REPORT BY

STATE CORPORATION COMMISSION

ON

UTILITY ADVERTISING

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY OF VIRGINIA

House Document No. 18

COMMONWEALTH OF VIRGINIA
Richmond, Virginia
1980

COMMONWEALTH OF VIRGINIA

JUNIE L. BRADSHAW
CHAIRMAN
PRESTON C. SHANNON
COMMISSIONER
THOMAS P. HARWOOD, JR.
COMMISSIONER

BERNARD L. HENDERSON, JR.
ASSISTANT TO THE COMMISSIONERS
BOX 1197
RICHMOND, VIRGINIA 23209
(804) 786-7141

STATE CORPORATION COMMISSION

December 21, 1979

TO: The Honorable John N. Dalton
Governor of Virginia
and
The General Assembly of Virginia

The report contained herein is pursuant to House Joint Resolution No. 331 of the 1979 Session of the General Assembly of Virginia.

This report comprises the response by the State Corporation Commission to the directive that a study be conducted on how best to define and identify those categories of advertising, if any, to be excluded from operating expenditures of utilities for rate-making purposes.

Respectfully submitted,

HOUSE JOINT RESOLUTION NO. 331

Requesting the State Corporation Commission to study how best to define and identify those categories of advertising, if any, to be excluded from operating expenditures of the utilities for rate-making purposes.

Agreed to by the House of Delegates, February 24, 1979
Agreed to by the Senate, February 22, 1979

WHEREAS, advertising on the part of utilities is an exercise of their rights; and

WHEREAS, in exercising that right the utilities often express controversial views directed at affecting public opinion; and

WHEREAS, the cost of such advertisements must be paid by consumers or stockholders; and

WHEREAS, there is no clear direction given by the State Corporation Commission or the General Assembly concerning what advertising costs should not be paid by consumers; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the State Corporation Commission is requested to study how best to define and identify those categories of advertising, if any, to be excluded from operating expenditures of the utilities for ratemaking purposes.

The Commission is requested to complete its study and present its recommendations and suggested legislation, if any, to the Governor and the General Assembly not later than December fifteen, nineteen hundred seventy-nine. All agencies of the Commonwealth are requested to assist the Commission in its study.

PREFACE

With the rapid rises of utility rates and the heightened consumer awareness of the 1970's, public scrutiny of utility operations has become more intense. Citizens are now questioning virtually all utility expenditures, and advertising expenses are receiving a great deal of interest because advertising, by its very nature, is so visible to the general public.

The public concern over utility advertising was reflected by the approval by the General Assembly of Virginia of House Joint Resolution No. 331 during the 1979 Session.

Pursuant to this legislative directive, the Virginia State Corporation Commission respectfully submits this report, which was prepared by a committee of the Commission's staff consisting of the following:

Bernard L. Henderson, Jr., Assistant to the Commissioners
Edward C. Addison, Director of Communications
Christine G. Crafton, Director of Economic Research and Development
Richard D. Rogers, Jr. General Counsel
James R. Wittine, Director of Energy Regulation
Ryland Y. Bailey, Senior Engineer
Edward L. Flippen, Deputy General Counsel
S. Frank Leis, Assistant Director of Accounting and Finance

* * *

David H. Gates, Administrative Assistant
Robert B. McEntee, Jr., Law Clerk
Mary McIlhatten, Stenographer

PREVIOUS ACTION BY THE STATE CORPORATION COMMISSION

The comments and statements made regarding House Joint Resolution No. 331 indicate that there is a lack of understanding by the general public concerning previous actions by the State Corporation Commission regarding utility advertising. Any report on what could or should be done in the future should offer information regarding actions that have been taken in the past.

In the summer of 1975, the Virginia State Corporation Commission in Case No. 19523 held a hearing on the advertising practices of gas, telephone and electric utilities. In this case advertising was considered under ". . . its plain and ordinary meaning including any means of communication by the utility through newspapers, radio, television, signs, circulars, posters, periodic publications, or other." Not included in the inquiry of Case No. 19523 were those promotional practices subject to prior orders of the Commission entered April 12, 1966 and April 15, 1970 in Case Nos. 17889 and 18796 respectively.

In the 1975 proceeding (Case No. 19523) thirteen gas companies, six investor-owned electric companies, fifteen electric cooperatives and twenty-four telephone companies filed separate written reports. Eight public witnesses presented oral statements during two days of hearing. The Commission designated the following companies to present oral testimony: Appalachian Power Company, Central Telephone Company of Virginia, Chesapeake and Potomac Telephone Company of Virginia, Columbia Gas of Virginia, Inc., Continental Telephone Companies, Roanoke Gas Company, Virginia Association of Electric Cooperatives, Virginia Electric and Power Company and Washington Gas Light Company. The public hearing was scheduled and conducted on April 28 and 29 of 1975.

In the opinion entered in Case No. 19523 the Commission synopsized previous action taken with respect to promotional activities by utilities. Two prior cases involving promotional activities were cited - the first was Case No. 17889 held in 1966 and the second was Case No. 18796 held in 1970.

Commission Case No. 17889, styled Commonwealth of Virginia, at the relation of the State Corporation Commission v. Appalachian Power Company, et al., was instituted in response to legislation enacted in 1966, directing the Commission to investigate promotional allowances and practices of gas and electric utilities and to take such action as the public interest might require. Under the Commission's Order, this investigation was intended to determine:

(1) What promotional allowances are offered, made, or given to anyone, or what promotional practices are used or followed with respect to anyone by the public utilities . . . in connection with furnishing or offering to furnish electric energy, gas heat, light or power.

(2) Whether any such promotional practices or allowances are in violation of Virginia law.

(3) What action should be taken by the Commission in the public interest.

As a result of the 1966 investigation certain practices were found to be discriminatory and therefore enjoined. Further, the utilities were directed to keep the Commission ". . .fully and constantly aware of the promotional allowances and practices which utilities have in effect so that the Commission may insure that none are unlawfully discriminatory. . ."

