

# PRIVATE USE

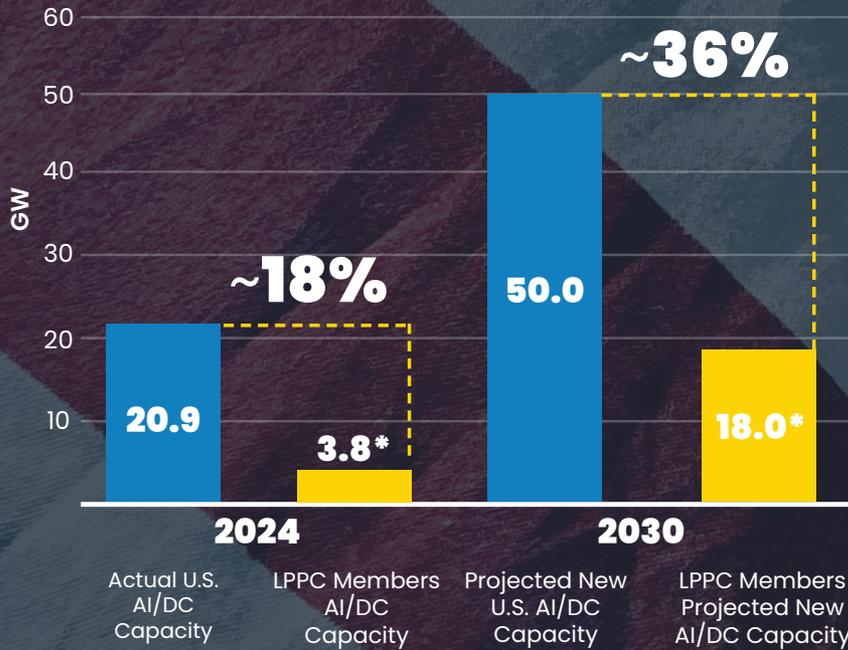
Modernizing Outdated Treasury Regulations

February 2026

# Public Power is Powering the Future of America's Economy<sup>1,2,3</sup>



LPPC members currently power over 18% of the nation's AI & Data Center customers and approximately 36% of expected new data center interconnections over the next five years.



**Public power utilities are essential to the Trump Administration's goals to win the AI race, reshore manufacturing, and sustain American economic and military leadership.**

## Background on the Large Public Power Council

LPPC represents 29 of the nation's largest public power utilities. Our members have issued over **\$100 billion** in tax-exempt bonds to finance critical generation, transmission, and distribution infrastructure. Today, LPPC member utilities serve over **30 million customers** with **80 gigawatts of generation**. Over the next decade, LPPC members expect to invest over **\$140 billion** in electric infrastructure and build approximately **58 gigawatts** of new generation across natural gas, nuclear, pumped hydro, carbon capture, storage, hydrogen, wind, and solar to meet unprecedented demand growth from data centers, artificial intelligence, advanced manufacturing, and electrification.

\* LPPC members also serve ~1.8 GW of advanced manufacturing and industrial large-load customers with ~3.4 GW of projected load growth.

# Private Use: The Problem in Pictures

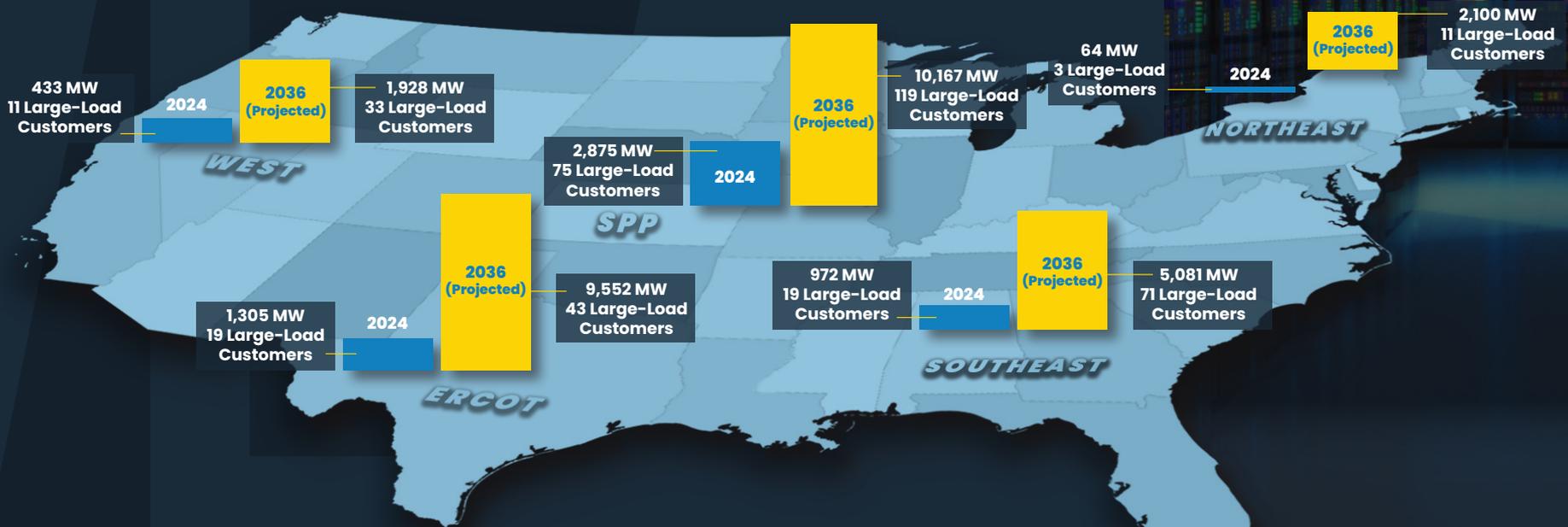
America is experiencing **record growth in electricity demand** driven by new large-load customers. The scale of these load requests is unprecedented. Inadequate electric infrastructure is rapidly becoming the principal constraint to interconnecting the large new loads at the needed speed and scale required to sustain U.S. global competitiveness.

