American Law Reports 3d

Annotation

CHARITABLE CONTRIBUTIONS BY PUBLIC UTILITY AS PART OF OPERATING EXPENSE

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59 A.L.R.3d 941

JURISDICTIONAL TABLE OF CASES and STATUTES

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ARTICLE OUTLINE

ARTICLE:

While there seems to be general recognition of the power of public utility corporations to make charitable contributions, there are questions whether and under what circumstances a utility may charge such contributions to its operating expenses and thereby, in effect, transfer the cost of the donations to ratepayers. This annotation collects the reported cases n1 in which the courts considered these questions.

The questions discussed by the cases may sometimes be dealt with by statutory law, which is treated in this annotation only insofar as such statutes are reflected in the cases. The reader is therefore advised to consult the current statutory law in the jurisdiction in which he is interested.

[*1b] Related matters

Incidental provision of utility services, by party not in that business, as subject to regulation by state regulatory authority. *85 A.L.R.4th 894.*

Propriety of considering capital structure of utility's parent company or subsidiary in setting utility's rate of return. *80 A.L.R.4th 280.*

Amount paid by public utility to affiliate for goods or services as includible in utility's rate base and operating expenses in rate proceeding. *16 A.L.R.4th 454.*

Validity of "fuel adjustment" or similar clauses authorizing electric utility to pass on increased cost of fuel to its customers. *83 A.L.R.3d 933.*

Advertising or promotional expenditures of public utility as part of operating expenses for for ratemaking purposes. *83 A.L.R.3d 963.*

Power of a business corporation to donate to a charitable or similar institution. *39 A.L.R.2d 1192.*

Power of state or public service commission to regulate, or of court to pass upon reasonableness of, rates of municipally owned or operated public utility,. *127 A.L.R. 94.*

Allowance in fixing rates of public utility for depletion or amortization in respect of natural resources. *91 A.L.R. 1413.*

Profit factor in determining rates for municipally owned or operated public utility. *90 A.L.R. 700.*

Provision for public utility or convenience commonly supplied at expense of taxpayers as subject of valid charitable trust. *50 A.L.R. 593.*

Street easements as a factor in fixing a rate base for a street railway company. *49 A.L.R. 1477.*

Return to which telephone company is entitled. *31 A.L.R. 825.*

Right of carrier to rates which will amortize cost of road. *9 A.L.R. 1232.*

What is an adequate net return for a street railway within the rule that a public utility is entitled to an adequate return. *74 L.Ed. 390.*

Valuation upon which return or income from intrastate railway rates prescribed by a state is to be computed. *57 L.Ed. 1511.*

[*2] Background and summary

The question whether a public utility is entitled to charge a specific rate for its services n2 involves, generally, (a) determination of its rate base, or an evaluation of the property devoted by the utility to the public service, on which an appropriate rate of return will be allowed by the regulatory agency, resulting in the amount of money which the utility may attempt to earn from selling its services, n3 and (b) calculation of the utility's net return, by deducting operating expenses from gross revenues, n4 to determine, by comparison with the allowable rate of return, whether such net return is unreasonable or confiscatory. Operating expense, which is the utility's cost in producing the service, includes numerous items, n5 and the question has often arisen whether, generally, a public utility is entitled to include in its operating expense its contributions to charity. Whether the contribution has a direct relation to the production of the service has often been considered a criterion by some courts, n6 although the fact that the donation enhanced the image of the utility in the community or otherwise contributed to the general welfare has been considered a sufficient benefit to the utility. n7 The amount of the donation n8 and whether it was made to recognized and appropriate charities have also been looked into by the courts in determining the propriety of charging the amount paid to operating expense. n9 On the other hand, a substantial number of decisions have refused to allow public utilities to charge their charitable contributions to operating expense, upon the ground that if such a charge were allowed to be made, ratepayers would be made to contribute without their consent. n10

[*3] Reasonableness of amount contributed as basis for allowance as operating expense

In jurisdictions where public utilities are generally permitted to charge charitable contributions to operating expense, one of the factors taken into account in determining whether such payments qualify as part of the utility's cost of service is the reasonableness of the amount. The courts in the following cases applied or recognized this view. n11

Massachusetts—

American Hoechest Corp. v Department of Public Utilities (1980) 379 Mass 408, 399 NE2d 1.

Ohio————

Cincinnati v Public Utilities Com. (1978) 55 Ohio St 2d 168, 9 Ohio Ops 3d 130, 378 NE2d 729.

Rhode Island—

Providence Gas Co. v Burman (1977, RI) 376 A2d 687.

Virginia——-

Howell v Chesapeake & Potomac Tel. Co., 215 Va 549, 211 SE2d 265, app dismd *423 US 805, 46 L Ed 2d 26, 96 S Ct 13.* Gas utility's use of charitable contributions amount equal to approximately 0.11 percent of gross test-year operating revenues was reasonable where contributions benefited community in which those contributions were made.

In *Denver Union Stock Yard Co. v United States (1932, DC Colo) 57 F2d 735,* an action by a stockyard company to set aside an order which was rendered by the Secretary of Agriculture pursuant to the Packers and Stockyards Act of 1921 and which dealt with the charges by the company for services rendered to its patrons, the court disagreed with the Secretary's reduction of the amount, donated during the test year for philanthropic and other purposes, which was charged to the company's expense account, and pointed out that the amount involved was insignificant and the items excluded not readily identifiable. Noting that the Secretary had made the reduction because, in his judgment, the shippers and employees received no benefit from donations, the court said that the test applied by the Secretary was rather narrow, and observed that if the stockholders or directors of a corporation are willing that their corporation do its part, in a reasonable way, in carrying the public load of the community the prosperity of which is closely interwoven with its own, it would seem to be an exercise of managerial power not subject to the veto of a public official concerned only with the protection of the public against extortion. The court noted that the Secretary himself had found that it was customary for corporations to make donations for the purposes specified by the company. n12

Pointing out that in our highly developed civilization with its numerous complexities, good citizens, including well-conducted public utility corporations, voluntarily contribute small amounts to charity hospitals and other benevolent institutions operating as a part of the life of a given community, the court in *Mobile Gas Co. v Patterson (1923, DC Ala) 293 F 208,* mod on other grounds *271 US 131, 70 L Ed 870, 46 S Ct 445,* an action by a gas company against the Alabama Public Service Commission asking that members of the commission be enjoined from attempting to enforce a rate schedule alleged to be confiscatory, said that it saw no good reason to complain against the entry by the company in its operating expense of several thousand dollars devoted to local charities, the court observing that the contributions were relatively small.

Noting that the contributions of a public utility to recognized local charities amounted to less than one-tenth of one percent of its total operating expenses, the court, in *Application of Diamond State Tel. Co. (1954) 48 Del 317, 103 A2d 304,* affd in part and revd in part on other grounds (Sup) *48 Del 497, 107 A2d 786,* mod on other grounds (Sup) *49 Del 203, 113 A2d 437,* reversed the action of the Delaware Public Service Commission in refusing to include such contributions in the utility's operating expenses. The court pointed out that it was obvious, and it was so testified, that these small contributions were for purposes of good will in the locality, and also, under normal circumstances, the action in making such contributions would seem to have been well within the discretion of a board of directors. n13

The decision of the Florida Public Service Commission relating to the rates, charges, and earnings of a telephone company and of a power and light company, with respect particularly to its allowing the utilities involved to make charitable contributions and deduct them as operating expenses, was affirmed, in *Miami v Florida Public Service Com. (1968, Fla) 208 So 2d 249,* an action where a city sought judicial review by certiorari of the said decisions of the commission. The court pointed out that if the contributions were of a reasonable amount to a recognized and appropriate charity, they may be classified as legitimate operating expenses, and concluded that the city failed to show conclusively

that the contributions were either unreasonable or made to inappropriate charities.

Noting that while charitable contributions should be allowed as a legitimate expense in any business, they are subject to strict scrutiny by the state corporation commission as to their reasonableness and propriety, the court in *Southwestern Bell Tel. Co. v State Corp. Com. (1963) 192 Kan 39, 386 P2d 515,* an appeal from an order rendered in proceedings for a rate increase, noted that there was no contention that the amounts were unreasonable or excessive, and affirmed the trial court's decision holding that the items should be allowed as expense.

