

111 FERC ¶ 61,352
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Part 101

(Docket No. RM04-12-000)

Accounting and Financial Reporting for Public Utilities Including RTOs

(June 2, 2005)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Notice of Proposed Rulemaking.

SUMMARY: The Federal Energy Regulatory Commission (Commission) is proposing to amend its regulations to update the accounting requirements for public utilities and licensees, including independent system operators and regional transmission organizations (collectively referred to as RTOs). The Commission is also proposing to amend its financial reporting requirements for the quarterly and annual financial reporting forms for these entities. These updates to the Commission's Uniform System of Accounts (USofA) and the financial reporting requirements are being proposed to accommodate the evolving electric industry due to the availability of open-access transmission service and the increasing competition in wholesale bulk power markets.

These proposed updates to the Commission's accounting and reporting requirements will allow the Commission and the public to be better informed with respect to transactions and events affecting public utilities, including RTOs, subject to the Commission's accounting and reporting regulations. As a result of improved

transparency of financial information, the Commission and the public will also be better able to understand the costs of RTOs.

DATES: Comments on the proposed rulemaking are due on or before [insert date 60 days after publication in the FEDERAL REGISTER].

ADDRESSES: Comments may be filed electronically via the eFiling link on the Commission's web site at <http://www.ferc.gov>. Commentors unable to file comments electronically must send an original and 14 copies of their comments to: Federal Energy Regulatory Commission, Office of the Secretary, 888 First Street, N.E., Washington, D.C. 20426. Refer to the Comment Procedures section of the preamble for additional information on how to file comments.

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NOTICE OF PROPOSED RULEMAKING

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I. INTRODUCTION

1. In this Notice of Proposed Rulemaking (NOPR), the Commission is proposing to amend Part 101 of its regulations to revise its Uniform System of Accounts (USofA)¹ and to revise its quarterly and annual financial reporting forms for public utilities and licensees. In brief, the Commission proposes to update its USofA 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. These revisions will also necessitate corresponding changes to the FERC Form No. 1, Annual Report for Major Electric Utilities, Licensees and Others (Form 1); FERC Form No. 1-F, Annual Report for Nonmajor Public Utilities and Licensees (Form 1-F); and FERC Form No. 3-Q, Quarterly Financial Report of Electric Utilities, Licensees, and Natural Gas Companies (Form 3-Q).

¹ 18 CFR Part 101.

2. The financial statements and related detailed schedules reported in the Commission's quarterly and annual financial reports provide information about each respondent's financial position, financial performance, its source and uses of cash, its operating statistics, and other information necessary to understand transactions and events affecting the entity. Because it is important that the data reported in their quarterly and annual financial reports are relevant, reliable, understandable, and comparable among reporting entities, the Commission requires these statements and reports to be prepared directly from the accounting records maintained in accordance with the USofA.

3. An important objective of this proposed rule is to provide sound and uniform accounting and financial reporting for transactions and events affecting public utilities and licensees, including independent system operators and regional transmission organizations (collectively referred to as RTOs), that file financial reports with the Commission.² The Commission is of the view that updates to the Commission's accounting and financial reporting regulations are needed because certain RTO activities are not clearly or consistently reported.

4. The proposed accounts and changes to the Commission's quarterly and annual financial forms will add visibility and uniformity to the accounting and financial

² The Commission has explained that RTOs are public utilities, and as such, they are required to follow the USofA and file Form No. 1. See PJM Interconnection, L.L.C., 107 FERC ¶ 61,087 (2004). For purposes of this NOPR, the term RTOs refers to public utilities that are performing regional transmission and independent system operations.

reporting for the cost of utility assets, and the expenses the utility incurs in providing services, along with revenues collected from RTO members. These proposed revisions to the Commission's accounting and reporting regulations will allow the Commission and the public to better understand transactions and events that affect RTOs and their members.

II. BACKGROUND

A. General

5. In April 1996, in Order No. 888,³ the Commission established the foundation necessary to develop competitive bulk power markets in the United States: non-discriminatory open access transmission services by public utilities and standard cost recovery rules to provide a fair transition to competitive markets. Public utilities were also required to functionally unbundle, and to provide transmission service separately from generation services.

³See Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 FR 21,540 (May 10, 1996), FERC Stats. & Regs. ¶ 31,036 (1996), order on reh'g, Order No. 888-A, 62 FR 12,274 (March 14, 1997), FERC Stats. & Regs. ¶ 31,048 (1997), order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997), order on reh'g, Order No. 888-C, 82 FERC ¶ 61,046 (1998), aff'd in relevant part sub nom. Transmission Access Policy Study Group, v. FERC, 225 F.3d 667 (D.C. Cir. 2000), aff'd sub nom. New York v. FERC, 535 U.S. 1 (2002).

6. Despite the changes brought about by Order No. 888, reports of discriminatory practices by vertically integrated public utilities persisted. In Order No. 2000,⁴ the Commission encouraged the formation of independent and regional organizations, to remedy undue discrimination and to foster regional efficiencies and efficient pricing. As a result, a number of RTOs have formed and are in operation.⁵ These RTOs perform many of the same activities previously performed by the transmission owners whose transmission systems they now operationally control. In addition, RTOs perform some unique functions; among other functions not traditionally performed by other public utilities, they oversee markets and they conduct long-term system planning on a regional basis. The formation of RTOs has created the need to update the Commission's accounting and financial reporting requirements to reflect the roles of RTOs and provide more transparent and uniform accounting for and reporting of certain activities not previously addressed in the Commission's regulations.

⁴ See Regional Transmission Organizations, Order No. 2000, 65 FR 809 (January 6, 2000), FERC Stats. & Regs. ¶ 31,089 (1999), order on reh'g, Order No. 2000-A, 65 FR 12,088 (March 8, 2000), FERC Stats. & Regs. ¶ 31,092 (2000), affirmed sub nom. Public Utility District No. 1 of Snohomish County, Washington, v. FERC, 272 F.3d 607 (D.C. Cir. 2001).

⁵ See, e.g., the California Independent System Operator Corporation (CAISO), the Midwest Independent Transmission System Operator, Inc. (Midwest ISO), the ISO New England, Inc. (ISO-NE), the New York Independent System Operator, Inc. (NYISO), PJM Interconnection, L.L.C. (PJM), and the Southwest Power Pool, Inc. (SPP).

7. On September 26, 2004, the Commission issued a Notice of Inquiry (NOI) in this proceeding.⁶ The NOI invited comments on various matters including the Commission's accounting and financial reporting requirements for RTOs. The Commission received comments from RTOs, public utilities that are RTO members, state regulatory commissions, and others.⁷

8. As noted in the NOI, the accounting regulations currently found in the USofA and the related financial reporting requirements were developed to capture financial information along traditional primary business functions - - generation, transmission and distribution of electric energy. As a result, the accounting regulations and related financial reporting requirements do not provide sufficient detailed information about RTO-related costs, including the costs incurred by RTOs and other relevant information concerning the types of services RTOs provide to their members. The Commission sought comments on what changes, if any, should be made in accounting and financial reporting.

9. The Commission is issuing this NOPR to address the accounting and financial reporting issues raised in the NOI. The proposed changes to the Commission's

⁶ See Financial Reporting and Cost Accounting and Recovery Practices for Regional Transmission Organizations and Independent System Operators, 69 FR 58,112 (September 29, 2004), FERC Stats. & Regs. ¶ 35,546 (2004).

⁷ See Appendix A for a list of commentors.

accounting and financial reporting requirements will provide uniformity and transparency in accounting for and reporting of transactions and events affecting public utilities, including RTOs. The Commission expects that the proposed changes in the accounting and financial reporting of data will lead to improvements in cost recovery practices by providing details concerning the cost of RTO functions and increased assurance that the costs are a legitimate and reasonable cost of providing service and assigned to the correct period for recovery in rates.

B. NOI Comments on Accounting and Financial Reporting

10. The Commission received numerous comments regarding the need for updating the USofA for the accounting and financial reporting public utilities including RTOs. Most commentors are supportive of revising the USofA to reflect changes in the structure of the electric industry.

11. Many commentors state that RTOs do not own generation, transmission, and distribution facilities, and therefore many assets and associated expense accounts are not applicable to RTOs. In their view, RTOs settle transactions among market participants and assign their operating costs to those participants. Thus, they say, there is a need for

new functional categories, new accounts and expanded reporting requirements for RTOs and for individual transmission-owning public utilities participating in RTOs.⁸

12. Commentors further recommend the collection and development of detailed and standardized information and reports in addition to the data the USofA currently requires. In their view, to the extent that all RTOs utilize a standard report format and use consistent cost categories, it will be easier for the Commission and market participants to understand the nature of the expenditures and compare expenditures across RTOs. Commentors believe that standardization also will enhance transparency of costs, and allow better understanding of financial trends and other issues. They further urge the Commission to revise its USofA and reporting formats to properly reflect the business functions of RTOs and to provide more meaningful and transparent financial accounting information.⁹

13. The Commission also solicited comments on whether RTOs or their members that are public utilities should report data concerning the transmission of electricity for others as required by FERC Forms 1 and 1-F. These commentors stated that because RTOs authorize, control, bill and collect payments for transmission transactions, such

⁸ See, e.g., American Public Power Association, California Department of Water Resources, Cinergy, Consolidated Edison Company of New York, Inc., Iowa Office of Consumer Advocate and Indiana Office of Utility Consumer Counselor, and NARUC.