Public power utilities face the challenge of making responsible, forward-looking investments while maintaining **affordability** and **reliability** for existing customers. The Large Public Power Council (LPPC) seeks **targeted updates to Treasury's private business use regulations** that would allow publicly-owned utilities to enter into long-term contracts with very large customers whose requirements for electricity necessitate major grid investments. These modernizations to Treasury regulations would preserve the core guardrails of § 141 of the Internal Revenue Code (IRC).



**"Public power is stepping up. LPPC member utilities plan to invest over \$140 billion and build 58 gigawatts of new generation over the next decade."**

**LPPC Member Large-Load Customers & Capacity by Region\* | 2024 vs. 2036<sup>1</sup>**



\* LPPC member projections of 2036 capacity for large-load customers assume adoption of private use reform to enable long-term, customer contracts consistent with these investments.

## LPPC CEOs ON PRIVATE USE REFORM



**“Long-term contracts protect the rest of my customers from having to pay extraordinary costs.”**



**“Residential customers are a very important part of our customer base. Having private use rules that work well for public power entities is incredibly important so that we can isolate the risk that new large load customers bring to the system.”**



**“We have been calling for modernization of private use rules for many, many years now.”**

# Three-Year Contracts 30+ Year Assets

**Without private use reform, legacy electric customers bear the risk and potentially the cost of the massive new investments requested by large-load customers.**

Under outdated Treasury regulations interpreting § 141 of the IRC, retail customer contracts that include minimum-demand features (for example, deposits, readiness requirements, withdrawal penalties, or minimum payments if the customer takes less power than requested) are treated as private business use if the contract term exceeds three years. **Congress did not legislate a three-year cap on retail customer contracts.** Prior to Treasury’s 1998 regulatory change, retail customer contracts did not create private use (see Appendix B). The three-year limit is entirely a **regulatory construct that Treasury can revise under its existing authority** and that has been adjusted multiple times in the past in response to evolving energy markets. The three-year limit might have been workable when load growth arrived gradually and a “big” new customer meant 25 to 50 megawatts. **It is not workable in today’s environment** of large, concentrated load growth.

**This time is different.** The nation is seeing electric demand growth driven by data centers, AI, and advanced manufacturing that is both **unprecedented in scale and unusually concentrated among a small number of customers.** Until now, public power utilities have generally been able to serve data centers and other large users out of existing, diversified system capacity under standard retail tariffs and short-term contracts. Those loads were small relative to the overall system and did not require building major new infrastructure. The current wave of large-load requests is different; it often requires substantial new, customer-driven capacity additions, which in turn require long-term customer contracts with those requesting new service so that existing customers are not left bearing the risk. In many regions, **a single prospective customer can request hundreds of megawatts at one site**, and a handful of customers can drive the need for thousands of megawatts of new generation and transmission investments. These are not incremental additions. They can be the equivalent of building one or more power plants, plus the delivery infrastructure, to serve the growing needs of a very small number of new customers.

**§ 141 was never intended to prevent public power from doing its basic job: serving native load.** Public power utilities build and operate infrastructure to serve all customers in their service territories through an integrated electric grid. Power flows across a network of generation, transmission, and distribution assets that collectively serve many customers, and operationally it is rarely possible, and generally uneconomic, to dedicate a specific facility to one customer. Yet the current three-year private use rule treats common, prudent retail contract tools as if they make the large-load customer the practical owner of tax-exempt-financed system assets, even though those assets remain part of the utility’s integrated system and are used to serve load across the service territory.

