proposals for improvement of electric utility rate design; to fund electric utility rate design demonstration projects; to intervene or participate, upon request, in proceedings of utility regulatory commissions; and to provide financial assistance to State Offices of Consumer Services to facilitate presentation of consumer interests before such commissions. Section 206 of ECPA requires annual reporting with respect to these activities. Title I of PURPA extends and amends the authorization and funding of the ECPA activities. Therefore, the ECPA reporting requirement has been incorporated into the PURPA reporting requirement of section 116 to facilitate and simplify reporting.

ORGANIZATION OF REPORT

The remainder of this report is divided into four chapters as follows:

Chapter 2—Overview of the Progress Made in Consideration and Implementation of the PURPA Standards

This chapter will describe, standard-by-standard, the progress of the States in considering and implementing (adopting) the Federal standards established by PURPA.

Chapter 3—Compliance with the Procedural Requirements of PURPA

This chapter will describe the procedural requirements of PURPA and assess State compliance with these procedural requirements.

Chapter 4—Analysis of Implemented (Adopted) Standards

This chapter will discuss the extent to which the characteristics of implemented standards are consistent with the substantive provisions of PURPA, as well as the number and type of consumers covered by standards which were actually put into effect by covered utilities.

Chapter 5—Doe Activities

This chapter will describe the DOE activities carried out under Titles I and III of PURPA in furtherance of the three PURPA purposes, and related national energy goals, as well as the Federal financial assistance programs established by Title II of ECPA.

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Chapter 2
Overview Of The Progress Made In Consideration And Implementation Of The PURPA Standards

INTRODUCTION

This chapter will present an overview of the data analyzed from Form ERA-166 regarding the progress made by State regulatory authorities and nonregulated utilities during the first 8 months of their consideration and implementation (adoption) of the six ratemaking and five regulatory standards established by PURPA.[1] The period covered by this overview is the one extending from November 9, 1978 through June 30, 1979.

PURPA requires that each State regulatory authority (for each covered electric utility for which it has ratemaking authority) and each nonregulated electric utility consider each of the standards to make a determination concerning whether or not to implement (adopt) such standard consistent with applicable State law, as supplemented by the purposes of the Act. A similar requirement exists regarding the two standards related to covered natural gas utilities (Termination of Service and Advertising).[2]

Form ERA-166 collected status data on 10 stages of progress: (1) consideration process not begun; (2) hearing scheduled; (3) consideration process started but hearing not completed; (4) hearing completed; (5) official determination made to implement or adopt the standard; (6) official determination made to not implement or adopt the standard; (7) judicial review of determination to implement or adopt the standard pending; (8) judicial review of determination to not implement or adopt the standard pending; (9) standard put into effect by utility; and (10) standard put into effect and subsequently discontinued.

This chapter reports on, and will be organized consistent with, the following major indicators of progress for both the ratemaking and the regulatory standards:

- Consideration process not begun (stage 1);
- Consideration process in progress (stages 2-4); and
- Determination made to implement or adopt (stage 5).

Clarification of the terminology used in PURPA and this report is essential at this point. The terms "implement" (in the case of the ratemaking standards) and "adopt" (in the case of the regualtory standards) both mean that an affirmative determination had been made by a State regulatory authority or nonregulated utility respecting a standard. The term "put into effect" means that a covered utility, subsequent to the determination of the State regulatory authority (or other decisionmaker) to implement (adopt) a standard, has actually put the standard into effect. To illustrate the importance of this distinction, experience has shown that it may be months, or even years, before a utility fully complies with a regulatory order to put a time-of-day rate schedule into effect.

The significance of reporting on whether or not the consideration process had started as of June 30, 1979, arises from the PURPA time limitations for the consideration and determination process. The following table illustrates the significant dates and events in this process.

[1]A standard-specific in-depth analysis can be found in Chapters 2 and 3 of Volume II. A State-specific analysis can be found in Chapter 4 of Volume II.

[2]For purposes of this report only, a covered electric (or gas) utility is one whose total sales of electricity (natural gas) for purposes other than resale exceeded 500 million kilowatt-hours (10 billion cubic feet) during 1976 or 1977.

Key Event	Ratemaking Standards		Regulatory Standards	
	Date	No. of Months from PURPA enactment	Date	No. of Months from PURPA enactment
1. Enactment of PURPA	11/9/78	0	11/9/78	0
2. End of Reporting Period	6/30/79	≈8	6/30/79	≈8
3. Deadline for commencement of consideration process or establishment of hearing date	11/9/80	24	*	*
4. Deadline for making a determination	11/9/81	36	11/9/80	24

*Not specified.

Each State regulatory authority and covered nonregulated utility is required to commence consideration of the ratemaking standards, or set a hearing date for such consideration, by November 9, 1980, and to determine whether or not to implement each of the ratemaking standards by November 9, 1981. For each of the regulatory standards the consideration process and adoption, if appropriate, must be completed by November 9, 1980.

The fundamental conclusion that emerges from this chapter is that, while there was more progress made on the regulatory standards vis-a-vis the ratemaking standards, progress on all standards as of June 30, 1979, was more limited than DOE expected. For those State regulatory authorities and nonregulated utilities who had not begun the PURPA consideration process by June 30, 1979, substantial work remained to be done.

The States are likely to encounter less difficulty in completing the consideration process for the regulatory standards within the PURPA timeframes for several reasons:

(1) In general, the data needed to reach a sound determination are more readily obtainable for the regulatory standards;
(2) The regulatory standards are less complex both individually and in terms of their interrelationships; and
(3) The regulatory standards pose fewer controversial issues.

The ratemaking standards are substantially more complicated and interrelated, and require fairly extensive cost and usage data. State regulatory authorities and nonregulated utilities that had not commenced the process by June 30, 1979, are likely to be hard pressed to meet the statutory deadline.

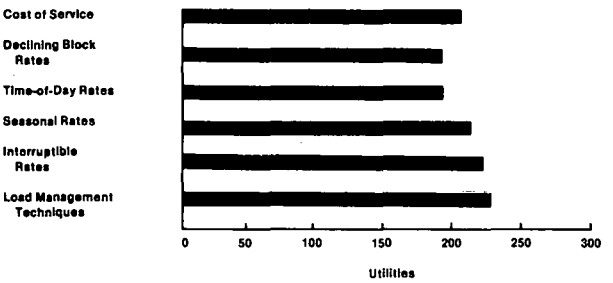
RATEMAKING STANDARDS[3]

A. Consideration process not begun.

Consideration of the six ratemaking standards, as of June 30, 1979, was limited. Nineteen of the 52 State regulatory authorities had not yet begun the consideration process for any of the ratemaking standards; 48 of the 62 nonregulated electric utilities had not yet begun the consideration process. In terms of the aggregate number of covered electric utilities (316),[4] it was reported that the consideration process had not yet begun for at least 196, depending on the specific ratemaking standard (see Exhibit A).

Exhibit A

ELECTRIC UTILITIES FOR WHICH CONSIDERATION PROCESS REGARDING RATEMAKING STANDARDS HAD NOT BEGUN



Of particular concern is the fact that the consideration process for the Cost of Service Standard had not yet begun for 65 percent of the covered electric utilities. This concern stems not only from the fact that the Cost of Service Standard represents a crucial concept *per se*, but also from the fact that this standard lays the groundwork for consideration of the other five ratemaking standards. Consequently, any determinations made or implementation actions taken regarding

[3]The ratemaking standards apply to electric utilities only.

[4]For purposes of this report only, electric utilities with multi-State operation are treated as a separate utility in each State.

the other ratemaking standards may have to be reconsidered once consideration of the Cost of Service Standard has been completed. Ratemaking standards other than Cost of Service had been implemented for 17 regulated utilities and two nonregulated utilities absent consideration of the Cost of Service standard. It should be emphasized that with respect to the Cost of Service Standard PURPA requires that, to the extent practicable, the cost consequences of additional kilowatt-hour consumption and peak kilowatt demand be taken into account. This is a requirement which goes well beyond traditional fully allocated approaches to cost of service.

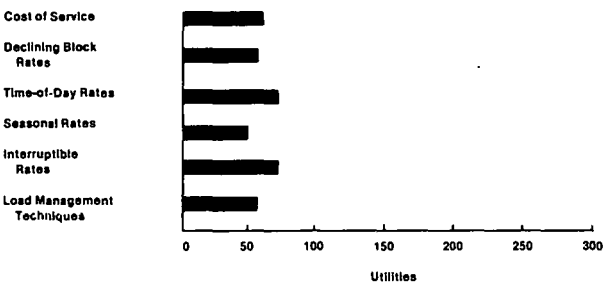
Three observations can be made with respect to the reported scheduling of hearings to start the consideration process. First, the time period between the hearing and the date scheduled for rendering a determination appears, in many instances, to be insufficient for considering what is typically a vast amount of data pertaining to the Cost of Service Standard. Secondly, the time interval during which data for the hearings would be collected was often not sufficient to obtain a full cycle (one year) of utility system load data unless transfer data from other utilities were used. Finally, many of the hearing dates for the Cost of Service Standard coincided with the hearing date of the other five ratemaking standards. This suggests that these highly interrelated standards were to be considered on isolated parallel tracks.

B. Consideration process in progress.

As of June 30, 1979, 28 State regulatory authorities and 13 nonregulated utilities were in the process of considering the ratemaking standards. In terms of the aggregate number of covered electric utilities, the consideration process was in progress for at most 71 of the 316 utilities depending on the specific standard (see Exhibit B).