⁹ See, e.g., Connecticut Department of Public Utility Control and Vermont Department of Public Service.

transactions should be reported by the RTO.¹⁰ They believe that this would be the most efficient solution rather than requiring the RTO to provide the information to its members, who in turn would include the data in their respective filings with the Commission.

14. In addition to seeking comments on RTO accounting and financial reporting, the Commission also sought and received comments on the accounting and financial reporting by public utilities and licensees that are members of an RTO.

III. DISCUSSION

A. General

15. The Commission's accounting and financial reporting requirements are designed to provide information about a reporting entity's financial condition and results of operation. This information is important in developing and examining rates and in making policy decisions.

16. As the electric industry has transitioned from a vertically integrated to an unbundled business model, and as the respective functions of business entities have continued to evolve, the Commission has relied on existing accounting and reporting

¹⁰ See, e.g., Allegheny Power, Consolidated Edison Company of New York, Inc., Edison Electric Institute, Long Island Power Authority and NiSource.

requirements applicable to existing public utilities (i.e., principally investor-owned utilities) to obtain information about an RTO's financial condition. The Commission has required public utilities, including RTOs, to continue to prepare their financial statements in accordance with the USofA as it could accommodate most of the transactions and events affecting these entities. During this restructuring, it was difficult to prescribe new accounting rules that could be uniformly applied. While we expect this evolution to continue, sufficient experience has now been gained to make some general observations about RTOs and the adequacy of our existing accounting and reporting requirements for these entities.

17. Over the past 7 years, in reviewing RTO proposals, the Commission has confronted new and different business models, accounting methods, and rate designs. RTOs are largely not-for-profit companies with no shareholder investment. They use different classes or types of assets and deploy these resources in a manner that does not readily lend itself to traditional, functional utility plant classifications (e.g., generation, transmission or distribution plant). RTO assets are largely computer hardware, computer software, and communication equipment. They allow the RTO to ensure reliability, to operate and monitor competitive markets, to control and order dispatch of resources on the system, and to coordinate and plan short and long-term investment and construction.

18. In sum, the services provided by RTOs to their members, the assets used, the costs incurred, and the revenues billed, do not readily lend themselves to the existing

accounting classifications established for public utilities as noted by numerous commentors. As a result, the accounting and the financial reporting by RTOs in the Commission's quarterly and annual financial reports calls into question the relevance, understandability and usefulness of RTO-related financial information submitted to the Commission.

19. While most commentors to the NOI did not recommend a completely new USofA to accommodate the services RTOs perform, the majority of commentors suggest that more accounting detail is needed to better identify assets, costs incurred and revenues earned by RTOs as well as by other public utilities. After studying the comments received, the Commission proposes to revise the existing USofA and financial reporting requirements, as discussed below, rather than creating an entirely new system of accounts exclusively for RTOs.

**B. Proposed Regional Transmission and Market Operation Asset
Function**

20. In order to perform many of their primary functions, RTOs must make significant investments in computer hardware, software and communication equipment. The cost of these assets is not explicitly provided for in the existing primary plant accounts, resulting in inconsistent accounting and reporting for these assets.

21. To provide more financial transparency for the costs of hardware, software and

communication equipment, as well as to address the inconsistent accounting and reporting noted previously, the Commission proposes to create a new utility plant function to record the cost of assets owned and used by RTOs. The proposed new asset function will be entitled Regional Transmission and Market Operation Plant, and contain the following primary plant accounts, as shown in the table below:

Regional Transmission and Market Operation Plant
Account 380, Land and Land Rights
Account 381, Structures and Improvements
Account 382, Computer Hardware
Account 383, Computer Software
Account 384, Communication Equipment
Account 385, Miscellaneous Regional Transmission and Market Operation Plant
Account 386, Asset Retirement Costs for Regional Transmission and Market Operation Plant
Account 387, Reserved

22. The benefit of establishing a new asset function within the existing accounting and reporting framework is that the cost of property, plant and equipment used by RTOs will now be uniformly reported by these entities. This new functional classification will help provide comparability among RTOs that perform regional control and market operations. The creation of a new RTO asset function will also minimize inconsistent reporting of RTOs' major technology assets, which include computer hardware, computer software and communication equipment.

1. Proposed Accounts for Land, Buildings and Improvements

23. RTOs may own land, buildings and other long-lived fixed assets. The USofA maintains a set of primary plant accounts to record the cost of these types of assets by plant function. Therefore, the Commission proposes two new accounts (Account 380, Land and Land Rights, and Account 381, Structures and Improvements) to record the cost of land, land rights and buildings within the new functional classification for Regional Transmission and Market Operation Plant. These two new accounts will provide consistent accounting classification for the cost of these fixed assets.

2. Proposed Accounts for Computer Hardware and Software Costs

24. Most commentors identify computer hardware and software as the primary assets used by RTOs and note that the existing USofA does not provide sufficient cost detail concerning computer hardware and software owned and used by public utilities. In particular, commentors indicate that the cost to develop or purchase off-the-shelf software is not readily transparent in the reports. In order to provide more transparency to investments made by RTOs in computer hardware and software, the Commission proposes the creation of new primary plant Account 382, Computer Hardware, and Account 383, Computer Software.

25. RTOs use computer hardware and software to: (1) manage bulk power interchange contracts and scheduling within neighboring control areas; (2) provide

ancillary services; (3) provide data and other information to market participants; (4) monitor markets and manage the transmission system; (5) determine locational marginal prices (LMP); (6) perform short-term and long-term modeling; and (7) provide training on the systems.

26. Computer hardware used by RTOs generally includes servers, workstations and other processors, peripheral equipment, information technology equipment for energy management systems, and personal computers. Computer software generally includes software licenses and internally-developed software to perform the above mentioned tasks and activities (e.g., scheduling, system control and dispatching, system planning, standards development, market monitoring and market administration).

27. The Commission proposes to create new primary plant Account No. 382, Computer Hardware. The addition of a new primary plant account for computer hardware will include the cost of computer hardware initially devoted to this function as well as subsequent additions, retirements, adjustments and transfers of these amounts.¹¹ This information will be reported in the Form 1, thereby providing additional transparency concerning computer hardware transactions. Finally, because the computer hardware may perform different activities, the Commission proposes to require RTOs to

¹¹ See FERC Form 1, Electric Plant In Service Schedule at 204.

maintain detailed records identifying these assets by the types of activities they perform to the maximum extent practicable.

28. The Commission also proposes to create new primary Account No. 383, Computer Software, to record the cost of developing and purchasing software used by RTOs. Similar to computer hardware, software may be used by different functions or departments within the organization. Therefore, the Commission proposes to require that RTOs maintain detailed records identifying the cost of software by the types of activities or functions performed to the maximum extent practicable.

3. Proposed Account for Communication Equipment Costs

29. RTOs may own communication equipment such as microwave towers, fiber optic cables, and other communication devices to provide system control and dispatching activities. However, under the existing USofA requirements, no specific primary plant account exists to record the cost of these investments outside of general plant accounts. This has led to respondents inconsistently reporting the cost of these investments in various primary plant accounts.

30. To provide uniform accounting and financial reporting, the Commission proposes to add a new primary plant Account 384, Communication Equipment, to record the cost of communication equipment owned and used by RTOs.

4. Proposed Account for Other Property and Equipment Costs

31. RTOs may also own property, plant and equipment not provided for in the new regional control and market operation function. In order to provide uniform accounting and financial reporting for the cost of miscellaneous property, plant and equipment, the Commission proposes to add a new primary plant Account 385, Miscellaneous Regional Transmission and Market Operation Plant, to record the cost of miscellaneous assets not provided for elsewhere.

5. Proposed Account for Asset Retirement Obligation Costs

32. As noted in Order No. 631, a public utility may incur a liability resulting from a legal obligation to remove or retire a plant asset.¹² Entities may also incur a similar type of legal obligation to remove or retire equipment or a plant asset used to provide regional control and market operation services. To provide uniform accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets owned and used by entities for these purposes, the Commission proposes to add a new Account 386, Asset Retirement Costs for Regional Transmission and Market Operation Plant, to record the capitalized amount of the liability that becomes part of the asset's cost.

¹² See Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations, Order No. 631, 68 FR 19,610 (Apr. 21, 2003) and 68 FR 34,795 (June 11, 2003), FERC Stats. & Regs. ¶ 31,142 (2003), order on reh'g, Order No. 631-A, 104 FERC ¶ 61,183 (2003).