# Real World Implications

**Public power utilities have an obligation to protect their customers.**

**A three-year contract is fundamentally misaligned with multi-billion-dollar investments** in generation and transmission assets that are financed over decades and expected to operate for 30 years or more. By limiting utilities to short-term contracts, current private use rules **shift the risk and potentially the cost to existing households and businesses** even when the investment is being triggered by a small set of very large new customers that will be served from the utility's integrated system.

That risk shows up in several ways:

**This is not just a utility finance problem.** Given the size of today's interconnection queues, sidelining public power utilities from meeting customer demand jeopardizes the Administration's objective to win the AI race and support the nation's economic prosperity. Public power utilities serve **roughly 18% of current data center customers and approximately 36% of projected new interconnections through 2030.**

Notably, **this risk cannot be solved simply by issuing taxable debt for new projects or relying on third-party power purchase agreements to serve new load.** The private business use rules apply on a system-wide, long-term basis to outstanding tax-exempt bonds. Given the size of today's large-load additions, a single large-customer contract, or small group of contracts, that fails the current test can jeopardize prior tax-exempt financings, including bonds issued years ago in low-interest-rate environments, and may force the utility to undertake an expensive restructuring of its debt with higher-cost taxable bonds, raising costs for all customers.

As a result, without private use reforms, LPPC member utilities are left with only bad options:

## Option 1

**Assume extreme risk** on behalf of existing customers by building major new infrastructure without durable commitments from new customers that match the investment horizon, or

## Option 2

**Decline large-load interconnection requests**, constraining the local economy and the nation's ability to power AI, data centers, and advanced manufacturing at the scale and speed now being demanded.

**Absent reform, Treasury's outdated private use regulations will inhibit investment, weaken U.S. competitiveness, and contribute to an uneven buildout where some communities are left behind.**

## RISKS OF 3-YEAR CONTRACTS

- 1. Overstated Needs:** Large-load customers may request more power than they ultimately need, delay energization, or scale down within a few years as technology and business models evolve, equipment turns over, or efficiency improves. The three-year constraint effectively blocks the use of deposits, contracts, and withdrawal penalties that align customer commitments with cost recovery.
- 2. Renegotiation Leverage:** Once the initial three-year contract ends, a large customer can seek to renegotiate terms while the utility remains locked into long-lived system investments made to serve that customer's requested load. If the customer pays less than the cost to serve, stranded costs fall on legacy customers.
- 3. Credit Risk:** Rating agencies and bond investors evaluate utilities in part on how well they manage their customer concentration risk and costs.

# Closing the Guidance Gap When Buying Existing Generation

A separate, compounding problem is the lack of Treasury and IRS guidance under § 141(d). § 141(d), enacted in 1987, limits the use of tax-exempt bonds to acquire “nongovernmental output property,” including electric generation, transmission, and distribution facilities previously used by nongovernmental persons. Congress adopted these limits to discourage large-scale municipalizations and other broad conversions of investor-owned utility assets, while at the same time **preserving a path for governmental utilities to acquire existing privately-owned generation to serve load in their own service areas**. Since 1987, **Treasury has not issued regulations or other public guidance on how to apply the “nongovernmental output property” rules**. That gap makes it difficult for public power utilities to exercise purchase options in power purchase agreements or to acquire existing privately owned generation with tax-exempt bonds, even when the acquired assets will serve load entirely within the utility’s existing service area, as explicitly contemplated by § 141(d)’s existing-service-area exception. **Without clear, workable acquisition rules, utilities have fewer tools to meet large new loads quickly and cost-effectively.**

The challenge lies in how the **existing-service-area exception** operates in practice for integrated public power systems with multiple generating assets and no clarifying guidance. For many utilities, it is so difficult and burdensome to administer that it is effectively unworkable. For example, if a public power system operates its generation on a system-wide basis and has seasonal excess power, **every wholesale sale of surplus energy could be treated as nonqualifying use under § 141(d) whenever the acquired generating unit is running**. That result bears no relationship to economic plant dispatch or how modern systems are planned and operated, and it imposes **significant, unnecessary operational constraints and compliance costs** on public power utilities. The conference report to the 1987 tax act contemplated that these acquisition exceptions would operate in tandem with the general private business use rules and output regulations, so that sales that are not private business use do not destroy the exception; **in the absence of implementing regulations, that coordination has never been realized in practice.**

## Waynesboro, Georgia

Plant Vogtle Units 3 and 4 entered commercial service in 2023 and 2024, adding 500 MW of nuclear generation capacity to LPPC member utilities **Municipal Electric Authority of Georgia** and **Jacksonville Electric Authority**.

# Narrowly Tailored Regulatory Relief

LPPC seeks targeted updates to Treasury's private business use regulations under IRC §141. **Regulatory action only, no statutory changes.** The relief is limited to contracts with very large retail customers and to acquisitions of existing "nongovernmental output property" to serve the utility's service area. **Treasury has updated private use rules many times before to reflect changing electric market realities (see Appendix B).** But the framework has not been refreshed since 2002 and is now having unintended consequences.