Exhibit B

ELECTRIC UTILITIES FOR WHICH CONSIDERATION PROCESS REGARDING RATEMAKING STANDARDS WAS IN PROGRESS

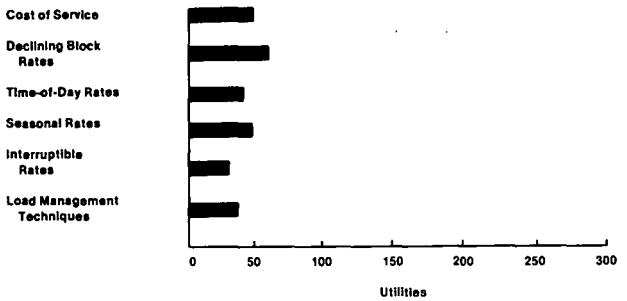


C. Determination made to implement.

Of the 52 State regulatory authorities, 17 reported implementation of one or more of the ratemaking standards with respect to the utilities they regulate. Only five of the 62 nonregulated electric utilities reported implementing a ratemaking standard. As a result, implementation of any ratemaking standard had occurred for a maximum of 61 of the 316 covered electric utilities (see Exhibit C). Of those standards reported implemented, only 20 percent were implemented after enactment of PURPA.

Exhibit C

ELECTRIC UTILITIES FOR WHICH DETERMINATION TO IMPLEMENT RATEMAKING STANDARDS HAD BEEN MADE



Of the six ratemaking standards, the one reported as implemented most often was the Declining Block Rates Standard, while least often reported as implemented was the Interruptible Rates Standard. The Seasonal Rates Standard had been rejected for seven utilities; the Time-of-Day Rates Standard rejected for two; and each of two standards—Declining Block Rates and Interruptible Rates—rejected for one.

REGULATORY STANDARDS

A. Consideration process not begun.

Reported consideration of the five regulatory standards, as of June 30, 1979, was more extensive than was the case relative to the ratemaking standards. Fourteen of the 55 State regulatory authorities had not begun the consideration process for any of the regulatory standards. Furthermore, 48 of the 69 nonregulated electric utilities and four of the 12 nonregulated gas utilities had not begun the consideration process for the applicable standards. In terms of the aggregate number of utilities covered[5] (316 electric and 210 gas), the consideration process was reported not yet begun for at least 135 electric utilities and 79 gas utilities, depending on the specific regulatory standard (see Exhibit D).

Most of the State regulatory authorities and nonregulated utilities reporting that they had not

[5]In this report, a utility with both electric and gas operation is counted as two utilities.

Exhibit D

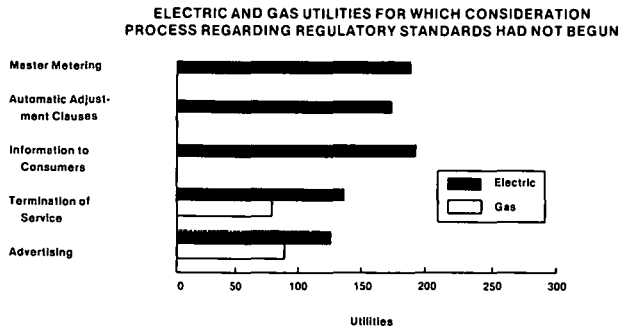
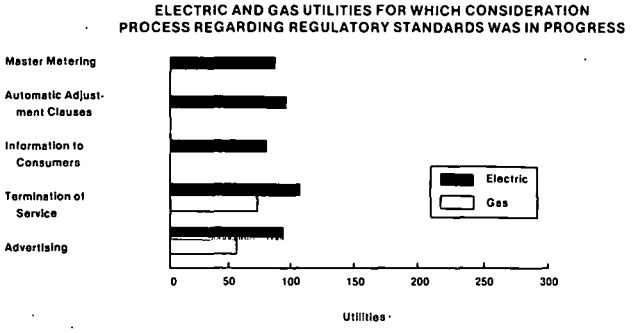


Exhibit E



begun the consideration process for any of the regulatory standards indicated that they planned to do so in early 1980. In most cases, the consideration process and rendering of decisions should be straightforward, according to the information supplied by those who had already considered or were considering these standards. Consideration of the Master Metering and Automatic Adjustment Clause Standards may be more difficult, however, particularly if a determination had not been made concerning the Cost of Service Standard. Data needed for the assessment of each of these two standards would come from the approved cost of service method.

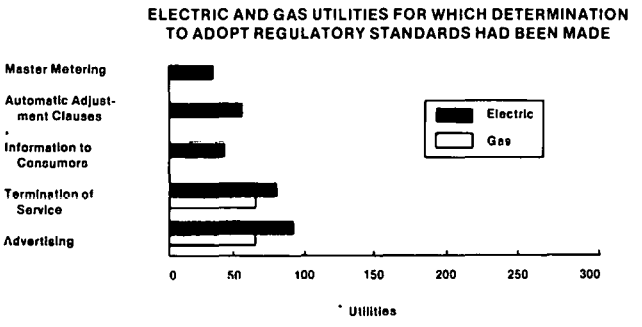
B. **Consideration process in progress.**

As of June 30, 1979, 34 of the 55 State regulatory authorities, 11 of the 69 nonregulated electric and three of the 12 nonregulated gas utilities reported they were in the process of considering the regulatory standards. In terms of the aggregate number of covered electric utilities, the consideration process was in progress for at most 101 of the 316 depending on the specific regulatory standard. In terms of the aggregate number of covered gas utilities, the consideration process was in progress for at most 67 of the 210, depending on the specific regulatory standard (see Exhibit E).

C. **Determination made to adopt.**

Of the 55 State regulatory authorities, 25 reported adoption of one or more of the regulatory standards for the utilities they regulate. Only 11 of 69 nonregulated electric and five of 12 nonregulated gas utilities reported adoption of any of these standards. As a result, adoption of even one regulatory standard was reported for a maximum of 94 of the 316 electric utilities, and 64 of the 210 gas utilities (see Exhibit F). Of those standards reported adopted, only 25 percent were adopted after enactment of PURPA.

Exhibit F



Of the five regulatory standards applicable to electric utilities, the one adopted most often was the Advertising Standard, while least often adopted was the Master Metering Standard. The two regulatory standards applicable to gas utilities—Termination of Service and Advertising—were reported adopted for 64 utilities each. The percentage of gas utilities covered by the adopted standards was substantially higher than the percentage of electric utilities. The Master Metering Standard had been rejected for four electric utilities; the Automatic Adjustment Clauses Standard for three electric; and the Advertising Standard for one electric.

Chapter 3
Compliance With The Procedural Requirements of PURPA

INTRODUCTION

Titles I and III of PURPA contain a number of procedural requirements with which State regulatory authorities and nonregulated utilities must comply when considering the Federal standards. The effect of these requirements should be to improve the quality of regulation by:

- Increasing public awareness of and participation in the regulatory process;
- Providing additional data relevant to the pending decisions; and
- Insuring that written determinations are rendered and that they are based upon data and other evidence presented.

This chapter will examine to what extent these benefits had been realized by assessing reported compliance with the procedural requirements of PURPA for those State regulatory authorities and nonregulated utilities which had implemented (adopted) any of the standards.

This chapter will also review reported compliance with the related, but separate, requirement that actions take prior to PURPA be "grandfathered" only if they substantially conform to the requirements of the Act.

PUBLIC AWARENESS AND PARTICIPATION

PURPA fosters increased public awareness of and participation in the regulatory process by establishing the following procedural requirements:

- Public notice of hearings prior to conducting them;
- Hearings open to the public;
- Intervenor compensation, when required[6]; and
- Written determination which is made available to the public.

Through compliance with these requirements, State regulatory authorities and nonregulated utilities could help ensure that significant public concerns are factored into their decisionmaking processes. Moreover, the public, through its participation, would become more knowledgeable in the areas of utility regulation and operation. The end result should be a more effective regulatory process.

State regulatory authorities and nonregulated utilities generally reported compliance with the requirements to provide public notice of hearings and to provide for intervenor participation. Few, however, have provided for intervenor compensation.

PURPA stipulates that any electric consumer of an affected electric utility may intervene and participate as a matter of right in any ratemaking proceeding or other appropriate regulatory proceeding relating to rates or rate design which is conducted by a State regulatory authority (with respect to an electric utility for which it has ratemaking authority) or by a nonregulated electric utility. Furthermore, if no alternative means for assuring representation of electric consumers exists and if an electric consumer substantially contributes to the approval, in whole or in part, of a position advocated by that consumer, the utility is required to compensate the consumer for certain costs.

Of the 26 State regulatory authorities that made a determination whether or not to implement (adopt) a standard, only four reported that they had provided opportunity for intervenor compensation; of the 11 nonregulated utilities that made such a determination, none reported that they had provided opportunity for intervenor compensation. This pattern applies equally to those determinations made before the enactment of PURPA as it does to those made after enactment, and to all the standards.

Only nine of the 33 entities which had not provided opportunity for intervenor compensation noted that an alternative means for such compensation was available. Of the remaining 24, 14 had not finalized plans for compensation; two had no intention of compensating; and eight provided no information.