C. Proposed RTO Revenue Accounts

33. RTOs do not buy or sell electricity; instead, they manage transmission assets owned by others and settle transactions among participants in a manner similar to a market clearing house. Similar to the operation of a market clearing house, an RTO's operational costs consist of the expenses incurred to provide services to its members. The revenues received for the reimbursement of RTO operational costs are not explicitly provided for in the current USofA because the existing revenue accounts were designed to record revenues from electricity sales or transmission or distribution. Therefore, the existing revenue accounts are not entirely applicable.

34. The Commission therefore proposes the creation of two new revenue accounts to record amounts billed by RTOs to their members. The first, Account 457.1, Regional Transmission Service Revenues, will include revenues received by RTOs for services provided.¹³ This new revenue account will contain instructions requiring the RTO to keep detailed records by type of service provided and the amounts billed under each Commission-approved tariff. Furthermore, the Commission proposes to include a new Form 1 schedule to report the revenue collected by RTOs for services performed pursuant to Commission-approved tariffs.

¹³ Such services will include, among other things, system control, dispatching, long-term and short-term system planning, market facilitation and market compliance activities.

35. In addition, the Commission proposes a new Account 457.2, Miscellaneous Revenues, to record miscellaneous revenues received from RTO members occurring from incidental transactions and events. This revenue account would include revenues for commissions, profits or losses on sales of miscellaneous materials, rentals, and other miscellaneous sources of income.

D. Proposed Market Expense Function

36. Many commentors indicate that the current USofA does not provide sufficient financial transparency concerning the types of costs incurred by RTOs in market facilitation and market monitoring activities. Furthermore, as noted in Staff's report on cost ranges for the development of RTOs, the expenses incurred by these entities have not been consistently reported.¹⁴

¹⁴ See Staff Report on Cost Ranges for the Development and Operation of a Day One Regional Transmission Organization (Docket No. PL04-16-000 October 2004), which states in part:

Each organization used Generally Accepted Accounting Principles, but reported investment costs and annual expenses differently. That is, while one organization directly assigned costs to a particular cost element or operational function, another respondent showed no such cost element or operational function. The Uniform System of Accounts, designed for the traditional vertically-integrated utility, is not always aligned with the functions of an ISO or RTO. Staff recommends review of the reporting requirements and possible standardization to facilitate cost oversight by the public and the Commission.

37. In order to give greater transparency to the RTO market functions performed, the Commission proposes to create a separate expense function within the USofA to record the expenses incurred in managing and monitoring market activity.¹⁵ This new function, entitled Regional Market Expenses, will contain the following expense accounts as shown in the table below:

Regional Market Expenses
<i>Operation</i>
Account 575.1, Operation Supervision
Account 575.2, Day-Ahead and Real-Time Market Facilitation
Account 575.3, Transmission Rights Market Facilitation
Account 575.4, Capacity Market Facilitation
Account 575.5, Ancillary Services Market Facilitation
Account 575.6, Market Monitoring and Compliance
<i>Maintenance</i>
Account 576.1, Maintenance of Structures and Improvements
Account 576.2, Maintenance of Computer Hardware
Account 576.3, Maintenance of Computer Software
Account 576.4, Maintenance of Communication Equipment
Account 576.5, Maintenance of Miscellaneous Market Operation Plant

¹⁵ As part of implementing these changes, the Commission proposes to rescind Accounting Release No. 16, Operating and Administering an Electric Power Exchange, issued by the Chief Accountant on October 1, 2001. This Accounting Release requires RTOs to record operation, maintenance and market monitoring expenses in Account 557, Other Expenses.

1. Proposed Accounts for Regional Market Expenses

38. RTOs perform unique services for their members such as market facilitation, market monitoring and market compliance activities. However, the existing USofA does not provide specific expense accounts to record these types of expenses. The Commission proposes to add new accounts to record the expenses related to these activities.

39. A new Account 575.1, Operation Supervision, will be created to record the labor and expenses incurred in the general supervision and direction of the RTO regional control and market operation center.

40. A new Account 575.2, Day-Ahead and Real-Time Market Facilitation, will be created to record the cost incurred to manage regional Day-Ahead and Real-Time markets. These activities include administering markets that allow participants to buy and sell power, arrange transmission service and other energy related activities.

41. Further, a new Account 575.3, Transmission Rights Market Facilitation, will be created to record the cost to manage transmission rights markets. In addition, a new Account 575.4, Capacity Market Facilitation, will be created to record the cost to administer capacity markets. A new Account 575.5, Ancillary Services Market Facilitation, will be created to record the cost to manage ancillary service markets.

42. Finally, Account 575.6, Market Monitoring and Compliance, will be created to

record the cost to review market data for compliance with market rules. It will also include the costs incurred to communicate with external market monitors.

2. Proposed Accounts for Maintenance Expenses

43. As previously discussed, the Commission proposes new asset accounts to record the cost of structures, computer hardware and software, and communication equipment.

These new asset accounts will require the addition of new maintenance accounts to properly record the routine and periodic expenses incurred to maintain these assets.

44. The Commission proposes new Account 576.1, Maintenance of Structures and Improvements, to record the cost of labor, materials used and expenses incurred to maintain structures used in regional transmission and market operations.

45. Account 576.2, Maintenance of Computer Hardware, will be created to record the cost of labor, materials used and expenses incurred to maintain computer hardware.

Account 576.3, Maintenance of Computer Software, will be created to record the cost of labor, materials used and expenses incurred for annual computer software renewals, annual software update services and the cost of ongoing support for software products.

46. The Commission also proposes the creation of Account 576.4, Maintenance of Communication Equipment, to record the cost of labor, materials used and expenses incurred to maintain communication equipment. Finally, Account 576.5, Maintenance of Miscellaneous Market Operation Plant, would record the cost of labor, materials used and

expenses incurred to maintain miscellaneous regional transmission and market operation plant.

47. These new accounts when created, will provide greater detail as to the amount of maintenance expenses incurred on computer hardware, software, communication equipment and other assets owned and used by the RTO.

3. Customer Service and Administrative and General Expenses

48. A review of several FERC Form 1s on file indicate that there may be inconsistent accounting and financial reporting for customer service and administrative and general expenses incurred by RTOs. For example, some RTOs are including customer service, administrative and general expenses in the transmission expense accounts as well as in the administrative and general expense accounts. Under existing USofA requirements, customer service and administrative and general expenses are to be recorded in Accounts 903 through 935. The practice of some RTOs, recording these costs in expense accounts within the transmission function, is inconsistent with these requirements. Accordingly we will require RTOs to comply with the existing USofA instructions of recording customer service and administrative and general expenses in Accounts 903 through 935.

49. As noted by some commentors, the above mentioned types of expenses are already provided for in the existing USofA. Therefore, we agree that there is no need to establish new expense accounts for these types of activities or to add a new administrative function

for use by RTOs to record customer service and administrative and general expenses. The use of existing accounts by RTOs will maintain comparability to the maximum extent practicable since all reporting entities will use the same administrative and general expense accounts to record these types of costs.

4. Additional Disclosures

50. Under the existing Form 1 and 3-Q requirements, public utilities are required to report detailed financial-related information concerning the transmission of electricity for others. The Commission sought comments on whether RTOs, in addition to public utilities that file Form 1, should also report the data required by the Transmission of Electricity for Others schedule.¹⁶

51. Since RTOs authorize, control, bill and collect payments and distribute revenues for transmission transactions using the transmission system under their control, the Commission proposes that RTOs report the information required by the schedule in their Form 1 filing. In this manner, the Commission will have more complete information concerning the use of the transmission system under the control of the RTO. The data required by the schedule must be organized by the RTO in such a manner so that the information is presented for each member or other entity for whom the service was

¹⁶See Forms 1 and 3-Q, Transmission of Electricity For Others Schedule at 328-330.

provided. Finally, the Commission will continue to require public utilities and licensees to report the data required by this schedule in their filing.

E. Proposed Accounting by Public Utilities For Computer Hardware, Software and Communication Equipment

52. As previously mentioned, the existing USofA does not provide for computer hardware, software and communication equipment owned and used by public utilities and licensees, including RTOs. Therefore, in addition to creating asset accounts to record the cost of this equipment for RTOs, the Commission proposes to add three new sub-accounts to the existing transmission asset function for other public utilities and licensees to record the cost of these types of assets, as shown in the table below:

Transmission Plant
Account 351.1, Computer Hardware
Account 351.2, Computer Software
Account 351.3, Communication Equipment

53. Similar to RTOs, other public utilities and licensees will record the cost of computer hardware, software and communication equipment owned and used for transmission related activities in proposed new primary plant accounts. The Commission proposes to create Account 351.1, Computer Hardware, to record the cost of computer equipment owned and used by public utilities and licensees. Additionally, they will record the cost of computer software in Account 351.2, Computer Software, and the cost

of communication equipment in Account 351.3, Communication Equipment. The use of these three sub-accounts will provide uniform and consistent accounting and reporting for these types of assets by all public utilities and licensees.

