

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Accounting and Financial Reporting for
Public Utilities Including RTOs

Docket No. RM04-12-000

**REQUEST FOR REHEARING OF THE
TRANSMISSION ACCESS POLICY STUDY GROUP**

On December 16, 2005, the Commission issued final rules updating accounting requirements and reporting forms to address changes in the electricity industry, particularly the development of Independent System Operators (“ISOs”) and Regional Transmission Organizations (“RTOs”). *Accounting and Financial Reporting for Public Utilities Including RTOs*, 113 F.E.R.C. ¶ 61,276 (2005) (“Order 668”). Members of the Transmission Access Policy Study Group (“TAPS”) have first-hand experience with exploding RTO-related costs, causing them to be concerned about RTO cost containment and accountability. TAPS thus applauds the Commission’s statement that “cost oversight practices are an important aspect of the initiative we began with the NOI and we intend to address those matters in the near future.” Order 668 at P 95. TAPS hopes that the future is very near and that the Commission does not allow the press of other business to push action on RTO cost oversight to the back-burner. The Commission has a responsibility to ensure that RTOs, which are entities created in response to Commission policy and subject to its jurisdiction, have just and reasonable costs and are accountable.

The Commission’s adoption of new accounting rules paves the way for further measures that encourage RTO cost containment and efficient operation, and TAPS looks forward to working with the Commission in this effort, including through consideration

and adoption of the specific measures proposed by TAPS in this proceeding. In the spirit of facilitating the Commission's next steps, TAPS submits this very limited rehearing request, urging the Commission to adopt TAPS's proposed changes to Account No. 456.1 to make transmission revenues and information more transparent.

I. SPECIFICATION OF ERROR

Pursuant to Rule 713(c), 18 C.F.R. § 385.713(c), TAPS specifies the following error:

1. The Commission erred by failing to include in new Account No. 456.1 reporting requirements regarding transmission revenues and transmission services that are needed for transmission ratemaking.

II. STATEMENT OF ISSUES

1. Whether the Commission erred by failing to include in new Account No. 456.1 reporting requirements regarding transmission revenues and transmission services that are needed for transmission ratekmaking, including
 - a. Sub-categorization of transmission revenues;
 - b. Reporting of peak loads in a manner that permits ready calculation of transmission rate divisors;
 - c. Separate identification of plant, depreciation and expenses associated with facilities that are accounted for as transmission but otherwise functionalized or directly assigned;
 - d. Expanded identification of transmission facilities that have been placed under the control of another entity (*e.g.*, RTO) and the gross plant investment of the facilities so transferred;
 - e. Reporting of revenue distributions received from regional transmission entities.

TAPS submits that the answer is "yes." The FPA requires that transmission rates be just and reasonable. 16 U.S.C. § 824d. However, existing Account No. 456 and the new Account No. 456.1 do not provide the transparency necessary to permit transmission customers and the Commission to monitor transmission revenues and usage to determine whether existing rates are just and reasonable.

III. ARGUMENT

A. Account 456.1 Should Provide Information Needed for Transmission Ratemaking

Order 668 adopts a new sub-account, Account 456.1, Revenues from Transmission of Electricity of Others, to record “revenues the transmission owner receives for the transmission of electricity over its transmission facilities.” Order 668 at P 71. While the new sub-account increases transparency, it is not enough to provide real value in ensuring that transmission rates are just and reasonable as required by the FPA. 16 U.S.C. § 824d. Order 668 notes TAPS’s proposal for additional categories within Account 456.1, Order 668 at P 70, but without any specific explanation the Commission refrains from adopting the proposal. It should do so on rehearing.

Account 456.1 provides too little transparency regarding the particular sources of transmission revenues and how they relate to common ratemaking categories. Truly transparent accounting for transmission revenues would enable customers and the Commission to monitor whether previously accepted rates have come to generate more than the appropriate, just and reasonable level of revenues, and to allow for restoration of appropriate revenues through a Section 206 proceeding as necessary. But the reality is that such Section 206 cost investigations are rare, because a lack of transparency places unnecessary and impeding uncertainties in the way of anyone who attempts to ascertain, from publicly available Form 1 accounting information, what unit transmission cost the Commission would find were it to apply standard ratemaking policies to the transmission owner’s current costs and loads. By the same token, formula rates that draw on Form 1 information commonly have to massage the Form 1 data, through adjustments that are not always consistent and transparent, to ready it for ratemaking application.