RELEVANT DATA

PURPA fosters the availability of relevant data upon which to make decisions by establishing the following requirements:

- Intervenor participation in consideration of standards and other relevant concepts;
- Cost-benefit analyses for each of the following standards: Time-of-Day Rates, Load Management Techniques, and Master Metering; and
- A determination regarding the appropriateness of the standard to carry out the three purposes of PURPA.

Through compliance with these requirements, State regulatory authorities and nonregulated utilities could ensure that any interested party is

[6]Note that this requirement relates to electric utility regulation only.

allowed to present data and other evidence during hearings. Moreover, compliance should assure that the economic, environmental, and social issues associated with the potential implementation (or nonimplementation) of the standards will be addressed.

Though State regulatory authorities and nonregulated utilities generally reported compliance with the requirement to permit intervenor participation, reported compliance relative to the other two requirements was minimal.

To be effective in meeting PURPA goals, the benefits associated with putting any standard into effect by the utilities must outweigh the costs of putting that standard into effect. For some standards these costs will be more substantial than for others. This is particularly the case where putting the standard into effect requires capital outlays for metering devices or other equipment, as is the case for the Time-of-Day Rates, Load Management Techniques and Master-Metering Standards. PURPA requires that cost-benefit analyses be performed for each of these standards.

In regard to the Time-of-Day Rates Standard, cost-effectiveness of such a rate with respect to each class of consumer should be established prior to a determination to implement. The rate is deemed cost-effective if the long-run benefits of the rate to the electric utility and its electric consumers are likely to exceed the metering costs and other costs associated with the use of such a rate. Twenty-six of the 44 determinations reported by State regulatory authorities regarding the Time-of-Day Rates Standard were made without such an analysis. Furthermore, none of the four nonregulated electric utilities which made a determination on this standard had performed the required analysis.

A load management technique offered by a utility to consumers is cost-effective if: (1) it is likely to reduce maximum kilowatt demand on the electric utility; and (2) the long-run cost savings to the utility of such reductions are likely to exceed the long-run costs to the utility associated with putting such a technique into effect. Twenty-five of 35 determinations reported by State regulatory authorities regarding implementation of this standard were made without such a cost-benefit analysis. One of the two nonregulated electric utilities that reported a determination performed the required analysis.

Master metering in new buildings would be deemed appropriate from a cost-benefit standpoint only if the costs of purchasing and installing separate meters in the building exceeded the long-run benefits, with respect to the portion of electric energy used, to the electric consumers in the building. Twenty-four of 31 determinations reported by State regulatory authorities regarding adoption of this standard were made without such analysis. None of the seven nonregulated electric utilities which made a determination included this analysis.

In the consideration of each Federal standard (except the Termination of Service Standard), each State regulatory authority (with respect to each covered electric and gas utility it regulates) and each nonregulated utility is required to make a determination concerning whether or not it is appropriate to implement (adopt) the standard to carry out the three purposes of PURPA. Although PURPA does not require implementation (adoption) of the standards, the Act should serve to promote such implementation (adoption) to the extent the standards further the purposes of PURPA and applicable State law.

In this regard, PURPA recognizes that the effects on the purposes of the Act vary as a function of the standard being considered, and that implementation (adoption) of a given standard could result in a positive effect on one of the purposes and a negative effect on another. Failure to consider the effects of a standards on the three purposes of the Act, in each particular situation, may result in decisions that are detrimental to the achievement of those purposes. Nevertheless, as of June 30, 1979, an average of 35 percent of all implementation (adoption) determinations reported to have been made were made without considering the appropriateness of the standard with respect to end-use conservation, utility efficiency, and equitable rates.

WRITTEN DETERMINATIONS BASED UPON EVIDENCE PRESENTED

Written determinations based upon the findings included in such determinations and the evidence presented is a requirement of PURPA. As of June 30, 1979, reported compliance with this requirement had been very high. This is significant since most of the potential benefits to be gained through compliance with the other procedural requirements would be lost were it not for compliance in this area. Compliance with this requirement would increase public trust in the regulatory decisionmaking process and enhance sound and responsible regulation.

SUBSTANTIAL CONFORMANCE

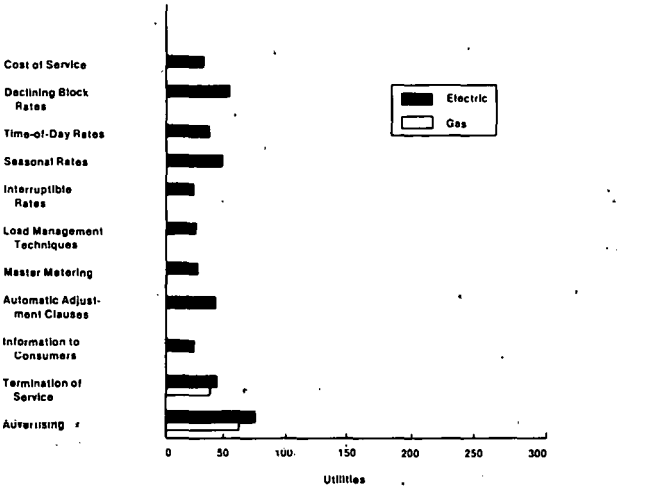
Provisions of section 124 of PURPA permit State regulatory authorities and nonregulated utilities to treat actions taken prior to the date of PURPA's enactment as complying with the requirements of PURPA, provided that those actions substantially conform to those requirements.

Twenty-two State regulatory authorities and 15 nonregulated utilities reported they had considered and made determinations prior to November 9, 1978, which substantially conformed to PURPA requirements. For 11 of these 37 entities, a finding of substantial conformance was reported even though none of the 11 had given prior public notice of the hearings, had held the hearings open to the public, had provided opportunity for intervenor participation or compensation, had admitted testimony or other evidence, or had rendered written decisions based upon the evidence.

Of the 3,896 separate determinations required by PURPA, 539 (13.8 percent) were reported as substantially conforming to the requirements of PURPA (see Exhibit G).

Exhibit G

UTILITIES FOR WHICH DETERMINATION PRIOR TO NOVEMBER 9, 1978 WERE REPORTED AS SUBSTANTIALLY CONFORMING TO PURPA REQUIREMENTS



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Chapter 4
Analysis of Implemented Standards

INTRODUCTION

The purpose of this chapter is to complete the assessment of the progress being made by discussing: (1) the extent to which the standards reported to be implemented (adopted) are consistent with the substantive provisions of sections 111, 113, 115, 303 and 304 of PURPA; and (2) the number and type of consumers covered by those standards (standards-in-effect) reported to be not only implemented (adopted) by the policy decision-maker, but actually put into effect by the utility as of June 30, 1979.

PURPA not only specifies the 11 standards, but also set forth special rules for certain of the standards. Assessment of the extent to which those standards reported to be implemented (adopted) actually conform to these substantive provisions of PURPA is crucial to assessing progress made in carrying out the letter and spirit of the Act. In discussing the characteristics of these standards, therefore, the following information will be presented: (1) the specifications and special rules established by PURPA for the standard; (2) the number of utilities for which a standard was reported to have been implemented (adopted); and (3) the percent of these utilities for which the standard was described as being consistent with the specifications and special rules of PURPA.

The number and type of consumers covered by the standards actually put into effect by the utility, subsequent to implementation (adoption) by the policy decisionmaker, are of noteworthy significance. It is through consumer response to the standards-in-effect that the national demand for energy will be changed and consumer benefits derived. However, the universe of consumers covered by a standard-in-effect is frequently a subset of the total universe of consumers served by that particular utility. In some cases the difference can be attributed to the method of putting the standard into effect (i.e., mandatory, voluntary or phased). In other cases, aspects of certain standards, especially the rate-related ones, cover particular subclasses of consumers, such as industrial users having load management equipment. Therefore, consumers covered by each standard reported as in-effect will be analyzed in two ways: (1) nationally, both as an absolute number and as a percentage of all customers served by all covered utilities; and (2) as a percentage of consumers served by the utilities for which that particular standard was reported to have been put into effect. This will be done for each major class of consumer (i.e., residential and commercial/industrial).

Additionally, the following information is presented for each standard: the number and percentage of State regulatory authorities and nonregulated utilities reporting determinations to implement (adopt) the standard; and number and percentage of utilities for which the standard had been put into effect. This will provide a basis for comparing the progress being made.

This chapter will present, on a standard-specific basis, each of these indicators of progress, utilizing the following organizational scheme:

A. *Statement of Standard*—A verbatim specification of the standard and any special rules, as established by PURPA.

B. *Consistency With Substantive Provisions of PURPA*—An analysis of the extent to which the implemented (adopted) standards, as reported, are consistent with the substantive provisions of PURPA.

C. *Coverage of Standards-in-effect*—A statistical analysis of the coverage of standards actually put into effect by the utility subsequent to implementation (adoption) by the policy decision-maker.

COST OF SERVICE STANDARD

A. Statement of Standard

Section 111(d)(1) of PURPA establishes the Cost of Service Standard which states: "Rates charged by an electric utility for providing electric service to each class of electric consumers shall be designed, to the maximum extent practicable, to reflect the costs of providing electric service to such class, as determined under section 115(a)."