The second hearing concerning promotional activities by utilities was held on February 17, 1970. This was Case No. 18796 which was styled Commonwealth of Virginia, at the relation of the State Corporation Commission v. Appalachian Power Company, et al. For this proceeding all electric and gas utilities under the Commission's jurisdiction were ordered to show cause why further utilization of certain promotional allowances and practices approved in Case No. 17889 should not be discontinued as inconsistent with the public interest. The Commission maintained the position that competition among utilities is in the public interest. The Commission found that promotional allowances, considering existing circumstances, are contrary to the interests of the consumers. Thus, with public interests in mind, all gas and electric utilities were ordered to terminate all payments, subsidies or allowances that may affect the amount or rate of sales or utilizations of any device. Electric utilities were prohibited from continuing the practice of credits or allowances based on projected revenues for installations of underground services. The practices that were scrutinized in Case No. 18796 and approved by the Commission for continued utilization were:

1. Advertising by a utility in its own name.
2. Joint advertising with others, if the utility is prominently identified as a sponsor of the advertisement.
3. Financing the purchase of appliances by utilities so long as the interest rate or carrying charge to the purchaser is not less than the interest rate paid by the utility for short-term debt.
4. Merchandising of appliances or equipment by utilities.
5. Inspection and adjustment of appliances by utilities. Repairs and other maintenance to appliances and equipment if charges are at cost, or above.
6. Donation or lending of appliances by utilities to schools for instructional purposes.

7. Technical assistance offered to customers by employees of utilities.

8. Incentives to full-time employees of utilities.

A hearing was conducted by the Commission concerning utility advertising on March 28, 1975 in Case No. 19523. Groups who supported "freedom of advertising" in this case included the Virginia Press Association, The Bedford Bulletin Democrat, and Sales and Marketing Executives of Richmond, Inc. Two groups who advocated against unregulated advertising were the Consumer Congress of Virginia and the Board of Supervisors of the County of Fairfax.

After finding that there are inherent differences in competitive factors and advertising objectives between telephone companies and the other utilities the Commission determined to partition the hearing, i.e., the telephone companies were heard separately from the gas and electric utilities.

The Commission found that telephone companies share common objectives and tasks. They must compete with non-regulated suppliers of telephone equipment. This requires company controlled advertising and marketing techniques. Increased usage of equipment by subscribers increases revenues as an alternative to increasing revenues through higher rates. Telephone advertising is also utilized to educate the consumers in areas of new products and services as well as less costly usage.

The Commission held that present and projected advertising practices by the regulated telephone utilities were consistent with the "statutory mandate to supply adequate service and facilities at reasonable and just rates." (Code §56-234)

For advertising The Chesapeake and Potomac Telephone Company (C&P) spent 4.6¢ per customer per month in 1974. Central Telephone Company of Virginia, and its wholly-owned subsidiary, Southern Telephone Company (Centel) spent 36¢ per main station per year from February 28, 1974 to February 28, 1975. The Continental Telephone Company, in 1974 spent 43¢ per main station per year. (The figures for C&P approximate a sum of both interstate and intrastate.) Small telephone companies were found to spend even less on advertising because they believe that the advertisements of the larger companies covered their areas. The Commission informed the telephone companies that it would maintain a monitoring position over utility advertising.

Thirteen gas utilities filed reports in response to the order of March 28, 1975. These gas companies reported that they had not engaged in any promotions of new gas business since the start of the natural gas shortage which began in 1972. However, the gas companies fear loss of customers if advertisements cannot be used, causing an increase in rates to the remaining customers who must bear the burden of fixed costs.

The spokesmen for the gas utilities shared a desire for both a "consumer information program" and for "replacement advertising." The need for a public information program stems from pressure applied upon the companies by the fuel shortage. Thus, the utilities desire their customers to be informed of the facts concerning energy conservation.

Replacement advertising refers to the sale of new appliances to replace old, inefficient equipment, thereby conserving gas. The need for such advertising increases as the gas shortage continues and as a consequence traditional gas equipment retail outlets discontinue business. Replacement advertising occupies the majority of advertising expenditures per company. For example, Roanoke Gas Company spent $4,867.85 of its total expenditures of $8,647.48 on replacement advertising for the year ending March 1, 1975.

Washington Gas Light Company spent $167,000 on advertising allocated to Virginia customers for the year ending February 28, 1975. This amount equals approximately twenty-seven one hundredths of a penny in terms of costs in cents per dollar of gross revenue. That is, an annual gas bill of $275 would include 72¢ for company advertising.

Commonwealth Natural Gas Corporation spent $10,067.72 on advertising for 1974. However, this amount represented only a fraction of one percent of CNG's revenues and was primarily used for consumer information on conservation, ecology and safety.

The Commission held that the advertising practices of the regulated gas companies were not violative of the Virginia laws.

In response to the March 1975 order the six investor-owned electric companies and the fifteen electric cooperatives under the Commission's jurisdiction filed reports.

The Commission found that the electric utilities had used advertising to improve load factors and operating efficiencies as well as to inform and educate the consumer public on conservation procedures and benefits of certain product utilizations as well as the reasons for fuel cost adjustments, utility rate methodologies and dwindling fuel supplies. However, most utilities, up to the hearing date, had not promoted even off-peak usages since economic conditions worsened in late 1973.

In examining the reports, the Commission found that, in 1974, the average customer of Potomac Electric Power Company residing in Virginia spent approximately 6¢ toward Pepco's advertising expenses.

The Virginia Electric and Power Company spent $254,000 on advertising in 1974. This amount is equal to 10¢ per customer per year.

The Appalachian Power Company's advertising in 1974 cost the average Virginia customer approximately 4¢.

The Commission held that in this case no advertising practice came to its attention that it need proscribe. The Commission also did not discover any irresponsible management practices among the various companies. Rather evidence dictated a finding that management has been responsive to consumer needs and flexible during the fuel crises.

The 1975 hearing is the most recent investigation on record concerning the State Corporation Commission in relation to investigating the promotional allowances and practices of regulated utilities. The Commission, however, maintains the statutory authority to institute any such investigation whenever it feels such action is in the public interest.