**F. Proposed Accounting and Financial Reporting by Public Utilities,
Including RTOs**

54. Most commentors are supportive of revising the USofA to reflect changes in the structure of the electric industry. They are of the view that many of the updates could be accomplished through the addition of new accounts or sub-accounts within the existing USofA accounting and reporting framework. The Commission proposes to expand the expense accounts contained in the transmission function to provide more financial details concerning the activities and related costs incurred by public utilities including RTOs in providing transmission service. The Commission proposes to provide more details concerning dispatching, system control and other cost of monitoring the transmission system by providing more detailed expense accounts to record the cost of these types of activities. Additionally, Account 561, Load Dispatching, will be replaced with a series of detailed expense accounts added to the existing transmission expense function as shown in the table below:

Transmission Expense*Operation*

Account 561.1, Load Dispatch-Reliability

Account 561.2, Load Dispatch-Monitor and Operate Transmission System

Account 561.3, Load Dispatch-Transmission Service and Scheduling
Account 561.5, Long-Term Reliability Planning and Standards Development

Account 561.6, Transmission Service Studies

Account 561.7, Generation Interconnection Studies

Maintenance

Account 569.1, Maintenance of Computer Hardware

Account 569.2, Maintenance of Computer Software

Account 569.3, Maintenance of Communication Equipment

Account 569.4, Maintenance of Miscellaneous Regional Transmission Plant

55. Many commentors indicate that the current system of accounts does not provide sufficient financial transparency concerning the types of costs incurred by RTOs in providing member services. These services may include scheduling, system control and dispatching, long-term system planning, standards development, market facilitation and market monitoring activities. Furthermore, as noted in Staff's report on cost ranges for the development of RTOs, the expenses incurred by these entities have not been consistently reported.¹⁷

¹⁷ See Staff Report on Cost Ranges for the Development and Operation of a Day One Regional Transmission Organization, Docket No. PL04-16-000 (October 2004). This staff report states in part:

Each organization used Generally Accepted Accounting Principles, but reported investment costs and annual expenses differently. That is, while one organization directly assigned costs to a particular cost element or operational

(continued)

1. Proposed Accounts for Load Dispatch, Scheduling and System Control Expenses

56. Public utilities and licensees, including RTOs, provide a variety of transmission services including load dispatching, scheduling and system control. In order to provide consistent and uniform accounting and financial reporting by public utilities and licensees, including RTOs, for these types of costs, the Commission proposes to add new accounts to the transmission expense function for these entities to record these types of expenses.

57. The Commission proposes to add a new Account 561.1, Load Dispatch-Reliability, to include the costs incurred to manage the region-wide reliability coordination function as specified by the North American Electric Reliability Council (NERC) and individual reliability organizations. It will include the costs to perform current and next day reliability analyses including calculating load forecasts, perform contingency analyses, identify unreliable operating conditions, and recommend appropriate solutions.

function, another respondent showed no such cost element or operational function. The USofA, designed for the traditional vertically-integrated utility, is not always aligned with the functions of an ISO or RTO. Staff recommends review of the reporting requirements and possible standardization to facilitate cost oversight by the public and the Commission.

58. The Commission proposes to add a new Account 561.2, Load Dispatch-Monitor and Operate Transmission System, in order to include the costs incurred to monitor, assess and operate the transmission system and ensure the system's reliability.

59. The Commission also proposes to add a new Account 561.3, Load Dispatch-Transmission Service and Scheduling, to include the costs incurred to process hourly, daily, weekly and monthly transmission service requests using an automated system such as an Open Access, Same-Time Information System (OASIS).

2. Proposed Accounts for System Planning and Standards

Development

60. Another important service that RTOs perform for their members is long-term system planning and development activities. However, the existing USofA does not provide a specific expense account to record these types of expenses. The Commission proposes to add a new Account 561.5, Long-Term Reliability Planning and Standards Development, to record the costs incurred by RTOs for performing long-term system planning and standards development. This new account will include the cost of labor, materials used and expenses incurred by the RTOs for long-term system planning of the interconnected bulk electric transmission system within a planning authority area. It will also include expenses incurred for long-term system reliability and resource planning to develop long-term strategies to meet customer demand and energy requirements.

Examples of costs include system modeling to evaluate resource adequacy, simulation of transmission systems for such assessments, and development of expansion planning.

61. Other expenses to be included in Account 561.5 include the costs incurred to develop demand and energy end-use customer forecasts, capacity resources, and demand response programs. Examples of such activities include notifying participants of any planned transmission changes that may impact their facilities. Account 561.5 will also include the cost of developing and reporting on transmission expansion and resource plans for assessment and compliance with reliability standards, and developing reliability standards for the planning and operation of the interconnected bulk electric transmission systems that serve the United States, Canada, and Mexico.

62. To the extent that public utilities and licensees that are not RTOs perform similar activities, they should include the costs that they incur for system planning and standards development in Account 561.5.

3. Proposed Accounts for Study Costs

63. Public utilities and licensees, including RTOs, may incur costs to perform generation interconnect and transmission service studies. The USofA does not specifically provide accounts to record these types of costs. The Commission proposes the creation of Account 561.6, Transmission Service Studies, to record the costs incurred

by public utilities and licensees, including RTOs, to conduct studies for transmission service requests. The Commission also proposes to add a new Account 561.7, Generation Interconnection Studies, to record the costs incurred by public utilities and licensees, including RTOs to conduct studies for generator service requests when the costs are not directly reimbursable by a specific customer. The instructions to these accounts will require these entities to maintain detailed cost records for each study performed.

64. Different types of agreements entered into by public utilities and licensees, including RTOs, may necessitate recording the costs of conducting transmission and generation interconnect studies, in Account 186, Miscellaneous Deferred Debits, pending reimbursement by the entity requiring the service. Therefore, in order to provide more disclosure concerning the costs of interconnect study activities being performed by public utilities and licensees, including RTOs, the Commission proposes to add a new schedule to the quarterly and annual financial reports that will provide more specifics concerning the costs of these activities.

4. Proposed Accounts for RTO Billings

65. Public utilities and licensees reimburse RTOs for the RTOs' operational, administrative and general costs of providing service. Many commentors indicate that these costs are already covered by the existing accounting and reporting requirements. In order to provide greater transparency for the payments made by public utilities and

licensees to RTOs, the Commission proposes to create three sub-accounts as shown below:

<p>Transmission Expenses</p> <p><i>Operation</i> Account 561.4, Scheduling, System Control and Dispatch Services Account 561.8, Long-Term Reliability Planning and Standards Development Services</p>
<p>Regional Market Expenses</p> <p><i>Operation</i> Account 575.7, Market Facilitation, Monitoring and Compliance Services</p>

66. These sub-accounts will be used by public utilities and licensees to record their share of costs billed to them by an RTO. Additionally, the Commission proposes that each RTO include in its monthly settlement statements a breakdown of the allocation of that RTO's operational costs within each of the three sub-accounts discussed below. This information will allow each RTO member to then record its share of the RTO's total monthly operating costs in these new sub-accounts.

67. The first new sub-account, Account 561.4, Scheduling, System Control and Dispatching Services, will include scheduling, system control and dispatching services costs billed to the public utility or licensee. The second, Account 561.8, Long-Term Reliability Planning and Standards Development Services, will include the cost of long-term system planning and standards related costs billed to the public utility or licensee.

The third, Account 575.7, Market Facilitation, Monitoring and Compliance Services, will include costs for running the various markets and monitoring compliance activities billed to the public utility or licensee.

68. The creation of three new sub-accounts will provide greater transparency of RTO operational costs billed to public utilities and licensees as users of the data will see the expenses being recorded in the public utilities' and licensees' accounts for activities performed by the RTO.

5. Proposed Accounts for Maintenance Expenses

69. As previously discussed, the Commission proposes new asset accounts to record the cost of computer hardware, computer software and communication equipment. These new asset accounts will require the addition of new maintenance accounts to properly record the routine and periodic expenses incurred to maintain these assets.

70. A new Account 569.1, Maintenance of Computer Hardware, will be created to record the cost to maintain computer hardware for the assets recorded in Account 351.1. Additionally, a new Account 569.2, Maintenance of Computer Software, will be created to record the cost of computer software renewals, annual software update services and the cost of ongoing support for software products.

71. The Commission also proposes the creation of Account 569.3, Maintenance of Communication Equipment, to record the cost to maintain communication equipment for

the assets recorded in Account 351.3. Finally, the creation of Account 569.4, Maintenance of Miscellaneous Regional Transmission Plant, is also proposed to record the cost to maintain the assets recorded in Account 385, Miscellaneous Regional Transmission and Market Operation Plant.

