BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: : Docket Number

FINANCIAL ACCOUNTING, REPORTING AND : RM06-11-000

RECORDS RETENTION REQUIREMENTS (PUHCA II) :

- x

Commission Meeting Room

Federal Energy Regulatory

Commission

888 First Street, NE

Washington, DC

Tuesday, July 18, 2006

The above-entitled matter came on for technical conference, pursuant to notice, at 8:58 a.m.

BEFORE:

SUSAN COURT

DIRECTOR, OFFICE OF ENFORCEMENT

APPEARANCES:

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JAMES AKERS
ANDREW MOSIER
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KATHLEEN McNULTY-KROOP
HENRI BARTHOLOMOT
DAVID STRINGFELLOW

P R O C E E D I N G S

(8:58 a.m.)

MS. COURT: Good morning, ladies and gentlemen. Welcome to the Conference of the Staff, at the direction of the Commission, on Docket Number RM06-11, to consider comments on the Notice of Proposed Rulemaking on Financial Accounting Reporting and Records Retention Requirements under PUHCA 2005.

The Commission issued the NOPR on April 24, 2006, with comments due in June. The Commission hopes to issue a final rule this Fall, and Staff will use what it learns today, in addition to the written comments, to draft the final rule for the Commission.

Speaking of Staff, my name is Susan Court, and I am the Director of the Office of Enforcement, whose responsibilities include financial accounting and reporting. Indeed, one of these four Divisions is the Division of Financial Regulations, whose specific responsibilities cover the administration of the Uniform System of Accounts and Financial Forms.

The ultimate responsibility for implementing the final rule in this docket, including Form No. 60, will fall, in large part, on that Division.

Also in attendance this morning are Staff members from the Commission's other offices, who will likewise participate in the implementation of the final rule issued in this docket.

At this time, I will lay out the program for this morning. There will be two panels: One composed of representatives from the electric utility industry, and one composed of representatives from state commissions, and other public interest groups.

Panelists will give their presentations, not to exceed ten minutes, and Staff will ask their questions at the end of each panel's presentations. Anyone from the audience may also ask questions at that time.

The record, by the way, will remain open until August 1st, if anyone has further comments to submit.

Finally, we will have a short 15-minute break between the two panels.

I have two substantive comments to make at this time: Our focus today is on the NOPR. It is not a forum to revisit any issue in Order No. 667 or 667-A, which is pending rehearing.

Also -- and now I speak from almost 25 years of writing FERC rules -- if a panelist or a commenter had a problem with the proposal or any aspect of the proposal, it would be very helpful, if not critical, that he or she suggest with some specificity, what the alternatives should be and how the regulation should be written.

And I'm not asking the panelists today to come up with that, but there is time with the record open, that it would be very helpful. So, if you don't like something that the Commission has proposed, rather than just saying you don't like it, we really would appreciate what the alternative should be, and exactly how that alternative should be written.

I'm not going to introduce all the Staff members here today, but you can see their names through the tent cards that are on the table, and also there are other Staff members in the audience, and to my left.

I would at this time, though, like to introduce Janice Nicholas, who is the Director of OE's Division of Financial Regulation, and the Commission's Chief Accountant, and ask her to briefly describe the NOPR for the record, and to add anything else that she thinks is appropriate. Janice?

MS. GARRISON NICHOLAS: Good morning. Thank you, Susan.

On December 8, 2005, the Commission issued Order No. 667, implementing PUHCA 2005. In Order 667, the Commission indicated that it would initiate a separate rulemaking proceeding to address how the Commission's Uniform System of Accounts and record retention requirements in Parts 101, 125, 201, and 225 of its regulations, should be modified to adopt or otherwise integrate the relevant part of the FTC's Uniform System of Accounts and Record Retention Rules.

The Commission indicated that it intended to issue a final rule and any appropriate accounting and records retention requirements modifications before January 1, 2007.