RECENT FEDERAL ACTIONS

As part of a national effort to assure the availability of adequate energy sources in the future and reduce dependence upon foreign oil, the National Energy Act (NEA) was enacted on November 9, 1978. The stated objectives of the NEA are to increase conservation and fuel efficiency, encourage domestic production, and reduce the volume of oil and natural gas consumption through increased usage of coal and unconventional sources of energy. These objectives are to be accomplished through state action which is defined in five pieces of legislation which comprise the NEA, namely,

The Public Utility Regulatory Policies Act
The National Energy Conservation Policy Act
The Powerplant and Industrial Fuel Use Act
The Natural Gas Policy Act
The Energy Tax Act

The above Acts, with the exception of the Energy Tax Act, extend the responsibility of state regulatory authorities so as to assure the achievement of the general objectives stated in the NEA. The Public Utility Regulatory Policies Act (PURPA), in particular, significantly impacts state regulatory responsibility in the area of public utility rate making. Titles I and III of PURPA directly address the regulation of retail policies for electric and gas utilities respectively.

The purposes of Titles I and III of the PURPA legislation are to specifically encourage:

1. Conservation of energy supplied by electric and gas utilities;
2. Optimization of the efficiency of use of facilities and resources by electric and gas utilities;
3. Equitable rates to electric and gas consumers.

Title I of PURPA establishes six "rate making" and five "certain" standards that must be considered by state regulatory authorities. These standards pertain to: cost-of-service rates, declining block rates, time-of-day rates, seasonal rates, interruptible rates, load management techniques, elimination of master metering for new buildings, elimination of automatic adjustment clauses, the provision of information to consumers, adequate procedures for termination of service, a standard for "lifeline" rates, and consideration of political and promotional advertising expenses.

PURPA requires the state regulatory authorities to determine if it is appropriate to implement each standard in order to carry out the stated objectives of Title I. The state regulatory authorities must further determine if implementation of each standard is consistent with state law. Specific time periods are prescribed in the Act for conducting evidentiary hearings on the consideration of the standards, for considering and making determinations concerning each standard and for implementing those standards that are determined to be appropriate. Title I further authorizes loans for small hydroelectric facilities at existing dams and encourages cogeneration and low-scale electricity production from renewable resources.

Sections 113 and 115 of Title I and Sections 303 and 304 of Title III of PURPA provide the operational definitions of the rate making standards. Included in these Sections is information on the advertising standard.

The Advertising Standards Under PURPA

Title I Section 113(b)(5) of the Public Utility Regulatory Policies Act states that:

> No electric utility may recover from any person other than the shareholders (or other owners) of such utility any direct or indirect expenditures by such utility for promotional or political advertising . . .

Title I Section 115(h) defines the operative terms of advertising, political advertising and promotional advertising as well as broadly identifying certain areas of advertising that are not included under the standard. The following definitions apply for the purposes of Section 113(b)(5) of Title I:

(1) Advertising - the commercial use, by an electric 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 consumers.

(2) Political advertising - 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

(3) Promotional advertising - any advertising for the purpose of encouraging any person to select or use

the service or additional service of any electric utility or the selection of installation of any appliance or equipment designed to use such utility's service.

The following areas of advertising, as designated by Section 115(h) are excluded from "political advertising" and "promotional advertising":

(1) Advertising which informs electric consumers how they can conserve energy or can reduce peak demand for electric energy.

(2) Advertising required by law or regulation, including advertising required under Part I, Title II of the National Energy Conservation Act.

(3) Advertising regarding service interruptions, safety measures, or emergency conditions.

(4) Advertising concerning employment opportunities with such utility.

(5) Advertising which promotes the use of energy efficient equipment, appliances or services.

(6) Any explanation or justification of existing or proposed rate schedules, or notifications of hearings thereon.

Title III Section 303(b)(2) establishes a similar advertising standard for all gas utilities. The Section states that: "No 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 304(b)." The procedural standards, definitions and designation of areas not included under Section 303 (b)(2), for gas utilities and which are stated in Section 304(b), are similar to those stated for electric utilities in Section 115 (h) of Title I. The same advertising provisions apply for electric as well as gas utilities.

The advertising standard is to be applied to all electric utilities whose total sales of electricity (excluding sales for resale) exceed 500 million kilowatt-hours during any calendar year since December 31, 1975. It applies to all gas utilities whose total sales (excluding sales for resale) exceed 10 billion cubic feet during any calendar year since December 31, 1975. Before November 9, 1980 each state regulatory authority must provide public notice and conduct a hearing on the advertising standards for all qualifying companies and determine if implementation of the respective standard is appropriate to carry out the purposes of the Title. If it is determined that adoption of the standard is appropriate for the purposes of the Title and is consistent with state law, then the standard must be implemented. However, there is nothing in the Act that prohibits regulatory authorities from determining that the standard is inappropriate, in which case written notice stating the reasons for not implementing the standard must be provided and be made available to the public.

STATISTICAL ANALYSIS OF ADVERTISING COSTS

The Commission has compiled a complete statistical analysis of the advertising costs of the major utilities operating in Virginia for the calendar years 1977 and 1978. The following tables provide the information compiled.

Statement I
Page (1) of (2)