Section 115(a) states: "In undertaking the consideration and making the determination under section 111 with respect to the standard concerning cost of service established by section 111(d)(1), the costs of providing electric service to each class of electric consumers shall, to the maximum extent practicable, be determined on the basis of methods prescribed by the State regulatory authority (in the case of a State regulated electric utility) or by the electric utility (in the case of a nonregulated electric utility). Such methods shall to the maximum extent practicable—

"(1) permit identification of differences in cost-incurrence for each such class of electric consumers, attributable to daily and seasonal time of use of service and

"(2) permit identification of differences in cost-incurrence attributable to differences in customer, demand, and energy components

of cost. In prescribing such methods, such State regulatory authority or nonregulated electric utility shall take into account the extent to which total costs to an electric utility are likely to change if—

"(A) additional capacity is added to meet peak demand relative to base demand; and

"(B) additional kilowatt-hours of electric energy are delivered to electric consumers."

B. Consistency With Substantive Provisions of PURPA

According to the special provisions for the Cost of Service Standard, the costs of providing service are to be determined on the basis of methods, prescribed by the State regulatory authorities and nonregulated utilities, that take into account, to the maximum extent practicable, the cost consequences of additional kilowatt-hour usage and peak kilowatt demand. Although only one of the 13 State regulatory authorities, which made a determination to implement this standard, did not prescribe some costing method, the methods prescribed for 16 of the 48 utilities were embedded cost methods only which, by definition, do not take into account the cost consequences of additional kilowatt-hour usage or peak kilowatt demand.

Similarly, the methods prescribed must, to the maximum extent practicable, permit identification of differences in cost-incurrences attributable to time of use. Here again, the concept of cost consequences is fundamental. This requirement notwithstanding, the methods reportedly prescribed for 35 of the 51 utilities (33 regulated and two nonregulated) do not permit identification of time-related cost differentials.

PURPA also stipulates that prescribed methods should permit identification of differences in cost-incurrences attributable to differences in customer, demand and energy components of cost. Methods reportedly prescribed for 42 of the 51 utilities (39 regulated and three nonregulated) permitted identification of customer, demand and energy components of costs.

C. Reported Coverage of Standards-in-Effect

The following table presents data on the consumers reported to be covered by a Cost of Service Standard reported to have been actually put into effect by a utility subsequent to implementation by the policy decision-maker:

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	9,541.9	15.4	98.9
	Commercial & Industrial	1,224.7	13.5	98.9
	Other	5.6	1.1	35.0
Nonregulated Electric	Residential	1,138.5	24.7	100.0
	Commercial & Industrial	168.1	26.8	100.0
	Other	5.7	8.3	100.0
Total	Residential	10,680.4	16.0	99.0
	Commercial & Industrial	1,392.8	14.3	99.1
	Other	11.3	2.0	52.1

The aspects of the table that should be particularly noted are:

- Nationally, approximately 12 million consumers are reported to be covered by this standard-in-effect. This translates into approximately 15 percent of all consumers served by regulated utilities and about 23 percent of all consumers served by nonregulated utilities.
- The extent of reported coverage is about the same for residential as for commercial/industrial.
- Nearly all consumers served by the utilities which reportedly put this standard into effect are covered.

Nationally, 13 of 52 State regulatory authorities and three of 62 nonregulated electric utilities reported a determination to implemont this standard prior to June 30, 1979. Such determinations were reported for 51 of 316 covered electric utilities. Of these utilities, 27 regulated electric utilities and all three nonregulated electric utilities had actually put the standard into effect as of June 30, 1979.

DECLINING BLOCK RATES STANDARD

A. Statement of Standard

Section 111(d)(2) of PURPA establishes the Declining Block Rates Standard which states: "The energy component of a rate, or the amount attributable to the energy component in a rate, charged by any electric utility for providing electric service during any period to any class of electric consumers may not decrease as kilowatt-hour consumption by such class increases during such period except to the extent that such utility demonstrates that the costs to such utility are providing electric service to such class, which costs are attributable to such energy component, decrease as such consumption increases during such period."

B. Consistency With Substantive Provisions of PURPA

Provisions of the Declining Block Rates Standard stipulate that the energy component of a rate charged by a utility must not decrease as consumption increases except to the extent that energy costs can be demonstrated to decrease as consumption increases. Twenty-nine of the 61 utilities for which it was reported that the standard had been implemented, were allowed to recover non-energy costs through the energy component of the rate. Moreover, none of these 29 utilities were required to separate demand and customer charges for the rates of at least one of their major consumer classes. Energy charges constructed in this manner do, in fact, decline for reasons other than declining energy costs. Such rates obscure the relationship between the energy component of the rate and its associated energy costs.

C. Reported Coverage of Standards-In-Effect

The following table presents data on the consumers reported to be covered by a Declining Block Rates Standard reported to have been actually put into effect by a utility subsequent to implementation by the policy decision-maker:

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	10,493.2	16.9	99.9
	Commercial & Industrial	1,392.4	15.3	100.0
	Other	5.9	1.2	30.2
Nonregulated Electric	Residential	1,073.5	23.3	100.0
	Commercial & Industrial	158.7	25.3	100.0
	Other	5.7	8.3	100.0
Total	Residential	11,566.7	17.3	99.9
	Commercial & Industrial	1,551.1	15.9	100.0
	Other	11.6	2.0	46.0

The aspects of the table that should be particularly noted are:

- Nationally, approximately 13 million consumers are reported to be covered by this standard-in-effect. This translates into approximately 17 percent of all consumers served by regulated utilities and about 21 percent of all consumers served by nonregulated utilities.
- As in the Cost of Service Standard, the extent of reported coverage is about equally divided between the residential class and the commercial/industrial class of consumers.
- Nearly all consumers served by the utilities for which this standard was reported to be put into effect are covered.

Nationally, 13 of 52 State regulatory authorities and two of 62 nonregulated electric utilities reported a determination to implement this standard prior to June 30, 1979. Such determinations were reported for 61 of 316 covered electric utilities. Of these utilities, 36 regulated electric utilities and both nonregulated electric utilities had actually put the standard into effect as of June 30, 1979.

TIME-OF-DAY RATES STANDARD

A. Statement of Standard

Section 111(d)(3) of PURPA establishes the Time-of-Day Rates Standard which states: "The rates charged by any electric utility for providing electric service to each class of electric consumers shall be on a time-of-day basis which reflects the costs of providing electric service to such class of electric consumers at different times of the day unless such rates are not cost-effective with respect to such class, as determined under section 115(b)."

Section 115(b) states: "In undertaking the consideration and making the determination required under section 111 with respect to the standard for time-of-day rates established by section 111(d)(3), a time-of-day rate charged by an electric utility for providing electric service to each class of electric consumers shall be determined to be cost-effective with respect to each such class if the long-run benefits of such rate to the electric utility and its electric consumers in the class concerned are likely to exceed the metering costs and other costs associated with the use of such rates."

B. Consistency With Substantive Provisions of PURPA

Provisions of the Time-of-Day Rates Standard call for rates which reflect the cost of providing service at different times of the day unless such rates are not cost-effective. Rates structured in such a manner provide the consumer with more accurate price signals regarding the cost consequences of their usage decisions. If consumers are not willing to pay a price reflecting these cost consequences, then resources could be conserved. The data required to assess diurnal variations in costs are available from the cost of service studies required by the special rules for the Cost of Service Standard. Such a study had not been done for nine of the 46 utilities for which the Time-of-Day Rates Standard was reportedly implemented.

The number and length of time periods for which demand and energy costs are calculated and for which separate rates established are significant, since this will affect the controllability of the utility load curve: the greater the number and shorter the period, the greater the control. However, the metering and other costs needed to distinguish between demand and energy charges over multiple time periods reach a point of diminishing returns, and the breakpoint will vary from utility to utility. This is reflected in the wide variation, nationally, in the number of time periods used to assess demand charges. Fourteen of the 46 utilities use one period; 22 use two periods; and 12 use three or more periods. A similar trichotomy exists for the number of periods with separate energy charges: 20 use one period; 19 use two periods; and 13 use three or more periods.

C. Reported Coverage of Standards-In-Effect

The following table presents data on the consumers reported to be covered by a Time-of-Day Rates Standard reported to have been actually put into effect by a utility subsequent to implementation by the policy decision-maker:

The aspects of the table that should be particularly noted are:

- Nationally, fewer than 4.5 million consumers are reported to be covered by this standard-in-effect.
- The percentage of nonregulated utility consumers reportedly covered is three times greater than the percentage of regulated utility consumers.

Nationally, 11 of 52 State regulatory authorities and three of 62 nonregulated electric utilities reported a determination to implement this standard prior to June 30, 1979. Such determinations were reported for 46 of 316 covered electric utilities. Of these utilities, 22 regulated electric utilities and all three nonregulated electric utilities had actually put the standard into effect as of June 30, 1979.

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	2,604.1	4.2	33.5
	Commercial & Industrial	641.4	7.1	70.8
	Other	5.3	1.1	35.8
Nonregulated Electric	Residential	1,004.3	21.8	90.6
	Commercial & Industrial	150.6	24.0	91.3
	Other	5.2	7.5	100.0
Total	Residential	3,608.4	5.4	40.6
	Commercial & Industrial	792.0	8.2	73.9
	Other	10.5	1.8	52.5

SEASONAL RATES STANDARD

A. Statement of Standard

Section 111(d)(4) of PURPA established the Seasonal Rates Standard which states: "The rates charged by an electric utility for providing electric service to each class of electric consumers shall be on a seasonal basis which reflects the costs of providing service to such class of consumers at different seasons of the year to the extent that such costs vary seasonally for such utility."