Specifically, the NOPR, the Notice of Proposed Rulemaking issued in this docket, RM06-11-000, was issued on April 24, 2006. In that proposed rule, the Commission proposed to add a new part to its regulations, Part 367, which would encompass a Uniform System of Accounts for centralized service companies.

This proposed Uniform System of Accounts conforms, to the maximum extent practicable, to the Commission's existing Uniform System of Accounts found in Parts 101 and 201 of the Commission's regulations.

There were some instances, however, as part of developing the Notice of Proposed Rulemaking, that we made some adaptations to specifically recognize the differences associated with centralized service company operations.

Also, as part of the proposed rule, a new Part 368 was incorporated into the proposed rule. This included proposed regulations on record retention requirements for holding companies and all service companies.

The record retention requirements proposed were generally based on requirements contained in the Commission's existing Sections 125.3 for public utilities and licensees, and 225.3 for natural gas companies.

In certain instances, modifications were made, again, to recognize the unique characteristics of service company and holding company operations.

The last part of the proposed rule was a new Part 369 of the Commission's regulations. This deals with requirements related to the filing of FERC Form No. 60. This is the annual report of centralized service companies.

Just in brief, the new Part 369 proposed that companies, service companies, centralized service companies, file Form 60 electronically, and it also proposed certain changes to existing Form 60 schedules, as well as proposing some new reporting requirements in Form 60.

So, that, in a nutshell, was the proposal that the Commission issued back on April 24th, 2006.

MS. COURT: Thank you, Janice. With that brief introduction, we will start with the panels. And our first panelist is Henri -- and I made sure that I could pronounce his first name right, but I unfortunately forgot to ask him about the pronunciation of his last name, so I'm not sure if it's a hard-T or a soft-T.

MR. BARTHOLOMOT: Soft-T.

MS. COURT: Soft-T, Henri Bartholomot; is that correct? And he's accompanied today by David Stringfellow, both representing the EEI.

So, Henri, if you would proceed, please?

MR. BARTHOLOMOT: Thank you very much. I appreciate the chance to give some brief opening remarks as an Electric Institute. EEI is the association of the nation's shareholder-owned electric utilities, affiliates, and associates, worldwide.

Our membership includes a number of holding companies or their utility affiliates, that will be -- the holding companies and service companies would be affected by the proposed rule. In fact, we're the primary class of folks who would be affected, and so we appreciate the chance to speak.

We did file comments, and I think we'd like to let them speak for themselves. We're not submitting a separate written statement.

The Executive Summary to those, gives a good overview of the big-picture issues of concern, and then we've gone into more detail, in particular, on ways to streamline the Chart of Accounts and the Form 60, which are issues of significant importance to our members.

You will see, as you hear from the other panelists, that a number of our members are in different positions in terms of the nature of the Charts of Accounts they are currently keeping, and how easy or how difficult it would be for them to try to transition to the proposed modified version of the US of A that would be in Part 367.

Some of our members, even coming over from the SEC, had something fairly similar to a FERC Chart of Accounts, but in most or all cases, that's the case, or they were using an SEC version of the US of A. Those did not include the 500 and 800 series of accounts that would be reflected under the proposed rule, and I think that's because those just aren't good fits for the type of activities the service companies are doing.

Most of what the service companies are doing -- and the Commission's NOPR recognizes this -- are service activities that are more of a general and administrative operations and maintenance-type of nature, so those just aren't good fits. Even we were pleased to see that the NARUC comments reflected that, so, you know, we agree, those just don't make sense.

Our big message is -- and, at the same time, there are a number of our companies that are on significantly different systems, different Charts of Accounts.

But every one of the companies, of the service companies, is keeping records under a Generally Accepted

Accounting Principles, GAAP-compliant approach, even if it doesn't look like what's in the proposed Part 367 or something, a variation, more of a FERC US of A.