TELEPHONE COMPANIES

Analysis of Advertising Expenditures
1978 Statistical Comparisons

Account Number	Description	Central Tele. Co.	C & P Telephone Co.	C. Forge - Waynes. Tele.	Norfolk Carolina Tele.	Shenandoah Tele.	United Inter-Mt. Tele.	General Telephone	Continental Telephone	Total Companies
612	Other Maintenance Expenses	$ 14,941	$	$	$	$	$	$	$	$ 14,941
622	Serv. Inspect. & Cust. Instruct.	30,147								30,147
642	Advertising	68,812	3,715,600	5,769	2,898	1,216	117,864	30,869	66,906	4,009,934
645	Local Comm. Operations	7,463								7,463
649	Directory Expenses	3,144	540,435	1,475				595		545,649
665	Office Salaries & Expenses	18,778								18,778
323	Misc. Income Charges									-
709	Misc. Exp. of Plant Forces		22,301							22,301
621	General Traffic Super.							147		147
705-706	Clearing Accts.-Plant							293		293
	Total Advertising Expenses	$143,285	$4,278,336	$ 7,244	$2,898	$ 1,216	$117,864	$31,904	$ 66,905	$4,649,653
	Sources:									
	Newspaper	$ 47,524	$ 392,775	$ 2,103	$ 81	$ 104	$ 12,311	$11,762	$ 38,004	$ 504,664
	Magazine	18,089	117,125				30,593	2,423		168,230
	Radio	24,674	454,900	1,847		45	11,275	11,060	25,501	529,302
	Television	31,259	2,163,600				60,140	2,424		2,257,423
	Bill Inserts	15,923	195,100	359	264			1,400		213,046
	Salaries & Expenses	5,816	190,000	1,896		540				196,252
	Program Advertising			25		177				202
	Directory		409,100					2,395		411,495
	Brochures/Posters, etc.			498	316		151			965
	Displays		212,300		911	191				213,402
	Film Library		26,400				3,394			29,794
	Advertising Materials			43		80				123
	Miscellaneous/Other		117,036	472	1,326	80		440	3,401	122,755
	Total Advertising Expenses	$143,285	$4,278,336	$ 7,244	$2,898	$ 1,216	$117,864	$31,904	$ 66,906	$4,649,653
	Virginia Jurisdiction	$111,482	$3,083,822	$ 7,244	$2,898	$ 1,216	$ 39,773	$31,904	$ 66,906	$3,345,245
	Number of Main Stations (Va.)	142,598	1,456,240	22,809	9,196	11,271	60,086	24,540	196,744	1,923,484
	Cost per Main Station (Annual)	$ .78	$ 2.12	$ 0.32	$ 0.32	$ 0.11	$ 0.66	$ 1.30	$ 0.34	$ 1.74
	Cost per Main Station (Monthly)	$ 0.06	$ 0.18	$ 0.03	$ 0.03	$ 0.01	$ 0.06	$ 0.11	$ 0.03	$ 0.14

TELEPHONE COMPANIES

Analysis of Advertising Expenditures
1977 Statistical Comparisons

Account Number	Description	Central Tele. Co.	C & P Telephone Co.	C. Forge - Waynes. Tele.	Norfolk Carolina Tele.	Shenandoah Tele.	United Inter-Mt. Tele.	General Telephone	Continental Telephone	Total Companies
612	Other Maintenance Expenses	$ 8,676	$	$	$	$	$	$	$	$ 8,676
622	Serv. Inspect. & Cust. Instruct.	19,348								19,348
642	Advertising	74,336	2,777,200	1,069	2,467	1,527	74,965	19,325	63,708	3,014,597
645	Local Comm. Operations							44		44
649	Directory Expenses	1,740	433,132	1,272				1,942		438,086
665	Office Salaries & Expenses	29,466								29,466
323	Misc. Income Charges	2,140								2,140
709	Misc. Exp. of Plant Forces		16,325							16,325
621	General Traffic Super.							59		59
705-706	Clearing Accts.-Plant							145		145
	Total Advertising Expenses	$135,706	$3,226,657	$ 2,341	$2,467	$ 1,527	$74,965	$21,515	$ 63,708	$3,52[illegible]
	Sources:									
	Newspaper	$ 56,428	$ 481,350	$ 1,163	$ 252	$ 544	$ 8,567	$ 5,863	$ 35,350	$ 589,517
	Magazine	22,019	160,450		837		26,035	2,503		211,844
	Radio	27,704	182,500	592		344	3,510	5,959	24,483	245,092
	Television	16,344	1,460,000				31,842	2,500		1,510,686
	Bill Inserts	8,538	103,000					900		112,438
	Salaries & Expenses	4,673	158,600			514				163,787
	Program Advertising			178		13				191
	Directory		318,800	16				3,542		322,358
	Brochures/Posters, etc.				271		2,707			2,978
	Displays		161,700		1,107					162,807
	Film Library		23,300				2,304			25,604
	Advertising Materials			393		43				436
	Miscellaneous/Other		176,957			69		248	3,875	181,149
	Total Advertising Expenses	$135,706	$3,226,657	$ 2,341	$2,467	$ 1,527	$74,962	$21,515	$ 63,708	$3,5[illegible]
	Virginia Jurisdiction	$106,283	$2,333,032	$ 2,341	$2,467	$ 1,527	$25,421	$21,515	$ 63,708	$2,55[illegible],294
	Number of Main Stations (Va.)	137,284	1,402,015	22,174	8,762	10,949	57,936	23,458	186,560	1,849,138
	Cost per Main Station (Annual)	$ 0.77	$ 1.66	$ 0.11	$ 0.28	$ 0.14	$ 0.44	$ 0.92	$ 0.34	$ 1.38
	Cost per Main Station (Monthly)	$ 0.06	$ 0.14	$ 0.01	$ 0.02	$ 0.01	$ 0.04	$ 0.08	$ 0.03	$ 0.12