B. Consistency With Substantive Provisions of PURPA

The Seasonal Rates Standard calls for seasonal rates which reflect costs at different seasons to the extent such costs vary seasonally. The same significance can be attributed to this requirement as to the similar requirement for the Time-of-Day Rates Standard. However, there are no additional metering costs associated with implementation of this standard. The data required to assess seasonal variations in costs are available from the cost of service studies required by the special provisions for the Cost of Service Standard. Such a study had not been done, however, for 14 of the 49 utilities for which the Seasonal Rates Standard was reportedly implemented.

C. Reported Coverage of Standards-In-Effect

The following table presents data on the consumers reported to be covered by a Seasonal Rates Standard reported to have been actually put into effect by a utility subsequent to implementation by the policy decision-maker:

The aspects of the table that should be particularly noted are:

- Nationally, approximately 12 million consumers are reported to be covered by this standard-in-effect. This translates to about 16 percent of all consumers.
- Over 99 percent of these consumers are served by regulated utilities.
- The percentage of residential consumers reportedly covered is substantially higher than that of commercial/industrial consumers.

Nationally, 14 of 52 State regulatory authorities and two of 62 nonregulated electric utilities reported a determination to implement this standard prior to June 30, 1979. Such determinations were reported for 49 of 316 covered electric

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	10,818.7	17.4	98.4
	Commercial & Industrial	1,108.9	12.2	78.3
	Other	5.5	1.1	23.0
Nonregulated Electric	Residential	43.2	0.9	40.9
	Commercial & Industrial	0.5	0.1	4.0
	Other	0.2	0.3	95.2
Total	Residential	10,861.9	16.3	97.8
	Commercial & Industrial	1,109.4	11.4	77.7
	Other	5.7	1.0	23.6

utilities. Of these utilities, 27 regulated electric utilities and both nonregulated electric utilities had actually put the standard into effect as of June 30, 1979.

INTERRUPTIBLE RATES STANDARD

A. Statement of Standard

Section 111(d)(5) of PURPA establishes the Interruptible Rates Standard which states: "Each electric utility shall offer each industrial and commercial electric consumer an interruptible rate which reflects the cost of providing interruptible service to the class of which such consumer is a member."

B. Consistency With Substantive Provisions of PURPA

Rates available under the Interruptible Rates Standard of PURPA are required to reflect costs associated with the interruptible service and are required to be offered to commercial and industrial consumers. Calculation of the associated costs is sensitive to several factors, including: peak demand, reserve margin level and constraints on energy production. These factors determine, in part, the availability and reliability of the energy supplied and in turn the costs of service.

Eleven of the 32 utilities for which this standard had been reportedly implemented were not required to specify any of the aforementioned criteria for interruption of service.

C. Reported Coverage of Standards-In-Effect

The following table presents data on the consumers reported to be covered by an Interruptible Rates Standard reported to have been actually put into effect by a utility subsequent to implementation by the policy decision-maker:

The aspects of the table that should be particularly noted are:

- Nationally, less than 3.3 million consumers are reported to be covered by this standard-in-effect.
- All of these 3.3 million consumers are served by regulated utilities.
- Approximately 93 percent of the consumers reportedly covered are residential consumers. This is noteworthy because the PURPA standard specifically applies only to commercial and industrial consumers. It appears that most of the residential consumers are covered under rate schedules applicable to specific consumer end-uses such as water heating and storage space-heating systems.

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	3,011.1	4.8	51.3
	Commercial & Industrial	219.1	2.4	31.8
	Other	5.7	1.1	57.6
Nonregulated Electric	Residential	0.0	0.0	0.0
	Commercial & Industrial	0.0	0.0	0.0
	Other	0.0	0.0	0.0
Total	Residential	3,011.0	4.5	51.3
	Commercial & Industrial	219.7	2.2	31.8
	Other	5.7	1.0	57.6

Nationally, nine of 52 State regulatory authorities and none of 62 nonregulated electric utilities reported a determination to implement this standard prior to June 30, 1979. Such determinations were reported for 32 of 254 regulated electric utilities. Of these utilities, 17 regulated electric utilities had actually put the standard into effect as of June 30, 1979.

LOAD MANAGEMENT TECHNIQUES STANDARD

A. Statement of Standard

Section 111(d)(6) of PURPA establishes the Load Management Techniques Standard which states: "Each electric utility shall offer to its electric consumers such load management techniques as the State regulatory authority (or the nonregulated electric utility) has determined will—

"(A) be practicable and cost-effective, as determined under section 115(c),

"(B) be reliable, and

"(C) provide useful energy or capacity management advantages to the electric utility."

Section 115(c) states: "In undertaking the consideration and making the determination required under section 111 with respect to the standard for load management techniques established by section 111(d)(6), a load management technique shall be determined, by the State regulatory authority or nonregulated electric utility, to be cost-effective if—

"(1) such technique is likely to reduce maximum kilowatt demand on the electric utility, and

"(2) the long-run cost savings to the utility of such reduction are likely to exceed the long-run costs to the utility associated with implementation of such technique."

B. Consistency With Substantive Provisions of PURPA

The standard requires that load management techniques offered by utilities to consumers be practical and cost-effective, reliable, and provide useful energy and capacity management advantages to the electric utility. In general, the 10 utilities for which the standard was reported to be implemented offer low-cost, low-technology approaches, such as: providing energy savings information to consumers; promoting the use of insulation in buildings; or introducing load control rates. Limited progress had been made on offering

techniques that are capital-intensive and more technical, such as those involving direct utility control of consumer loads, although such techniques could provide the utility with significantly better energy and capacity management capability.

C. **Reported Coverage of Standards-In-Effect**

The following table presents data on the consumers reported to be covered by a Load Management Technique Standard reported to have been actually put into effect by a utility subsequent to implementation by the policy decision-maker:

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	2,085.0	3.4	68.1
	Commercial & Industrial	348.8	3.8	100.0
	Other	0.3	0.1	9.1
Nonregulated Electric	Residential	7.3	0.1	5.4
	Commercial & Industrial	3.0	0.5	16.6
	Other	0.04	0.05	7.8
Total	Residential	2,092.3	3.1	65.5
	Commercial & Industrial	351.8	3.6	95.9
	Other	0.34	0.1	8.9

The aspects of the table that should be particularly noted are:

- Nationally, less than 2.5 million consumers are reported to be covered by this standard-in-effect. This is the lowest reported coverage of any standard.
- As in the Seasonal Rates Standard, over 99 percent of these consumers are served by regulated utilities.
- The percentage of commercial/industrial consumers reported to be covered is significantly higher than the percentage of residential consumers, with respect to the total customer class of the utilities to which the standard-in-effect applies.

Nationally, eight of 52 State regulatory authorities and two of 62 nonregulated electric utilities reported a determination to implement this standard prior to June 30, 1979. Such determinations were reported for 37 of 316 covered electric utilities. Of these utilities, eight regulated electric utilities and both nonregulated electric utilities had actually put the standard into effect as of June 30, 1979.

MASTER METERING STANDARD

A. **Statement of Standard**

Section 113(b)(1) of PURPA establishes the Master Metering Standard which states: "To the extent determined appropriate under section 115(d), master metering of electric service in the case of new buildings shall be prohibited or restricted to the extent necessary to carry out the purposes of this title."

Section 115(d) states: "Separate metering shall be determined appropriate for any new building for purposes of section 113(b)(1) if—

"(1) there is more than one unit in such building,
"(2) the occupant of each such unit has control over a portion of the electric energy used in such unit, and
"(3) with respect to such portion of electric energy used in such unit, the long-run benefits to the electric consumers in such building exceed the costs of purchasing and installing separate meters in such building."

B. Consistency With Substantive Provisions of PURPA

The Master Metering Standard requires that master metering in new buildings be prohibited or restricted unless the long-run benefits exceed the costs of purchasing and installing separate meters in such buildings. Depending on the composition of the load in a building (i.e., for lighting, for heating, for cooling) and the nature of the load (i.e., centralized or decentralized), master metering may be preferable, even though such metering would not provide the individual consumers with the proper price signals.

Seventeen of the 34 electric utilities for which this standard was reportedly adopted were not required to show the long-run benefits of purchasing and installing separate meters.

C. Reported Coverage of Standards-In-Effect

The following table presents data on the consumers reported to be covered by a Master Metering Standard reported to have been actually put into effect by a utility subsequent to adoption by the policy decision-makers:

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	11,757.3	19.1	100.0
	Commercial & Industrial	499.3	5.5	35.3
	Other	8.0	1.7	20.0
Nonregulated Electric	Residential	1,412.9	27.6	95.6
	Commercial & Industrial	173.8	25.5	84.3
	Other	5.7	6.1	63.3
Total	Residential	13,170.2	19.7	99.5
	Commercial & Industrial	673.1	6.9	41.5
	Other	13.7	2.4	28.1

The aspects of the table that should be particularly noted are:

- Nationally, almost 14 million consumers are reported to be covered by this standard-in-effect.
- For regulated utilities, the percentage of residential consumers reportedly covered is three times the percentage of commercial/industrial consumers, with respect to the total class served by those utilities.
- For nonregulated utilities, reported coverage is about equally divided between residential and commercial/industrial.

Nationally, six of 52 State regulatory authorities and seven of 69 nonregulated electric utilities reported a determination to adopt this standard prior to June 30, 1979. Such determinations were reported for 34 of 316 covered electric utilities. Of these utilities, 27 regulated electric utilities and all

seven nonregulated electric utilities had actually put the standard into effect as of June 30, 1979.

