DEPARTMENT OF ENERGY

Federal Energy Regulatory Commission

18 CFR Part 101

[Docket No. RM04–12–001; Order No. 668–A]

Accounting and Financial Reporting for Public Utilities Including RTOs

Issued April 20, 2006.

AGENCY: Federal Energy Regulatory Commission, DOE.

ACTION: Final rule; Order denying rehearing.

SUMMARY: The Federal Energy Regulatory Commission (Commission) is denying requests for rehearing of Order No. 668, *Accounting and Financial Reporting for Public Utilities Including RTOs.*

The Commission is also publishing a technical correction to include page 302 of Form Nos. 1 and 3–Q which was missing from Order No. 668. Finally, the Commission is clarifying the proper way to net energy transactions when an entity participates in more than one RTO-administered energy market and the proper basis for determining whether net hourly energy transactions are to be reported as a net sale or a net purchase.

DATES: *Effective Date:* Changes adopted in this order will become effective June 15, 2006.

FOR FURTHER INFORMATION CONTACT:

John Okrak (Technical Information), Office of Market Oversight and Investigations, Federal Energy Regulatory Commission, 888 First Street, NE., Washington, DC 20462. (202) 502–8280.

Eric Clark (Legal Information), Office of the General Counsel, Federal Energy Regulatory Commission, 888 First Street, NE., Washington DC 20462. (202) 502–8586.

SUPPLEMENTARY INFORMATION:

Before Commissioners: Joseph T. Kelliher, Chairman; Nora Mead Brownell, and Suedeen G. Kelly; Order Denying Rehearing

1. On December 16, 2005, the Commission issued Order No. 668 amending the accounting and financial reporting requirements for public utilities.[1] On January 17, 2006, the Transmission Access Policy Study Group (TAPS) filed a request for rehearing.[2] In this order, the Commission denies rehearing of Order No. 668, publishes a technical correction, and provides certain clarifications.

Background

2. The Commission initiated this rulemaking proceeding in order to update its Uniform System of Accounts (USofA)[3] and financial reporting requirements to accommodate the restructuring changes that are occurring in the electric industry due to the availability of open-access transmission service and increasing competition in wholesale bulk power markets.

3. More specifically, the formation of independent system operators (ISOs) and regional transmission organizations (RTOs) created the need to update the Commission's accounting and financial reporting requirements to reflect the roles of ISOs and RTOs and to provide more transparent and uniform accounting for reporting of certain activities not previously addressed in the Commission's regulations. To remedy this, Order No. 668 updated the accounting requirements for public utilities and licensees, including ISOs and RTOs (hereafter, jointly referred to as RTOs). As relevant here, Order No. 668 included a new operating revenue sub-account, Account No. 456.1, Revenues from transmission of electricity of others, to record revenues the public utility receives for the transmission of electricity over its transmission facilities.[4]

4. On January 17, 2006, TAPS filed a request for rehearing, calling for the Commission to require additional detail in Account No. 456.1.[5] According to TAPS, while new Account No. 456.1 provides additional transparency, the Commission's accounting regulations would provide even more transparency if they additionally required: Sub-categorization of transmission revenues; reporting of peak loads in a manner that permits ready calculation of transmission rate divisors; separate identification of plant, depreciation and expenses associated with facilities that are accounted for as transmission but otherwise functionalized or directly assigned; expanded identification of transmission facilities that have been placed under the control of another entity and the gross plant investment of the facilities transferred; and reporting of revenue distributions received from regional transmission entities.

Discussion

5. TAPS asserts that the newly created Account 456.1 does not permit transmission customers and the Commission to monitor transmission revenues and usage to determine whether existing rates are just and reasonable. We are not persuaded the level of additional detail TAPS seeks—which TAPS readily admits is ''needed for transmission ratemaking''[6]—need be reported, however. Furthermore, the information that TAPS seeks is not financial accounting data that would be recorded in Account 456.1. Thus, while TAPS styles its request for rehearing as accounting-related by requesting that the Commission adopt certain proposed changes to Account 456.1, what TAPS is really requesting is more broadly an expansion of the Form Nos. 1 and 3–Q reporting requirements to essentially amount to a rate case. We are not persuaded to do so, and we will deny rehearing.