Transmission investment has not kept up with needs, as the Commission recognizes.¹ The Commission recently acknowledged the potential for overrecovery to arise when updated cost information is used to develop RTO-participant revenue requirements, current load is used for billing determinants, but older load data is used for the rate divisor. In *Michigan Elec. Transmission Co., LLC*, 113 F.E.R.C. ¶ 61,343 (Dec. 30, 2005), the Commission set for settlement/hearing procedure issues arising from an 18-month timing lag between various proposed formula components. For some transmission owners, there are filed rates in effect today with rate lags exceeding a decade, with rate numerators and divisors reflecting Order 888 compliance filing test years, but billing determinants reflecting current load. To fulfill its duty to ensure transmission rates are just and reasonable, the Commission must facilitate customers' ability to evaluate the reasonableness of current rates and file Section 206 complaints to bring them in line.

The Commission's suggestion in the Pricing Reform NOPR that it may permit "single issue ratemaking" makes improved transparency even more imperative.² Selective adjustments to transmission cost-of-service could keep out of view needed adjustments to transmission rates. Under the piecemeal ratemaking option (which is an unnecessary and inferior alternative to the systematic formula rate that TAPS proposes), transmission owners could obtain upwardly adjusted transmission rates to reflect new investment without making a rate filing that takes account of other changes in the cost of

¹ See *Promoting Transmission Investment through Pricing Reform*, 113 F.E.R.C. ¶ 61,182, P 1 (2005) ("Pricing Reform NOPR").

² See Pricing Reform NOPR, P 54.

service and allocators that would lower unit costs (*e.g.*, depreciation and load growth).

Under that approach, the Commission's ability to ensure the just and reasonable rates the FPA requires would rest heavily on the ability of customers to submit Section 206 complaints to bring total costs in line. The Commission's consideration of "single-issue ratemaking" requires, at minimum, that the Commission eliminate the information barriers to Section 206 complaints, such as the inadequate transparency of Accounts 456 and 456.1.³

The main impediments to greater transparency are unnecessary and easily remedied. Without attempting to be comprehensive, TAPS proposes the following examples of how accounting and its reporting have failed to keep pace with standard ratemaking practice, and as to which public utilities now have widely varying practices that impede monitoring and should be standardized.

- ❑ Account 456.1 information should be broken down sufficiently to allow ready computation of the revenue that would be deemed revenue-creditable under generally applicable Commission policy. Revenues should be broken down into the various firmness and duration classes of OATT and grandfathered agreements (so as to allow ready determination of which revenues should be credited, as distinguished from having the associated loads included in rate divisors), and presented separately. Revenues from "wholesale distribution" (transmission for non-end-users, over facilities classified as distribution for accounting purposes) should likewise be separately identified. So should revenues received pursuant to Financial Transmission Rights ("FTR"), Auction Revenue Rights ("ARR"), and similar instruments.
- ❑ The standard rate divisor as specified in Order 888 — peak load adjusted by removing point-to-point deliveries' scheduled loads and substituting their reserved capacities — is not reported in Forms 1. Instead, those seeking to compare transmission owners' revenues, rates, and costs at best must painstakingly reconstruct the divisor using 12 CP information and guesswork, and often will find that critical information is not available.

³ TAPS addressed single issue ratemaking in greater depth in its January 11, 2006 Pricing Reform NOPR Comments, at 73-77, *available at* <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=10925219>.

The divisor should be reported in the Form 1, with separate identification of any behind-the-meter loads that counted towards network service billing determinants and of the relevant point-to-point loads and reserved capacities. Where the principal rate through which the transmission owner's transmission investment is recovered uses a different billing determinant (*e.g.*, the modified 1 CP based on five peak hours used for network service billing in much of PJM), the Form 1 should report that divisor as well.

- The plant, depreciation, and expenses associated with facilities that have been accounted for as transmission but are either functionalized to other functions or directly assigned (such as generator step-up transformers) are not all separately identified. They should be.
- The existing Form 1 reporting of individual line and substation facilities should be expanded to identify which facilities have been placed under operation or control of another entity (such as an RTO or ITC), and the gross plant investment of each facility so transferred.
- Where the transmission owner is participating in a regional transmission entity, revenue distributions received from that regional entity should be reported, with breakdowns showing, *e.g.*, operating fees or leases for transferred facilities, distribution of revenues from zonal transmission charges, pass-through of revenues for ancillary services and wholesale distribution services, reimbursement of start-up costs, distribution of revenues from third-party (out and through) transactions, and distribution of FTR or ARR revenues.

With today's computerized accounting systems and electronic reporting, maintenance and reporting of such information would not be unduly burdensome. The Commission should attend to this subject now, so that utilities can make the necessary changes to their accounting systems and practices as they comply with the rest of the final rule.

CONCLUSION

The Commission should grant rehearing of Order 668 as set forth above.

Respectfully submitted,

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