Noting that the trend of more recent agency decisions and of the majority of judicial opinions on the subject supports the rule that charitable contributions of a utility are a proper operating expense if reasonable in amount, the court in *New England Tel. & Tel. Co. v Department of Public Utilities (1971, Mass) 275 NE2d 493, 59 ALR3d 899,* an appeal from the final decision, orders, and rulings of the Department of Public Utilities disposing of proposed tariff revisions filed by a public utility, held that it was error to disallow the utility's contributions as operating expenses, and pointed out that a regulated public utility company may properly expend reasonable amounts for charitable purposes and that such expenditures qualify as operating expenses of the company for ratemaking purposes. The court noted that there was no finding by the Department that the amount spent by the utility for charity was unreasonable. n14

Reversing the decision of the Public Service Commission disallowing the small donations of a public utility as an operating expense, the court in *United Gas Corp. v Mississippi Public Service Com. (1961) 240 Miss 405, 127 So 2d 404,* an appeal from an order denying the proposed increase in the rates of a public utility, pointed out that modest contributions to important local charities, made to preserve community good will, should be allowed as operating expenses. The court disagreed with the view that a public utility was not required to give its money to charities, no matter how deserving, but concluded that on remand, the commission might consider the effect of resulting savings, if any, on income taxes, and allow only the net costs of the donations to the utility.

While noting that charitable contributions are not universally regarded as deductible expenses for ratemaking purposes, the court in *Public Service Co. v State (1959) 102 NH 150, 153 A2d 801,* an appeal from an order rendered by the public utilities commission following an investigation of the rates of an electric company, pointed out that in modest amounts and for public purposes, they may properly be allowed as a business expense, and concluded that the donations of the utility in question were properly allowed as such expense.

Noting the conflicting authorities as to whether a gift to a charity by a public utility is properly chargeable as an operating expense, and recognizing the view that such a gift in a modest amount may be charged as an operating expense provided that it is first established that it is productive of good community relations which will benefit the utility or its patrons, the court in *United Transit Co. v Nunes (1965) 99 RI 501, 209 A2d 215,* an appeal from an order of the public utility administrator in a proceeding in which the utility sought an upward increase in its fares, remanded for a determination from the record whether the utility had established that the gifts would so benefit the company or its patrons as to qualify for inclusion as operating expenses.

Noting that utilities are expected to make reasonable charitable donations, the amount so paid out by a public utility was held chargeable to operating expenses, in *Board of Supervisors v Virginia Electric & Power Co. (1955) 196 Va 1102, 87 SE2d 139,* an appeal from an order rendered in a rate proceeding, the court pointing out that the amount was not of any significance in determining the net income in the case.

Public service commissions and other similar administrative agencies have also recognized the propriety of charging a utility's charitable contributions to its operating expense where such payments are reasonable in amount. n15 The following illustrative decisions support this view

Substantially reducing the amount of charitable contributions claimed as chargeable to operating expenses, the New Jersey Board of Public Utility Commissioners, in *Re New Jersey Bell Tel. Co. (1958, NJ) 24 PUR3d 181,* a rate proceeding, pointed out that the propriety of an allowance of donations as expenses must be predicated upon its reasonableness, and concluded that the portion allowed by it was reasonable and had a beneficial effect upon the creation of the service.

Noting that it had in the past not permitted regulated utilities to include charitable contributions as an operating expense on the ground that they were not necessary to the conduct of the business and that they were made at the sole discretion of company officers to donees of their choosing (see § 6 , infra), the New York Public Service Commission, in *Re New York Tel. Co. (1970, NY) 84 PUR3d 321,* involving an application for approval to increase rates, observed that at present, most charities could not function were it not for corporate contributions, and that the corporations themselves,

recognizing their role in the communities in which they operate and their public interest obligations to these communities, have supplied charities with a very large share of the funds needed to carry on their necessary community activities. Accordingly, the commission said that it was reconsidering its past position with regard to charitable contributions by utilities, and held that the contributions made by the utility in question and reflected in the proceeding before it should be allowed as a proper operating expense, the amount thereof being reasonable. The commission added, however, that if such amounts are excessive in total, they may be disallowed entirely, and suggested that the level of contributions during the period in which they were not considered allowable expenses would serve as a bench mark for the future period.

Noting that the allowance or disallowance of a donation as an operating expense would change the rate of return by only .03 percent, the Ohio Public Utilities Commission, in *Cleveland Electric Illuminating Co. v Cleveland (1947, Ohio) 67 PUR NS 65*, an appeal from a municipal ordinance fixing the rates to be charged by utilities, pointed out that with respect to the amount of the contributions, the utility was selective and prudent and, considering that the impact of the item was insignificant as to any ratepayer, the same should be allowed as operating expense.

[*4] Benefit to utility or its patrons as basis for allowance as operating expense

[*4a] Direct benefit to utility or its patrons as required

In determining whether a public utility can legally charge its charitable contributions to operating expense, some courts have inquired whether, by making such payments, the utility or its patrons has derived a direct benefit. n16

In Reno Power, Light & Water Co. v Public Service Com. (1923, DC Nev) 298 F 790, the court without further discussion refused to allow a public utility to charge its charitable contributions to operating expenses unless they could be shown in some way to have been incurred in the service of and for the benefit of the patrons of the utility. The action was on appeal from an order by the public service commission of Nevada denying a petition by the utility for authority to increase its rates for gas supplied to the public.

Noting the rule, said to be well settled, that donations are not a proper operating expense unless it is shown that they will be of some peculiar benefit to the company or its patrons, n17 the court in *Peoples Gas Light & Coke Co. v Slattery (1939) 373 Ill 31, 25 NE2d 482,* app dismd *309 US 634, 84 L Ed 991, 60 S Ct 724,* an appeal from a decree enjoining the Illinois Commerce Commission from enforcing against a public utility certain rates for gas, held without further discussion that the commission did not err in excluding the utility's charitable contributions from its operating expenses. n18

Utility would be permitted to include charitable contributions in cost of service if utility could prove to regulatory agency that contributions provided some clear benefit to ratepayers, either as matching program that qualified as employee benefit or in some other sufficiently direct manner. *Boston Gas Co. v Department of Public Utilities (1989) 405 Mass 115, 539 NE2d 1001.*

Public service commission properly disallowed some of electric company's cost–of–service deductions for charitable contributions and allowed others, since commission had rational basis for distinguishing between one charity, whose work had broad salutory effect that touched most and perhaps all of company's rate payers, and educational institutions whose work did not. *Detroit Edison Co. v Public Service Com. (1983) 127 Mich App 499, 342 NW2d 273* (citing annotation).

Agreeing with the view that where utility corporations have inherent or statutory power to make charitable gifts and donations, the payment is properly allowed in a rate determination as an operating expense where it has an effect upon the creation of the service or product of the corporation and therefore may be considered as reasonably necessary in the rendition of service to the consumer, the court in *New Jersey Bell Tel. Co. v Department of Public Utilities (1953) 12 NJ 568, 97 A2d 602,* an appeal from an order of the board of public utility commissioners denying a public utility an increase in its intrastate rates, held that the board should have allowed as an operating expense the charitable contributions of the utility upon a showing of their relationship to the functional operation of the company, but the court concluded that the gross amount of the item, even if allowed, was insufficient to affect the reasonableness of the existing rates and therefore did not require any remand in this respect.

Utility would be allowed to include charitable contributions as above–the–line operating expense if utility could show expense was reasonable and purpose directly beneficial to rate payer. *Providence Gas Co. v Burman (1977, RI) 376 A2d 687.*

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The following case may be noted as possibly suggesting that charitable contributions are generally not to be considered part of a utility's operating expense unless the nonpayment of the donations would have an adverse effect upon the utility.

