United States General Accounting Office.

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

The Force Of The Public Utility Holding Company Act Has Been Greatly Reduced By Changes In The Securities And Exchange Commission's Enforcement Policies

The Securities and Exchange Commission has exempted most utility holding companies from regulation. GAO estimates that there are slightly more than 100 utility holding company systems potentially subject to regulation. Of these, only 14 are now being regulated.

Many companies became exempt years ago, and the Commission has not considered whether continuation of the exemptions is detrimental to the interests of the public, investors, and consumers. While some companies no doubt should be exempt, many of them are comparable in size and function to those that are regulated. Also, many exempt companies are engaged in nonutility business ventures of the type the act was intended to prevent, such as farming, trucking, real estate, and data processing.

GAO believes that certain provisions of the act are durable standards worthy of enforcement so long as holding companies conduct gas or electric utility operations; however, because of changed conditions the continued application of other provisions of the act needs to be studied.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report raises questions concerning the enforcement policies of the Securities and Exchange Commission, which has administratively reduced the scope and application of a statute designed by Congress to be wide ranging and pervasive. The statute embraces both antitrust and regulatory principles and permits the regulatory agency to reorganize utility holding companies, require divestiture of companies or assets, and impose regulatory standards on many business practices.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). Our initial efforts were prompted by an inquiry from Congressman John D. Dingell, Chairman, Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce. After responding to the Committee's request, we did more detailed audit work which led to this report.

The Securities and Exchange Commission was given the report for advance comment, but has not yet responded. Because the Subcommittee on Energy and Power has requested an early June release, we are issuing the report without agency comments.

We are sending copies of this report to the Director, Office of Management and Budget, and the Chairman, Securities and Exchange Commission.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE FORCE OF THE PUBLIC UTILITY HOLDING COMPANY ACT HAS BEEN GREATLY REDUCED BY CHANGES IN THE SECURITIES AND EXCHANGE COMMISSION'S ENFORCEMENT POLICIES

D I G E S T

GAO has reviewed the Securities and Exchange Commission's regulatory activities under the Public Utility Holding Company Act of 1935. Under this act the Commission has responsibility for protecting the public, investors, and consumers from abuses that could arise from management of gas and electric utility companies through the holding company device. (Holding companies are corporations which buy up the voting stock of other corporations and thus control them.)

As of today the Commission has exempted most utility holding companies from regulation. GAO estimates that there are slightly more than 100 utility holding company systems potentially subject to regulation under the act. Of these, only 14 are now being regulated by the Commission; the remaining systems are exempt. Many companies became exempt years ago, and the Commission has not considered whether continuation of the exemptions is detrimental to the interests of the public, investors, and consumers. There are also some holding companies operating gas or electric utilities which fall outside the act's jurisdiction, but GAO does not know the number.

While some companies no doubt should be exempt, a good many of them are comparable in size and function to the regulated companies. Also, many exempt companies are engaged in nonutility business ventures of the type the act was intended to prevent, such as farming, trucking, real estate, and data processing. The Commission also has

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permitted both exempt and regulated companies to engage in research, exploration, extraction, transportation, and storage of oil, gas, and coal--activities previously prohibited except under narrowly prescribed conditions.

Certain continuing regulatory responsibilities of the act are not being enforced. In the past several years the Commission has largely ignored the size of holding companies and the related issues of operational efficiency and ease of regulation. Further, the Commission does not have an affirmative program to identify whether holding company management is being improperly influenced by means other than voting stock control, nor to examine business practices which are prohibited by the act or are subject to regulatory restrictions, such as political contributions and intercompany transactions.

The Commission's administration of the act has changed considerably over the years. In the first two decades following passage of the act in 1935, the Commission took aggressive action in reorganizing companies to enforce the act's standards. At the peak of Commission efforts in the 1940s, 234 people were engaged in this regulatory work. During our review, between 15 and 20 professional employees were assigned to regulatory work under this act.

As a result of the Commission's early reorganization efforts, much of what was intended by the Public Utility Holding Company Act of 1935 has been accomplished. The geographic reach of utility holding companies has been reduced and the pyramid of control exercised through several tiers of subsidiary companies has been narrowed. Additionally, the financial condition of the gas and electric utility industry has become more stable.

Although much was accomplished in the past, GAO believes that the current level of regulatory activity is not fulfilling all of the objectives of the act. However, questions have been raised about the continued validity

of the act or some of its provisions, which were addressed to conditions existing in 1935. The Commission has a continuing responsibility under the act to conduct investigations and studies and report the results to the Congress along with any recommendations for legislation it deems necessary to keep the act updated. The Commission has not been making broad-scale studies of the gas and electric utility industry and the effects of its case-by-case decisions. Neither has it officially taken the position nor advised the Congress that the act is outdated. Nonetheless, it has through its interpretations and administrative actions markedly reduced the force of the act and the number of companies to which it applies.

Because of the sparse data collected by the Commission, GAO was handicapped in evaluating the validity of the regulatory policy changes instituted by the Commission or the continuing need for all of the act's provisions. GAO believes that certain provisions of the act are durable standards worthy of enforcement so long as holding companies conduct gas or electric utility operations; however, because of changed conditions the continued application of other provisions needs to be reviewed. GAO particularly questions whether it is fair to the companies or in the interests of the public, investors, and consumers to require a small group of companies to comply with the act while leaving most companies free of the act's constraints.

Accordingly, GAO is recommending that the Commission authorize a thoroughgoing study of developments in the gas and electric utility industry to evaluate the individual standards and determine the continued overall usefulness of the act. Proposals for change should be presented to the Congress for approval. Such a study should include examination of whether

--the business practices of holding companies and the exercise of improper controlling influences upon them are or might be

adequately monitored by State and Federal authorities under statutes not specifically addressed to utility holding companies;

--the act's standards governing the size and structure of gas and electric companies are currently appropriate;

--continuation of exemptions is detrimental to the public interest and whether the standards for granting exemptions need changing; and

--it is in the public interest to permit public utility companies to engage in exploration, research, production, and long-distance transportation of fuel.

If the study concludes that the objectives of the act are still valid under today's conditions, GAO recommends that the Commission improve its enforcement of the act and request appropriate legislation for any modifications it deems necessary. If the conclusions are that the act's provisions are not useful or can be achieved through other means, then the Commission should recommend that the act be repealed. Repeal may require amendments to other statutes.