72. These new accounts, when created, will provide greater detail as to the amount of maintenance expense incurred on computer hardware, computer software, communication equipment and other assets owned and used to service the transmission function.

6. Proposed Account for Revenue From Transmission of Electricity

73. Many commentors indicate that additional disclosure is necessary by public utility transmission owners for revenues received from RTOs for use of their transmission facilities. Public utilities report revenues received for use of their transmission system in Account 456, Other Electric Revenues, along with other sources of revenues from miscellaneous activities. However, due to the changing nature of the electric industry and open access transmission requirements, the amount of revenue public utility transmission owners receive for this use of their transmission system has been growing significantly over the years.

74. In order to provide greater transparency by public utility transmission owners for the revenues received for use of their transmission facilities, the Commission proposes to

add a new sub-account for Account 456, Other Electric Revenues, to record these sources of revenues. A new sub-account entitled Account 456.1, Revenues From Transmission of Electricity of Others, will record revenues the public utility receives for the transmission of electricity over its transmission facilities.

7. Accounting for Settlement Amounts

75. Finally, commentors also provide differing methods as to the best way to provide transparency related to transactions settled through an RTO. According to some commentors, public utilities currently record the net settlement amounts for firm transmission rights, ancillary services, congestion expenses, running markets, and all other costs billed from RTOs in Account 555, Purchased Power. Furthermore, some commentors indicate that public utilities may be including some or all of these amounts in their purchased power or other types of fuel adjustment clause or formula rate calculations and billings.

76. As previously discussed, the Commission proposes that public utilities record their share of RTO operational costs in the new transmission expense Accounts 561.4, 561.8 and 575.7. However, public utilities incur their own costs for energy, transmission rights, ancillary services and other services under transactions that are scheduled and cleared through the RTO settlement process. Some of these costs do not readily lend themselves to any one particular functional classification. For example, ancillary service costs may be generation-related activities but are necessary to keep the transmission grid working;

ancillary services may include the cost of maintaining central control over generators to adjust power to deal with power surges or changes in customer demand for energy. Voltage control is another similar example of an ancillary service that is necessary for the operation and reliability of the transmission grid. These activities have characteristics that may arguably fit either the generation or transmission functional expense accounts.

77. The Commission proposes to include a new schedule in the quarterly and annual financial reports that will require the public utility and licensee to report the type of transaction and the related amount of expense that it is being settled through the RTO. This information will assist the Commission in determining the need for future accounting guidance on these matters.

78. Finally, the RTO settlement process may result in a public utility or licensee being unaware of the counterparty to any given power sale or purchase transaction facilitated by the RTO. The process used by the RTO may require a public utility or licensee to bid generation into the market and then buy its generation from the market to serve its native load. Some public utilities may net all of their energy transactions in Account 555, Purchase Power, while others may report their energy transactions as a distinct purchase or a distinct sale. Consequently, inconsistent accounting treatment across public utilities may result from the sale and purchase of power facilitated through an RTO.

79. The Commission proposes that public utilities or licensees that conduct energy transactions through an RTO that requires participants to bid their generation into the market and buy generation to supply their native load report these transactions on a net basis in Account 555, Purchase Power. The Commission invites comment as to under what circumstances would it be appropriate for the public utility or licensee to reflect these types of transactions on a net basis, and under what circumstances would it be appropriate for the public utility or licensee to reflect these types of transactions as distinct purchases and sales.

8. Other Matters

80. The Commission notes that the derivative and asset retirement accounts established under Order Nos. 627 and 631 were not included in the Chart of Account listings contained in the USofA.¹⁸ The Commission will update the account listing to include the accounts established under these orders.

G. Conclusion

81. In conclusion, the comments submitted by public utilities, industry associations, state regulatory bodies and others provided input and detail needed for the Commission

¹⁸ See Accounting and Reporting of Financial Instruments, Comprehensive Income, Derivatives and Hedging Activities, Order No. 627, 67 FR 67,691 (Nov. 6, 2002). See also supra note 12.

to propose the above revisions to its regulations. The proposed changes to the Commission's accounting and financial reporting requirements reflected in this NOPR include many of the accounting and financial reporting updates offered by commentors. The Commission is of the view that there would be little, if any, impact on existing RTO rate designs from the proposed changes, but seeks comment on this and other related matters raised in this NOPR.

IV. PROPOSED EFFECTIVE DATE

82. The Commission proposes the aforementioned accounting and financial reporting changes and updates to become effective on January 1, 2006.

V. PROPOSED CHANGES TO THE FERC QUARTERLY AND ANNUAL REPORTS

83. The proposed changes, if adopted, will require revising the existing schedules in the FERC Forms 1, 1-F and 3-Q filed with the Commission. Appendix B contains samples of the updated or new schedules that will be included in these reports and will be available on e-Library.¹⁹

¹⁹ Appendix B will not be published in the Federal Register.

VI. INFORMATION COLLECTION STATEMENT

84. The following collections of information contained in this proposed rule have been submitted to the Office of Management and Budget for review under Section 3507(d) of the Paperwork Reduction Act of 1995.²⁰ OMB's regulations require OMB to approve certain information collection requirements imposed by agency rule.²¹ Upon approval of a collection of information, OMB will assign an OMB control number and expiration date. Respondents subject to the filing requirements of this proposed rule will not be penalized for failing to respond to these collections of information unless the collections of information display a valid OMB control number or the Commission had provided a justification as why the control number should be displayed.

85. Comments are solicited on the need for this information, whether the information will have practical utility, the accuracy of the provided burden estimated, ways to enhance the quality, utility, and clarity of the information to be collected, and any suggested methods for minimizing respondents' burden, including the use of automated information techniques. The following burden estimates are for complying with this proposed rule as follows:

²⁰ See 44 U.S.C. 3507(d).

²¹ 5 CFR 1320.11.

	Data Collection	Number of Respondents	Number of Responses	Hours Per Response	Total
1	Form 1 (RTOs)	6	1	35	210
2	Form 1 (Non-RTOs)	214	1	11	2,354
3	Form 1-F	33	1	11	363
4	Form 3-Q (RTOs)	6	3	30	540
5	Form 3-Q (Non-RTOs)	247	3	15	11,115
	Totals				14,582

Information Collection Costs: The Commission seeks comments on the cost to comply with these requirements. It has projected the average annualized cost of all respondents to be the following: 14,582 hrs. + (2 hrs recordkeeping x 253 respondents) = 15,088 hrs. @ \$60 per hour = \$905,280 for respondents. No capital startup costs are estimated to be incurred by respondents.

Annualized Costs (Operations & Maintenance): If adopted, costs for performing the prepared schedules will be rolled into the total costs for completing the Commission's annual and quarterly financial reports.

Title: FERC Form 1, "Annual Report of Major Electric Utilities, Licensees, and Others"

FERC Form -1F, "Annual report for Nonmajor Public Utilities and Licensees"

FERC Form 3-Q, "Quarterly financial report of electric utilities, licensees and natural gas companies"

Action: Proposed information collections.

OMB Control Nos.: 1902-0021; 1902-0029; and 1902-0205.

Respondents: Businesses or other for profit.

Frequency of responses: Annually and quarterly.

Necessity of the Information: The proposed rule would revise the Commission's regulations to reflect changes that are occurring in the electric industry due to the availability of open-access transmission service and increasing competition in the wholesale bulk power industry. The addition of these new accounts is intended to provide accounting standards for transactions and events affecting public utilities and licensees, including independent system operators and regional transmission organizations, that file financial reports with the Commission. The accounting regulations currently found in the USofA and related financial reporting requirements capture financial information along traditional primary business functions but do not provide sufficient detailed information concerning RTOs and in particular the costs incurred by these organizations. The addition of these accounts is intended to improve the transparency, completeness and consistency of accounting practices for the cost of assets, the expenses incurred in providing services, along with revenues collected. Without specific instructions and accounts for recording and reporting the above transactions and events, inconsistent and incomplete accounting and reporting will result.

Internal Review: The Commission has reviewed the requirements pertaining to the USofA and to the financial reports it prescribes and determined that the proposed revisions are necessary because the Commission needs to establish uniform accounting and reporting requirements for the costs of utility assets and the expenses incurred for providing services as part of its operations.

86. These requirements conform to the Commission's plan for efficient information collection, communication, and management within the electric industry. The Commission has assured itself, by means of internal review, that there is specific, objective support for the burden estimates associated with the information requirements.

87. Interested persons may obtain information on the reporting requirements by contacting the following: Federal Energy Regulatory Commission, 888 First Street, NE, Washington, D.C. 20426 [Attention: Michael Miller, Office of the Executive Director, Phone (202)502-8415, fax: (202)273-0873, e-mail: michael.miller@ferc.gov]

88. For submitting comments concerning the collection of information(s) and the associated burden estimates, please send your comments to the contact listed above and to the Office of Management and Budget, Office of Information and Regulatory Affairs, Washington, D.C. 20503, Attention: Desk Officer for the Federal Energy Regulatory Commission; Phone: (202)395-4650, fax: (202)395-7285.