6. Account No. 456.1 is a revenue account, and much if not all of the added detail that TAPS seeks is not revenue data but other data not appropriately recorded in Account No. 456.1. Indeed, some of it is not even financial information, such as the requested listing of facilities placed under an RTO's control, and would not be recorded anywhere in the Uniform System of Accounts. The Commission considers the information requested by TAPS, which TAPS notes is needed for transmission ratemaking, unnecessary to accomplish the goal of this rulemaking proceeding, which is *not* to engage in transmission ratemaking, but instead simply to allow for oversight of the rates being charged by RTOs and their member transmission-owning public utilities, to compare expenditures across RTOs,[7] and to provide sufficient transparency of financial trends and

[1] *Accounting and Financial Reporting for Public Utilities Including RTOs,* Order No. 668, 70 FR 77627 (Dec. 30, 2005), FERC Stats. & Regs. ¶ 31,199 (2005).

[2] On January 17, 2006, the American Public Power Association filed a letter stating that it was not filing for rehearing, but urged the Commission to turn its attention to cost oversight.

[3] 18 CFR part 101.

[4] Order No. 668, FERC Stats. & Regs. ¶ 31,199 at P 69–71.

[5] Request for Rehearing at 2; *accord id.* at 3–6.

[6] *Id.* at 2; *accord id.* at 3.

[7] A fundamental basis for the existence of the Commission's accounting requirements, and by extension its reporting requirements, is uniformity. Uniformity of the information reported allows for meaningful comparisons to be made between accounting periods and between entities. In order to make such comparisons, reported information needs to be aggregated at a high enough level that commonality of the information being reported exists. We are concerned that the level of detail that TAPS seeks would undermine the objective of comparability due at least in part to the fact that terms contained in TAPS proposal do not necessarily have a common definition across entities. For example, ''relevant'' point-to-point loads.

emerging issues.[8] In short, the requested additional detail is beyond the scope of this rulemaking proceeding.[9]

7. Order No. 668's requirements provide information sufficient for oversight without undue burden. Form Nos. 1, 1–F, and 3–Q collect general corporate information such as summary financial information, balance sheet and income statement supporting information, and electric plant, sales, operating expenses, and other statistical data.[10] The information required allows for oversight and is not intended to be, as TAPS apparently would prefer, the equivalent of a rate case. The filing requirements for [11] and discovery available in [12] rate cases allow for parties to rate cases to obtain this additional information should they need it.

8. Further, some of the additional and more detailed information requested by TAPS is already available through other avenues. For example, TAPS requests that reporting include peak load as adjusted, i.e., with separate identification of any behind-the-meter loads that counted towards network service billing determinants and of the relevant point-to-point loads and reserved capacities, as well as the rate divisor where the principal rate through which the transmission owner's transmission investment is recovered using a different billing determinant.[13] However, when the Commission revised its annual reports and created its quarterly reports, the Commission required that public utilities provide peak load information.[14]

9. TAPS seeks revenue reporting broken down into various firmness and duration classes.[15] The Commission requires a breakdown on the Transmission of Electricity for Others Schedule of Form Nos. 1 and 3–Q, which also requires respondents to explain all components of the amount of revenues received from other charges.[16] This breakdown also addresses another TAPS concern, that is, disclosing revenues received from Financial Transmission Rights, Auction Revenue Rights and similar instruments.

10. TAPS requests that Form No. 1 be expanded to identify which facilities have been placed under the operational control of another entity.[17] Some RTOs already post information on their public websites detailing which facilities have been placed under their operational control.[18] In other cases, while the Commission has allowed for this information to be removed from public access due to security concerns,[19] the Commission has provided for access to this information where the requesting party has a ''legitimate business need.'' [20]