GAS UTILITIES

Analysis of Advertising Expenditures
1978 Statistical Comparisons

Account Number	Description	Columbia Gas of Va.	Commonwealth Distribution	Commonwealth Gas Pipeline	Lynchburg Gas Company	Roanoke Gas Company	Southwestern Va. Gas Co.	Vepco Gas Company	Colonial Natural Gas Co.	Washington Gas Light Co.	Total
909	Informational and Instructional Expenses	$ 23,532	$	$	$	$	$	$ 31,402	$	$ 440,845	$ 495,779
910	Misc. Customer Service and Informational Exp.	392									392
921	Office Supplies and Expenses	3,829									3,829
923	Outside Services Employed	6,401									6,401
913/911	Advertising Expenses/ Supervision			1,467	1,340	14,375	7,071		1,291	326,641	352,185
917	Promotional Advertising		6,292		15,073	18,949					40,314
930	General Advertising Expenses	1 624	2 016				1 283	321		183 272	188 515
	Total Advertising Expenses	$ 35,778	$ 8,308	$ 1,467	$ 16,413	$ 33,324	$ 8,354	$ 31,723	$ 1,291	$ 950,758	$ 1,087,416
	Source:										
	Radio	$ 2,656	$ 3,342	$	$ 4,152	$ 1,370	$ 7,617	$ 7,262	$ 283	$ 384	$ 27,066
	Television	8,586			5,473	400				62,753	77,212
	Newspaper/Magazines	13,914	1,841		3,946	24,727	99	17,574	789	112,420	175,311
	Bill Stuffers/ Booklets/Direct Mail	4,221			1,186	6,827	638	6,887		243,324	263,083
	Public Relations	6,401									6,401
	Novelties/Materials to Promote Service		1,045								1,045
	AGA-Pro Rata Share (Institutional)		1,943	1,395						208,014	211,352
	Goodwill		73								73
	Other/Misc.		64	72	1,655				219	193,395	195,405
	Advertising Department-Labor									130 458	130 458
	Total Advertising Expenses	$ 35,778	$ 8,308	$ 1,467	$ 16,413	$ 33,324	$ 8,354	$ 31,723	$ 1,291	$ 950,758	$ 1,087,416
	Virginia Jurisdictional	$ 35,778	$ 8,308	$ 1,467	$ 16,413	$ 33,324	$ 8,354	$ 31,723	$ 1,291	$ 288,939	$ 794,168
	Average Number of Customers	38,220	20,936	6	8,344	30,062	2,895	118,920	5,057	531,664	756,104
	Advertising Cost Per Year Per Customer	$ .9361	.3968	244.50	1.9670	1.1085	2.8856	.2668	.2553	.5435	1.0503
	Amount of MCF's of Gas Sold	13,647,559	5,939,703	*470,290,760	3,113,069	7,124,631	1,189,793	15,303,424	5,005,998	29,861,731	81,185,908
	Advertising Expense per MCF's Sold	$ .0026	.0014	.000003	.0053	.0047	.0070	.0021	.000257	.0097	.0098
	Residential Customers Average Annual MCF Usage for Residential Customers	124.6470	91.3813	-0-	119.1412	130.3200	102.6684	76.4852	125.9742	122.0642	111.5852
	Annual Advertising Cost per Average Residential Customer	$ .3241	.1279	-0-	.6314	.6125	.7187	.1606	.0324	1.1840	1.0935
	Monthly Advertising Cost per Average Residential Customer	$ .0270	.0107	-0-	.0526	.0510	.0599	.0134	.0027	.0987	.0911

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GAS UTILITIES

Analysis of Advertising Expenditures
1977 Statistical Comparisons

Account Number	Description	Columbia Gas of Va.	Commonwealth Distribution	Commonwealth Gas Pipeline	Lynchburg Gas Company	Roanoke Gas Company	Southwestern Va. Gas Co.	Vepco Gas Company	Colonial Natural Gas Co.	Washington Gas Light Co.	Total
909	Informational and Instructional Expenses	$ 9,696	$	$	$	$	$	$ 37,390	$	$ 436,548	$ 483,634
910	Misc. Customer Service and Informational Exp.	678									678
921	Office Supplies and Expenses	2,173									2,173
923	Outside Services Employed	4,944									4,944
913/911	Advertising Expenses/ Supervision			1,373	8,837	3,130	7,379			358,369	379,088
917	Promotional Advertising		8,672		876	5,938					15,486
930	General Advertising Expenses	4 288						1,712		86,929	92,929
	Total Advertising Expenses	$ 21,779	$ 8,672	$ 1,373	$ 9,713	$ 9,068	$ 7,379	$ 39,102	$ -0-	$ 881,846	$ 978,932
	Source:										
	Radio	$ 1,452	$ 5,867	$	$ 3,504	$ 2,173	$ 6,829	$ 6,122	$	$ 51,898	$ 77,845
	Television	8,058			3,275	3,795					15,128
	Newspaper/Magazines	4,474	2,637		445	1,994	542	26,978		94,872	131,942
	Bill Stuffers/ Booklets/Direct Mail	2,851	100		1,027	1,106	8	6,002		255,427	266,521
	Public Relations	4,944									4,944
	AGA-Pro Rata Share (Institutional)			1,300						165,793	167,093
	Other/Misc.		68	73	1,462					170,473	172,076
	Advertising Department-Labor									143 383	143 383
	Total Advertising Expenses	$ 21,779	$ 8,672	$ 1,373	$ 9,713	$ 9,068	$ 7,379	$ 39,102	$ -0-	$ 881,846	$ 978,932
	Virginia Jurisdictional	$ 21,779	8,672	$ 1,373	$ 9,713	$ 9,068	$ 7,379	$ 39,102	$ -0-	$ 271,485	$ 368,571
	Average Number of Customers	38,487	20,828	6	8,495	29,898	2,896	120,257	5,081	534,878	760,826
	Advertising Cost Per Year Per Customer	$ .5659	$ .4164	$ 228.8333	$ 1.1434	$ .3033	$ 2.5480	$ .3252	$ -0-	$ .5075	$ .4844
	Amount of MCF's of Gas Sold	12,627,511	5,472,510	*450,752,220	2,931,606	7,049,142	1,117,899	15,065,178	4,807,089	28,528,806	76,599,728
	Advertising Expense per MCF's Sold	$ .0017	$ .0016	$ .000003	$ .0033	$ .0013	$ .0066	$ .0026	$ -0-	$ .0095	$ .0048
	Residential Customers Average Annual MCF Usage for Residential Customers	121.0245	87.0267	-0-	114.5720	126.5284	98.7582	72.9011	121.1703	118.1118	107.5116
	Annual Advertising Cost per Average Residential Customer	$ .2057	$ .1392	$ -0-	$ .3781	$ .1645	$ .6518	$ .1895	$ -0-	$ 1.221	$ .5161
	Monthly Advertising Cost per Average Residential Customer	$ .0171	$ .0116	$ -0-	$ .0315	$ .0137	$ .0543	$ .0158	$ -0-	$ .0935	$ .0430