AUTOMATIC ADJUSTMENT CLAUSES STANDARD

A. Statement of Standard

Section 113(b)(2) of PURPA establishes the Automatic Adjustment Clauses Standard which states: "No electric utility may increase any rate pursuant to an automatic adjustment clause unless such clause meets the requirements of Section 115(e)."

Section 115(e) states:

"(1) An automatic adjustment clause of an electric utility meets the requirements of this subsection if—

"(A) such clause is determined, not less often than every four years, by the State regulatory authority (with respect to an electric utility for which it has ratemaking authority) or by the electric utility (in the case of a nonregulated electric utility), after an evidentiary hearing, to provide incentives for efficient use of resources (including incentives for economical purchase and use of fuel and electric energy) by such electric utility, and

"(B) such clause is reviewed not less often than every two years, in the manner described in paragraph (2), by the State regulatory authority having ratemaking authority with respect to such utility (or by the electric utility in the case of a nonregulated electric utility), to insure the maximum economies in those operations and purchases which affect the rates to which such clause applies.

"(2) In making a review under subparagraph (B) of paragraph (1) with respect to an electric utility, the reviewing authority shall examine and, if appropriate, cause to be audited the practices of such electric utility relating to costs subject to an automatic adjustment clause, and shall require such reports as may be necessary to carry out such review (including a disclosure of any ownership or corporate relationship between such electric utility and the seller to such utility of fuel, electric energy, or other items).

"(3) As used in this subsection and section 113(b), the term 'automatic adjustment clause' means a provision of a rate schedule which provides for increases or decreases (or both), without prior hearing, in rates reflecting increases or decreases (or both) in costs incurred by an electric utility. Such term does not include an interim rate which takes effect subject to a later determination of the appropriate amount of the rate."

B. Consistency With Substantive Provisions of PURPA

Provisions of the Automatic Adjustment Clauses Standard require State regulatory authorities and nonregulated utilities having such clauses to hold an evidentiary hearing at least every 2 years to insure maximum economies in purchasing and operations and every 4 years to insure incentives for efficient use of resources. These hearings should protect the consumer in those instances where fuel (or other) costs are recoverable from the consumer without prior hearings. Two State regulatory authorities reporting adoption had not established any review process for automatic adjustment clauses. Three of the remaining nine State regulatory authorities and all five nonregulated utilities had not established a review process which included the 2 year assessment provision. Moreover, five State regulatory authorities and four nonregulated utilities had not included the 4 year assessment in their review process.

Other provisions of the standard stipulate that utility management practices be examined and audits performed, if appropriate. Three of the nine State regulatory authorities and two of the five nonregulated utilities had not included this examination in their review process.

C. Reported Coverage of Standards-In-Effect

The following table presents data on the consumers reported to be covered by an Automatic Adjustment Clauses Standard reported to have been actually put into effect by a utility subsequent to adoption by the policy decision-maker:

The aspects of the table that should be particularly noted are:

- Nationally, approximately 16.8 million consumers are reported to be covered by this standard-in-effect. This translates into approximately 22 percent of all consumers served by regulated utilities and approximately 24 percent of all consumers served by nonregulated utilities.
- Consumers reportedly covered equal (approximately) consumers served, for the utilities that had put this standard into effect.
- Coverage is about equally divided between residential and commercial/industrial.

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	13,768.4	22.4	97.7
	Commercial & Industrial	1,537.7	17.0	96.2
	Other	45.1	9.4	91.3
Nonregulated Electric	Residential	1,189.8	23.3	100.0
	Commercial & Industrial	176.0	25.8	100.0
	Other	6.3	6.7	100.0
Total	Residential	14,958.2	22.4	97.8
	Commercial & Industrial	1,713.7	17.6	96.5
	Other	51.4	8.9	92.3

Nationally, 11 of 52 State regulatory authorities and five of 69 nonregulated electric utilities reported a determination to adopt this standard prior to June 30, 1979. Such determinations were reported for 52 of 316 covered electric utilities. Of these utilities, 39 regulated electric utilities and all five nonregulated electric utilities had actually put this standard into effect as of June 30, 1979.

INFORMATION TO CONSUMERS STANDARD

A. Statement of Standard

Section 113(b)(3) of PURPA establishes the Information to Consumers Standard which states: "Each electric utility shall transmit to each of its electric consumers information regarding rate schedules in accordance with the requirements of section 115(f)."

Section 115(f) states:

"(1) For purposes of the standard for information to consumers established by section 113(b)(3), each electric utility shall transmit to each of its electric consumers a clear and concise explanation of the existing rate schedule and any rate schedule applied for (or proposed by a nonregulated electric utility) applicable to such consumer. Such statement shall be transmitted to each such consumer—

"(A) not later than sixty days after the date of commencement of service to such consumer or ninety days after the standard established by section 113(b)(3) is adopted with respect to such electric utility, whichever last occurs, and

"(B) not later than thirty days (sixty days in the case of an electric utility which uses a bimonthly billing system) after such utility's application for any change in a rate schedule applicable to such consumer (or proposal of such a change in the case of a nonregulated utility).

"(2) For purposes of the standard for information to consumers established by section 113(b)(3), each electric utility shall transmit to each of its electric consumers not less frequently than once each year—

"(A) a clear and concise summary of the existing rate schedules applicable to each of the major classes of its electric consumers for which there is a separate rate, and

"(B) an identification of any classes whose rates are not summrized.

"Such summary may be transmitted together with such consumer's billing or in such other manner as the State regulatory

authority or nonregulated electric utility deems appropriate.

"(3) For purposes of the standard for information to consumers established by section 113(b)(3), each electric utility, on request of an electric consumer of such utility, shall transmit to such consumer a clear and concise statement of the actual consumption (or degree-day adjusted consumption) of electric energy by such consumer for each billing period during the prior year (unless such consumption data is not reasonably ascertainable by the utility)."

B. **Consistency With Substantive Provisions of PURPA**

The information required by the Information to Consumers Standard to be transmitted by the utility (either self-initiated or upon request) is information that will inform the consumer of applicable rate schedules and annual consumption. With such information, the consumer will be able to stay apprised of such rates and to make more intelligent decisions regarding energy use and alternatives for conservation, as well as assess the effects of such decisions.

All of the 41 regulated electric utilities and four nonregulated electric utilities for which this standard was reportedly adopted are required to transmit some information to consumers regarding rate schedules and consumption (the latter upon consumer request) as follows:

- Thirty-five regulated and two nonregulated utilities are required to transmit information on applicable existing rate schedules, and any applicable rate schedule applied for, within 60 days after consumer service starts.
- All 41 regulated and two nonregulated utilities are required to transmit information on applicable existing rate schedules, and any applicable rate schedule applied for, within 30 to 60 days after application for rate changes.
- Sixteen regulated and all four nonregulated utilities are required to transmit yearly: (1) a summary of existing rate schedules applicable to each of the major consumer classes for which there is a separate rate; and (2) identification of any classes whose rates are not so summarized.
- Thirty-one regulated and three nonregulated utilities are required to transmit, upon request, a statement of consumption for each billing period during the prior year.

Whether any of this information is "clear and concise" cannot be judged on the basis of the reports submitted.

C. **Reported Coverage of Standards-In-Effect**

The following table presents data on the consumers reported to be covered by an Information to Consumers Standard reported to have been actually put into effect by a utility subsequent to adoption by the policy decision-maker:

The aspects of the table that should be particularly noted are:

- Nationally, approximately 9 million consumers are reported to be covered by this standard-in-effect. This translates into approximately 11 percent of all consumers served by regulated utilities and approximately 22 percent of all consumers served by nonregulated utilities.
- Only 50 percent of the commercial/industrial consumers served by regulated utilities are reportedly covered by the standard.

Nationally, eight of 52 State regulatory authorities and four of 69 nonregulated electric utilities reported a determination to adopt this standard prior to June 30, 1979. Such determinations were reported for 45 of 316 covered electric utilities. Of these utilities, 32 regulated electric utilities and three nonregulated electric utilities had actually put this standard into effect as of June 30, 1979.

PROCEDURES FOR TERMINATION OF SERVICE STANDARD

A. **Statement of Standard**

Section 113(b)(4) (for electric) and section 303(b)(1) (for natural gas) of PURPA establish the Procedures for Termination of Service Standard which states: "No electric (gas) utility may terminate electric (natural gas) service to any electric (gas) consumer except pursuant to procedures described in section 115(g)/304(a)."

Sections 115(g)/304(a) state: "The procedures for termination of service referred to in section 113(b)(4)/303(b)(1) are procedures prescribed by the State regulatory authority (with respect to electric (gas) utilities for which it has ratemaking authority) or by the nonregulated utility which provide that—

"(1) no electric (gas) service to an electric (gas) consumer may be terminated unless reasonable prior notice (including notice of rights and remedies) is given to such consumer and such consumer has a reasonable opportunity to dispute the reasons for such termination, and

"(2) during any period when termination of service to an electric (gas) consumer would be especially dangerous to health, as determined by the State regulatory authority

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated Electric	Residential	7,334.9	11.9	100.0
	Commercial & Industrial	447.4	5.0	49.8
	Other	12.8	2.7	81.0
Nonregulated Electric	Residential	1,085.2	21.2	100.0
	Commercial & Industrial	156.8	23.0	100.0
	Other	5.3	5.7	100.0
Total	Residential	8,420.1	12.6	100.0
	Commercial & Industrial	604.2	6.2	57.2
	Other	18.1	3.1	85.8

(with respect to an electric (gas) utility for which it has ratemaking authority) or nonregulated electric (gas) utility, and such consumer establishes that—

"(A) he is unable to pay for such service in accordance with the requirements of the utility's billing, or

"(B) he is able to pay for such service but only in installments,

"such service may not be terminated.