11. TAPS requests information detailing: the plant, depreciation, and other expenses associated with facilities that have been accounted for as transmission but are either functionalized to other functions or directly assigned; as well as revenue distributions received by a transmission owner from an RTO, broken down to distinguish operating fees or leases for transferred facilities, distribution of revenues from zonal transmission charges, pass-through of revenues for ancillary services and wholesale distribution services, reimbursement of start-up costs, distribution of revenues from third-party transactions, and distribution of Financial Transmission Rights or Auction Revenue Rights revenues.[21] The Commission declines to mandate detailed reporting of this information; as noted above, this sort of detailed information goes beyond the scope of this rulemaking proceeding. In the case of functionalized and directly assigned facilities, this information will be available at the time of a rate filing. Regarding revenue distributions from RTOs, revenue received from an RTO would be reported in the Transmission of Electricity for Others Schedule of Form Nos. 1 and 3–Q.

Technical Correction

12. The Operation and Maintenance Chart of Accounts for Regional Market Expenses in Order No. 668 is replaced to correct title errors for accounts 575.2, 575.3, 575.4 and 575.5, and to correct 576.3, 576.4 and 576.5, which were incorrectly designated as 567.3, 567.4 and 567.5. In Appendix B of Order No. 668, the Commission inadvertently neglected to include page 302 of Form Nos. 1 and 3–Q, which are referenced in paragraphs 12 and 15 of Order No. 668. The Commission is also amending the instructions on page 397 of Form Nos. 1, 1–F and 3–Q. The missing page 302 and the amended page 397 are attached to this order as Appendix A.

Clarification

13. In Order No. 668, the Commission adopted a net basis for accounting for and reporting energy transactions occurring in RTO-administered energy markets. Entities have inquired informally about (1) the proper way to net energy transactions when an entity participates in more than one RTO-administered energy market and (2) the proper basis for determining whether net hourly energy transactions are to be reported as a net sale or a net purchase. We take this opportunity to clarify the appropriate accounting for these transactions.

14. Some RTOs operate two energy markets; a day-ahead market and a real-time or balancing market. Entities that participate in both markets have requested clarification whether transactions occurring in each market should be separately netted for a given hour (as explained below, yes) or whether the transactions in the two markets should be combined for a given hour for netting purposes (as explained below, no).

15. Since RTO-administered energy markets are operated and settled separately, transactions occurring in each market should be separately netted for purposes of determining whether an entity is a net seller or purchaser in a given hour. For example, if an entity had net purchases of 12 megawatt hours in the *day-ahead* market in hour one of day one of the month and net sales of 10 megawatt hours in the *real-time* market in the same hour one of day one of the month, it would record a purchase of 12 megawatt hours in

[8] Order No. 668, FERC Stats. & Regs. ¶ 31,199 at P 5 & 71; *see Financial Reporting and Cost Accounting, Oversight and Recovery Practices for Regional Transmission Organizations and Independent System Operators,* 69 FR 58112 (September 29, 2004), FERC Stats. & Regs. ¶ 35,546 (2004); *Accounting and Financial Reporting for Public Utilities Including RTOs,* 70 FR 36865 (June 27, 2005), FERC Stats. & Regs. ¶ 32,585 (2005).

[9] The Commission has in the past denied similar requests to expand the Uniform System of Accounts. *See, e.g., Quarterly Financial Reporting and Revisions to the Annual Reports,* Order No. 646, 69 FR 9029 (February 26, 2004), FERC Stats. & Regs. ¶ 31,158 at P 103 (2004).

[10] *See, e.g., Electronic Filing of FERC Form 1, and Elimination of Certain Designated Schedules In FERC Form Nos. 1 and 1–F,* Order No. 626, 67 FR 36093 (May 23, 2002), FERC Stats. & Regs. ¶ 31,130 (2002).

[11] 18 CFR 35.13.

[12] 18 CFR 385.406.

[13] Request for Rehearing at 2, 5–6.

[14] *See Quarterly Financial Reporting and Revisions to the Annual Reports,* Order No. 646, 69 FR 9029 (February 26, 2004), FERC Stats. & Regs. ¶ 31,158 (2004).

[15] Request for Rehearing at 5.

[16] The Transmission of Electricity for Others Schedule requires entities to enter a statistical classification code based on the original contractual terms and conditions of the service, such as, firm network service, long-term firm point-to-point transmission service, short-term point-to-point service, etc.