* Therms

ELECTRIC UTILITIES

Analysis of Advertising Expenditures
1978 Statistical Comparisons

FERC Account #	Description	Appalachian Power	Delmarva Power	Old Dominion Power	Potomac Edison Co.	Pepco*	Vepco	Total
908	Customer Assistance	$	$	$	$ 13,436	$	$	$ 13,436
909	Inform/Instruct.Advert.Exp.	75,691	1,215	5,416	51,103	512,953	519,044	1,165,422
907	Supervision				461			461
913	Advertising Expenses		49	17				66
921	Office Supplies & Expenses				412			412
930	Miscellaneous General Expenses	387,271	4,983	2,147	1,441	66,575	502,366	964,783
	Total Advertising Expenses	$ 462,962	$ 6,247	$ 7,580	$ 66,853	$579,528	$ 1,021,410	$ 2,144,580
	Source:							
	Radio	$ 61,427	$ 720	$	$ 16,899	$123,932	$ 53,486	$ 256,464
	Newspaper	100,611	2,678	3,411	27,688	12,732	340,432	487,552
	Television	98,631	2,755		500	233,482	413,331	748,659
	Magazine		49			5,086		5,135
	Bill Stuffers		45			101,892	98,698	200,635
	Booklets, Brochures	50,885		992	20,325		115,463	187,665
	Informational & Instructional	48,031		1,167		46,444		95,642
	Posters, Displays			338				338
	Salaries & Expenses			17		16,511		16,528
	Direct Mail, Handouts	67,763						67,763
	Miscellaneous	35 614		1 655	1 441	39 449		78 159
	Total Advertising Expenses	$ 462,962	$ 6,247	$ 7,580	$ 66,853	$579,528	$ 1,021,410	$ 2,144,580
	Virginia Jurisdictional Amt.	$ 208,985	$ 6,247	$ 7,580	$ 11,670	$ 11,069	$ 938,043	$ 1,183,594
	Total Virginia Customers	337,778	15,352	23,769	51,448	2,892	1,156,847	1,588,086
	Cost per Customer (Monthly)	$ 0.052	$ 0.034	$ 0.027	$ 0.019	$ 0.319	$ 0.068	$ 0.063
	Cost per Customer (Annual)	$ 0.62	$ 0.41	$ 0.32	$ 0.23	$ 3.83	$ 0.81	$ 0.75
	Virginia Sales in KWH(000)	10,016,847	290,191	544,061	1,124,952	377,445	33,338,600	45,692,096
	Cost per 1000 KWH (Monthly)	$ 0.002	$ 0.002	$ 0.001	$ 0.001	$ 0.002	$ 0.002	$ 0.002
	Cost per 1000 KWH (Annual)	$ 0.021	$ 0.022	$ 0.014	$ 0.010	$ 0.029	$ 0.028	$ 0.026

* Pepco's comparatively high advertising expense per average customer is primarily due to the customer mix in Virginia; approximately 17% of Virginia jurisdiction customers are large commercial. Therefore, when shown on a cost per 1000 KWH basis, Pepco falls within the range of the other electric utilities.

ELECTRIC UTILITIES

Analysis of Advertising Expenditures
1977 Statistical Comparisons

FERC Account #	Description	Appalachian Power	Delmarva Power	Old Dominion Power	Potomac Edison Co.	Pepco*	Vepco	Total
908	Customer Assistance		$	$	$ 3,991	$	$	$ 3,991
909	Inform/Instruct. Advert. Exp.	102,965	4,610	6,291	7,338	171,852	478,982	772,038
907	Supervision				1,372			1,372
913	Advertising Expenses		588	17				605
921	Office Supplies & Expenses				300			300
930	Miscellaneous General Expenses	541,538	774	2,426	3,945	124,688	438,035	1,111,403
	Total Advertising Expenses	$ 644,503	$ 5,972	$ 8,734	$ 16,946	$296,540	$ 917,017	$ 1,869,712
	Source:							
	Radio	$ 84,328	$ 2,247	$ 316		$ 62,759	$ 140,832	$ 290,482
	Newspaper	190,073	2,580	5,308	7,621	13,021	229,465	448,088
	Television	161,957				28,943	314,644	505,544
	Magazine		33			4,687		4,720
	Bill Stuffers		556			82,106	83,323	165,985
	Directory		543					543
	Booklets, Brochures	75,767		1,188	7,900		148,753	233,608
	Informational & Instructional	18,255		1,008		32,520		51,783
	Posters, Displays			246				246
	Salaries & Expenses			17		63,035		63,052
	Direct Mail, Handouts	71,065						71,065
	Miscellaneous	43 058	13	651	1 425	9 469		54 616
	Total Advertising Expenses	$ 644,503	$ 5,972	$ 8,734	$ 16,946	$296,540	$ 917,017	$ 1,839,712
	Virginia Jurisdictional Amt.	$ 291,679	$ 5,972	$ 8,734	$ 3,017	$ 5,694	$ 841,397	$ 1,156,493
	Total Virginia Customers	331,103	$ 15,138	23,280	50,025	2,853	1,121,906	1,544,305
	Cost per Customer (Monthly)	$ 0.073	$ 0.033	$ 0.032	$ 0.005	$ 0.167	$ 0.063	$ 0.063
	Cost per Customer (Annual)	$ 0.88	$ 0.39	$ 0.38	$ 0.06	$ 2.00	$ 0.75	$ 0.75
	Virginia Sales in KWH(000)	9,794,971	274,109	515,757	1,096,493	373,163	31,828,235	43,882,728
	Cost per 1000 KWH (Monthly)	$ 0.003	$ 0.002	$ 0.001	$ 0.000	$ 0.001	$ 0.002	$ 0.002
	Cost per 1000 KWH (Annual)	$ 0.030	$ 0.022	$ 0.017	$ 0.003	$ 0.015	$ 0.026	$ 0.026

* Pepco's comparatively high advertising expense per average customer is primarily due to the customer mix in Virginia; approximately 17% of Virginia jurisdiction customers are large commercial. Therefore, when shown on a cost per 1000 KWH basis, Pepco falls within the range of the other electric utilities.

PUBLIC COMMENT

The adoption of House Joint Resolution No. 331 clearly indicates that the public is disturbed about utility advertising. The first action by the Commission in conducting the study was to request comments from the public on the question of, "how best to define and identify those categories of advertising, if any, to be excluded from operating expenditures of the utilities for rate making purposes."

In response to the Commission's call for public comment, 273 communications were received. Obviously, these responses do not constitute an opinion poll or scientific survey. Nevertheless, they do provide valuable insight into the thoughts of individuals whose concern is great enough to compose a letter and send it to the Commission.