VII. ENVIRONMENTAL ANALYSIS

89. The Commission is required to prepare an Environmental Assessment or an Environmental Impact Statement for any action that may have a significant adverse effect on the human environment.²² No environmental consideration is necessary for the promulgation of a rule that is clarifying, corrective, or procedural or does not substantially change the effect of legislation or regulations being amended,²³ that addresses information gathering, analysis, and dissemination,²⁴ and also that addresses accounting.²⁵ The proposed rule updates Part 101 of the Commission's regulations and does not substantially change the effect of the underlying legislation or the regulations being revised. In addition, the proposed rule involves information gathering, analysis, and dissemination. Therefore this proposed rule falls within categorical exemptions provided in the Commission's regulations. Consequently, neither an environmental impact statement nor an environmental assessment is required.

²² See Regulations Implementing the National Environmental Policy Act, Order No. 486, 52 FR 47897 (Dec. 17, 1987), FERC Stats. & Regs. ¶ 30,783 (1987).

²³ See 18 CFR 380.4(a)(2)(ii).

²⁴ See 18 CFR 380.4(a)(5).

²⁵ See 18 CFR 380.4(c)(16).

VIII. REGULATORY FLEXIBILITY ACT

90. The Regulatory Flexibility Act of 1980 (RFA)²⁶ generally requires a description and analysis of the effect that the proposed rule will have on small entities or a certification that the rule will not have a significant economic impact on a substantial number of small entities.

91. The Commission concludes that this rule would not have such an impact on a substantial number of small entities. Most companies regulated by the Commission do not fall within the RFA's definition of a small entity.²⁷ The rule applies principally to public utilities that own, control, or operate facilities for transmitting electric energy in interstate commerce and not electric utilities per se. The Commission also concludes that this rule will not impose a significant burden on industry since the information is already being captured by their accounting systems and generally being reported at a consolidated business level.

²⁶ See 5 U.S.C. 601-612.

²⁷ See 5 U.S.C. 601(3) citing to section 3 of the Small Business Act, 15 U.S.C. 632. Section 3 of the Small Business Act defines a "small-business concern" as a business which is independently owned and operated and which is not dominant in its field of operation. The Small Business Size Standards component of the North American Industry Classification System defines a small electric utility as one that, including its affiliates, is primarily engaged in generation, transmission, and/or distribution of electric energy for sale and whose total electric output for the preceding fiscal years did not exceed 4 million MWh. 13 CFR 121.201.

IX. COMMENT PROCEDURES

92. The Commission invites interested persons to submit comments on the matters and issues proposed in this notice to be adopted, including any related matters or alternative proposals that commentors may wish to discuss. Comments are due **[insert date 60 days from publication in the FEDERAL REGISTER]**. Comments must refer to Docket No. RM04-12-000, and must include the commentor's name, the organization they represent, if applicable, and their address in their comments. Comments may be filed either in electronic or paper format.

93. Comments may be filed electronically via the eFiling link on the Commission's web site at <http://www.ferc.gov>. The Commission accepts most standard word processing formats and commentors may attach additional files with supporting information in certain other file formats. Commentors filing electronically do not need to make a paper filing. Commentors that are not able to file comments electronically must send an original and 14 copies of their comments to: Federal Energy Regulatory Commission, Office of the Secretary, 888 First Street N.E., Washington, DC, 20426.

94. All comments will be placed in the Commission's public files and may be viewed, printed, or downloaded remotely as described in the Document Availability section below. Commentors on this proposal are not required to serve copies of their comments on other Commentors.

X. DOCUMENT AVAILABILITY

95. In addition to publishing the full text of this document in the Federal Register, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through the Commission's Home Page (<http://www.ferc.gov>) and in the Commission's Public Reference Room during normal business hours (8:30 a.m. to 5:00 p.m. Eastern time) at 888 First Street, N.E., Room 2A, Washington D.C. 20426.

96. From the Commission's Home Page on the Internet, this information is available in the Commission's management system, e-Library. The full text of this document is available on e-Library in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in e-Library, type the docket number excluding the last three digits of this document in the docket number field.

97. User assistance is available for e-Library and the Commission's website during normal business hours from our Help line at (202) 502-8222 or the Public Reference Room at (202) 502-8371, Press 0, TTY (202) 502-8659. E-Mail the Public Reference Room at public.referenceroom@ferc.gov

List of subjects in 18 CFR Part 101

Electric power, Electric utilities, Reporting and recordkeeping requirements,
Uniform System of Accounts
By direction of the Commission.

Linda Mitry,
Deputy Secretary.

In consideration of the foregoing, the Commission proposes to amend 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; 42U.S.C. 7101-7352, 7651-7651o.

2. In part 101, Balance Sheet Chart of Accounts, Accounts 175, 176, 219, 230, 244, and 245 are added to the list:

Balance Sheet Chart of Accounts

ASSETS AND OTHER DEBITS

* * * * *

3. CURRENT AND ACCRUED ASSETS

* * * * *

175 Derivative instrument assets.

176 Derivative instrument assets-Hedges.

* * * * *

LIABILITIES AND OTHER CREDITS

5. PROPRIETARY CAPITAL

* * * * *

219 Accumulated other comprehensive income.

* * * * *

7. OTHER NONCURRENT LIABILITIES

* * * * *

230 Asset retirement obligations.

8. CURRENT AND ACCRUED LIABILITIES

* * * * *

244 Derivatives instrument liabilities.

245 Derivative instrument liabilities-Hedges.

* * * * *

3. In part 101, Balance Sheet Accounts, Account 108, paragraph C is revised to read as follows:

* * * * *

108 Accumulated provision for depreciation of electric utility plant (Major only).

* * * * *

C. For general ledger and balance sheet purposes, this account shall be regarded and treated as a single composite provision for depreciation. For purposes of

analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant: (1) Steam production, (2) Nuclear production, (3) Hydraulic production, (4) Other production, (5) Transmission, (6) Distribution, (7) Regional Transmission and Market Operation, and (8) General. These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification (a) the amount of accrual for depreciation, (b) the book cost of property retired, (c) cost of removal, (d) salvage, and (e) other items, including recoveries from insurance. Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of plant recorded in Account 108, Accumulated provision for depreciation of electric utility plant (Major only).

* * * * *

4. In part 101, Electric Plant Chart of Accounts, Account 351[Reserved] is removed and Accounts 317, 326, 337, 347, 351.1, 351.2, 351.3, 359.1, and 374 are added to the list:

Electric Plant Chart of Accounts

* * * * *

2. PRODUCTION PLANT

A. STEAM PRODUCTION

* * * * *

317 Asset retirement costs for steam production plant.

B. NUCLEAR PRODUCTION

* * * * *

326 Asset retirement costs for nuclear production plant (Major only).

* * * * *

C. HYDRAULIC PRODUCTION

* * * * *

337 Asset retirement costs for hydraulic production plant.

D. OTHER PRODUCTION

* * * * *

347 Asset retirement costs for other production plant.

3. TRANSMISSION PLANT

* * * * *

351.1 Computer hardware.

351.2 Computer Software.

351.3 Computer Equipment

* * * * *

359.1 Asset retirement costs for transmission plant.

4. DISTRIBUTION PLANT

* * * * *

374 Asset retirement costs for distribution plant.

5. In part 101, Electric Plant Chart of Accounts, a new section with primary plant account listing is added as follows

5. REGIONAL TRANSMISSION AND MARKET OPERATION PLANT

380 Land and land rights.

381 Structures and improvements.

382 Computer hardware.

383 Computer software.

384 Communication Equipment.

385 Miscellaneous Regional Transmission and Market Operation Plant.

386 Asset Retirement Costs for Regional Transmission and Market Operation Plant.

387 [Reserved]

6. In part 101, Electric Plant Accounts, Accounts 351.1, 351.2 and 351.3 are added to read as follows:

Electric Plant Accounts

* * * * *

351.1 Computer hardware.

This account shall include the cost of computer hardware and miscellaneous information technology equipment to provide scheduling, system control and dispatching, and other related activities to support the transmission function.

ITEMS

1. Personal computers
2. Servers
3. Workstations
4. Energy Manage System (EMS) hardware
5. Supervisory Control and Data Acquisition (SCADA) system hardware

6. Peripheral equipment

7. Networking components

351.2 Computer software.

This account shall include the cost of off-the-shelf and in-house developed software purchased and used to provide scheduling, system control and dispatching and other related activities to support the transmission function.

ITEMS

1. Software licenses

2. User interface software

3. Modeling software

4. Database software

5. Tracking and monitoring software

6. Energy Management System (EMS) software

7. Supervisory Control and Data Acquisition (SCADA) system software

8. Evaluation and assessment system software

9. Operating, planning and transaction scheduling software

10. Reliability applications

11. Market application software

351.3 Communication equipment.

This account shall include the cost of communication equipment owned and used to acquire or share data and information used to control and dispatch the system.