[17] *Id.* at 6.

[18] *See, e.g., http://www.midwestiso.org/publish/Folder/3e2d0_106c60936d4_7c7c0a48324a?rev=1* (Midwest Independent Transmission System Operator, Inc. Web site, listing facilities placed under its control).

[19] *Cal. Indep. Sys. Operator Corp.*, 102 FERC ¶ 61,061 at P 21 (2003) (allowing the California Independent System Operator to restrict public access).

[20] *Id.* at P 22 (included among those with a ''legitimate business need'' are all market participants).

[21] Request for Rehearing at 6.

Account 555, Purchased Power, for the *day-ahead* market for that given hour and a sale of 10 megawatt hours in Account 447, Sales for Resale, for the *real-time* market for that given hour; the purchases and sales did not occur in the same market and so would not be netted.

16. Additionally, in each monthly reporting period, the hourly sale and purchase net amounts are to be aggregated and separately reported in Account No. 447 or Account No. 555, respectively. For example, assume that an entity in the real-time market had net sales of 10 megawatt hours during *hour one* of day one of the month and net purchases of 15 megawatt hours during *hour six* and of 5 megawatt hours during *hour ten* of day one of the month. Assuming there were no other transactions during the month, the entity would report for the month for the real-time market 10 megawatt hours of sales in Account 447 and 20 megawatt hours of purchases in Account 555; the sales and purchases did not occur in the same hour and so would not be netted.

17. Entities have also requested clarification whether net hourly energy transactions should be classified as a net purchase or sale based on a net megawatt hour basis or a net dollar basis. Net megawatt hours should be used as the primary basis for determining whether a net purchase or sale has occurred. For example, assume for a given market in a given hour that an entity purchases 10 megawatt hours at $500 and sells 12 megawatt hours at $480 in the real-time market. The transactions occurring during this hour would be accounted for and reported as a net sale in Account 447 of 2 megawatt hours at a loss of $20.

18. However, in instances where the megawatt hours net to zero for a given market in a given hour, then the net hourly energy transactions should be classified as a net purchase or sale based on a net dollar basis. For example, assume for a given market in a given hour that an entity purchases 10 megawatt hours at $500 and sells 10 megawatt hours at $480. The transactions occurring during this hour would be accounted for and reported as a net purchase in Account 555 of zero megawatt hours at a cost of $20.

19. Finally, we have revised the instructions of page 397, Amounts Included in ISO/RTO Settlement Statements, of the Form Nos. 1 and 3–Q to incorporate the above clarifying language on netting transactions. The revised page 397 Schedule is attached to this order as a part of Appendix A.

The Commission orders:

The request for rehearing filed in this proceeding by the Transmission Access Policy Study Group is hereby denied.

By the Commission.

Nora E. Donovan,

Acting Secretary.

■ In consideration of the foregoing, the Commission amends part 101, Chapter I, Title 18, Code of Federal Regulations, as follows:

PART 101—UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR PUBLIC UTILITIES AND LICENSES SUBJECT TO THE PROVISIONS OF THE FEDERAL POWER ACT

■ 1. The authority citation for part 101 continues to read as follows:

Authority: 16 U.S.C. 791a–825r, 2601–2645; 31 U.S.C. 9701; 42 U.S.C. 7101–7352, 7651–7651o.

■ 2. In part 101, Operation and Maintenance Expense Chart of Accounts, the list of accounts is removed and replaced with the following list of accounts:

Operation and Maintenance Expense Chart of Accounts

* * * * *

3. Regional Market Expenses

Operation

575.1 Operation Supervision
575.2 Day-ahead and real-time market administration.
575.3 Transmission rights market administration.
575.4 Capacity market administration.
575.5 Ancillary services market administration
575.6 Market monitoring and compliance
575.7 Market facilitation, monitoring and compliance services
575.8 Rents

Maintenance

576.1 Maintenance of structures and improvements
576.2 Maintenance of computer hardware
576.3 Maintenance of computer software
576.4 Maintenance of communication equipment
576.5 Maintenance of miscellaneous market operation plant

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