

Comptroller General of the United States  
General Accounting Office  
441 - G Street, N.W.  
Washington, D.C. 20548

Dear Sir:

In accordance with Section 202(b)(1) of P.L. 96-517, this letter is to inform you of exceptional circumstances determinations of the Department of Energy pursuant to Section 202(a) of P.L. 96-517.

The funding agreements that are the subject of these determinations are any funding agreements or subcontracts thereunder with small business firms and nonprofit organizations that may be awarded on or after July 1, 1981, and which are funded in part by the Electric Power Research Institute (EPRI) or the Gas Research Institute (GRI).

Statement of Facts and Determination:

DOE has entered into a "Memorandum of Understanding" (MOU) with EPRI and a separate MOU with GRI outlining the basis for cooperative work, covering projects jointly funded by DOE and EPRI or GRI. Copies of both of these MOU's are enclosed.

The EPRI MOU provides that EPRI, EPRI member utilities incorporated, organized, or constituted in the United States, and other United States utilities shall receive an irrevocable, nonexclusive, royalty-free license in connection with the research, development, production or supply of commercial electric power to make, use, and sell by or on their behalf any invention or discovery made or conceived in the course of or under jointly funded efforts and covered by a United States patent, and to have made on their behalf any such invention or discovery covered by a foreign patent in support of use by them within the United States. EPRI's foreign member utilities are to receive a license for use or in support of use in their respective countries. In parallel or sequential cooperative efforts that have been specifically agreed upon, DOE and EPRI "shall endeavor to assure the availability of the research results" to the Government, EPRI, and EPRI's member utilities.

The MOU with GRI provides the same license provisions for GRI and its member utilities with respect to research, development, production or supply of gaseous fuels.

These two MOU's were signed prior to July 1, 1981, but contracts, grants, and cooperative agreements may be entered into in the future containing the license provisions set forth in the MOU's. These license provisions may impinge so greatly on the value of the patent rights involved that they could be considered a derogation of the patent rights reserved to contractors under

P.L. 96-517. A finding of exceptional circumstances would therefore be necessary to continue with these arrangements where EPRI or GRI funding were to be used in a jointly sponsored project where the work is to be performed by a small business or nonprofit organization contractor or subcontractor.

EPRI and GRI have taken the position that their member utilities should receive a license since they are contributing to the funding which supports the making of the inventions and should not be in the position of having to pay royalties to use an invention which was made with their funds. EPRI and GRI have also represented to DOE that such license provisions are important to Internal Revenue Service approval of their tax status.

*JED*  
*JOS*

It is believed that small business firms and nonprofit organizations will benefit more from accepting the EPRI or GRI license provisions than they would from being excluded from projects where EPRI or GRI is contributing funds or having such funds withdrawn. Therefore, any contracts, subcontracts, or other funding agreements with small business firms and nonprofit organizations which are made subject to the EPRI or GRI license provisions pursuant to an MOU would be subject to exceptional circumstances to the extent that such a license is reserved to EPRI or GRI, their member utilities, or other utilities as provided in the MOU. If any funding agreements are awarded on or after July 1, 1981, subject to the EPRI or GRI MOU's, where a small business firm or nonprofit organization is involved, DOE will forward any objection to the above-identified license provisions after they are received.

It is believed that the foregoing complies to the extent possible with the requirements of OMB Bulletin 81-22 for determinations of exceptional circumstances.

Sincerely,

James E. Denny  
Assistant General Counsel  
for Patents

Enclosure:  
As stated

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