"Such procedures shall take into account the need to include reasonable provisions for elderly and handicapped consumers."

B. Consistency With Substantive Provisions of PURPA

The provisions set forth in the Procedures for Termination of Service Standard are to safeguard consumers against termination of service during periods which would be dangerous to the health of the consumer. In addition, consumers are to be given reasonable prior notice and opportunity to dispute the reasons for termination of service. All of these procedures are to take into account elderly and handicapped consumers.[7]

All of the 138 utilities for which this standard was reportedly adopted are required to give some form of prior notice of termination, including notice of rights and remedies in all but five utilities. However, only 80 utilities (40 electric and 40 gas) are required to have special procedures for notifying elderly and handicapped consumers. There is a requirement for 126 utilities (68 electric and 58 gas) to identify procedures and individuals for handling disputes.

One hundred twenty-five of the 138 utilities (65 electric and 60 gas) are required to have specifically defined requirements for considering possible dangers to consumer health. However, only 89 of the 138 utilities (49 electric and 40 gas) are prohibited from terminating service when consumer health danger exists and consumer is unable to pay in accordance with requirements of the utility's billing.

[7]DOE has issued a guideline respecting the Procedures for Termination of Service Standard. Subsequent reports should indicate the extent to which the guideline has influenced the consideration of this standard.

C. **Reported Coverage of Standards-In-Effect**

The following table presents data on the consumers reported to be covered by a Termination of Service Standard reported to have been actually put into effect by a utility subsequent to adoption by the policy decision-maker:

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated				
—Electric	Residential	15,058.6	24.4	100.0
	Commercial & Industrial	1,059.2	11.7	56.8
	Other	40.8	8.5	89.3
—Gas	Residential	8,980.3	22.9	94.7
	Commercial & Industrial	408.7	12.8	60.7
	Other	8.0	16.0	94.1
Nonregulated				
—Electrical	Residential	1,462.6	28.6	100.0
	Commercial & Industrial	194.0	28.5	79.3
	Other	6.1	6.5	67.0
—Gas	Residential	93.1	11.0	100.0
	Commercial & Industrial	12.1	13.0	100.0
	Other	0.1	69.0	100.0

The aspects of the table that should be particularly noted are:

- Nationally, over 17.5 million electric and nearly 10 million gas consumers are reported to be covered by this standard-in-effect.
- The percentage of residential consumers reported as covered is about the same (24 percent) for both regulated electric and regulated gas utilities. Similarly, the percentage of commercial/industrial consumers reported as covered is about the same (12 percent) for both types of regulated utilities.
- For nonregulated electric utilities, the percentage of residential or commercial/industrial consumers reportedly covered (28 percent) is over twice that of the corresponding class of nonregulated gas utility consumers covered.

Nationally, 14 of 55 State regulatory authorities, which regulate electric and/or gas utilities, and 13 of 81 nonregulated utilities (eight electric and five gas) reported a determination to adopt this standard prior to June 30, 1979. Such determinations were reported for 138 of 526 covered utilities (74 electric and 64 gas). Of these utilities, 108

regulated utilities (54 electric and 54 gas) and 11 nonregulated utilities (eight electric and three gas) had actually put the standard into effect as of June 30, 1979.

ADVERTISING STANDARD

A. Statement of Standard

Section 113(b)(5) (for electric) and section 303(b)(2) (for natural gas) of PURPA establish the Advertising Standard which states: "No electric (gas) utility may recover from any person other than the shareholders (or other owners) of such utility any direct or indirect expenditure by such utility for promotional or political advertising as defined in section 115(h)/304(b)."

Sections 115(h)/304(b) state:

"(1) For purposes of this section and section 113(b)(5)/303—

"(A) The term 'advertising' means the commercial use, by an electric (gas) utility, of any media, including newspaper, printed matter, radio, and television, in order to transmit a message to a substantial number of members of the public or to such utility's electric (gas) consumers.

"(B) The term 'political advertising' means any advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance.

"(C) The term 'promotional advertising' means any advertising for the purpose of encouraging any person to select or use the service or additional service of an electric (gas) utility or the selection or installation of any appliance or equipment designed to use such utility's service.

"(2) For purposes of this subsection and section 113(b)(5)/303, the term 'political advertising' and 'promotional advertising' do not include—

"(A) advertising which informs electric (natural gas) consumers how they can conserve energy (natural gas) or can reduce peak demand for electric (natural gas) energy.

"(B) advertising required by law or regulation, including advertising required under Part I of Title II of the National Energy Conservation Policy Act,

"(C) advertising regarding service interruptions, safety measures, or emergency conditions,

"(D) advertising concerning employment opportunities with such utility,

"(E) advertising which promotes the use of energy efficient appliances, equipment or services, or

"(F) any explanation or justification of existing or proposed rate schedules, or notifications of hearings thereon."

B. Consistency With Substantive Provisions of PURPA

The Advertising Standard identifies two forms of advertising expenses—promotional and political—whose costs cannot be recovered from any person other than the shareholders (or other owners). These expenses are typically associated with increasing utility revenues or expanding capacity and therefore should be borne by the shareholders or other owners.

One hundred thirty-seven of the 158 utilities (80 electric and 57 gas) for which this standard has reportedly been adopted are prohibited from recovering political and promotional advertising expenses from the ratepayer. Only two of 138 are not required to recover these expenses from the stockholders.

C. Reported Coverage of Standards-In-Effect

The following table presents data on the consumers reported to be covered by an Advertising Standard reported to have been actually put into effect by a utility subsequent to adoption by the policy decision-maker:

Type of Utility	Customer Class	Customers Covered By Standard	Customers Covered as a Percentage of Class (Nationally)	Customers Covered as a Percentage of Class Served (for those utilities which have put the standard into effect)
Regulated				
—Electric	Residential	23,798.0	38.6	89.3
	Commercial & Industrial	3,069.0	34.0	90.1
	Other	204.1	42.4	87.8
—Gas	Residential	15,275.6	38.9	100.0
	Commercial & Industrial	1,089.9	34.1	100.0
	Other	7.5	15.0	100.0
Nonregulated				
—Electrical	Residential	1,194.7	23.4	99.9
	Commercial & Industrial	168.5	24.7	100.0
	Other	6.0	6.4	100.0
—Gas	Residential	256.1	31.4	100.0
	Commercial & Industrial	47.0	51.2	100.0
	Other	0.1	58.8	100.0

The aspects of the table that should be particularly noted are:

- Nationally, more consumers (over 28 million electric and nearly 17 million gas) are reported to be covered by this standard-in-effect than any other standard-in-effect.
- For regulated utilities, the percentage of residential consumers reportedly covered and the percentage of commercial/industrial consumers reportedly covered are the same for both electric or gas utilities.
- The percentage of nonregulated gas utility consumers reportedly covered, approximately 33 percent, is substantially higher than the percentage for nonregulated electric, approximately 21 percent.

Nationally, 18 of 55 State regulatory authorities, which regulate electric and/or gas utilities, and 10 of 81 nonregulated utilities (five electric and five gas) reported a determination to adopt this standard prior to June 30, 1979. Such determinations were reported for 158 of 526 covered utilities (94 electric and 64 gas). Of these utilities, 124 regulated utilities (74 electric and 50 gas) and all 10 nonregulated utilities had actually put the standard into effect as of June 30, 1979.

Chapter 5
DOE Activities in 1979

INTRODUCTION

The previous chapters have dealt with the progress of State regulatory authorities and nonregulated utilities in considering, making determinations, and putting into effect the PURPA Federal standards. This chapter will summarize the DOE activities directed at assisting those State regulatory authorities and nonregulated utilities in carrying out their responsibilities under PURPA (including programs authorized by Title II of the Energy Conservation and Production Act of 1976 (ECPA)). For a more detailed discussion of DOE activities, see Chapter 5 of Volume II. (The activities of the FERC pursuant to section 133 of PURPA are not covered in this report.)

The responsibility for conducting these DOE activities and programs rests with two divisions (Regulatory Assistance and Regulatory Proceedings) in the Office of Utility Systems, Economic Regulatory Administration. The mission of both Divisions includes furthering national energy objectives through the activities of State regulatory authorities and, to a lesser extent, nonregulated utilities. The Division of Regulatory Assistance pursues this mission through a program of financial aid, guidelines, technical studies, and educational materials. The Division of Regulatory Proceedings pursues the mission through formal legal advocacy in selected proceedings of Federal and State regulatory agencies.

DOE regards the annual reports it receives from State regulatory authorities and nonregulated utilities as an invaluable tool for assessing its own PURPA-related programs, as well as a means of evaluating the progress of regulatory authorities. It would be premature, however, to redirect DOE programs based on the first annual State reports. It ought to be reiterated that the States have reported their progress as of June 30, 1979. In 1979, DOE awarded 106 grants and cooperative agreements, intervened in six State (or local) regulatory proceedings, issued two guidelines, established the annual reporting requirements, and otherwise laid the groundwork for its oversight of, and participation in, the PURPA-related activities of State regulatory authorities and nonregulated utilities. The second annual reports to and from DOE will provide a more solid basis for examining DOE's programs and, indeed, the Act itself.