In *Solar Electric Co. v Pennsylvania Public Utilities Com. (1939) 137 Pa Super 325, 9 A2d 447,* a rate proceeding involving an electric utility, the court upheld the disallowance of the company's charitable contributions as operating expenses. Noting that the amounts were trivial, the court said that the expenditures were entirely optional and that it did not appear that any adverse effect on the revenue of the utility would ensue if the contributions were not made. n19

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The view that a public utility can charge its charitable contributions to its operating expenses has been applied or recognized by some public service commissions or other similar administrative agencies. n20 Illustrative of this view are the following decisions

The amount contributed by a public utility for long–range programs for the rehabilitation of the city in which it was located and which had recently been ravaged by rioting and burning was held properly chargeable to service expense, in

Re Detroit Edison Co. (1970, Mich) 83 PUR3d 463, an application before the Michigan Public Service Commission for the determination of the utility's rates and charges, the commission pointing out that the problems being dealt with by the organizations in charge of the rebuilding activities were such an integral part of the utility's ability to serve its entire area that the commission made an exception to its declared prohibition against allowing civic donations as a cost–of–service item. n21

The donations of a public utility to an organization engaged in the rehabilitation of portions of a city heavily damaged by rioting were considered proper operating expenses, in *Re Michigan Bell Tel. Co. (1970, Mich PSC) 85 PUR3d 467*, an action in which the utility sought authority to increase its telephone rates, the commission agreeing with the utility that there were substantial and material benefits flowing back to all of its customers within its entire service area, and observing that the reduction of threats to employees going to and from the company's headquarters to their residences and business establishments was essential to continual and efficient high–quality and improved service. The commission noted the patent and tragic deterioration of the large part of the company's service area as represented by the recent civil disorders of 1967, and agreed with the decision of the utility to maintain and enlarge its headquarters within the heart of the downtown section of the City of Detroit. The commission concluded that any sincere efforts by a public utility to participate in programs to reverse that trend of deterioriation are so beneficial to its entire service area that its financial contributions should be allowed as part of its operating expenses.

Noting that its policy for some time has been and continues to be, in rate proceedings, to eliminate from operating expenses all contributions other than those closely associated with the type of utility under consideration, the Missouri Public Service Commission, in *Re Kansas City Power & Light Co. (1955, Mo) 8 PUR3d 490*, a proceeding upon a petition for approval to increase rates, pointed out that while it did not question the propriety or advisability of making the contributions in question, it was unable to draw the line between the contributions which may benefit the company and those which will probably be nonproductive, and added that the benefits, if any there be, realized by the company by reason of such contributions would inure to the stockholders to a greater extent than to the customers. The commission thereby in effect disagreed with the contention of the utility that the company and its customers receive benefits through the building of better citizens who would be better customers and who would support a more prosperous community.

In Re New York Tel. Co. (1932, ICC) PUR1933C 409, a proceeding instituted by the Interstate Commerce Commission to inquire into the propriety of the inclusion in operating expenses of a payment by a telephone company to an unemployment relief fund, which was part of a nationwide voluntary welfare organization for unemployment relief, the commission said that the amount was not chargeable to operating expenses and should have been charged to the profit and loss account of the utility. Noting that contributions to certain organizations or entities mentioned by it in its earlier rulings have the characteristics in common that they are or may under appropriate circumstances be directly and intimately related to the protection of the property of the company or the development of its business or the welfare of its employees, the commission pointed out that there was no direct or intimate relation to the protection of the property of the telephone company or the development of its business or the welfare of its employees in the case of the contribution under consideration. The commission said that the contribution had only the most indirect and remote relation to the welfare of the telephone company and of its property, business, and employees, and that was only such relation as might be traced in the case of most contributions for general charitable or social welfare purposes. The commission said that the powers and duties of the company were confined to those conferred or imposed upon it by its charter, and these did not include the fostering of the general welfare of the community, and when the company made contributions for these general purposes and charged them to the expense of its telephone operations, it was in effect exacting or attempting to exact these contributions from the users of its telephone service. It was the right of these users, the commission continued, and not the right of the company, to decide what contributions of this character they shall make. The commission concluded that only such contributions for charitable, social, or community welfare purposes are properly chargeable to operating expenses as can be shown to have a direct or intimate relation to the protection of the property of the company or the development of its business or the welfare of its employees.

[*4b] Promotion or enhancement of utility's good will, contribution to general welfare, and similar rationale

The view that in order that a public utility can charge its charitable contributions to operating expense, it must derive a benefit from the donations, n22 has apparently been liberalized by some courts in the following cases, in which it was held or recognized that payments which promote the utility's good will or otherwise contribute to the welfare of the community served by it qualify as operating expenses. n23

In *Denver Union Stock Yard Co. v United States (1932, DC Colo) 57 F2d 735*, an action by a stockyard company to set aside an order which was rendered by the Secretary of Agriculture pursuant to the Packers and Stockyards Act of 1921, and which involved the charges by the company for services rendered to its patrons, the court, disagreeing with the Secretary's reduction of the amount donated during the test year for philanthropic and other purposes, which amount was charged to expense, said that the Secretary had made the reduction because, in his judgment, the shippers and employees received no benefit from the donations. According to the court, the test thus applied was rather narrow, the court adding that if the stockholders or directors of a corporation are willing that their corporation do its part, in a reasonable way, in carrying the public load of the community the prosperity of which is closely interwoven with its own, it would seem to be an exercise of managerial power not subject to the veto of a public official concerned only with the protection of the public against extortion. n24

The small amounts contributed by a public utility to recognized local charities were held properly chargeable to its operating expense, in *Application of Diamond State Tel. Co. (1954) 48 Del 317, 103 A2d 304*, affd in part and revd in part on other grounds (Sup) *48 Del 497, 107 A2d 786*, mod on other grounds (Sup) *49 Del 203, 113 A2d 437*, an appeal from an order of the Delaware Public Service Commission denying a substantial portion of the rate increase sought by a telephone utility, where the court pointed out that charitable contributions by a utility would be denied as operating expenses for ratemaking purposes unless it was shown that they were for the benefit of and incurred in the service of the patron of the utility. The court said that this meant that the utility must be shown to have received some tangible benefit from the gift, and observed that the charities in question, such as the Red Cross and the United Fund, were patrons of the utility. Moreover, the court said that the fact that these contributions were in the interest of community good will was of substantial importance. Observing that directors of local charities are usually prominent citizens in the locality who are more interested in seeing a given corporation contribute than listening to reasons why it thinks it cannot, the court concluded that since the contributions involved were very modest, all to local charities and obviously for goodwill purposes, the utility in question had substantially complied with the spirit of the announced rule. n25

Noting with approval the decision of the public service commission where it stated that charitable contributions are a part of a utility's cost of doing business and that public utilities must be good citizens and the public expects contributions such as those involved in the present case, the court in *Miami v Florida Public Service Com. (1968, Fla) 208 So 2d 249*, approved orders of the commission allowing a telephone company and a power and light company to make charitable contributions and deduct the amounts so paid as part of their operating expenses.

Pointing out that charitable contributions by a public utility are necessary if it is to maintain its standing and good will in a community, and noting that such expenditures should be allowed as a legitimate expense in any business, the court in *Southwestern Bell Tel. Co. v State Corp. Com. (1963) 192 Kan 39, 386 P2d 515*, an appeal from an order rendered in proceedings before the state corporation commission for a rate increase, affirmed the lower court's holding that the amounts should be allowed as operating expense.

While saying that it did not feel compelled to assume or decide whether a utility's charitable expenditures were in furtherance of its social responsibility to the community from which it derived its revenues or whether the payments were in furtherance of the utility's own purposes in the promotion of better public relations, good will, or community acceptance, but noting that such contributions are vital to establish and improve public relations, much in the same way as advertising, the court in *New England Tel. & Tel. Co. v Department of Public Utilities (1971, Mass) 275 NE2d 493, 59 ALR3d 899*, an appeal from a decision disposing of the proposed tariff revisions filed by a telephone company, concluded that it was error to disallow the utility's charitable contributions as operating expenses, there being no showing that the amounts thus donated were unreasonable.

The small amounts representing charitable contributions of a public utility were held properly includible in its operating expenses, in *United Gas Corp. v Mississippi Public Service Com. (1961) 240 Miss 405, 127 So 2d 404*, the court pointing out that the contributions, which were reasonable in amounts, were related to the fostering of the good will of the company in the localities in which it operated. The court accordingly reversed the decision of the commission in a

rate proceeding disallowing such donations as operating expenses.

Affirming the decision of the public utilities commission allowing as an expense the amount spent by a public utility for charitable contributions, the court in *Public Service Co. v State (1959) 102 NH 150, 153 A2d 801,* an appeal from an order rendered by the commission following an investigation of the rates of the utility, noted that such contributions are vital to establish and improve public relations and are in a category with advertising.