## Summary of Requested Regulatory Relief

# 1

### Extend Contract Safe Harbors

Extend the Treasury Regulation § 1.141-7(f)(3) short-term output contract safe harbor from three years to up to 20 years, solely for "qualified large retail customers" expected to exceed 20 megawatts or 10 percent of the utility's peak demand within seven years.

# 2

### Issue Guidance for Acquisition of Existing Generation

Adopt new Treasury Regulation § 1.141-11 to clarify IRC §141(d) acquisitions of nongovernmental output property, including (i) a conforming rule treating output contracts that do not result in private business use under § 1.141-7(f) as sales within the qualified service/annexed area for §141(d)(3), and (ii) a compliance standard based on reasonable expectations at issuance or a five-year historic usage safe harbor.

## Supporting Regulatory Proposal and Legislative History:

(See **Appendix A** for proposed regulatory language and **Appendix B and C** for supporting legislative and regulatory history)

# Protecting Customers: Case Studies

Across the country, state utility commissions are rapidly adopting **large-load contracts and tariffs**: as of late 2025, **at least 65 large-load tariffs were pending or in place across 34 states**.<sup>4</sup> The common objective is the same: welcome investment, but require large-load customers to make durable financial commitments so existing customers are not left bearing the **risk** that customer projects are delayed, downsized, or abandoned. These contracts and tariffs also **ensure cost causation** by requiring large-load customers to pay the incremental cost of the generation, transmission, and distribution infrastructure needed to serve them, rather than spreading those costs across existing customers.

**Treasury's current three-year limitation on customer contracts effectively prevents public power utilities from using industry standard customer-protection tools.**

## OHIO When customer commitments got real, the forecast got real

AEP Ohio's new data center tariff shows why these protections matter. AEP Ohio had roughly **30,000 MW** of data center requests in its queue. After the Ohio Public Utilities Commission required large-load customers to make meaningful financial commitments, the total dropped to a little more than **13,000 MW**.

AEP's explanation was direct: "The load study shows that **the data center tariff is working**... When faced with potential financial commitments, the most **speculative or uncertain data center projects** did not submit load study requests, as was intended." In other words, long-term commitment tools can separate feasible projects from optionality before utilities build long-lived infrastructure.

### Public utility commissions on large-load contracts and tariffs

## GEORGIA

"The amount of energy these new industries consume is staggering," said PSC Chairman Jason Shaw. "By approving this new rule, the PSC is helping ensure that **existing Georgia Power customers will be spared additional costs associated with adding these large-load customers to the grid.**"

Georgia Public Service Commission | Order Docket: 44280 | January 28, 2025

## ARIZONA

"As data centers continue to expand and contribute to our ever-growing demands on Arizona's and the nation's power infrastructure with their unique and large power needs, it's important to balance the economic opportunities presented by data centers with the **need to financially protect other ratepayers** to ensure they are not bearing the rising energy generation and transmission costs associated with this burgeoning industry," wrote ACC Chairman Kevin Thompson. Arizona Corporation Commission | Tentative Order Docket: E-01345A-25-0105 | April 15, 2025

### Large-load customers support long-term contracts

## GOOGLE

"All new loads interconnecting to the transmission system... should be subject to safeguards to protect other customers and ratepayers." Google cites its "long-standing advocacy at the state level for 'Capacity Commitment Frameworks,' under which large new loads sign **long-term contracts** that ensures that the customer commits to providing sufficient revenue to cover the investments made on their behalf," "pay costs of power capacity (e.g., approximated via demand charges) at a sufficient minimum to guard against **potential cost shifting** in the event that metered customer demand is significantly lower than planned for," and "upfront collateral... to provide **financial assurance** to the utility that long-term contract minimums can be met."