ITEMS

- 1. Fiber optic cable
 - 2. Remote terminal units
 - 3. Microwave towers
 - 4. Global Positioning System (GPS) equipment
 - 5. Servers
 - 6. Workstations
 - 7. Telephones
7. In Part 101, Electric Plant Accounts, new primary plant accounts 380, 381, 382, 383, 384, 385, and 386 are added to read as follows:

Electric Plant Accounts

* * * * *

380 Land and land rights.

This account shall include the cost of land and land rights used in connection with regional transmission and market operations.

381 Structures and improvements.

This account shall include the cost in place of structures and improvements used for regional transmission and market operations.

382 Computer hardware.

This account shall include the cost of computer hardware and miscellaneous information technology equipment to provide scheduling, system control and dispatching, system planning, standards development, market monitoring, and market administration activities. Records shall be maintained identifying to the maximum extent practicable computer hardware owned and used for: (1) scheduling, system control and dispatching, (2) system planning and standards development, and (3) market monitoring and market administration activities.

ITEMS

1. Personal computers
2. Servers
3. Workstations
4. Energy Manage System (EMS) hardware
5. Supervisory Control and Data Acquisition (SCADA) system hardware
6. Peripheral equipment
7. Networking components

383 Computer software.

This account shall include the cost of off-the-shelf and in-house developed software purchased and used to provide scheduling, system control and dispatching, system planning, standards development, market monitoring, and market administration activities. Records shall be maintained identifying to the maximum extent practicable the

cost of software used for: (1) scheduling, system control and dispatching, (2) system planning and standards development, and (3) market monitoring and market administration activities.

ITEMS

1. Software licenses
2. User interface software
3. Modeling software
4. Database software
5. Tracking and monitoring software
6. Energy Management System (EMS) software
7. Supervisory Control and Data Acquisition (SCADA) system software
8. Evaluation and assessment system software
9. Operating, planning and transaction scheduling software
10. Reliability applications
11. Market application software

384 Communication equipment.

This account shall include the cost of communication equipment owned and used to acquire or share data and information used to control and dispatch the system.

ITEMS

1. Fiber optic cable
2. Remote terminal units

- 3. Microwave towers
- 4. Global Positioning System (GPS) equipment
- 5. Servers
- 6. Workstations
- 7. Telephones

385 Miscellaneous regional transmission and market operation plant.

This account shall include the cost of regional transmission and market operation plant and equipment not provided for elsewhere,

386 Asset retirement costs for regional transmission and market operation plant.

This account shall include asset retirement costs on regional control and market operation plant and equipment.

- 8. In part 101, Electric Plant Chart of Accounts, 5. General Plant, is redesignated as 6. General Plant, and a new Account 399.1 is added to the list.

399.1 Asset retirement costs for general plant.

- 9. In part 101, Operating Revenue Chart of Accounts, new Accounts 456.1, 457.1 and 457.2 are added to the other operating revenue listing as follows:

Operating Revenue Chart of Accounts

* * * * *

2. OTHER OPERATING REVENUES

456.1 Revenues from transmission of electricity of others.

457.1 Regional transmission service revenues.

457.2 Miscellaneous revenues.

10. In part 101, Income Accounts, Account 456 Item 5 is removed, and Item 6 is redesignated as Item 5.

11. In part 101, Income Accounts, new revenue accounts 456.1, 457.1, and 457.2 are added to read as follows:

Operating Revenue Accounts

* * * * *

456.1 Revenues from transmission of electricity of others.

This account shall include revenues from transmission of electricity of others over transmission facilities of the utility.

457.1 Regional transmission service revenues.

This account shall include revenues derived from providing scheduling, system control and dispatching services. Include also in this account reimbursements for system planning, standards development, and market monitoring and market compliance activities. Records shall be maintained so as to show: (1) the services supplied and revenues received from each customer and (2) the amounts billed by tariff or specified rates.

457.2 Miscellaneous revenues.

This account shall include revenues and reimbursements for costs incurred by regional transmission service providers not provided for elsewhere. Records shall be maintained so as to show: (1) the services supplied and revenues received from each customer, and (2) the amounts billed by tariff or specified rates.

12. In part 101, Operation and Maintenance Expense Chart of Accounts, a new Regional Market Expenses function is added and new Accounts 575.1 575.2, 575.3, 575.4, 575.5, 575.6, 575.7, 576.1, 576.2, 576.3, 576.4 and 576.5 are added as follows:

Operation and Maintenance Expense Chart of Accounts

* * * * *

3. REGIONAL MARKET EXPENSES

Operation

575.1 Operation Supervision

575.2 Day-ahead and real-time market facilitation.

575.3 Transmission rights market facilitation.

575.4 Capacity market facilitation.

575.5 Ancillary services market facilitation

575.6 Market monitoring and compliance

575.7 Market facilitation, monitoring and compliance services

Maintenance

576.1 Maintenance of structures and improvements

576.2 Maintenance of computer hardware

567.3 Maintenance of computer software

567.4 Maintenance of communication equipment

567.5 Maintenance of miscellaneous market operation plant

13. In part 101, Operation and Maintenance Expense Chart of Accounts, 3.

Distribution Expenses is redesignated as 4. Distribution Expenses; 4. Customer Accounts Expenses is redesignated as 5. Customer Accounts Expenses; 5. Customer Service and Informational Expenses is redesignated as 6. Customer Service and Informational Expenses; 6. Sales Expense is redesignated as 7. Sales Expenses; and 7. Administrative and General Expenses is redesignated as 8. Administrative and General Expenses.

14. In part 101, Operation and Maintenance Expense Chart of Accounts, the listing of transmission expenses is removed and replaced with the following list of accounts:

Operation and Maintenance Expense Chart of Accounts

* * * * *

2. TRANSMISSION EXPENSES

Operation

560 Operation supervision and engineering

561.1 Load dispatch-Reliability

561.2 Load dispatch-Monitor and operate transmission system.

561.3 Load dispatch-Transmission service and scheduling.

561.4 Scheduling, system control and dispatch services.

561.5 Long-term reliability planning and standards development.

561.6 Transmission service studies.

561.7 Generation interconnection studies.

561.8 Long-term reliability planning and standards development services

562 Station expenses (Major only).

563 Overhead line expenses (Major only).

564 Underground line expenses (Major only).

565 Transmission of electricity by others (Major only).

566 Miscellaneous transmission expenses (Major only).

567 Rents.

567.1 Operation supplies and expenses (Nonmajor only).

Maintenance

568 Maintenance supervision and engineering (Major only).

569 Maintenance of structures (Major only).

569.1 Maintenance of computer hardware.

569.2 Maintenance of computer software.

569.3 Maintenance of communication equipment.

569.4 Maintenance of miscellaneous regional transmission plant.

570 Maintenance of station equipment (Major only).

571 Maintenance of overhead lines (Major only).

572 Maintenance of underground lines (Major only).

573 Maintenance of miscellaneous transmission plant (Major only).

574 Maintenance of transmission plant (Nonmajor only).

15. In part 101, Operation and Maintenance Expense Accounts, the first paragraph of Account 556 instruction is revised to read as follows:

Operation and Maintenance Expense Accounts

* * * * *

Account 556 System control and load dispatching (Major only).

This account shall include the cost of labor and expenses incurred in load dispatching activities for system control. Utilities having an interconnected electric system or operating under a central authority which controls the production and dispatching of electricity may apportion these costs to this account and transmission expense Accounts 561.1 through 561.4, and Account 581, Load Dispatching-Distribution.

16. In part 101, Operation and Maintenance Expense Accounts, Account 561, Load Dispatching (Major only) is removed.

17. In part 101, Operation and Maintenance Expense Accounts, new expense accounts 561.1, 561.2, 561.3, 561.4, 561.5, 561.6, 561.7, 561.8, 569.1, 569.2, 569.3, 575.1, 575.2, 575.3, 575.4, 575.5, 575.6, 575.7, 576.1, 576.2, 576.3, 576.4 and 576.5 are added to read as follows:

Operation and Maintenance Expense Accounts

* * * * *

561.1 Load dispatch-Reliability.

This account shall include the cost of labor, materials used and expenses incurred by the regional transmission service provider to manage the region-wide reliability coordination function as specified by the North American Electric Reliability Council (NERC) and individual reliability organizations. These activities shall include performing current and next day reliability analysis. This account shall include the costs incurred to calculate load forecasts, and performing contingency analysis.

561.2 Load dispatch-Monitor and operate transmission system.

This account shall include the costs of labor, materials used and expenses incurred by the regional transmission service provider to monitor, assess and operate the power system and individual transmission facilities in real-time to maintain safe and reliable operation of the transmission system. This account shall also include the expense incurred to manage transmission facilities to maintain system reliability and to monitor the real-time flows and direct actions according to regional plans and tariffs as necessary.