Recognizing the view that a gift by a public utility to a charitable organization in a modest amount may be charged as an operating expense provided that it is first established that it is productive of good community relations which will benefit the utility or its patrons, the court in *United Transit Co. v Nunes (1965) 99 RI 501, 209 A2d 215,* an appeal from an order of the public utility administrator in a proceeding in which the company sought an upward revision of its fare structure, remanded the case to permit the administrator to ascertain whether the utility had established that the gifts would benefit the company or its patrons.

Observing that utilities are expected to make reasonable charitable donations, because a refusal might bring on the loss of the good will of the community that it serves, while other businesses make donations for worthy causes, the court in *Board of Supervisors v Virginia Electric & Power Co. (1955) 196 Va 1102, 87 SE2d 139,* an appeal from an order rendered in a rate proceeding, allowed the utility's donations as part of its operating expenses.

Some public service commissions and other similar administrative agencies have applied or recognized the view that the benefit accruing to the public utility or its patrons which would justify charging the utility's charitable donations to operating expense may consist of promotion or enhancement of the utility's good will or of a contribution to the welfare of the community served by it. n26 The following cases illustrate this view as thus recognized by administrative agencies

Noting that public utilities must be good citizens and that the public expects contributions such as those involved in the case before it, the Florida Railroad and Public Utilities Commission, in *Re General Tel. Co. (1962, Fla) 44 PUR3d 247,* a proceeding in which the utility asked for authority to increase its telephone rates, held that the company's charitable contributions, which were reasonable in amount, could be properly charged to its operating expenses. n27

Reviewing current accounting practices among the regulated utility companies in the state with respect to donations and charitable contributions, among others, the New York Public Service Commission in *Re Accounting Treatment for Donations, Dues, and Lobbying Expenditures (1967, NY) 71 PUR3d 440,* pointed out that generally, donations, gifts, and contributions should be charged by public utilities to an account called miscellaneous income deductions, instead of to operating expenses, although if for any reason a utility felt that such an expenditure should be allowed in considering rates, it should sustain the burden of proving the reasonableness of that claim in the context of the commission's ratemaking procedures. Apparently suggesting one ground for justifying a consideration of such contributions as part of operating expenditures, the commission noted attempts in recent years to rationalize gifts to educational institutions as chargeable to operations on the theory of some corporate benefit being derived, such as encouraging greater interest in power engineering and thereby helping to fill a gap in the supply of professional help. The commission noted in this connection that a provision of the general corporation law prohibiting the inclusion in operating expense accounts of the charitable contributions of public utilities had been amended by omitting this prohibition although continuing to recognize the right to make donations for the public welfare.

Recognizing the present trend in which most charities could not function were it not for corporate contributions, and that the corporations themselves, recognizing their role in the communities in which they operate and their public interest obligations to these communities, have supplied charities with a large share of the funds needed to carry on their necessary community activities, the New York Public Service Commission, in *Re New York Tel. Co. (1970, NY) 84 PUR3d 321,* a proceeding in which a telephone company sought approval to increase its rate, reconsidered its past position with respect to the consideration as operating expense of charitable contributions by public utilities, and allowed the reasonable contributions of the utility in question as part of its operating expenses. n28

Noting that donations such as those made by the public utility in question are made by corporations generally and that the purposes for which such contributions were used contributed to the general welfare of the city, and observing further that the utility's management was shown to be civic–minded, alert to the needs of the community that it served, and was striving to provide a utility service of the highest character, the small amount representing its charitable contribution was allowed as an operating expense, in *Cleveland Electric Illuminating Co. v Cleveland (1947, Ohio) 67 PUR NS 65,* a proceeding before the Ohio Public Utilities Commission on the reasonableness of the rate fixed by a municipal ordinance, the commission concluding that with respect to the purpose of the contribution, the utility had been selective and prudent.

n29

In Re El Paso Natural Gas Co. (1971, FPC) 90 PUR3d 462, a proceeding before the Federal Power Commission for increased rates, certain donations made by the utility to various charities were properly allowed in the cost of service as an operating expense. The Commission noted that reasonable charitable contributions are very much an obligation of a business enterprise to the community that it serves and upon which it is dependent for its revenues. According to the commission, to ignore a commitment to the general welfare would be unthinkable and very much in contradiction to the spirit of the times, the Commission adding that this view was particularly applicable to a regulated enterprise whose identification with the public interest was instinctive in the legislation which gave rise to its regulation.

[*5] Fact that recipients are recognized charities as basis for allowance as operating expense

That the recipients of a utility's charitable contributions were recognized charities was considered a factor, among others, by the courts in the following cases in determining whether the amounts thus paid were chargeable to the utility's operating expenses.

Recognizing the view that contributions of a reasonable amount to recognized and appropriate charitable institutions constitute proper operating expenses, the court in *Miami v Florida Public Service Com. (1968, Fla) 208 So 2d 249,* an action in which a city sought judicial review by certiorari of orders of the Florida Public Service Commission relating to the rates and charges of the utilities involved, concluded that the city failed to show conclusively that the amounts contributed by the companies in question were either unreasonable or made to inappropriate charities.

Observing that the trend of more recent agency decisions and of the majority of judicial opinions on the subject supports the rule that charitable contributions by a public utility are a proper operating expense if reasonable in amount, the court in *New England Tel. & Tel. Co. v Department of Public Utilities (1971, Mass) 275 NE2d 493, 59 ALR3d 899,* an appeal from a decision of the Department of Public Utilities disposing of the proposed tariff revisions filed by a telephone company, held that the Department erred in refusing to allow the donations to be charged to operating expenses. Noting that the utility's policy on charitable contributions was determined by its board of directors and that the recipients were usually institutions or organizations which either enjoy a broad base of public support in a community served by the company or whose activities or program are related to the community at large or to a substantial segment of the community, typical of which were United Fund combined drives, general hospital campaigns, the Red Cross, Cancer Fund, and similar charities, the court pointed out that there was no finding by the Department that there was any impropriety in the selection of beneficiaries of the charitable expenditures.

The view that the nature of the recipients of a utility's charitable donations is an appropriate factor to be taken into account in determining whether such payments are a proper operating expense of the utility has been recognized by some public service commissions and other similar administrative agencies, as illustrated by the following cases.

Allowing the deductions of charitable contributions as an operating expense of a gas pipeline company, the Federal Power Commission, in *Re United Gas Pipe Line Co. (1964, FPC) 54 PUR3d 285,* a proceeding initiated by the company under the Natural Gas Act for the purpose of seeking an annual increase in the rates and charges to their customers, pointed out that the sum claimed represented only about one–twentieth of one percent of the company's cost of service, and said that contributions of a reasonable amount to recognized and appropriate charitable institutions constitute a proper operating expense. According to the Commission, corporations have an obligation to the community in which they are located and they are expected to recognize these obligations, the Commission concluding that these contributions have an important relationship to the necessary cost of doing business. n29.5

Reconsidering its past position with regard to charitable contributions by utilities in the light of the present situation in which most charities have been relying more heavily upon corporate contributions for their resources, the New York Public Service Commission, in *Re New York Tel. Co. (1970, NY) 84 PUR3d 321,* a rate proceeding, held that it had examined the individual items and found that the company had exercised prudence both as to the recipients of the contributions and in the amounts donated. While emphasizing that it was not its function to screen lists of contributions to pick out the good from the bad, the commission stated that if the donees as a group are not relevant to the civic responsibilities of the public utility, it may disallow the contributions entirely.

[*6] Contributions as involuntary levy on customers of utility; disallowed as operating expense

In the following decisions holding or recognizing that public utilities do not have the power to charge their charitable contributions to their operating expense, the courts have pointed out that were the utilities allowed to do so, their customers would in effect be in the position of being asked to contribute to causes with which they may not agree or to which they may already be giving aid, and would, in any event, be compelled to make such donations without their consent. n30

Alabama———

Alabama Power Co. v Alabama Public Service Com. (1978, Ala) 359 So 2d 776 affd *390 So2d 1017.*

Maine———-

New England Tel. & Tel. Co. v Public Utilities Com. (1978 Me) 390 A2d 8.