We did not request that writers identify themselves as members of any particular category, but of the communications we received, the following break-down can be made:

- 7% - Civic organizations and governmental bodies
- 5% - Utility officers and employees
- 4% - Media and advertising interests
- 2% Utility shareholders
- 82% - Utility consumers or unclassified

Our request for comment also did not ask that writers limit their comments to any particular type of utility, but the communications we received concerned specific utility operations:

- 2% - Gas utilities
- 4% - Telephone utilities
- 5% - Telephone and Electric utilities
- 74% - Electric utilities
- 15% - All utilities

Among the responses of the group of consumers and those who did not specifically categorize themselves, 71% said that advertising costs should be borne exclusively by shareholders, 23% were opposed to all utility advertising, 4% believe that all advertising was a legitimate expense of rate payers, 1% would accept conservation advertising as a rate payer expense and 1% saw no need for any change from the way advertising costs are now handled.

Respondents who stated they were utility shareholders were evenly divided in their suggestions. 29% were against all utility advertising and an equal percentage favored a continuation of present procedures. Likewise 14% felt that advertising costs should be borne by shareholders and an identical percentage believed that advertising should be paid by ratepayers. The small number of shareholders who offered comments diminishes the value of these percentages.

The media (newspapers and television and radio stations) and advertising firms were more united in their responses. 92% believed no change from status quo was needed. The remaining 8% said that the costs should be paid by shareholders.

Utility officers and employees were most in agreement to the extent that 95% favored a continuation of the status quo and 5% felt that advertising costs should be included in the expenses to be borne by ratepayers. Every response from telephone, gas and electric cooperative personnel asked that their type of utility be judged separately from the investor-owned electric utilities.

The statements from organizations and governmental bodies revealed that 67% favored advertising costs being borne by shareholders, 21% would permit advertising for conservation to be borne by ratepayers, 8% favored no change from the present procedure and 4% wanted a ban on all utility advertising.

Disregarding categories, of the total of responses received, 63% would assign all advertising costs to shareholders, 19% would prohibit all advertising by utilities, 11% would make no change from present procedures, 4% believe advertising is a legitimate expense for ratepayers and 3% would have conservation advertising only paid by ratepayers.

These statistics cannot demonstrate the types of statements we received and some of the points made. The following excerpts from communications offer a flavoring of the responses:

> Utilities have a large list of customers, so the newspaper, radio and television are the best ways to communicate.
>
> The amount of money spent by utilities is negligible as compared with other businesses that spend an average of 5% on advertising.
>
> Vepco needs to use advertising to respond to critics.
>
> Utility rates are complex and the public deserves to have them explained so the customer can minimize their bill.
>
> It is because utilities are a monopoly that they must advertise. They are the only company providing a service that is vital to the lives and livelihood of every citizen. People have a right to know what utilities are doing and how they can keep their bills in line. They have an obligation to provide this information. If they don't, nobody else will.
>
> Any attempt to interfere with a utility's freedom to communicate is a dangerous first step toward limiting the freedom of speech of all Americans in and out of business.

Utility ads are mainly promotional, aimed at making the utility look good. The only purpose they have is presenting a one-sided view and appear to take the form of propaganda.

Utility rates effectively promote conservation.

Advertisements serve a public relations function for the benefit of stockholders.

Building a good public image should be done through excellent service not self-serving advertisements.

Advertisements which attempt to justify the rising costs of electricity make no mention of the fact that the advertisement is part of the cost increase.

The FCC has allowed non-regulated companies to compete with the telephone companies. The telephone companies need to advertise to compete effectively.

The gas utility lacks a Westinghouse, General Electric or other manufacturer to advertise in its behalf to assist in selling its services.

Electric cooperatives must have a freeflow of information upon which the member, as owner, can base his voting prerogative.

DISCUSSION

Throughout the course of this study the Commission continually explained that the issue is not whether utilities should be permitted to advertise. Utilities have a right to advertise, but because of the fact that utilities are regulated monopolies, their advertising is subject to regulatory review and cost of advertising is subject to ratemaking practices and principles.

The justification offered for advertising differs by type of utility (telephone, electric, gas, etc.). Any discussion must recognize this difference in utility justification.

Telephone Utilities

Telephone utilities spend the largest amount per customer for advertising of the regulated utilities - 20 cents per month per main station. Telephone utilities contend that advertising is necessary to stimulate revenues, control expenses and provide information concerning services offered to subscribers. Also, non-regulated businesses are now offering services and equipment that have traditionally been supplied by telephone companies.

Telephone companies contend that advertising is directed towards stimulation of revenues from special or new services and toll calls, rather than promoting increase demand for basic telephone service. The public interest argument advanced in support of such advertising is that additional revenue is generated that contributes to the support of basic service resulting in lower rates for basic customer service. Additionally, since some traditional telephone services are now offered by non-regulated businesses, the regulated companies argue that they should be permitted to compete by convincing customers to use their service instead of that of their competitors.

Advertising of long distance dialing services is considered beneficial because it is profitable, encourages off-peak usage of facilities, and advises customers of the time intervals for making calls at lower rates.

Some Bell System advertising is for the purpose of addressing pending legislation and also to advise the public of the telephone company's expertise in the field of communications. The cost of this advertising is apportioned among all Bell System companies. The expense to the individual telephone companies appears to be so small that instituting a process to segregate it would not be cost-effective.

Gas Utilities

The average gas utility customer pays nine cents per month for advertising to promote conservation, educate and inform customers and the general public, and to advise of the availability of gas service to new customers.

Conservation advertising encourages customers to insulate or otherwise increase thermal efficiencies and to replace old equipment with newer and more energy efficient equipment.

Information advertising advises customers of such things as special billing plans, proper use of gas and status of gas supplies. Gas companies promote gas safety by sending bill stuffers which release gas odorants and outline the reporting procedure to follow when the odor of gas is present in the home.

Until recently, gas companies had been prohibited from connecting new customers because the supply of gas to Virginia had been severely curtailed. However, during the past year, more gas has become available and companies are now able to add new customers. Advertising is being used to notify the public that gas service for new customers is available.

Gas utilities make substantial use of bill inserts to communicate with their customers, but subjects such as gas safety and the availability of gas for new customers is also communicated through other advertising programs.

Cooperatives

Cooperatives are in effect owned by their customers and the customers select management. The primary vehicle for management communications with owner-customers is a monthly magazine. Past investigations have shown no need or call to impose guidelines on the advertising activities of cooperatives.