Because of a request by the Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce, for a June 1977 release date, the report has been issued without agency comments. The Securities and Exchange Commission was not able to comment within the 30 days GAO allowed.

Contents

of a single integrated utility system 1/ and requires a company and its subsidiaries to maintain simple corporate and financial structures. It authorizes the Commission to require the reorganization of utility holding company systems and their divestment of properties where necessary to achieve the prescribed standards.

The act contains several regulatory restrictions and controls related to acquisition and sale of utility securities and assets that are intended to prevent holding companies from creating situations contrary to the standards of section 11. It subjects acquisition of certain types of utility interests to approval of State authorities, and it contains conditions and requirements for (1) Commission approval of long-term security transactions and sale of utility assets and (2) acquisition of other utility securities and assets.

Other sections provide for continued Commission surveillance and investigation of internal operating practices which lend themselves to abuse by holding companies. Intercompany loans, proxy solicitations, and contracts for services, sales, and construction are among the practices placed under regulatory surveillance.

The act also sets forth the conditions under which companies may qualify for exempt status. Companies that qualify need not comply with either the antitrust or regulatory requirements of the act, with the exception that they are required to obtain Commission approval for acquisitions of securities of other public utility companies. This exception is important because it can prevent one company from gaining control over another without Commission knowledge.

The remaining sections of the act are procedural, dealing with matters such as definitions and reporting requirements; accounts and records; Commission investigations,

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1/ A single integrated electric utility system consists of utility assets, owned by one or more utility companies, physically interconnected or capable of physical interconnection. A single integrated gas utility system is defined similarly except that it is limited to consist of one or more companies which distribute gas at retail or own facilities for such retail distribution. (Gas pipelines used to supply retail systems are excluded under the act and regulated by the Federal Power Commission under the Natural Gas Act.)

hearings, and rulemaking; court review of Commission orders; and liabilities and penalties under the act.

CONDITIONS THAT LED TO ENACTMENT

The act was a direct response by the Congress to pervasive holding company control over the utility industry and to abuses resulting from this control. In 1932, 13 large holding company groups controlled three-fourths of the entire privately owned utility industry, with about 45 percent concentrated in the hands of the 3 largest groups. In 1929 and 1930, 20 large holding company systems controlled 98.5 percent of the transmission of electricity across State lines. In 1932, 11 holding company systems controlled 80.3 percent of the total mileage of natural gas pipelines in the United States.

Control through holding companies has certain advantages, such as promoting administrative efficiency and reducing the cost of financing. According to the legislative history, however, the holding companies often subordinated public utility service to other objectives. These companies bought utility and nonutility businesses regardless of their location. Some of the nonutility businesses, such as appliance stores, were related; others, such as foundries, were not. As a result, the utility and nonutility businesses of a holding company were often scattered throughout the country. It was observed that this scattering made a system-servicing map look like a crazy quilt. The concentrated political and economic influence of holding companies, coupled with the out-of-State locations of their corporate headquarters, obstructed effective State regulation.

A 1935 report by the National Power Policy Committee, a coordinating agency appointed by the President, stated:

> "Because this growth has been actuated primarily by a desire for size and the power inherent in size, the controlling groups have in many instances done no more than pay lip service to the principle of building up a system as an integrated and economic whole, which might bring actual benefits to its component parts from related operations and unified management. Instead, they have too frequently given us massive, overcapitalized organizations of ever-increasing complexity and steadily diminishing coordination and efficiency."

Control of utilities and other properties could be acquired with little or no investment. The capital structures

of utility companies consisted largely of securities such as bonds and preferred stock which do not have voting rights. A majority ownership of voting stock, representing a small part of the total capital structure of an operating company, could give the owner control over the company's management. Holding companies also strengthened their control over acquired companies by contracting to furnish them with management services, installing interlocking directors and officers, and using stock proxies to increase their voting power.

The benefits of unregulated large-scale utility management often went to those in control rather than to customers and investors. Holding companies often had investment banking interests, and their acquiring of additional companies broadened the base for realizing income from security sales. In the absence of arm's length bargaining, holding companies arranged to furnish utility operating companies with services at excessive prices, to borrow funds from them for speculative use, and through control over financial accounting to overstate their profits and extract excessive dividends.

ORGANIZATION OF THE COMMISSION

The Commission was created by the Securities Exchange Act of 1934. The President appoints the five Commissioners with the advice and consent of the Senate and designates the Commission Chairman. The Commissioners' terms are staggered, one expiring each year, and not more than three of them may be members of the same political party.

In recent years the Commission has had about 2,000 employees assigned to divisions and offices in Washington, D.C., and 9 regional offices located throughout the country. In addition to the Holding Company Act, the Commission has regulatory responsibilities under six statutes concerned with financial disclosure, investor protection, and other objectives.

The Commission administers the Holding Company Act through its Division of Corporate Regulation. In 1976, this Division had an authorized staff of 32 employees. Between 15 and 20 professional staff members were assigned to utility regulation. This is down from a peak of 234 in the 1940s when it was involved in reorganizing the corporate and financial structure of the utility industry. The present staff members are predominantly lawyers and financial analysts.

SCOPE OF REVIEW

We reviewed the legislative history of the act, miscellaneous testimony and special reports on utility operations and regulation, the Commission's rules and regulations for utility holding companies, and the operating practices of the Commission's Division of Corporate Regulation.

In assessing how the Commission carries out its responsibilities under the act, we examined the files of various administrative proceedings of the Commission. These files include petitions, declarations, reports, testimony, correspondence, briefs, and Commission orders. We attended a Commission hearing and contacted officials of five State regulatory commissions, the National Association of State Regulatory Commissioners, the Federal Power Commission, and a citizens' lobby.

Our audit was conducted at Commission headquarters in Washington, D.C.

CHAPTER 2

THE COMMISSION S REGULATORY APPROACH HAS CHANGED OVER THE YEARS

During the years immediately following passage of the act, the Commission was successful in reorganizing or breaking up large holding companies. But in recent years it has operated on the premise that its major responsibilities under the act have been carried out and that less active regulatory effort is required.

Important accomplishments were made by the Commission in its early years of regulation. The geographic reach of utility holding companies was reduced and the pyramid of control exercised through several tiers of subsidiary companies narrowed. Additionally, the financial condition of the gas and electric utility industry was stabilized. Despite the industry's huge capital needs in the last decade, the Commission is unaware of any investor losses due to insolvency of companies reorganized under the act.