North Carolina–

State ex rel. Utilities Com. v Southern Bell Tel. & Tel. Co., 24 NC App 327, 210 SE2d 543, vacated on other grounds *289 NC 286, 221 SE2d 322.*

Ohio———

Cleveland Electric Illuminating Co. v Public Utilities Com. (1982) 69 Ohio St 2d 258, 23 Ohio Ops 3d 254, 431 NE2d 683.

Agreeing with the policy of the California Public Utilities Commission to exclude from operating expenses for ratefixing purposes all amounts claimed for dues, donations, and contributions, and agreeing with the commission's disallowance of certain donations paid by a telephone company to various charities, colleges and universities, hospitals, and the like, the court in *Pacific Tel. & Tel. Co. v Public Utilities Com. (1965) 62 Cal 2d 634, 44 Cal Rptr 1, 401 P2d 353,* a review of the proceedings initiated by the commission to investigate the rates, charges, and services of the telephone company, quoted with approval from the decision of the commission which observed that dues, donations, and contributions, if included as an expense for ratemaking purposes, become an involuntary levy on ratepayers, who, because of the monopolistic nature of utility service, are unable to obtain service from another source and thereby avoid such a levy; ratepayers should be encouraged to contribute directly to worthy causes and not involuntarily through an allowance in utility rates. According to the commission, even conceding the worthiness of the donees and benefits in good will reaped by the public utility, many ratepayers may not approve various of the donations made and they should be permitted to exercise their own free choice in such matters. The court pointed out that, assuming that, as argued by the telephone company, many of the objects of its bounty might otherwise require or receive support from taxpayers and that it is thus helping to keep taxes from rising, nevertheless, the company is not authorized to exact from its customers payments in lieu of taxes.

Approving the decision of the Public Utilities Commission of Connecticut, which disallowed as an operating expense an amount representing the intrastate portion of a public utility's charitable contributions, the court in *Southern New England Tel. Co. v Public Utilities Com. (1970) 29 Conn Supp 253, 282 A2d 915,* an appeal from a decision of the commission with respect to the utility's proposed amendments to its existing rate schedule which would increase the rates and charges for telephone service rendered by the company, rejected the utility's contention that it was extremely important to its existence as a service organization that the towns in which it operated have good hospitals, educational institutions, and other organizations beneficial to the entire community, and that if it did not make charitable contributions, it would acquire a bad reputation which might be reflected in its relation with the public and public officials, and that such contributions are a necessary cost of doing business. While noting that the commission did not disapprove of such contributions but believed that it was the responsibility of the stockholders and should not be considered as an operating expense, the court observed that charitable contributions have not been universally regarded as a deductible expense for ratemaking purposes. The court noted that there is substantial opinion in favor of regarding such contributions as an involuntary levy on ratepayers who, because of the monopolistic nature of utility service, are unable to obtain service from another source and thereby avoid such a levy, while others consider charitable contributions a matter of personal choice which should not be hidden in a customer's bill, especially when their beneficial effects may be far removed from the customer's community. Noting that the Federal Communications Commission has consistently refused to change the uniform system of accounts so that all contributions might be charged directly to operating expenses, the court concluded that there was a sufficient basis in the facts presented to support the conclusion reached.

Public service commission properly disallowed charitable contributions of telephone company as operating expenses, where commission, in non–rulemaking proceeding, had adopted industry–wide policy that such contributions would be disallowed and where commission did not act in arbitrary or capricious manner. *Southern Bell Tel. & Tel. Co. v Florida Public Service Com. (1983, Fla) 443 So 2d 92.*

Noting that the courts in some jurisdictions disagree on whether charitable contributions by public utilities should be included in operating expenses for ratemaking purposes, the court in *Illinois Bell Tel. Co. v Illinois Commerce Com. (1973) 55 Ill 2d 461, 303 NE2d 364,* involving an action by a telephone company for approval of rate increases, held without further discussion that the allowance of the company's contributions to various charitable organizations as operating expenses constituted an involuntary assessment on the utility's patrons. The company had argued that its contributions met the requirements of *Peoples Gas Light & Coke Co. v Slattery (1939) 373 Ill 31, 25 NE2d 482,* supra § 4[a] , app dismd *309 US 634, 84 L Ed 991, 60 S Ct 724,* in which it was stated that donations are not a proper operating expense unless it is shown that they will be of some peculiar benefit to the company or its patrons. n31

In *Davenport Water Co. v Iowa State Commerce Com. (1971, Iowa) 190 NW2d 583,* an appeal from an order of the Commerce Commission holding a public utility's proposed rates unreasonable, the court agreed with the commission that the charitable donations of the company were not chargeable as operating expense but should instead be made from the utility's earnings. The court quoted with approval from the Commission's decision, which, while hoping that the company would continue to support worthy charities and civic groups, pointed out that the donations should not be made at the expense of the customers without their knowledge or consent; customers should not be required to make donations involuntarily through charges in their utility rates.

In case involving application by telephone company for increased rates, state public service commission did not err in disallowing charitable contributions as operating expenses where commission had adopted Uniform System of Accounts, which treats charitable contributions as non–operating expenses for rate–making purposes; such disallowance was not unwarranted usurpation of management prerogatives and, though utility was free to make such contributions, expense should be born by stockholders, and not by ratepayers. *South Cent. Bell Tel. Co. v Public Service Com. (1985, Ky App) 702 SW2d 447.*

In *Central Maine Power Co. v Public Utilities Com. (1957) 153 Me 228, 136 A2d 726,* the court noted generally that contributions to charity by a public utility should come from its stockholders and should not be subtracted from the utility operating income for ratemaking purposes.

Holding that the public service commission did not err in disallowing a utility's charitable contributions as operating expense, the court in *Chesapeake & Potomac Tel. Co. v Public Service Com. (1963) 230 Md 395, 187 A2d 475,* an appeal from an order rendered in a rate case, pointed out that if charitable contributions are allowed as an operating expense of a monopoly, it amounts to an involuntary levy on the ratepayers, the court stating that the utility itself must bear the burden of the expenditures.

Although reclassification of charitable donations as operating expenses of electric utility for rate making purposes was authorized by case law in effect, in future, such contributions would not be considered essential costs or proper operating expenses of conducting business of public utility. *State ex rel. Allain v Mississippi Public Service Com. (1983, Miss) 435 So 2d 608.*

In proceeding challenging administrative disallowance of charitable contributions from operating expenses of public utility, lower court properly affirmed exclusion since contributions were adequately encouraged by tax laws, contributions were discretionary and not normal business expenditures, benefits from contributions accrued to and should be borne by shareholders, and inclusion in operating expenses would have amounted to involuntary contribution by utility users to various charities. *State ex rel. LacLede Gas Co. v Public Service Com. (1980, Mo App) 600 SW2d 222.*

Upon review of administrative orders granting public utility rate increases, in which public utilities commission had included charitable contributions in utility's operating expenses for purpose of rate–making, reviewing court would reverse inclusion of contributions since such amounted to involuntary levy upon consumers in that benefits of charitable contributions accrued more to shareholders than to consumers. *Cleveland v Public Utilities Com. (1980) 63 Ohio St 2d 62, 17 Ohio Ops 3d 37, 406 NE2d 1370.*

Order of corporation commission did not conflict with statute authorizing business corporations to make charitable contributions where order did not prohibit corporation from making contribution but denied corporation right to include

such sums as operating expenses for ratemaking purposes. *State v Oklahoma Gas & Electric Co. (Okla) 536 P2d 887.*

Utilities & Transportation Commission did not have statutory authority to allow charitable contributions by telephone company to be included in determination of operating costs to set new rate structure, where grant of monopoly status to telephone company did not include right to compel telephone users to make involuntary contributions. *Jewell v Washington Utilities & Transp. Com. (1978, Wash) 585 P2d 1167.*

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Attention is invited to the following case where the court, in refusing to allow a public utility to charge its charitable contributions to operating expense, emphasized that the purpose of the utility was to earn and pay dividends.

The donations of a gas company were eliminated from its expenses, in *Carey v Corporation Com. of Oklahoma (1934) 168 Okla 487, 33 P2d 788,* an appeal from an order reducing the rates of the utility, the court pointing out that while management had the discretion to make donations, it should not be allowed to increase the earnings of the utility to take care of such expenditures. According to the court, the ultimate purpose of a corporation is to earn and pay dividends.