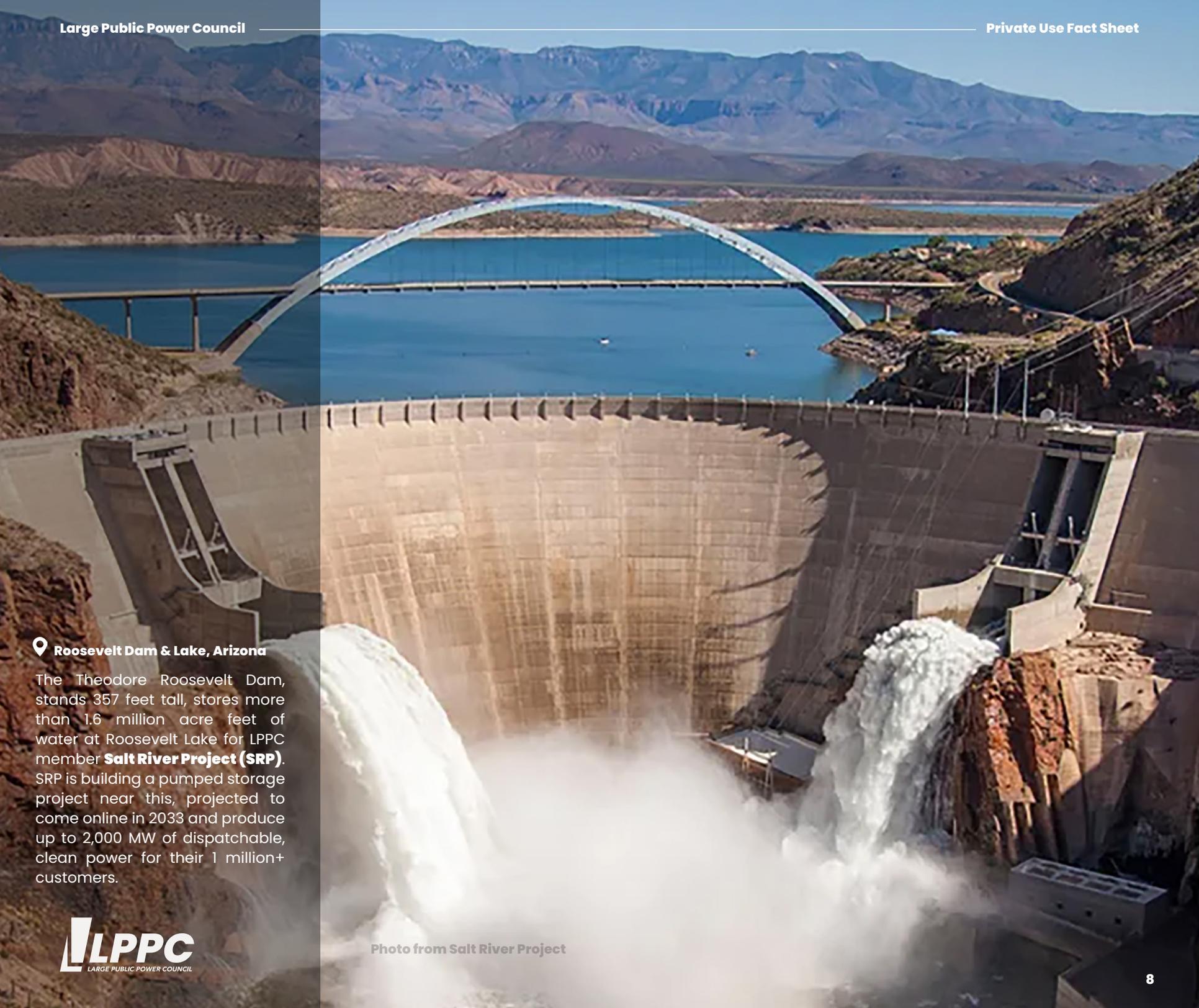
Google LLC | FERC Docket RM26-4-000 | November 21, 2025

### Key large-load contract and tariff features:

- **Load ramping requirements**
- **Minimum billing demand or minimum charges**
- **Minimum contract terms (up to 20 years)**
- **Deposits/collateral**
- **Readiness requirements**
- **Withdrawal penalties**
- **Exit or early termination fees**

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# APPENDICES



**Roosevelt Dam & Lake, Arizona**

The Theodore Roosevelt Dam, stands 357 feet tall, stores more than 1.6 million acre feet of water at Roosevelt Lake for LPPC member **Salt River Project (SRP)**. SRP is building a pumped storage project near this, projected to come online in 2033 and produce up to 2,000 MW of dispatchable, clean power for their 1 million+ customers.

# Appendix A

## LPPC's Proposed Amendments to Treasury Regulations

### 1.141-7 Special Rules for Output Facilities

(3) **Short-term output contracts.** An output contract with a nongovernmental person is not taken into account under the private business tests if –

(i) The term of the contract, including all renewal options exercisable by the nongovernmental person, is not longer than 3 years (or 20 years in the case of a contract with a qualified large retail customer (as defined in subparagraph (iv)));

(ii) The contract either is a negotiated, arm's-length arrangement that provides for compensation at fair market value, or is based on generally applicable and uniformly applied rates; and

(iii) The output facility is not financed for a principal purpose of providing that facility for use by that nongovernmental person. An output facility will not be treated as financed for a principal purpose of providing it for use by a nongovernmental person if the output facility is part of the governmental unit's integrated system and is not designed, built, or contractually allocated to the exclusive requirements of that person (other than incidental features).

(iv) **Qualified large retail customer.** For purposes of this subsection (f), a person is a qualified large retail customer with respect to an output contract if:

(a) that person purchases output at retail under the contract; and

(b) that person reasonably expects on the effective date of the contract that the demand for output of that person, plus the demand of any related party, will, at any time within the seven years on or after the effective date of that contract, exceed 20 megawatts or 10 percent of the utility's peak demand in the aggregate at one or more locations, including demand under that contract or any other arrangement between that person (or any related party, as defined in § 1.150-1(b)) and the issuer (or any related party, as defined in § 1.150-1(b)).