PRESENT STATUS

What has emerged from the Commission's reorganization of utility holding companies is a mixture of utility systems, some managed by holding companies, some not, with the majority confining their retail utility services predominantly to one State. The variance between large and small holding companies is considerable. One of the largest companies operates utilities in 7 States, has 28 subsidiaries, and in 1975 had reported assets of $6.4 billion. In contrast, one of the smaller companies operates in one State, has three subsidiaries, and has assets of about $110 million.

As of December 1976, there were 14 regulated utility holding companies, 3 providing gas and 11 providing electric service. These 14 had 80 utility and 62 nonutility subsidiaries in 1975 (the most recent year for which data was available). All other utility holding companies have achieved exempt status and are subject to minimal Commission regulation. Available data indicates that about a third of the largest companies with assets of over $1 billion are regulated. In 1975 the 11 regulated electric companies accounted for about 20 percent of the private electric utility market in terms of combined assets and revenues. The Commission does not have wholesale and retail gas data which would

indicate the market importance of the three regulated gas utility holding companies.

OTHER REGULATORS CANNOT FULFILL COMMISSION RESPONSIBILITIES

Once a company is granted an exemption pursuant to section 3 of the act, it is substantially free from complying with the provisions of the act. Further regulation is left to State and other Federal authorities. In this regard the Commission has ruled in specific cases that exempt companies can be adequately regulated by States and other Federal authorities. With respect to State regulation, the Commission has stated,

> "a holding company which is organized in the same State as its operating subsidiaries presents holding company problems largely within the confines of a single State and is therefore the concern of, and can be effectively controlled by, that State."

This view assumes that State and other Federal regulatory bodies have authority as comprehensive as the Commission's and utilize it effectively.

While there is some overlap of authority, the Commission in large measure provides a nonduplicative type of regulation. The act empowers the Commission to monitor the operations of holding companies and require them to discontinue certain corporate and financial practices and to divest certain properties. States seldom have such broad authority on an intrastate basis, and never on an interstate basis. Further, the authority and jurisdiction of State regulatory commissions vary from State to State. For example, the California regulatory commission generally lacks authority over the nonutility activities of gas and electric utility companies. The Utah commission has no authority over utility companies' financing.

State regulatory policies are commonly directed to what is considered best for the State. States may be in competition to obtain the employment and business purchases resulting from locating utility operations within their borders. A 1976 report prepared for the Federal Energy Administration states that the electric utility industry is principally regulated at the State level, with little coordination among the State commissions.

The supplementary nature of utility regulation provided by the Securities and Exchange Commission is apparent in the following areas:

APPLICATION OF THE ACT'S STANDARDS TO REGULATED COMPANIES

Regulated companies are required to comply with the act's standards, but as noted below, compliance with some provisions is not being aggressively pursued. With regard to their financial structure, regulated companies are required, as a protection for investors, to maintain a capital structure of at least 30 percent common stock equity and no more than 60 percent secured debt. With regard to their corporate structure, regulated companies are limited to two tiers of subsidiary companies, and have generally been precluded from providing both gas and electric services and from engaging in businesses that are not functionally related to their utility business. An exception is one large regulated electric utility which has delayed divestiture of a subsidiary gas utility ordered by the Commission in 1967. 1/

Some provisions are not fully enforced

Some regulatory provisions of the act are not being fully enforced by the Commission. These include provisions intended to prevent utilities from engaging in business practices which have potential for abuse, and provisions intended to identify for appropriate regulation unusual forms of control exercised over holding companies. Further, Commission administration has given little attention to the issue of holding company size. In recent years Commission policies have relaxed the circumstances under which regulated companies may engage in research, exploration, extraction, and related transportation of fuel supplies. This is discussed in chapter 4.

Business practices are not investigated

Section 12 of the act subjects to Commission rules and regulations a wide range of holding company practices having potential for abuse, such as intercompany loans, dividend payments, sales of assets, and political contributions.

1/In 1966 the utility company indicated that the divestiture and other conditions of its plan to acquire another utility company could be met in several months. In 1974 a Commission official termed the delay in meeting other conditions intolerable. Although the Commission could have sought compliance with the conditions by instituting court action, it has not done so.

Additionally, the Congress intended that money raised through the credit of a public utility company was to be devoted solely to the regulated business and not be used to finance other speculative activities. Section 18 authorizes the Commission to investigate any facts, conditions, practices, or other matters violative of the act and the Commission's rules and regulations.

Under section 13 of the act, contracts for service, sales, and construction among affiliated companies of a system are subject to the Commission's rules and regulations. This section is intended to prevent utility operating companies from being charged excessive amounts under such contracts, and it authorizes the Commission to investigate intrasystem contracts and report the results to the Congress, including recommendations for needed legislation.

In the early years of the administration of the act, the Commission established rules and regulations governing areas of possible abuse covered by sections 12 and 13. It has not, however, made field investigations to determine whether companies are conforming with the standards of these sections and the applicable rules and regulations. Nor does the Commission coordinate with State regulatory authorities to determine whether their examinations adequately inquire into transactions of the type covered under sections 12 and 13.

Controlling influences are not investigated

Section 2(a)(7) of the act defines a utility holding company subject to regulation as any company which owns, controls, or holds with power to vote 10 percent or more of the outstanding voting securities of a utility company or a holding company.

This section also provides for regulating controlling influences. A controlling influence is a person or company that exerts control over a utility system by means such as dominating personality (of a stockholder or director) or loan relationships. The act provides that no officer or director of a financial institution or its representatives shall be on the board of a utility holding company or its subsidiaries except as provided by Commission rules. Under Commission rules, members of financial institutions may act as officers or directors of regulated utility companies if such dual-role relationships are not detrimental to the public interest. The Commission does not investigate the possible detriment of such relationships. The intent of the act's provisions for controlling outside influences is to identify subtle forms of inappropriate control and protect the interests of investors and consumers.

not developed standards for determining the number of subsidiaries a utility holding company can control and the number of States in which it can operate and remain responsive to local community needs and State and Federal regulation.

The Commission does not, for example, have data comparing the advantages and economic benefits that accrue from centralized management of large-scale electric generating facilities by holding companies (as opposed to joint ownership of such facilities). Neither does it have data showing what economies result from permitting the operation of pipeline transmission systems and retail gas distribution systems under the common management of a holding company. 1/ (Companies often operate in more than one segment of the industry, and with the growing concern for fuel sources, retail utilities have been integrating backwards into production. This is discussed in ch. 4.)