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The view that to allow public utilities to charge their charitable contributions to operating expense would be to impose an involuntary levy upon their patrons has been recognized or applied by public service commissions and by other similar agencies, n32 and some of these agencies have simply held or stated that charitable contributions by public utilities should be borne by the investors thereof and not by the ratepayers. n33

The following illustrative administrative decisions hold or recognize that allowing public utilities to charge charitable contributions to their operating expense would amount to compelling their ratepayers to give donations without their consent.

Upon the ground that allowing charitable contributions to be charged to operating expenses would be placing the customers of the utility in the position of being made involuntary contributors to charities dependent upon the discretion of the company as to the particular charity and the amount of the gift, the Connecticut Public Utilities Commission, in *Re United Illuminating Co. (1971, Conn) 91 PUR3d 182,* a proceeding where the company sought approval of an increase in its electric rates to all residential, commercial, and industrial customers, refused to allow such contributions as operating expenses while noting that the utility was still free to make such contributions as it deemed proper, charging the payments, however, to its stockholders.

In Re Michigan Bell Tel. Co. (1957, Mich) 20 PUR3d 397, a proceeding on the application of a telephone company to increase its rates and charges, the Michigan Public Service Commission agreed with its staff that if contributions by the utility to charities are allowed as an expense for ratemaking purposes, such contributions become involuntary donations by the ratepayers, for which the ratepayers get no income tax credit. The commission rejected the utility's argument that charitable contributions cannot be avoided, and if paid, the net cost would reduce the investors' return, regardless of whether or not it is allowed by the commission for rate case purposes.

Holding that items of expenses representing charitable donations should be eliminated from the cost of service of a public utility, the Michigan Public Service Commission, in *Re General Tel. Co. (1961, Mich) 41 PUR3d 469,* involving an application to increase rates, agreed with its staff that, in effect, charitable contributions are involuntary payments by customers if they are treated as operating expenses, and that since the customers have no voice in determining the amounts of these contributions, or to whom they are made, they should not be forced to bear their cost. Rather, the commission said that the stockholders should assume the burden of such donations. In so holding, the commission rejected the utility's position that these expenditures are a necessary part of its present–day business operations if it is to maintain its proper status in the communities that it serves, and that these items contribute to the public welfare of the communities and that the company, along with other businesses and residents in these communities, should assist in promoting the public welfare.

Although apparently deciding contrary to a later New York position (see §§ 3 , supra), in *Re Brooklyn Borough Gas Co. (1937, NY) 21 PUR NS 353,* an investigation of the rates and charges of a public utility, the New York Department of Public Service disallowed as operating expenses the utility's charitable contributions, and pointed out that such donations must not be shifted to the consumers by charging these amounts to expenses, and added that consumers as such have a right to determine for themselves what charitable institutions they desire to support and to what extent, and the utility

may likewise decide which charitable organization it wishes to support and to what extent, but not at the expense of its consumers.

Excluding a public utility's contributions and donations from allowable intrastate operating expense, the Pennsylvania Public Utility Commission, in *Pennsylvania Public Utility Com. v Bell Tel. Co. (1949, Pa) 81 PUR NS 316,* said that the argument of the company avoided the point at issue, where it was contended that in orders rendered by the commission prior to 1945, the disallowance of contributions was reasonable, because under state law, corporations had no authority to give away their assets, but its disallowance of contributions at the present time would not be reasonable, since the 1945 revision of state law permitted such contributions. The commission said that the issue was whether it could force the subscribers of the utility to become involuntary contributors to charities designated by the company, and said that while it did not question the managerial discretion of the company and the legality of such gifts to worthy charities, the contributions should be absorbed by the stockholders rather than assessed upon the ratepayers.

In *Lone Star Gas Co. v Ft. Worth (1937, Tex) 20 PUR NS 89,* an appeal from an ordinance fixing natural gas rates, the Texas Railroad Commission, while agreeing with a policy under which a corporation makes it a public duty to contribute to charity, pointed out that it did not agree with the practice of charging such donations to the utility's operating expenses, for, in doing so, the utility forces the gas consumer to reimburse it for such contributions. The commission said that it did not approve of any plan requested by the utility whereby it sets itself up as the self–appointed dispensing agent for the consumer in the matter of charitable donations. According to the commission, the benefits which inure to the stockholders of a public utility in, inter alia, charitable donations by far outweigh those which may inure to the consumers, so that if the utility elects to expend money for nonpublic utility purposes, such expenditures can be paid either out of profits or surplus or by the stockholders of the company.

Noting that it has in recent years refused to allow charitable contributions as an operating expense, the West Virginia Public Service Commission, in *Re United Fuel Gas Co. (1960, W Va) 35 PUR3d 353,* a proceeding upon an application to increase rates, said that because of the persistence of the utilities in urging the inclusion of such expense, it would restate the reasons for its decision and make clear just what happens when a utility contributes to charity and includes the contribution as an operating expense. The commission pointed out that in addition to the difficulty of determining how much is reasonable or proper as to the amount which a utility may contribute to charity, if such a contribution is included as an expense of operation, then the utility's rates would inevitably be raised to the extent that the amount contributed is collected by the utility from its customers, with the result that it is not a contribution by the company, since all that it has done is to serve as a funnel through which money has been moved from the pockets of its customers into the coffers of the charitable institutions. By adding the cost to its customers' utility bill, the commission pointed out that the utility has thus forced its customers to make a contribution which the customer may or may not have wanted to make. The commission concluded that if a utility wishes to make contributions, it may do so, but the amount should come from the profits of the company which belong to the stockholders, the people who own the utility.

FOOTNOTES

n1 Illustrative determinations of these questions by public service commissions and by similar administrative agencies in many jurisdictions also have been included in this annotation. These illustrative decisions comprise a large proportion of the authorities cited herein.

n2 See generally *64 Am Jur 2d, Public Utilities, §§ 135, 190, 191*.

n3 See *64 Am Jur 2d, Public Utilities, § 138*.

n4 See *64 Am Jur 2d, Public Utilities, § 173*.

n5 See *64 Am Jur 2d, Public Utilities, §§ 173 – 188*.

n6 § 4[a] , infra.

n7 § 4[b] , infra.

n8 § 3 , infra.

n9 § 5 , infra.

n10 § 6 , infra.

n11 Illustrative examples of similar determinations by public service commissions and other similar agencies are cited infra.

n12 In a later proceeding, following an order of inquiry and notice of hearing, the court agreed with the Secretary's action in reducing the amount of contributions chargeable to operating expense and made during the 5-year period involved in the case, further concurring with the Secretary in his conclusion that only the amount permitted was actually beneficial to the company and its employees. See *Denver Union Stock Yard Co. v United States (1937, DC Colo) 21 F Supp 83,* aff *304 US 470, 82 L Ed 1469, 58 S Ct 990,* in which the Supreme Court, noting that the contributions were voluntary, that the amounts involved were small, and that it was not, and probably could not have been, proved that failure to contribute would affect revenue, said that it was not necessary to decide whether the company was entitled as of constitutional right to have any of the contributions included in its future operating expenses.

n13 This view was reiterated in a later appeal. See *Application of Diamond State Tel. Co. (1959, Sup) 51 Del 525, 149 A2d 324.* This view was followed by the Delaware Public Service Commission in *Re Diamond State Tel. Co. (1959, Del) 28 PUR3d 121,* which was apparently a further proceeding relating to the application for rate increase by the utility.

n14 The court noted that the charitable contributions of the utility for the past year represented .07 of one percent of operating revenue.

n15 See, for example, the following cases:

United States—

Re United Gas Pipe Line Co. (1964, FPC) 54 PUR3d 285.

Arkansas——-

Re Southwestern Bell Tel. Co. (1953, Ark PSC) 2 PUR3d 1.

Florida———

Re General Tel. Co. (1962, Fla R & PUC) 44 PUR3d 247; Re General Tel. Co. (1968, Fla PSC) 76 PUR3d 380; Re General Tel. Co. (1970, Fla PSC) 86 PUR3d 276.