ITEMS

1. Receive and analyze outage requests
2. Reschedule outage plans
3. Monitor solution quality field data values, providing model updates

to NERC and coordinating network model changes across all systems

4. Conduct operating training related to NERC certification
5. Monitor generation resources and communicate with generation owners regarding expected dispatch actions
6. Ensure ancillary service requirements are met

561.3 Load dispatch-Transmission service and scheduling.

This account shall include the costs of labor, materials used and expenses incurred by the regional transmission service provider to process hourly, daily, weekly and monthly transmission service requests using an automated system such as an Open Access Same-Time Information System (OASIS). It shall also include the expenses incurred to operate the automated transmission service request system and to monitor the status of all scheduled energy transactions.

561.4 Scheduling, system control and dispatching services.

This account shall include the costs billed to the transmission owner, load serving entity or generator for scheduling, system control and dispatching service. Include in this account service billings for system control to maintain the reliability of the transmission area in accordance with reliability standards, maintaining defined voltage profiles, and monitoring operations of the transmission facilities.

561.5 Long-term reliability, planning and standards development.

This account shall include the cost of labor, materials used and expenses incurred for the long-term system planning of the interconnected bulk electric transmission systems within a planning authority area. Include also the expenses incurred for long-term system reliability and resource planning to develop long-term strategies to meet customer demand and energy requirements.

ITEMS

1. Developing and maintaining transmission and resource (demand and capacity) system models to evaluate transmission system performance and resource adequacy.

2. Maintaining and applying methodologies and tools for the analysis and simulation of the transmission systems for the assessment and development of transmission expansion and resource adequacy plans.

3. Developing demand and energy end-use customer forecasts, capacity resources, and demand response programs.

4. Assessing, developing and document resource and transmission expansion plans.

5. Maintaining transmission system models (steady-state, dynamics, and short circuit).

6. Collecting transmission information and transmission facility characteristics and ratings.

7. Notifying participants of any planned transmission changes that may impact their facilities.

8. Developing and reporting on transmission expansion and resource plans for assessment and compliance with reliability standards.

9. Developing reliability standards for the planning and operation of the interconnected bulk electric transmission systems that serve the United States, Canada, and Mexico.

10. Developing criteria and certification procedures for balancing, interchange, reliability authorities, transmission operators and others.

11. Outside services employed

Note: The cost of supervision, customer records and collection expenses, administrative and general salaries, office supplies and expenses, property insurance, injuries and damages, employee pension and benefits, regulatory commission expenses, general advertising, and rents shall be charged to the customer accounts, service, and administrative and general expense accounts contained in the Uniform System of Accounts.

561.6 Transmission service studies.

This account shall include the cost of labor, materials used and expenses incurred to conduct transmission services studies for proposed interconnections with the transmission system. Detailed records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.

561.7 Generation interconnection studies.

This account shall include the cost of labor, materials used and expenses incurred to conduct generation interconnection studies for proposed interconnections with the transmission system. Detailed records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.

561.8 Long-term reliability planning and standards development services.

This account shall include the costs billed to the transmission owner, load serving entity, or generator for long-term system planning of the interconnected bulk electric transmission system. Include also the costs billed by the regional transmission service provider for long-term system reliability and resource planning to develop long-term strategies to meet customer demand and energy requirements. This account shall also include fees and expenses for outside services incurred by the regional control service provider and billed to the load serving entity, transmission owner or generator.

* * * * *

569.1 Maintenance of computer hardware.

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of computer hardware serving the transmission function.

569.2 Maintenance of computer software.

This account shall include the cost of labor, materials used and expenses incurred for annual computer software license renewals, annual software update services and the cost of ongoing support for software products serving the transmission function.

ITEMS

1. Telephone support
2. Onsite support
3. Software updates and minor revisions

569.3 Maintenance of communication equipment.

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of communication equipment serving the transmission function.

569.4 Maintenance of miscellaneous regional transmission plant.

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of miscellaneous regional transmission plant serving the transmission function.

* * * * *

575.1 Operation Supervision.

This account shall include the cost of labor and expenses incurred in the general supervision and direction of the regional energy markets.

575.2 Day-ahead and real-time market facilitation.

This account shall include the cost of labor, materials used and expenses incurred to facilitate the Day-Ahead and Real-Time markets. This account shall also include the costs incurred to manage the real-time deployment of resources to meet generation needs and to provide capacity adequacy verification. Include in this account the costs incurred to maintain related sections of the tariff, market rules, operating procedures, and

standards and coordinating with neighboring areas.

ITEMS

1. Consultant fees and expenses
2. System record and report forms
3. Meals, traveling and incidental expenses

Note: The cost of supervision, customer records and collection expenses, administrative and general salaries, office supplies and expenses, property insurance, injuries and damages, employee pension and benefits, regulatory commission expenses, general advertising, and rents shall be charged to the customer accounts, service, and administrative and general expense accounts contained in the Uniform System of Accounts.

575.3 Transmission rights market facilitation.

This account shall include the cost of labor, materials used and expenses incurred to manage the allocation and auction of transmission rights.

575.4 Capacity market facilitation.

This account shall include the cost of labor, materials used and expenses incurred to manage the allocation of capacity rights.

575.5 Ancillary services market facilitation.

This account shall include the cost of labor, materials used and expenses incurred to manage all other ancillary services market functions.

575.6 Market monitoring and compliance.

This account shall include the cost of labor, materials used and expenses incurred to review market data and operational decisions for compliance with market rules. It shall also include the costs incurred to interface with external market monitors.

575.7 Market facilitation, monitoring and compliance services.

This account shall include the costs billed to the transmission owner, load serving entity or generator for market facilitation, monitoring and compliance services.

576.1 Maintenance of structures and improvements.

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of structures, the book cost of which is included in account 381, Structures and Improvements. (See operating expense instruction 2.)

576.2 Maintenance of computer hardware.

The account shall include the cost of labor, materials used and expenses incurred in the maintenance of computer hardware, the book cost of which is included in Account 382.

576.3 Maintenance of computer software.

This account shall include the cost of labor, materials used and expenses incurred for annual computer software license renewals, annual software update services and the cost of ongoing support for software products.

ITEMS

1. Telephone support
2. Onsite support
3. Software updates and minor revisions

576.4 Maintenance of communication equipment.

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of communication equipment, the book cost of which is included in Account 384.

576.5 Maintenance of miscellaneous market operation plant.

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of miscellaneous market operation plant, the book cost of which is included in Account 386.

Appendix A

List of Commentors

- 1 Allegheny Energy Parties
- 2 American Municipal Power-Ohio, Inc.
- 3 American Public Power Association
- 4 Braintree Electric Light Department, Reading Municipal Light Department,
and Taunton Municipal Lighting Plant
- 5 California Department of Water Resources State Water Project
- 6 California Municipal Utilities Association
- 7 Cinergy Services, Inc.
- 8 City of Santa Clara California
- 9 Connecticut Department of Public Utility Control and Vermont Department of
Public Service
- 10 Consolidated Edison Company of New York, Inc., Orange and Rockland
Utilities, Inc., Central Hudson Gas & Electric Corporation, New York State
Electric & Gas Corporation and Rochester Gas & Electric Corporation
- 11 Edison Electric Institute
- 12 EPIC Merchant Energy, LP
- 13 Electric Consumers Resource Council
- 14 Electric Power Supply Association
- 15 Iowa Office of Consumer Advocate and Indiana Office of Utility Consumer
Counselor
- 16 International Transmission Company
- 17 ISO New England Inc.
- 18 ISO/RTO Council
- 19 LG&E Energy, LLC
- 20 Long Island Power Authority, Long Island Power Authority and New York
Power Authority
- 21 Madison Gas & Electric Company
- 22 Midwest Independent Transmission System Operator, Inc.
- 23 Midwest ISO Transmission Owners
- 24 Organization of MISO States
- 25 Modesto Irrigation District
- 26 National Grid USA
- 27 New England Power Pool Participants Committee
- 28 New York Municipals & Cooperatives
- 29 NiSource
- 30 Northern California Power Agency
- 31 National Rural Electric Cooperative Association

- 32 PJM Interconnection, L.L.C.
- 33 Pacific Gas and Electric Company
- 34 PPL Parties
- 35 Public Service Electric and Gas Company and PSEG Energy Resources & Trading LLC
- 36 The Honorable Doug Ose, U.S. House of Representatives
- 37 The Honorable Paul E. Gillmor, U.S. House of Representatives
- 38 Sector Elected Representatives of the PJM Finance Committee
- 39 Southern California Edison Company
- 40 Transmission Agency of Northern California
- 41 Transmission Access Policy Study Group
- 42 Transmission Dependent Utility Systems
- 43 TXU Portfolio Management Company LP and TXU Pedricktown Cogeneration Company LP
- 44 Virginia Electric and Power Company
- 45 Wisconsin Electric Power Company
- 46 Xcel Energy Services Inc.