The act also provides another criterion of size. Section 11 specifies that a holding company should operate as a single integrated system and should be permitted to control additional systems only if they cannot operate separately without substantial loss of economies and meet other tests. Two factors indicate that some utility subsidiaries could operate separately: their de facto separate operation and their large size.

The Commission has permitted one regulated holding company to operate subsidiaries which have not been integrated for more than 30 years. The holding company's operations are now under review in a Commission administrative proceeding.

With regard to being large enough to operate independently, five of the utility operating companies of regulated systems each have individually reported assets of between $1.6 billion and $3.6 billion. On the other hand, one small holding company system has assets of only $22 million. Both large and small systems exist in the marketplace, indicating that there are a variety of ways to meet customer needs and that the disparities in size of systems cannot be directly equated with efficiency and responsiveness in servicing customers.

1/The gas industry has three major segments: production, pipeline transmission, and retail distribution. Production and pipeline companies are not covered by the act.

The limited attention given by the Commission to size and the potential of some subsidiaries to operate efficiently on their own are further illustrated by the previously mentioned cases in which two regulated companies--one gas and one electric--were permitted to remove themselves from regulated status by divesting subsidiaries. The divested gas subsidiary, which had assets of $245 million, now operates as a separate entity. In requesting Commission approval for divestiture, the parent company stated that the subsidiary could operate efficiently if severed from the system, a position accepted without independent study by the Commission. With regard to the divested electric subsidiary, a Commission official stated that the subsidiary had not been interconnected with the system's other operating company. The divested company had utility plant assets of $25 million.

The foregoing suggests that a case could be made for further reorganization if the size criteria provided in the act are applied. However, before making a determination, it is necessary to consider whether the act's criteria relate to contemporary America. The Commission's limited enforcement of the criteria indicates that it does not find them suitable to today's economic and regulatory climate. While the Commission may be right, we believe the data it has relied on is too incomplete to make a sound and reasoned judgment and that an objective indepth study of size is needed.

A study of size is required by the act

The Commission is directed under section 30 of the act to conduct studies on developments in the gas and electric utility fields and to make recommendations as to the type, size, and location of integrated systems which can best promote and harmonize the interests of the public, the investor, and the consumer. The Commission has not made such studies, either as its work on the reorganization of systems was being completed in the middle 1950s or since then, and it has not developed recommendations as to size.

In the absence of formal size criteria or standards, two informal standards have emerged. In terms of geographic area the Commission has not required divestiture of systems which provide utility service predominantly in one State and in part of an adjoining State or States. Many utility holding companies fit this description. In terms of maximum size, the largest holding company system approved by the Commission becomes the accepted de facto standard. The size characteristics of the largest gas and electric utility

holding companies regulated by the Commission at the end of 1975 were:

	Gas company	Electric company
Assets	$3.2 billion	$7.2 billion
Revenue	$1.4 billion	$2.0 billion
Quantity sold	1,089 Bcf (note a)	75,541 Mwh (note b)
Subsidiaries	19	28

a/ Billions of cubic feet.
b/ Thousands of kilowatt hours.

The question of size in the electric industry is currently being tested in a case started in 1968. This case involves a proposal by one of the largest regulated electric utility holding companies to buy a competing electric utility company with reported assets of $952 million (as of 1975).

Central issues in this case are whether this acquisition will provide substantial economies and/or will make the company too big. In its brief, the Commission staff stated:

> "This proceeding presents squarely for determination the question of whether the future structure of the electric utility industry will resemble 12-15 giant holding-company systems, * * * or whether it will remain a multiplicity of independent and local companies * * *."

The outcome of this case is yet to be decided. Had the Commission made studies of developments in the utility fields as directed by the act, the information might have contributed to shortening the decision process.

CONCLUSION

As is evident from the preceding description of Commission activities, the Commission over the years has achieved many of the act's objectives with regard to regulated companies. It has not, however, done much with regard to three sections of the act--the sections requiring studies of size, business practices, and controlling influences.

Because the Commission has done very little in these areas, its records do not give much evidence with regard to whether there are serious problems. However, records do indicate that the size of many of the companies has increased substantially over the years, which indicates to us that it

would be worthwhile to inquire into this aspect of holding company operation, which the act directs the Commission to do. Moreover, the business practices which the act asks the Commission to look into--for example, intercompany loans, dividend payments, and political contributions--would seem to warrant continuous surveillance. (Such practices by banks are under constant surveillance by bank regulatory authorities.)

RECOMMENDATIONS TO THE COMMISSIONERS OF THE SECURITIES AND EXCHANGE COMMISSION

We recommend that the Commissioners of the Securities and Exchange Commission authorize a thoroughgoing study of developments in the gas and electric utility industry to evaluate the individual standards and determine the continued overall usefulness of the act. Among other matters, this study should examine whether:

--The business practices of holding companies and the exercise of improper controlling influences upon them are adequately monitored by State and Federal authorities under statutes not specifically addressed to utility holding companies.

--The act's standards governing the size and structure of gas and electric companies are currently appropriate, need modification, or should be eliminated.

Additional matters that we recommend be included in this study are contained in chapters 3 and 4.

If the Commission determines that the objectives of the act are still valid under today's conditions, we recommend that it improve its enforcement of the act and request appropriate legislation for any modifications of the act it deems necessary. If the conclusions are that the act's provisions are not useful or can be achieved through other means, then the act should be repealed. Repeal may require amendments to other statutes.

CHAPTER 3

MOST HOLDING COMPANIES HAVE BEEN EXEMPTED FROM FULL REGULATION

Although there are about 100 holding companies in the United States engaged in operating gas or electric utility businesses, or both, only 14 are currently subject to the full breadth of the Commission's regulatory authority. 1/ The others have been granted exemptions. Generally the Commission has little or no contact with companies after they become exempt.

Among the advantages of being exempt is that exempt companies have been allowed to engage in operating combined gas and electric utilities, while regulated companies have not. Also, regulated companies are prohibited from engaging in unrelated businesses, while exempt companies are permitted to engage in such unrelated activities as farming, land development, travel agencies, and data processing systems. Further, many exempt companies have become giant organizations during the years since the act was passed despite the fact that when it was passed the Congress considered large size a significant regulatory concern.