Illinois——-

For Illinois cases, see § 6 , infra.

Kansas———

Re Kansas Power & Light Co. (1968, Kan State Corp. Com) 72 PUR3d 450.

Missouri——-

Re Union Electric Co. (1969, Mo PSC) 81 PUR3d 265.

New Jersey——

Re New Jersey Bell Tel. Co. (1958, NJ Board of PU Comrs) 24 PUR3d 181.

New York——-

Re New York Tel. Co. (1970, NY PSC) 84 PUR3d 321.

Ohio———

Cleveland Electric Illuminating Co. v Cleveland (1947, Ohio PUC) 67 PUR NS 65; Cincinnati Gas & Electric Co. v Cincinnati (1948, Ohio PUC) 74 PUR NS 5; Cincinnati Gas & Electric Co. v Cincinnati (1948, Ohio PUC) 75 PUR NS 97; Re Ohio Bell Tel. Co. (1949, Ohio PUC) 82 PUR NS 341.

Vermont———

Re New England Tel. & Tel. Co. (1960, Vt PSC) 35 PUR3d 100.

Wyoming———

Re Mountain States Tel. & Tel. Co. (1959, Wyo PSC) 27 PUR3d 259. .

n16 Illustrative examples of decisions by public service commissions and other similar agencies which have applied or recognized this view are referred to infra. For cases in which the courts have recognized as a sufficient benefit the fact that the utility, in making the donation, has promoted or enhanced its good will or has contributed to the general welfare, see § 4[b] , infra.

n17 The court cited the decisions in *Reno Power, Light & Water Co. v Public Service Com. (1923, DC Nev) 298 F 790,* and in *Denver Union Stock Yard Co. v United States (1938) 304 US 470, 82 L Ed 1469, 58 S Ct 990.*

n18 It should be noted that in a later decision, the Illinois Supreme Court flatly held that the utility in question could not be permitted to deduct its charitable contributions as operating expense for ratemaking purposes, on the ground that such donations would otherwise constitute an involuntary assessment on its patrons. See *Illinois Bell Tel. Co. v Illinois Commerce Com. (1973) 55 Ill 2d 461, 303 NE2d 364,* infra § 6 .

n19 The court cited the decision in *Denver Union Stock Yard Co. v United States (1938) 304 US 470, 82 L Ed 1469, 58 S Ct 990,* an appeal from a proceeding involving an order of the Secretary of Agriculture which had determined the rates to be charged by a stockyard company, under the Packers and Stockyards Act of 1921. Affirming the lower court's refusal to allow the company's charitable contributions to be charged to expense, the Supreme Court concluded that it was not necessary to decide whether the company was entitled as of constitutional right to have any of the contributions included in its future operating expense, the court noting in passing that it was not, and probably could not have been, proved that failure on the company's part to contribute to charity would affect revenue.

n20 For examples of such administrative determinations, see the following cases:

United States—

Re New York Tel. Co. (1932, ICC) PUR1933C 409.

Arkansas——-

Blytheville v Blytheville Water Co. (1936, Ark Dept. of Public Utilities) 15 PUR NS 177.

District of Columbia—

Re Potomac Electric Power Co. (1941, Dist Col PUC) 37 PUR NS 316; Re Potomac Electric Power Co. (1943, Dist Col PUC) 48 PUR NS 437.

Michigan——-

Re Detroit Edison Co. (1970, Mich PSC) 83 PUR3d 463; Re Michigan Bell Tel. Co. (1970, Mich PSC) 85 PUR3d 467.

Missouri——-

Re Kansas City Power & Light Co. (1955, Mo PSC) 8 PUR3d 490; Re St. Louis County Water Co. (1957, Mo PSC) 19 PUR3d 113; Re Union Electric Co. (1969, Mo PSC) 81 PUR3d 265; Re Kansas City Power & Light Co. (1970, Mo PSC) 84 PUR3d 222.

New Jersey——

Re New Jersey Bell Tel. Co. (1958, NJ Board of PU Comrs) 24 PUR3d 181.

North Carolina–

Re Carolina Power & Light Co. (1971, NC Utilities Com) 88 PUR3d 283 (recognizing rule).

Oregon———

Re Northwestern Electric Co. (1932, Or PUC) PUR 1933A 493. .

n21 The commission reiterated this view in a later proceeding. See *Re Detroit Edison Co. (1970, Mich) 88 PUR3d 68.*

n22 For cases in which a direct benefit to the utility or its patrons has been required, see § 4[a] , supra.

n23 Illustrative examples of similar determinations by public service commissions and other similar agencies are cited infra.

n24 In a later proceeding, following an order of inquiry and notice of hearing, the court agreed with the Secretary's

decision to reduce the amount of contributions chargeable to operating expense, which donations had been made during the 5–year period involved in the case. The court further concurred with the Secretary's conclusion that the amount permitted was only that thought to be actually beneficial to the company and its employees. See *Denver Union Stock Yard Co. v United States (1937, DC Colo) 21 F Supp 83,* affd *304 US 470, 82 L Ed 1469, 58 S Ct 990,* in which the Supreme Court, noting that the contributions were voluntary, that the amounts involved were small, and that it was not, and probably could not have been, proved that failure to contribute would affect revenue, said that it was not necessary to decide whether the company was entitled as of constitutional right to have any of the contributions included in its future operating expenses.

n25 This was reiterated in a later appeal. See *Application of Diamond State Tel. Co. (1959, Sup) 51 Del 525, 149 A2d 324.* This view was followed by the Delaware Public Service Commission in *Re Diamond State Tel. Co. (1959, Del) 28 PUR3d 121,* which was apparently a further proceeding relating to the application for a rate increase by the utility.

n26 See, for example, the following cases:

United States—

Re United Gas Pipe Line Co. (1964, FPC) 54 PUR3d 285; Re El Paso Natural Gas Co. (1971, FPC) 90 PUR3d 462.

Florida———

Re General Tel. Co. (1962, Fla R & PUC) 44 PUR3d 247.

Illinois——-

For Illinois cases, see § 6 , infra.

New York——-

Re Accounting Treatment for Donations, Dues, and Lobbying Expenditures (1967, NY PSC) 71 PUR3d 440; Re New York Tel. Co. (1970, NY PSC) 84 PUR3d 321.

Ohio————

Cleveland Electric Illuminating Co. v Cleveland (1947, Ohio PUC) 67 PUR NS 65; Re Ohio Bell Tel. Co. (1949, Ohio PUC) 82 PUR NS 341. .

n27 In an earlier decision, the Tampa (Florida) Utility Board, in *Re Tampa Electric Co. (1940, Fla) 37 PUR NS 440,* required that a direct benefit to the utility or its patrons be shown. However, in *Miami v Florida Public Service Com. (1968, Fla) 208 So 2d 249,* supra, the Supreme Court said that the better concept was that applied by the Florida Railroad and Public Utilities Commission in the above case of *Re General Tel. Co. (1962, Fla) 44 PUR3d 247.*

n28 It should be noted that an earlier provision of the general corporation law prohibiting public utilities from charging to operating expense accounts their contributions for the social and economic betterment of the communities in which they serve was omitted in an amendment of the statute in effect by the time of the present decision.

n29 This decision and that rendered in *Re Ohio Bell Tel. Co. (1949, Ohio PUC) 82 PUR NS 341,* supra, would seem to overrule the holding in the earlier case of *East Ohio Gas Co. v Cleveland (1934, Ohio PUC) 4 PUR NS 433,* where a direct benefit was required to be shown.

n30 The Commission noted that as a maximum it would allow contributions to those organizations included in the cumulative list of organizations described in the Federal Internal Revenue Code.

n31 Illustrative examples of decisions by public service commissions and by other similar administrative agencies are cited infra.

n32 The Illinois Commerce Commission, in allowing the contributions, had referred to *Vrtjak v Illinois Bell Tel. Co. (1959, Ill) 32 PUR3d 385,* a proceeding involving a complaint by an individual who claimed that the utility had no right to give away part of its profits or to donate the paid services of its executives and employees in the fund–raising activity of a charity, and that the contributions amounted to an overcharging of its customers to the extent at least of the contributions and of the wages paid to said executives and employees while performing voluntary work. The commission in Vrtjak disagreed and pointed out that the contributions were peculiarly beneficial to the utility in that, among other things, such contributions were productive of good will for the utility in the community and among subscribers and employees therein,

that the utility was dependent on the economic and social strength and well–being of the community that it serves, and that by serving to prevent delinquency as well as social decay, such contributions serve to deter vandalism and damage to the utility's plant and equipment. In another decision, the commission held that the charitable contributions of the same utility involved in the above decision of the Illinois Supreme Court were reasonable where they amounted to less than one percent of its gross revenue, the commission permitting their inclusion in operating expense for ratemaking purposes. See *Re Illinois Bell Tel. Co. (1970, Ill) 86 PUR3d 65.*

n33 The view thus stated is supported by the following illustrative cases:

United States—

Re New York Tel. Co. (1932, ICC) PUR1933C 409.