\* Underline: Text additions to existing regulations

# Appendix A

## LPCC's Proposed Amendments to Treasury Regulations (cont.)

### 1.141-11. Acquisition of Nongovernmental Output Property.

(a) **In general.** [Reserved]

(b) **Exceptions.** For purposes of determining compliance with § 141(d)(3) (related to the exception for property acquired to provide output to certain areas) –

(1) **Private business use exceptions to apply.** An output contract that does not result in private business use under § 1.141-7(f) is treated as a sale within the qualified service area or qualified annexed area of the governmental unit acquiring the nongovernmental output property; and

(2) **Determinations and compliance.** Compliance with § 141(d)(3)(A) may be determined based on (i) the reasonable expectations as of the issue date of the governmental unit acquiring the nongovernmental output property, or (ii) the average over the 5 calendar years preceding the acquisition of the nongovernmental output property of the output consumed in the qualified service area or qualified annexed area of the governmental unit, divided by the average during such period of the output from generation facilities owned by the governmental unit and output purchased by the governmental unit. The determinations made under this paragraph may be made based on either the energy or capacity of the relevant output property.

(c) **Application of Private Business Use Rules to § 141(d).** Except as otherwise provided therein, the general private business use rules under § 141 and § 1.141-0 through 1.141-15 apply for purposes of § 141(d). Thus, for example, under § 1.141-6, qualified equity (as defined in § 1.141-6(b)(3)) that is used together with tax-exempt bonds to acquire nongovernmental output property is allocated first to private business use of the nongovernmental output property (whether or not such private business use arises as a result of § 141(d)) under the rules of § 1.141-6. As an additional example, the measurement period rules under § 1.141-3(g) and § 1.141-13 apply to issues of bonds that finance the acquisition of nongovernmental output property. Accordingly, if taxable bonds are issued to finance an acquisition of nongovernmental output property, those taxable bonds may be refunded with tax-exempt bonds if, after applying § 141(d), the measurement period rules, and the other general private business use rules, the tax-exempt bonds are not private activity bonds and the other requirements for the bonds to be tax-exempt bonds are satisfied.

# Appendix B

## Regulatory History of Private Business Use Rule for Output Facilities

### Private Use Rule Prior to 1998 and Unchanged by the 1986 Act

Before 1998, the private business use analysis for output facilities generally followed a “benefits and burdens” approach. In practice, **wholesale and retail requirements contracts were not treated as private business use**, because the purchaser did not physically use the facility and was not guaranteed a specific amount of output. By contrast, IRS guidance focused on **“take” or “take-or-pay” contracts** that effectively transferred the benefits of ownership and the burdens of paying debt service on tax-exempt bonds; those contracts created private business use. Separately, prior law also allowed up to **25 percent** of an electric facility’s output to be sold to nongovernmental persons in a manner that resulted in private business use.

### What the Tax Reform Act of 1986 Changed and What It Did Not

The Tax Reform Act of 1986 (the “1986 Act”) made several changes affecting public power, including reducing permitted private business use from 25 percent to the **lesser of 10 percent or \$15 million**, and directing Treasury to eliminate the rule under which certain very small amounts of private business use could be disregarded. The 1986 Act also clarified that use by a member of the general public does not result in private business use, and the Joint Committee on Taxation’s “Blue Book” included language indicating that **30-day spot sales** of electricity did not result in private business use.

Importantly for output contracts, the 1986 Act **did not change** the pre-existing principle that private business use concerns arise where a contract transfers the benefits of ownership and burdens of paying debt service on tax-exempt bonds under take or take-or-pay arrangements. Consistent with that, legislative history related to the tax-exempt bond provisions indicates that pre-1986 law continued to apply except where the 1986 Act made specific changes.

The IRS followed this approach both before and after the 1986 Act. For example, in a **1991 private letter ruling**<sup>1</sup>, the IRS confirmed the conclusion of a **1982 private letter ruling**<sup>2</sup> that a wholesale requirements contract did not result in private business use. Those rulings emphasized that the wholesale purchaser was not guaranteed a specific quantity of power and energy and that its purchases were not meaningfully different from other customers. As a result, the purchaser did not have the benefits of ownership and the burdens of paying debt service on tax-exempt bonds required under the benefits-and-burdens test in order to result in private business use.

### What Changed in the 1998 Private Use Regulations

In **1998**,<sup>3</sup> Treasury adopted output facility regulations that abandoned its longstanding approach by broadening the types of contracts that can give rise to private business use. While the regulations nominally retained the “benefits and burdens” framework, they in fact expanded its application to certain wholesale and retail requirements contracts. Under Treasury Regulation § 1.141-7(c)(3), a requirements contract can result in private business use to the extent it includes terms that either:

1. obligate the purchaser to make payments that are not contingent on its actual requirements, or
2. obligate the purchaser to maintain requirements (so-called “minimum demand” provisions).