Exemptions have been primarily granted on the ground that the companies were conducting their retail utility operations entirely or predominantly within one State. While geographic location can be a basis for granting exemptions, the Commission still has responsibility for determining whether in granting exempt status to so many companies it is protecting the interests of the public, investors, and consumers. We also question the fairness of regulatory results when on the basis of geography some companies are constrained by the act's standards while other similar companies (except for geographic characteristics) are free of the constraints.

WHAT BEING EXEMPT MEANS

Being exempt means that a company is free of most, but not all, of the act's provisions. Under section 9 of the

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1/There are also some utility companies that have nonutility subsidiaries which are not classified as holding companies for purposes of the act and thus are outside the Commission's jurisdiction. We do not know the number.

act any company--both exempt and regulated--holding a 5-percent or greater interest in the voting stock of a public utility company must obtain Commission approval to acquire additional security interests in public utility companies. The intent of section 9 is to prevent the expansion of holding companies' utility operations in a manner contrary to the act's objectives.

Except for section 9, an exempt company is otherwise free of the Commission's continuing regulatory supervision. This means that an exempt company is free of the act's procedural requirements, such as accounting and reporting, and that it does not need to obtain Commission approval of securities to be sold to the public for financing its internal operations and those of its subsidiaries. Also, the Commission will not be examining such matters as political contributions, intercompany loans and contracts, and dividends. (The Commission has not been making such examinations for either exempt or regulated companies.)

The act's standards could of course be reimposed upon an exempt company if the Commission became aware that the company was involved in activities it believed were inconsistent with or in violation of the act. Since 1970 the Commission has questioned the exempt status of three companies that were engaged in activities prohibited for regulated companies, and in each case the company was permitted to remain exempt.

WHO QUALIFIES FOR EXEMPTION?

The qualifications for exemption are contained in section 3 of the act. Section 3 directs the Commission to exempt from the act's provisions any qualifying holding company unless it finds that such exemption would be detrimental to the public interest. It also requires the Commission to revoke an exemption when it finds the circumstances which gave rise to the exemptions no longer exist.

The act and legislative history discuss numerous holding company abuses which are considered to be detrimental to the national public interest and the interest of investors and consumers. Among the important abuses cited are restraint of free and independent competition, unnecessary growth of holding companies, and operation of businesses unrelated to utilities. Section 1 of the act specifies that all provisions of the act are to be interpreted with a policy to eliminate such abuses.

In accordance with section 3, the categories of holding companies qualifying for exemption are these:

--The whole system operates predominantly within one State.

--The holding company is a utility operating in a principal State and contiguous States and has only minor subsidiaries.

--The company is not essentially in the utility field, or is temporarily a holding company in form only, as by reason of acquiring securities to liquidate a debt.

--The company's operations are conducted outside the United States.

Additionally, gas and electric utility companies that operate independently (i.e., are not holding companies or parts of holding companies) and companies producing gas and operating gas pipelines are not covered by the act.

Although the Congress was aware that abuses of exemptions could lead to widespread evasion of the act's intent, it considered the power to grant exemptions necessary to provide the Commission flexibility of administration and assure workability in the act's application, and to prevent hardships and unexpected burdens.

MOST UTILITY HOLDING COMPANIES ARE NOT BEING REGULATED BY THE COMMISSION

As it stands today, the Commission has exempted most utility holding companies from regulation. Although the Commission does not keep current records on exempt companies, it appears, based on information obtained from the Commission and published sources, that there are now about 100 utility holding companies potentially subject to regulation. Of these, only 14 are regulated.

Excluded from the foregoing 100 are companies falling outside the act's jurisdiction. The Commission does not keep records on these companies, and we did not analyze published information to determine their number or economic significance. The nature of these companies is discussed on page 28.

According to Commission records, it has over the years granted 331 exemptions, the majority occurring before 1960. Of this total, 186 were granted to companies on the basis

that utility operations were not their principal or permanent business, or their utility operations were largely outside the United States. The remaining 145 were granted to holding companies which were principally public utility systems operating within the country. These exemptions were granted on the ground that the companies were conducting their utility operations entirely or predominantly within one State. The Commission's list of exempt companies is not kept up to date and thus does not accurately reflect the number of companies now potentially subject to regulation.

HAVE APPLICATIONS FOR EXEMPTION BEEN ADEQUATELY CONSIDERED?

The Commission has not found any actual or potential detriment in granting exemptions to predominantly intrastate holding companies, and consequently all such companies have been exempted. The Commission's assessment of detriment is made on a case-by-case basis using data furnished primarily by the companies applying for exemption. The Commission does not require companies applying for exemption to conform to most of the act's constraints intended to eliminate holding company abuses. It holds that if the Congress had intended such constraints to be imposed on exempt companies, section 3 of the act would have specifically said so.

After reviewing the act and its legislative history, we had substantial questions about the results produced under the Commission's administration of the act's exemption provisions:

--Although the act considered size a significant regulatory concern, holding companies have been allowed by the Commission to be exempt even though they are as big as or bigger than some of the regulated companies.

--Although the legislative history and a provision of the act contemplated that electric and gas utilities would not be operated by the same company, the Commission has permitted exempt holding companies to operate both without losing their exemption.

--Although the Congress intended to limit holding companies to the utility business, and reasonably incidental and related businesses, exempt companies have been permitted by the Commission to engage in unrelated businesses without loss of their exempt status.

Details of our findings on these matters follow.

MANY EXEMPT COMPANIES ARE AS LARGE AS REGULATED ONES

Under the terms of the act, size is considered an important factor in determining whether a utility should be regulated. Section 11 of the act provides, in part, that a holding company system should not be so large as to impair the advantages of localized management, efficient operation, and effective regulation.

Although preventing excessively large companies is an objective of the act, a company's size has not been a determining consideration in granting exemptions. As a result many of the exempt companies are very large--often as large as or larger than the regulated ones. The table on the following page compares the size of 14 large exempt companies with the size of 14 regulated companies.

As another comparison, in 1975 total assets for 80 exempt utility companies for which financial data were readily available amounted to $74.6 billion; total assets for the 14 regulated companies amounted to $37 billion. As shown by the following tabulation, 20 of the 80 exempt companies and 11 of the 14 regulated companies had assets in excess of $1 billion.

Further illustrating that size is not given much consideration, one exempt company in 1975 had assets of $4 billion, while its regulated subsidiary had assets of only $58 million. In terms of assets, the exempt company is larger than 12 of the 14 regulated companies.

