STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 89-M-054 - Policy on Patents and Patent Proceeds Resulting from Utility Research and Development

STATEMENT OF POLICY REGARDING PATENTS AND PATENT PROCEEDS

Issued and Effective: May 23, 1990

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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Questions about utility patent policies have been raised in a staff audit of a New York State utility. As a result, we asked staff to review the issues involved and to explore, among other things, whether a sharing of patent revenues between the corporation and the ratepayer would be a policy direction worth pursuing. A proposed policy was issued soliciting comments by the utilities. After receipt of these comments, we have now reviewed the matter and conclude that each utility conducting research funded by ratepayers should have a written patent policy that will promote the discovery and application of new ideas, but also assure that an equitable distribution of the fruits of invention will be available to the ratepayers who fund such research.

Staff's review of current utility patent policies revealed that some companies have no written policies; some allow employees to own patents arising from work done for the company; and some require employees to assign to the company all rights to such patents. Those companies allowing employees to own patents generally reserve for themselves a royalty-free license to use the patented invention. Those companies requiring employees to assign patent rights to the company generally endorse the idea of employee awards for patentable discoveries. There are also differing utility practices regarding the distribution of patent proceeds. Some companies allow all such proceeds to go to the employee-inventor; some treat such proceeds as the exclusive property of the shareholder; and others provide for a sharing of the proceeds between ratepayers and shareholders.

After examining the different approaches taken by the companies, we issued for comment a proposed policy on patents and patent proceeds calling for each utility to adopt a patent policy incorporating certain provisions. We received a total of sixteen sets of comments from electric, telephone, gas and water companies across the State. We have modified that proposed policy, in consideration of the comments provided to us, to produce this statement of policy, which we now adopt.

As a basic principle, each company should have in place a written patent policy requiring that all patent rights from discoveries made on the job by an employee be assigned to the company. While a company may, under common law, have certain

rights pertaining to innovations by its employees (i.e., ownership rights to employee innovations resulting from work for which an employee was hired, or a "shop right" to use an invention by an employee not hired to invent but who developed the invention on company time using company resources), a requirement that patent rights be assigned to the company under these circumstances can eliminate any doubts as to the company's rights. This could also assure that the company and the ratepayer benefit from use of the invention and share in any patent proceeds. We recognize that such a requirement may need to be conditioned so as to maintain satisfactory employee relationships, to defer to existing contractual commitments, or to avoid unreasonable intrusion of the issue into the company's collective bargaining process with its employees. However, each company should make a good faith effort to require the assignment of these patent rights to the company.

Once patent rights are assigned to the company, the next question is how patent revenues are to be distributed among the ratepayers, the company's shareholders and the employee-inventor. We believe that no single formula will provide a satisfactory distribution in all cases; it is each company's responsibility, therefore, to establish appropriate procedures. In general, we would expect the sharing of benefits to reflect the respective contributions of each. In the case of patents resulting from ratepayer-funded R&D, for example, the

ratepayer should be entitled to the greater share of the proceeds.

Finally, we believe that innovation by employees should be encouraged. To this end, each company's patent policy should establish an internal program through which employees may receive innovation incentive awards. Such a program, as determined by the company, might include awards in advance of a patent, with additional awards on issuance of a patent or on receipt of patent revenues.

It is our intent, in adopting this policy, to encourage the development and application of new ideas to improve utility service and to help assure a reasonable distribution of any patent proceeds that may result, without at the same time intruding on utility management prerogatives. The policy requires that each company have a written patent policy consistent with the principles broadly stated herein. Successful implementation of the policy clearly rests on each company's diligence in tailoring its specific policy provisions to its individual corporate needs.

By the Commission,

John J. Kelliher
Secretary