Connecticut—-

Re Southern New England Tel. Co. (1947, Conn PUC) 73 PUR NS 185; Re Hartford Electric Light Co. (1960, Conn PUC) 35 PUR3d 64; Re Connecticut Water Co. (1961, Conn PUC) 41 PUR3d 152; Re United Illuminating Co. (1971, Conn PUC) 91 PUR3d 182.

District of Columbia—

Re Washington Gas Light Co. (1942, Dist Col PUC) 46 PUR NS 1; Re Chesapeake & Potomac Tel. Co. (1964, Dist Col PSC) 57 PUR3d 1.

Florida———

Re Tampa Electric Co. (1940, Fla Utility Board) 37 PUR NS 440.

Idaho———-

Re Idaho Power Co. (1923, Idaho PUC) PUR1924C 731; Re Boise Water Co. (1926, Idaho PUC) PUR1926D 321.

Iowa————

Re Union Electric Co. (1971, Iowa State Commerce Com) 91 PUR3d 417.

Maryland——-

Re Chesapeake & Potomac Tel. Co. (1969, Md PSC) 81 PUR3d 342.

Michigan——-

Re Michigan Bell Tel. Co. (1954, Mich PSC) 5 PUR3d 301; Re Michigan Bell Tel. Co. (1957, Mich PSC) 20 PUR3d 397; Re Michigan Consol. Gas Co. (1958, Mich PSC) 22 PUR3d 369; Re Michigan Gas & Electric Co. (1958, Mich PSC) 24 PUR3d 278; Re Consumers Power Co. (1959, Mich PSC) 29 PUR3d 133; Re Michigan Bell Tel. Co. (1960, Mich PSC) 32 PUR3d 395; Re General Tel. Co. (1961, Mich PSC) 41 PUR3d 469; Re Michigan Consol. Gas Co. (1969, Mich PSC) 79 PUR3d 375; Re Michigan Gas Utilities Co. (1969, Mich PSC) 81 PUR3d 27; Re Michigan Bell Tel. Co. (1970, Mich PSC) 85 PUR3d 467.

Missouri——-

Public Service Com. v Kansas City Power & Light Co. (1939, Mo PSC) 30 PUR NS 193; Re St. Louis County Water Co. (1957, Mo PSC) 19 PUR3d 113.

Oregon———

Re Northwestern Electric Co. (1932, Or PUC) PUR 1933A 493; *Re Mountain States Power Co. (1933, Or PUC) 3 PUR NS 29.*

Pennsylvania—

Pennsylvania Public Utility Com. v Bell Tel. Co. (1949, Pa PUC) 81 PUR NS 316; Pennsylvania Public Utility Com. v Metropolitan Edison Co. (1956, Pa PUC) 13 PUR3d 29.

Texas———-

Municipal Gas Co. v Wichita Falls (1935, Tex R Com) 9 PUR NS 33; Lone Star Gas Co. v Ft. Worth (1937, Tex R Com) 20 PUR NS 89.

Washington——

Department of Public Works v Oregon–Washington Water Service Co. (1934, Wash DPW) 8 PUR NS 293; Department of Public Service v Pacific Power & Light Co. (1936, Wash Dept. of Public Service Div. of Public Utilities) 13 PUR NS 187.

West Virginia—

Re United Fuel Gas Co. (1960, W Va PSC) 35 PUR3d 353. .

n34 The following illustrative decisions so hold:

Kentucky——-

Re Union Light, Heat & Power Co. (1953, Ky PSC) 97 PUR NS 33.

Maine———-

Re New England Tel. & Tel. Co. (1958, Me PUC) 23 PUR3d 510.

Michigan——-

Re Michigan Consol. Gas Co. (1954, Mich PSC) 5 PUR3d 449; Re Detroit Edison Co. (1970, Mich PSC) 83 PUR3d 463.

Missouri——-

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Re Cumberland & Allegheny Gas Co. (1927, W Va PSC) PUR 1928B 20; *Re United Fuel Gas Co. (1959, W Va PSC) 27 PUR3d 365.*

Wyoming———

Re Plains Pipe Line Co. (1952, Wyo PSC) 96 PUR NS 587. Thus, upon the theory that any charitable contributions which a public utility desires to make should be made on behalf of the owners or stockholders of the company and not the ratepayers, donations by a utility were held deductible from miscellaneous income and not chargeable to operating expense, in *Re Union Light, Heat & Power Co. (1953, Ky) 97 PUR NS 33*, a proceeding for consideration of the proposed increases in the utility's rates for gas and electric service and approval by the Kentucky Public Service Commission. Deducting the donations of a public utility from its miscellaneous and general expenses, the Michigan Public Service

Commission, in *Re Michigan Consol. Gas Co. (1954, Mich) 5 PUR3d 449,* pointed out that in the uniform system of accounts for gas utilities which it approved, it was stated that contributions and donations should be charged to other income deductions, upon the theory that if the expense is truly a donation, it should be made by the owners of the utility and not indirectly by the ratepaying customers. The proceeding involved adjustment of the rate of the public utility. While recognizing that donations to and memberships in community and business activities may bring good will to the utility and some benefit to the consumer because of the company's favorable position, the Missouri Public Service Commission disallowed as operating expenses a public utility's donations, in *Re Laclede Gas Light Co. (1934, Mo) 7 PUR NS 277,* involving an application for increased rates and charges for gas services, the commission pointing out that the great benefit, however, accrued to the investor in strengthening the position of the company in the community. According to the commission, the good will of the consumer public is more reasonably obtainable through lower rates, so that the donations and the payment of dues should therefore be borne by the owners of the property and charged to surplus and not to operating expenses. A public utility's charitable contributions should not be charged to operating expenses, the Missouri Public Service Commission held, in *Public Service Com. v Kansas City Power & Light Co. (1939, Mo) 30 PUR NS 193,* a proceeding initiated by the commission to determine the present fair value of the company's property and its proper operating charges for use in future proceedings before the agency, the commission pointing out that while most of the contributions were used for noble purposes, it was the concern of the consumer if he wished to donate to such organization, and that such act should be voluntary on his part and should not be duplicated in some instances and in others made compulsory and disguised by inclusion in rates for utility services. The commission further pointed out that such contributions do not increase the essential cost or value of the service rendered, but the benefits therefrom inure to the profit of the stockholders of the company, who should bear the expense. The Ohio Public Utilities Commission, in *East Ohio Gas Co. v Cleveland (1934, Ohio) 4 PUR NS 433,* a rate proceeding, disallowed as operating expenses the charitable contributions made by a public utility, and pointed out that, if such expenses were allowed, the utility would be collecting and spending the consumers' funds. According to the commission, it is the right of stockholders to make such contributions if they desire, but it would be unfair to permit them to be reimbursed for such expenditure from the customers of the utility, who may have already been contributing to the same cause. A public utility's charitable contributions were held not chargeable to its operating expenses in *Re Pacific Northwest Bell Tel. Co. (1969, Or) 82 PUR3d 321,* a rate proceeding, the Oregon public utilities commissioner pointing out that while the company was expected to participate in affairs of the community as any other citizen and that this is a cost of doing business, its consumers are, it would be assumed, also bearing their individual citizenship responsibilities. The good will generated by the community activities of the company inures not just to the benefit of the utility and its customers, but to its investors as well, and the cost of such activities should be borne by the investors, who, as owners of the company, are more directly concerned with the image of the company in the eyes of the consuming public.

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The following references may be of related or collateral interest to the user of this annotation.

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