	Number of exempt companies	Number of regulated companies
To $100 million	27	1
$100 million to $499 million	23	2
$500 million to $1 billion	10	0
Over $1 billion	20	11
Total	80	14

Comparison of 14 Regulated Companies With Selection of 14 Large Exempt Companies— Figures Are As Of December 31, 1975

Regulated

Name of company	Total assets (000 omitted)	Operating revenues (000 omitted)	Number of States
Electric:			
Southern Company, The	$7,237,003	$1,998,912	3
American Electric Power Company, Inc.	6,408,281	1,644,221	7
Middle South Utilities, Inc.	3,634,623	923,023	5
General Public Utilities Corp.	3,631,979	841,997	3
Northeast Utilities	2,741,950	789,454	4
Ohio Edison Company	2,048,144	593,324	3
Central and South West Corporation	1,982,294	740,153	4
Allegheny Power System, Inc.	1,901,054	653,916	6
New England Electric System	1,640,387	661,215	6
Eastern Utilities Associates	279,776	134,691	2
Philadephia Electric Power Co. (note a)	58,379	6,871	2
Gas:			
Columbia Gas System, Inc., The	3,202,660	1,443,140	8
Consolidated Natural Gas Company	1,798,353	970,564	4
National Fuel Gas Company	448,000	352,191	2

Exempt

Name of company	Total assets (000 omitted)	Operating revenues (000 omitted)	Number of States (note b)
Electric:			
Commonwealth Edison	$5,180,371	$1,722,331	1
Detroit Edison	3,651,672	1,070,780	1
Texas Utilities	3,247,691	808,736	1
Pennsylvania Power & Light	2,311,884	544,200	1
Gas & Electric:			
Pacific Gas & Electric	6,620,883	2,233,371	1
Philadephia Electric	3,961,463	1,134,810	2
Northern States Power	2,206,136	675,356	4
Union Electric	2,162,312	583,455	3
Public Service Co. of Colorado	1,378,622	463,620	1
Cincinnati Gas & Electric	1,250,234	479,868	3
Wisconsin Electric Power Co.	1,024,959	506,568	2
Gas:			
American Natural Resources Co. (note c)	2,473,657	1,044,946	1
Peoples Gas System (note c)	2,198,804	934,592	1
Pacific Lighting	1,662,834	1,119,084	1

a/A subsidary of Philadelphia Electric Co. (an exempt company shown below).

b/Includes only States in which retail utility businesses are operated.

c/Primarily an interstate pipeline company. Operates one retail utility and has diversified investments in nonutility businesses.

Source: Data for regulated companies was obtained from Securities and Exchange Commission records. Data for exempt companies was obtained from various sources including Fortune's list of the 50 largest utilities (July 1976) and Moody's Public Utility Manual (1976).

EXEMPT HOLDING COMPANIES ARE ALLOWED TO OPERATE COMBINED GAS AND ELECTRIC UTILITIES

Section 11(b)(1) requires that every regulated holding company and each of its subsidiaries

> "shall take such action as the Commission shall find necessary to limit the operations of the holding company system of which such company is a part to a single integrated public utility system, and to such other businesses as are reasonably incidental, or economically necessary or appropriate to the operations of such integrated public utility system."

This standard is referred to herein as the single-system standard.

The act's standard for the operation of a single system does not explicitly prohibit the operation of combined gas and electric properties. The legislative history, however, makes it clear that an objective of the standard was to promote free and independent competition in providing gas and electric utility services. The Congress noted in its deliberations that some added cost could result from the separation of jointly controlled gas and electric systems. However, it was more concerned about the detriment resulting from retention of both gas and electric properties within a single system and management's favoring of one energy mode over the other.

In the first few years of the act's administration, the Commission did not have a policy on operating combined gas and electric businesses, and it granted exemptions to holding companies operating such businesses. In 1941, however, the Commission established the policy that the act's single-system standard did not permit the operation of combined gas and electric utility systems within the same territory because they were two separate and competing entities. It determined that the Congress intended a single system to consist of either gas or electric properties, but not both.

The Commission's reasoning in support of its policy is reflected in several cases. In a 1948 decision, the Commission concluded:

> "It is manifestly to the advantage of both the electric and gas businesses that independent managements for each be allowed to devote their entire energies to their respective companies."

In a 1950 case the Commission made reference to the substantial benefits which "accrue from healthy and aggressive competition between gas and electric systems." It also made reference to

> "the inevitable tendency of joint control over gas and electric businesses to stifle the natural competitive features of these enterprises by the favoring of that business in which the controlling company is most interested and which is most profitable."

Policy is applied to regulated but not to exempt companies

The Commission's policy over the years has been to confine regulated companies to either gas or electric service. In contrast the Commission has permitted exemptions for companies which operate combined gas and electric businesses. We do not know how many exempt companies are doing so because the Commission does not have such information. To get an indication, we checked the business operations of 24 unregulated holding companies included in Fortune magazine's list of the 50 largest utilities. 1/ Our analysis showed that eight, or one-third, were engaged in both gas and electric businesses.

In the 1940s the Commission exempted companies which provided both gas and electric service as a matter of expedience to avoid delay in initiating financial reorganizations. It did not subsequently reevaluate such exemptions. In the 1950s the Commission exempted holding companies operating combined properties, reasoning that (1) the Congress did not impose a mandate to withhold exemptions in all cases of combined gas and electric operations and (2) absolute compliance with the single-system standard was not necessary to entitle a company to an exemption.

In a 1974 case decision, the Commission flatly adopted the policy position that compliance with the single-system standard was not a governing condition for determining detriment to the public interest for purposes of obtaining or retaining an exemption. It noted that because of the energy crisis the single-system standard might now be outmoded with

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1/ Of the 50, 5 were communications utilities, 11 were regulated companies, 5 appeared to be independent utility companies (not holding companies), and 5 operated gas pipelines and produced gas and oil--leaving 24 that appeared clearly to be holding companies in the gas or electric utility business.

respect to constraints on the operation of combined properties. The Commission did not, however, rely upon analytical data to reach this conclusion and consequently stated it tentatively rather than with certainty. In its written opinion, the Commission noted that an important development not foreseen when the act was written indicates that a static reading of its provisions is not justified. With respect to this it is important to keep in mind that the Commission had established its policy of permitting exemption for companies which operate combined gas and electric businesses as not contrary to the public interest before the energy crisis occurred. The Commission's policy position, that exemptions for companies not following the single-system standard do not harm the public interest, has the effect of reducing the force of the act.