# Appendix B

## Regulatory History of Private Business Use Rule for Output Facilities (cont.)

To mitigate the impact of these rules, the 1998 regulations also provided safe harbors and exceptions. For example, the **short-term contract exception** in § 1.141-7(f)(3) generally requires that: (i) the term (including renewals) **not exceed 3 years**; (ii) pricing be arm's-length/fair market value or based on generally applicable, uniformly applied rates; and (iii) the facility not be financed primarily for that nongovernmental user. For wholesale requirements contracts, the regulations also provided a more flexible safe harbor: such contracts do not create private business use if either (i) the term (including renewals) does not exceed the lesser of 5 years or 30 percent of the bond term, or (ii) the purchaser's total requirements purchases do not exceed 5 percent of the facility's available output.

In 2020, an LPPC member utility had extensive discussions with the IRS regarding a private letter concluding that retail requirements that require minimum payments by the purchaser of the electricity would not result in private business use. This ruling would have been consistent with the private letter rulings issued prior to the 1998 regulations described above. IRS staff ultimately determined that the 1998 regulations prohibited them from issuing a favorable ruling.

### Congress's Approach and Treasury's Longstanding Regulatory Role

Congress has never attempted to codify a detailed definition of private business use for output-facilities in the Internal Revenue Code. Section 141, as enacted in 1986, largely mirrored prior law on this point, apart from the tightened private use cap and other targeted changes affecting public power described above. Instead, Congress has consistently relied on Treasury's broad authority under § 7805 to prescribe rules and to tailor private use rules to the unique characteristics of public power.

Treasury exercised that authority through a multi-stage regulatory process in the 1990s and early 2000s (1994 proposed regulations, 1998 temporary regulations, 2001 proposed regulations, and 2002 final output facility regulations). It was those regulations that expanded the definition of output contracts that result in private business use. However, it was also in those regulations that Treasury responded to electric industry restructuring and reflected input from public power and the Department of Energy to make the rules workable for the new way in which the electric transmission grid was being managed and operated.

### Why This Matters Now

This history reflects a consistent pattern: **Congress sets broad guardrails in § 141 of the Internal Revenue Code, and Treasury uses its regulatory authority to define private business use and adapt output-facility rules to changing conditions in the electric sector.** Just as Treasury modernized the output rules in 2002 to reflect electric industry restructuring and deregulation, it should update the output facility regulations again to address rapidly rising load growth from data centers and other large customers.

<sup>1</sup> PLR 9125007 (March 15, 1991)

<sup>2</sup> PLR 8240049 (July 6, 1982)

<sup>3</sup> Proposed and temporary regulations for output facilities were adopted in 1998. The rules defining private business use for output facilities were modified and finalized in 2002.

# Appendix C

## Legislative History of § 141(d) “Nongovernmental Output Property”

§ 141(d) of the Internal Revenue Code, enacted in 1987, limits the use of tax-exempt bonds to acquire “nongovernmental output property,” including electric generation, transmission, and distribution facilities previously used by nongovernmental persons. At the same time, **Congress created exceptions intended to preserve the ability of governmental utilities to acquire existing nongovernmental generation to serve load in their own service areas.**

The conference report for the tax act explains that:

- A governmental utility may acquire nongovernmental output property to meet existing or increased demand within a service area it has served for at least 10 years.
- The utility may acquire reasonable amounts of excess capacity beyond current demand, so long as that capacity is not used in a way that creates sufficient private business use to turn the bonds into private activity bonds.
- Certain pooling, exchange, and spot-sale arrangements do not create private business use and therefore do not defeat the exception.

Further, the conference report contemplated that these acquisition exceptions would **operate in tandem with the general private business use rules and output regulations**, so that sales that are not private business use do not destroy the exception; however, Treasury has never issued regulations under § 141(d) to implement this coordination.

Key excerpts from the conference report include:

**Existing service areas.** — Under the first exception, **the acquisition of nongovernmental output property by a state or a local governmental unit to meet existing or increased capacity demands within a service area throughout which the acquiring entity has provided the same type of service for at least 10 years immediately preceding the date of the acquisition is not subject to the new restrictions.** For example, a governmental authority that provides electricity to a city may use tax-exempt bonds subject only to present-law rules to acquire existing investor or Federally owned generation and transmission facilities when those facilities will be used to provide output service within the service area throughout which the authority actually has provided electric service during a 10-year minimum service period, described below.

# Appendix C

## Legislative History of § 141(d) “Nongovernmental Output Property” (cont.)

This exception does not apply to those cases where the increase in demand arises from sales outside the existing service area through direct arrangements or through wheeling arrangements with another provider. For example, if a manufacturer built a manufacturing plant outside a governmental output authority’s existing service area, but contracted with the authority for electricity, the plant’s demand for electricity could not be counted as in demand within the existing service area.