The PURPA-related activities and programs conducted by ERA's Office of Utility Systems, and discussed in this chapter, can be classified into five main categories:

- *Financial Assistance*—for consumer offices, PURPA compliance, and innovative electric rate projects.
- *Annual Report*—an annual assessment of the progress of State and local regulatory authorities.
- *Interventions*—to further the purposes of PURPA and the national energy policy objectives.
- *Voluntary Guidelines*—to establish generic Federal policy, primarily for the benefit of those proceedings to which DOE is not a party.
- *Technical Studies*—analytical studies to assist in carrying out regulatory responsibilities.

FINANCIAL ASSISTANCE

The Division of Regulatory Assistance operates three financial assistance programs under which it distributed $17.6 million in FY 1979.

1. PURPA Compliance Grants

PURPA authorizes a grant program for all State regulatory authorities and covered nonregulated electric utilities to assist them in carrying out their responsibilities under the Act, including not only consideration of the 11 standards, but also holding evidentiary hearings on lifeline rates, preparing annual reports to DOE on PURPA activities, complying with the FERC rule on cogeneration (section 210), and (for nonregulated electric utilities) complying with the FERC rule on cost of service reporting (section 133). DOE issued a rule for the establishment and administration of this program on June 29, 1979, and in August 1979, made grant awards totaling $10 million to 44 State regulatory authorities and 26 nonregulated utilities.

2. Innovative Rates Program

PURPA extended the authorization for an innovative rates program established by section 204 of the Energy Conservation and Production Act of 1976 (ECPA). This program involves cooperative agreements with State regulatory authorities and nonregulated electric utilities for electric rate reform initiatives which complement or go beyond the requirements of PURPA. DOE issued a rule for the establishment and administration of a PURPA-related innovative rates program on June 29, 1979. In August 1979 DOE made grant awards of $3.8 million to 15 State regulatory authorities and six nonregulated electric utilities to support the following activities:

a. Cost of service information systems—$806,500.

b. Estimating customer class load characteristics—$246,300.
c. Metering for innovative electric rates—$170,000.
d. Rate information to consumers—$195,800.
e. Assistance to low-income electric customers—$512,000.
f. Solar rate incentives—$152,000.
g. Testing direct load management systems—$598,500.
h. Rate incentive for utility efficiency—$892,500.
i. Analysis of cogeneration systems—$278,900.

The purpose of the program is to carry out, rather than simply consider, regulatory rate reform initiatives relating to innovative rate structures, and therefore DOE has funded those activities which are likely to result in a decision regarding the adoption of a regulatory policy or practice. Insufficient time has passed to evaluate DOE's approach to this program and the results of individual projects.

Another $1.8 million was awarded under the innovative rates authorization in 1979 to continue five of the Pilot Utility Implementation Projects, which had been established in 1976 under Title II of ECPA. The pilot program focuses on regulatory reform initiatives that encourage and lead to the permanent adoption of cost-based rates—especially the elimination of declining block energy charges, adoption of time-of-day rates, and elimination of master metering—and energy management practices.

Experiences learned through this program about successful institutional approaches to utility rate design reform and energy management practices have been useful in implementing PURPA.

3. **Grants for Offices of Consumer Services**

PURPA authorized continuation of this program, which was established under section 205 of ECPA. Grants are provided to State Offices of Consumer Services to enable them to represent consumer interests in electric utility regulatory proceedings. The State offices provide technical and financial aid to consumer groups in their presentations before utility regulatory commissions and also directly advocate consumer positions before the commissions. In response to experience gained during the first 2 years of the program, DOE made minor revisions to the program in July 1979. In September 1979, grant awards totaling $2 million were made on a competitive basis to 10 of 28 States that applied. Of these 10 States, six had previously received funding under ECPA authorization.

DOE views this effort as an important tool for improving the utility regulatory process and will focus its evaluation of the program on the degree to which the consumer office becomes able to impact significantly the final outcome of regulatory proceedings.

ANNUAL REPORT

PURPA requires DOE to make an annual assessment (for 10 years) of the progress of State regulatory authorities and nonregulated utilities in carrying out their responsibilities as specified in the Act. In order to establish a uniform reporting system for regulatory authorities, DOE published a rule, "Annual Reports From States and Nonregulated Utilities on Their Progress in Carrying Out Titles I and III of PURPA," on August 13, 1979. The reports required by this rule must be submitted on Form ERA-166 by November 9 of each year 1979 through 1988. A copy of Form ERA-166 was appended to the preamble of the rule. The results of the assessment are contained in this report.

INTERVENTIONS

Sections 121 and 305 of PURPA grant the Secretary of DOE authority to intervene and participate in State regulatory and nonregulated utility proceedings involving consideration of one or more of the standards set forth in the Act. Such interventions advocate regulatory policies and practices that further national energy policy including the specific purposes of PURPA. DOE is currently active in 10 State proceedings. These interventions (listed below) have or will advocate one or more of the following:

- Reform of electric and natural gas policies and rate structure;
- Implementation of utility conservation, load management, power pooling; wheeling, and interconnection programs;
- Establishment of reasonable oil, gas, coal and other energy price and transportation policies; or
- Recognition of new and alternative energy supplies, including solar, cogeneration and other forms.

In 1979 DOE intervened in the following six PURPA-related proceedings:

a. Maryland Public Service Commission, Virginia State Corporation Commission, and District of Columbia Public Service Commission: Washington Gas Light.
b. Delaware Public Service Commission: Delmarva Power and Light.
c. Connecticut Public Utility Control Authority: Northeast Utilities.
d. Virginia State Corporation Commission: Virginia Electric Power Company.

e. Los Angeles Department of Water and Power.
f. Tennessee Valley Authority.

DOE remained active in these proceedings through the first calendar quarter of 1980 and also initiated interventions in the following PURPA-related proceedings:

a. Louisiana Public Service Commission: Gulf States Utilities.
b. Arizona Corporation Commission: Arizona Public Service Company.
c. New Mexico Public Service Commission: Public Service of New Mexico.
d. Missouri Public Service Commission: Kansas City Power and Light Company.

Only one decision has been made to date by a State regulatory authority before which DOE intervened. The Connecticut Division of Public Utility Control (DPUC), on March 11, 1980, adopted the concept of marginal costs in principle as a guide in setting electric rates and determined that a specific marginal cost methodology would be selected in a later hearing.

VOLUNTARY GUIDELINES

Following a solicitation of public comments on administration of the section 131 authority, DOE proposed two guidelines in 1979 and promulgated these in final form early in 1980. The two are:

a. Publication on December 28, 1979, of the *Termination of Service* guideline which addresses major issues concerning when and under what circumstances a gas or electric utility can shut off service to a customer. The guideline suggests that utilities provide (a) reasonable prior notice; (b) reasonable opportunity to dispute; (c) protection of the public during health emergencies; and (d) special provisions for elderly and handicapped consumers.
b. Publication on February 22, 1980, of the *Solar Energy and Renewable Resources* guideline which addresses each of the 11 standards of Title I of PURPA as it applies specifically to the solar energy and renewable resource systems which use electricity for backup power. Utility rate structures and practices have important consequences for the level of investments made by individuals and businesses since they affect significantly the benefits which can be obtained from solar energy and renewable resource systems. The guideline recommends that:
   - regulatory policy should not favor or penalize customers with solar/renewable systems.
   - marginal costs (cost consequences of usage decisions) should be used in determining cost of service and designing rate structures for all customers.
   - attention should be given to the substantial load management benefits that solar/renewable systems can provide.

TECHNICAL STUDIES

During 1979 the PURPA-related technical studies included most notably:

a. Conducting, in consultation with FERC, the gas rate design study, required by section 306 of PURPA. In this study, DOE is evaluating the effect of certain alternative rate designs (e.g., marginal cost pricing) and regulatory policies (e.g., interruptible service, wellhead natural gas pricing) on end-use conservation and other factors. It is anticipated that the study will be sent to Congress in early May. Results of this study will be in the form of recommendations to Congress for improving gas utility rate design. These recommendations are due in November 1980.
b. Compiling and publishing an annotated summary of data and analysis resulting from Federally-funded studies, demonstration projects and analyses conducted by private and public organizations. This summary is entitled, "Electric and Gas Utility Topics: Current Documents," and has been distributed to all State regulatory authorities and nonregulatory utilities. Eight major utility rate topics are covered which range from conservation to demand forecasting. Order forms are included in the summary report to facilitate access to the actual reports referenced. To date, over 1,000 of the referenced reports have been requested and distributed. The feasibility of establishing a clearinghouse is being investigated.
c. Funds awarded in previous years continued the operation of several projects under the Electric Utility Rate Demonstration Program, which was established in 1975 under the Federal Energy Administration Act of 1974. This program focuses on gathering empirical data as to the impact of innovative

rates, particularly time-of-day rates, on customer and class electricity consumption patterns in order to assess customer acceptance of these rates and the impact on utilities' load patterns. These projects offer a valuable reservoir of practical load research and empirical data to regulatory authorities which these authorities are able to use as they comply with the provisions of PURPA.

*U.S. GOVERNMENT PRINTING OFFICE : 1980 O-311-122/48