EXEMPT HOLDING COMPANIES CAN OPERATE UNRELATED BUSINESSES

Because of the abuses which resulted from utility holding companies diversifying into other businesses, the Congress inserted strong antidiversification provisions in the act, restricting regulated holding companies to the operation of single integrated utility systems--gas or electric--and to such other businesses as are reasonably incidental to their utility business.

Some of the detrimental effects of utility diversification into other businesses are that it may

--dilute management's attention from its primary task of providing utility service to the community;

--divert utility company assets through loans and investments to the other businesses; or

--involve entry into a higher risk venture, which may result in higher capital costs for the utility portion of the holding company system.

Policy is applied to regulated but not to exempt companies

The Commission has imposed the single-system standard on regulated companies, requiring them to divest unrelated businesses such as retailing, foundries, textiles, agriculture, real estate, telephones, theaters, and amusement parks. We noted that only 1 of the 14 regulated companies is engaged in business unrelated to its utility operations. The company made real estate investments which the Commission only recently became aware of and has not yet acted on.

The Commission's record in applying this standard to exempt companies in the early years, when it was heavily engaged in reorganizing companies, is not clear. We do know that exemptions were granted to utility companies that had unrelated businesses, though we do not know how often. Nonetheless, under the Commission's current policy, exemptions are allowed to companies which operate unrelated businesses. Our review indicates that this practice has become commonplace. Of 24 unregulated holding companies (listed in Fortune's list of the 50 largest utilities 1/) our analysis showed that 12, or half of the companies, were engaged in unrelated businesses such as telephone, subway, and bus service; development and construction of residential, shopping, and office complexes; and manufacturing and marketing petrochemical products. Also, 18 of the 24 companies had made investments in fuel sources--coal mining, transportation, gas and oil exploration, and production. This is discussed further in chapter 4.

Insight into the Commission's current position on exempting companies engaging in unrelated businesses is provided by two recent cases.

In one case, the Commission ruled that an exempt gas utility holding company could retain its exempt status even though it had acquired six going businesses and organized a seventh, all unrelated to utilities. Five subsidiaries centered in California and Hawaii were engaged in diverse real estate activities, including acquiring land and developing it for sale or lease. Two agricultural subsidiaries in various States grew, packed, and marketed fruits and nuts. In December 1970 the company's nonutility investments reportedly represented 14 percent of its consolidated assets of $1.2 billion.

In the other case, a gas utility holding company was granted an exemption although it had acquired a controlling interest in firms whose activities included data processing, fuel exploration, aircraft leasing, travel agency services, and a commuter airline. In 1970 about $6.9 million, or 9 percent, of the company's consolidated assets of $78.5 million consisted of nonutility assets.

In these two cases the Corporate Regulation Division assumed a third-party role in the administration hearings and argued that the companies' diversifications into businesses unrelated to utilities was contrary to the single-system standard. The four sitting Commissioners split evenly in both decisions, which preserved the status quo of the cases.

1/See footnote, page 25.

We do not know how many companies have characteristics similar to those in the foregoing examples. The Commission does not keep records on companies which are beyond its jurisdiction. Further, companies granted exemptions may subsequently alter their organizational structures so as to fall beyond the act's purview. Our analysis indicates that 15 of the 24 largest unregulated utility companies are structured so as not to be considered holding companies under the act.

Companies exempt because of geographic location

Since the early days of the act, the Commission has used the geographic location of a company's retail utility operations as the primary basis for deciding whether a company considered to be a utility holding company is entitled to an exemption. The act directs the Commission to grant an exemption to a utility holding company when

> "such holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly, any material part of its income, are predominantly intrastate in character and carry on their business substantially in a single State in which such holding company and every such subsidiary company thereof are organized;
>
> "such holding company is predominantly a public-utility company whose operations as such do not extend beyond the State in which it is organized and States contiguous thereto * * *."

In determining a company's exempt status, the Commission considers the geographic characteristics of the company's operations in terms of where the retail utility services are provided. However, large exempt holding companies, even though predominantly conducting retail utility operations intrastate, engage in activities of an interstate nature. For example, they may participate in interstate power pools, operate out-of-State generating plants and distribute energy across State lines, operate interstate pipelines, and conduct out-of-State nonutility businesses. Such activities do not disqualify a company for an intrastate exemption.

INDEPENDENT STUDIES NOT MADE OF WHETHER EXEMPTIONS ARE DETRIMENTAL

Any discussion of abuses and resulting harm must take into account the purpose of the act, which is not to seek out and punish offenders but to prevent the occurrence of abuse. From this point of view, the absence of demonstrated past harm is not decisive so long as the potential for abuse exists.

The Commission has taken this view for regulated companies and expects them to comply with the act's standards, because actual or potential harm may result from noncompliance. Exempt companies, however, are administratively excused from compliance. This double standard appears questionable: if the operations of combined gas and electric companies and unrelated businesses are detrimental, such activities should not be permitted and such companies should not be exempt; if not, the activities should be permitted for regulated companies also.

When possible detriment resulting from exemption is considered in administrative proceedings, the individual Commissioners and other parties who oppose the exemptions appear to do so (insofar as we could determine from exemption orders) based largely on general conviction without the support of independently gathered data. Thus the objections to exemption are asserted on general grounds, such as harm to competition, regulation, or the quality of utility management.

The Commission has not made independent studies on the effect of companies operating combined gas and electric properties or engaging in nonutility businesses. Further, despite most holding companies being exempt, the Commission has not made followup studies. Such initial and followup studies are authorized under section 30 of the act.

CONCLUSION

In granting exemptions the Commission has relied too much on the geographic location of a company's retail utility services, and not enough on determining whether the exemptions would be detrimental to the public interest. Geographic criteria can be a basis for granting exemptions, but the Commission still has the responsibility to make certain that by so exempting companies it is not acting in a manner detrimental to the interests of the public, investors, and consumers.