**10-year minimum service requirement.** — The two exceptions described above generally are available only to governmental authorities that satisfy a 10-year minimum service requirement on actually providing service to their service areas. In applying this rule, a service area to which such an authority actually was providing service (as opposed to being authorized to provide service) on October 13, 1987, is treated as having been served for 10 years. Further, an existing service area does not include any area, which although identified as such in State or local law, has not been actively served during at least a substantial part of the last year.

The conferees recognize that many cities with existing governmental output systems may expand over a 10-year period and as part of that growth may annex neighboring territory in general purpose governmental annexations. Subject to the restrictions in the preceding paragraph on actually serving an area, if such a governmental authority extends its services into such annexed areas in an annexation qualified under the exception described above, the governmental authority is deemed to have satisfied the ten-year minimum service requirement for purposes of future acquisitions if it has served a core area within its total area of actual service with the same type of service for the 10 years immediately preceding the year in which the existing nongovernmental output property is acquired.

**Governmental authorities without generation facilities.** — The conferees recognize that some existing governmental output systems only provide distribution services, or that they may produce output sufficient to meet only a part of the demand of their service area. The conference agreement does not preclude such a governmental authority from continuing to serve its function by purchasing capacity necessary to meet the existing demand (and reasonable projected future demand, subject to the restrictions described below) of its service area through acquisitions of nongovernmental output property without regard to the new restrictions contained in the agreement.

**Excess capacity and the sale of such capacity outside the service area.** — The conference agreement **does not preclude a governmental authority from acquiring reasonable amounts of capacity beyond the authority’s current demand needs** while qualifying under either of the two exceptions provided in the agreement. However, no capacity beyond that necessary to meet current output demands may be acquired if that capacity will be used in a manner that gives rise to an amount of **private use of bond** proceeds sufficient to characterize the bonds issued as part of the issue used to acquire the facilities as private activity bonds.

# Appendix C

## Legislative History of § 141(d) “Nongovernmental Output Property” (cont.)

Under present law, sales of output capacity to nongovernmental entities pursuant to certain output or requirements contracts are not treated as a private business use if the sales occur pursuant to certain power pooling and exchange arrangements or certain spot sales of output capacity, in which case such sales are treated as sales to the general public. Under these rules, exchange agreements that provide for “swapping” of power between governmentally owned and operated utilities and investor-owned utilities do not give rise to a private business use where (1) the swapped power is in approximately equivalent amounts determined over periods of one year or less, (2) the power is swapped pursuant to an arrangement that does not involve output-type contracts, and (3) the purpose of the arrangements is to enable the respective utilities to satisfy differing peak load demands or to accommodate temporary outages. Additionally, spot sales of excess power capacity for temporary periods, other than by virtue of output contracts with specific purchasers, are not treated as private business use of bond proceeds. For purposes of this rule, a spot sale is a sale pursuant to a single agreement that is limited to no more than 30 days’ duration (including renewal periods).



 San Antonio, Texas

To meet rapid load growth and strengthen reliability, CPS Energy purchased 3,342 megawatts of existing natural gas plants in 2024 and 2025 from private owners, providing immediately available capacity to its customers and helping CPS avoid new-build cost inflation and supply-chain risk.



Photo from CPS Energy



### Sources:

- <sup>1</sup> LPPC Member Current & Projected Large-Load Capacity | Capital Investment and Large Load Growth Survey, November 2025
- <sup>2</sup> 2024 National AI/Data Center Capacity | Energy & AI, World Energy Outlook Special Report, International Energy Agency, April 2025
- <sup>3</sup> 2030 National Projected AI/Data Center Load Growth | Department of Energy Resource Adequacy Report, July 2025
- <sup>4</sup> Database of Emerging Large-Load Tariffs | Smart Electric Power Alliance (SEPA)

### LPPC Member Survey Participants:

- |  |                                       |
|--|---------------------------------------|
| American Municipal Power                 | MEAG Power                            |
| Austin Energy                            | Nashville Electric Service            |
| Chelan County PUD No. 1                  | Nebraska Public Power District        |
| Clark Public Utilities                   | New York Power Authority*             |
| Colorado Springs Utilities*              | Omaha Public Power District           |
| CPS Energy                               | Orlando Utilities Commission          |
| Electricities of North Carolina, Inc.    | Platte River Power Authority          |
| Grand River Dam Authority                | Salt River Project                    |
| Grant Public Utility District            | Santee Cooper                         |
| Imperial Irrigation District*            | Seattle City Light                    |
| Jacksonville Energy Authority            | Sacramento Municipal Utility District |
| Lincoln Electric System                  | Snohomish County PUD No. 1            |
| Los Angeles Department of Water & Power* | Tacoma Public Utilities               |
| Lower Colorado River Authority           |                                       |

\* Members partially participating