Electric Utilities

About two-tenths of one percent of the average residential electric utility customer's bill pays for advertising. Currently, most of this advertising either encourages energy conservation, explains off-peak load utilization or provides information on aspects of the electric utility industry.

Well planned promotion of energy conservation can save the customer money, lead to more efficient use of available energy resources, and enable the utility to meet future customer requirements by reducing the load during peak use periods.

Information advertising is designed to inform the public of specific aspects of the electric utility industry, such as the cost of fuel, which is its largest item of expense.

VEPCO

It is clear that the advertising of Virginia Electric and Power Company is a major public concern. The majority of public comment received by the Commission concerned Vepco.

It is a temptation to judge utility advertising on the basis of the criticism of Vepco's advertising activities. However, fairness to other utilities requires us to resist this temptation. The utility industry operating in Virginia should not be judged on the basis of the advertising program of one company. Rules should not be promulgated or imposed on the entire utility industry operating in Virginia on the basis of inadequacies in the advertising program of one utility, namely, Virginia Electric and Power Company.

Vepco's advertising program has not been well received by the public and has therefore been largely ineffective. Vepco should thoroughly re-evaluate its advertising program to determine those modifications that should be implemented for the long-term interest of its customers and the Commonwealth of Virginia. We believe it is possible to develop positive methods of offering messages that are in the public interest that the public will appreciate without causing the intense negative reaction that Vepco's previous advertising has so often created.

It is doubtful whether a competitive business would survive if its advertising program created even a fraction of the adverse reaction that Vepco's has generated.

Assignment of Cost

It has been suggested that the Commission exert even more supervision over utility advertising and the cost of advertising. We admit priority has not been given to this area of utility activity in the past for several reasons.

Advertising costs do not constitute an appreciable portion of consumers' utility bills when compared to other areas of cost such as fuel costs for electric generation, capital costs for plant expansion and depreciation costs. While the Commission has concentrated more effort on those utility costs which result in higher utility rates, the Commission is well aware that utility advertising, by its very nature, is an activity which is more visible to the consumer on a day-to-day basis. The Commission fully appreciates that any cost, no matter how small in relation to overall expenses, should be carefully managed by utilities.

The degree to which regulation should and can, in fact, control advertising practices and costs of advertising has been the subject of recent debate and litigation. Generally, it is recognized that utilities have a protected right to communicate with the public and its customers without government censorship or unreasonable controls. On the other hand, it appears that advertising which is contrary to the general public interest, such as promoting unrestrained use of energy, can be prohibited.

Some persons propose the establishment of certain classifications for advertising and to charge certain types of advertising to the stockholder and others to customers. The costs for promotional and image advertising would be delegated to stockholders. Information and conservation advertising costs would be covered by customer rates. The framework for such a regulatory scheme is easy to outline - implementation would be much more difficult. An advertisement which one party might consider informational in nature may constitute promotion or image building to another. Or, the advertisement may have the characteristics of two or more classifications.

Telephone utilities use advertising programs to stimulate off-peak usage of telephone facilities in order to increase revenue and thus profits, without any corresponding need to expand plant. Therefore, it is argued, that the fixed cost of plant is spread over a greater base of usage with corresponding benefits to the utility and its customers. Should such advertising be classified as promotional in nature and excluded from consideration in establishing rates? If this cost of advertising is excluded from the ratemaking process, should the beneficial effect of any increase in revenue resulting from such advertising also be excluded from the revenues considered for ratemaking?

Beginning in approximately 1972, a natural gas shortage developed, and gas utilities both voluntarily and pursuant to Commission order, ceased to connect new customers. In fact, some customers fearing the reliability of existing gas supplies, converted to other fuel sources such as oil. Recently, the natural gas supply picture has undergone a substantial turnabout. There is sufficient gas for existing customers and for new customers. Some experts predict that the favorable gas supply situation which we currently enjoy will continue for a number of years into the future. Utilities, along with the Federal Administration, are encouraging the use of natural gas as an alternative to the use of oil. Should gas utilities be permitted to advise the public of the availability of additional gas by paid advertisement and recover such costs in the ratemaking process?

Electrical power is a secondary source of energy. Electricity is generated by the use of primary fuels, including gas, oil, coal, and nuclear. For the past several years there have been no advertising programs of which the Commission is aware extolling the virtues of increased electric consumption.

RECOMMENDATIONS

(1) That each utility voluntarily create advertising advisory committees, composed in majority part of customers, for the purpose of developing and evaluating advertising programs to assure that all advertising has a desirable impact on utility customers and utility operations.

(2) That the Commission continue its study of advertising by utilities in conformity with the provisions of the National Energy Act and that the Commission in furtherance of this study give consideration to:

(a) The National Energy Act requirement that each advertisement show whether it is paid for by customers or shareholders along with the total amount of the advertisement cost.

(b) Requiring each utility that is subject to annual review to show separately on an annual basis its advertising programs, the media used, the cost of such programs, etc. Although the Commission has access to this information it is not now tabulated and shown on a readily reviewable basis. Requiring the utility to separately show this information will allow the Commission to easily monitor advertising programs, costs, impact, and undertake remedial action where cause is found.

(c) Whether advertising costs borne by customers should be limited to:

(1) Reducing peak use of service.
(2) Reducing consumption with a minimum of customer inconvenience.
(3) Explanation of rate design.
(4) Preparations for emergencies, service interruption and shortages.
(5) Information regarding company policies.
(6) And other information of a related nature to the five stated purposes.

(d) The Commission should continue, but with even more emphasis, to "press" the burden of the utility to justify the need and desirability of advertising programs.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
RICHMOND

January 2, 1980

MEMORANDUM

TO: Mr. Buz Jones

Please prepare an Agency Purchase Order to the Division of Legislative Services, Mr. Charlie Hubbard, General Assembly Building, 2nd Floor, 910 Capitol Street, Richmond, VA 23219. This should be prepared under Contract No. 82-9-01 and the amount to be paid will be furnished to us later.

The purpose of this order is to prepare a report pursuant to HJR 331. We will need 100 copies. If you have any questions please call my office or Jennifer Cole with Legislative Services at 61895.

Thanks,
Bernie

Bernard L. Henderson, Jr.

BLHjr/m