Since the Commission does not make studies or otherwise document whether its regulatory efforts are achieving the objectives of the act, we were unable to determine whether its administration of the exemption clause was in fact detrimental to the public interest. It does seem to us, however, that exempting such a large number of holding companies from regulatory purview is in doubtful consonance with the spirit of the act. Furthermore, as indicated previously, the size of exempted companies, their engaging in unrelated businesses, and their operation in some cases of both gas and electric utilities raise doubts that exempting so many companies fulfills the act's requirements, since the act and its legislative history seemed concerned with all these matters. Also, we question whether having a double standard--one for exempt companies whose activities may be detrimental to the public interest and one for regulated companies--provides fair and equitable treatment of holding companies and their investors and customers.

It also seems to us that a determination regarding whether continuation of exemptions is in the public interest would be important to the Commission. Not only has it been many years since the majority of the exemptions were granted, but there have been great changes in those years. Many of the exempt companies have grown substantially and size is a concern. Furthermore, the energy shortage has caused people's views on energy use to change. For these reasons, the Commission should study the activities of exempt holding companies with a view toward determining whether continued exemption is in the public interest. The Commission should also reevaluate the provisions under which companies become exempt from the act and determine if other criteria in addition to geographic status should be considered.

RECOMMENDATION TO THE COMMISSIONERS OF THE SECURITIES AND EXCHANGE COMMISSION

In conjunction with the overall study recommended in chapter 2 (see p. 17), we recommend that the Commissioners of the Securities and Exchange Commission determine

--if continuation of exemptions is detrimental to the public interest and

--if the standards for granting exemptions need changing.

CHAPTER 4

COMPANIES ARE INVESTING IN FUEL AND FUEL-RELATED VENTURES

In contrast with the past, the Commission has in recent years permitted regulated utility companies to make substantial investments in fuel and fuel-related businesses running in scope from research, exploration, and extraction to transportation and storage and spanning the conventional fuel sources of coal, gas, and oil.

The Commission, however, has not developed or required the submission of data adequate to substantiate whether the investments are in the best interests of the public, investors, and consumers, and it has not studied alternative courses of action which might be available in and outside the utility industry to address fuel problems.

REGULATION HAS BEEN RELAXED FOR INVESTING IN FUEL AND FUEL-RELATED BUSINESSES

The act provides that each holding company system is to be limited to its utility enterprises and such other businesses as are reasonably incidental, economically necessary, or appropriate to the system's operations.

In the early years of the act, the Commission restricted regulated holding companies to conducting fuel and fuel-related businesses under narrowly prescribed conditions. Under early standards, for example, an electric utility was allowed to operate a coal mine located near the generating plant where the coal was used in the company's operation rather than sold to others. Currently the Commission is permitting companies to establish fuel sources far removed from the territories of their utility operations. The companies indicate that various economic considerations may require them to sell the fuel to outsiders.

In its annual report for the fiscal year ended June 30, 1975, the Commission stated that due to curtailments of fuel supplies, electric and gas utilities had found it increasingly necessary to finance substantial portions of their energy requirements by capital investment in sources of supply and transportation. During 1974 to 1976, 11 of the 14 regulated companies had received approval or had proposals under evaluation by the Commission to make investments in fuel and

fuel-related business ventures. These ventures included exploration for gas and oil, research in coal gasification, acquisition of coal reserves and development of coal mines, and investments in transportation and storage facilities.

Indicative of the types of fuel projects which the Commission approved during this period are the following:

--A regulated system was committed to spending in excess of $116 million in a program to acquire coal-mining businesses, coal hopper cars, and related equipment.

--A gas system was given approval to invest $48 million in a joint agreement to engage in coal mining intended for selling coal commercially and using it for experimental, and possible commercial, coal gasification.

--Another system was investing $45 million in partnership with an oil company to explore for and develop oil and gas deposits.

During fiscal year 1975, the Commission approved financing for fuel and fuel-related projects amounting to more than $500 million.

Regarding the exempt companies, the Commission has little information on the investments being made in fuel. However, data available from published sources indicates that 18 of the 24 largest unregulated companies have made investments in fuel sources in areas such as exploration, production, and transportation.

COMMISSION REVIEWS ARE INADEQUATE

We reviewed Commission files on companies' fuel proposals and found that the Commission depended almost entirely on company-submitted data without independent verification. The Commission concerned itself primarily with the financial aspects of the proposals and generally gave little attention to their technical and economic features. It did not require the companies to explain in specific terms, for example, how much of the fuel was intended for the company's own utility operations and how much was for other sales, what portions of the company's fuel needs were already under contract with affiliated or other suppliers, and what alternatives to investing in fuel businesses were considered.

In broader terms, the Commission has not determined the long-term effects and policy consequences of utility holding company investments made on the justification of assuring

reliable sources of fuel supply. It has not made or participated in studies, for example, to determine

--how companies operating in both utility and fuel fields will affect the operations of utility systems which do not have their own sources of supply;

--to what extent diversifications into fuel will make State and Federal utility regulation slower, more costly, and complex; or

--how the entry of regulated utility companies into unregulated fuel businesses will affect the competitive environment in those fuel industries.

IS THERE POTENTIAL FOR HARM?

The Commission does not have information on how the public, investors, and consumers have been affected by permitting utility holding companies to invest in fuel and fuel-related businesses. The potential for harm therefore has not been determined. However, many of these fuel businesses are costly, high-risk ventures. They are also outside the primary area of utility expertise. Potentially, the companies may incur losses or pass on unnecessarily high costs to consumers. The extent to which their activities will enlarge or foreclose sources of fuel supply for other users is not known.

The fuel crisis may represent a sound reason for utility companies' engaging in fuel businesses in the manner and to the extent that they have. On the other hand, it may be the plausible event which has been used to justify their diversification beyond the conventional boundaries of utility service.

CONCLUSION

The energy situation has changed significantly since the act was written. Today it might be considered a worthwhile expedient to let regulated holding companies engage in fuel and fuel-related businesses. Unfortunately, the Commission lacks information showing that its approval of fuel ventures best meets the public need for continuing utility service. Accordingly, we believe that further consideration of this matter is warranted.

RECOMMENDATION TO THE COMMISSIONERS OF THE SECURITIES AND EXCHANGE COMMISSION

We recommend that the Commissioners of the Securities and Exchange Commission authorize a study to examine whether it is in the public interest to permit public utility companies to engage in exploration, research, production, and long-distance transportation of fuel, and present the study findings to the Congress for final determination. Such a study should involve the participation of all Federal agencies concerned with energy and the regulation of utility industries. It could be conducted as part of the overall study recommended in chapter 2.