And, furthermore, they are all subject to careful oversight through the annual audit process, the Sarbanes-Oxley internal control reviews and the annual audits that go with that, so on the Chart of Accounts side, the point is that you have a universe of holding companies, service companies, that are keeping regularized records in GAAP-compliant ways that have passed muster with the SEC, with auditors, and with the Sarbanes-Oxley reviews.

So there's nothing really broken, to be fixed here, to start with, and on the reporting side, the same thing. The services that those service companies have provided, in particular, to FERC jurisdictional electric utilities, one way or another -- and there are different ways this happens -- are allocated so that by the time they get over to the electric utility, the electric utility has sufficient, accurate, substantiated information in sufficient detail to be able to reflect the service company transactions on their own records, in a FERC Uniform System of Accounts set of charts and in their annual and other reports, the Form 1 and the Form 3-Qs and so forth.

And so, again, on both the Chart of Accounts side and on the reporting side, our sense is that things are in good working order. And we start with the proposition that we encourage the Commission to allow that variation on the themes on both the Chart of Accounts and on the annual reporting, that the holding companies or the service companies or both issue annual financial statements.

Most of them, if not the service company directly, certainly the holding companies are shareholder-owned. They're filing annual 10Ks and other public financial statements, so, you know, we have both regularized accounting, regularized reporting on the holding company, the service company, and then clearly on the electric utility side, with the existing detailed Uniform System of Accounts there.

I was perplexed. We heard back, Commission Staff didn't have a good sense well why is it such a big deal to do changes in company accounting and recordkeeping? Well, let me describe it in a couple of sentences.

You propose changes in the records of accounts. That means that people have to go in and reconfigure how they're going to keep the costs and the revenues for each of these areas of activity the company is doing, so that takes a significant amount of analytic time and resources.

Once they've figured out how to do it, then it has to be reflected in the changes to the systems, the software systems, the internal control systems, and all of that has to be done carefully enough that the auditors looking over the financial statements and the internal controls have -- they are reticent to have that happen in the fourth quarter of the year because they've got to come in and say by the end of this year we attest that these financial statements and internal controls are in good working order. You have to retrain staff all the way through the company on how this is going to happen.

It's not something that you can just flip the switch or you can say -- (speaker gesturing) -- it's done; it takes substantial time and resources of $3 million magnitude for a company that has to go from a GAAP compliance system over to a US of A system.

Another angle is the issue of allocation. So as you go from the service company chart of accounts over to the billing that's done to the electric utilities so they can reflect that in their bills, this is done different ways. Some companies -- and also in reporting out on the 10-K and to FERC it's done different ways. Some companies use work order systems; others do not. And the Commission's NOPR didn't mandate use of a work order system to do these allocations, but it certainly talked a lot about it and it's got a number of our members really nervous. Those that don't have a work order system -- again for a large company we're talking again in the millions of dollars in costs to have to adopt a work order system.

So our basic message is two-part. One is we really encourage the Commission to allow variations on how the charts of accounts are kept and to look for much more streamlined reporting on the reporting side.

Just to get you to think outside the box -- and it's stretching a little bit beyond where the comments went -- our starting point would be if a service company's holding companies are issuing 10-Ks or the annual financial statements, isn't that sufficient, coupled with the fact that the electric utilities are getting sufficiently detailed information that is substantiated to be able to prepare their annual reports to the Commission and to the state commissions.

And the state commissions are another important part of this, and you'll hear more obviously on the second panel. But what we're hearing from our members is that each of the state commissions has its own set of wants and preferences. And one thing we don't want to do is have FERC as the federal commission try and gather, you know, the three that this state wants and the six that that state wants and the 10 that another state may want and package them up and say okay you're all going to have to do this plus what we said. So that's not the right direction to go.

But it's just to say that another piece of actually changing over to the NOPR proposal is having to go through a notice and approval process with the state and what more will they want and what less will they want and how will they want it done differently. Some companies use a ledger approach. They keep regularized accounts and when they get ready to go over to the utility side or in a FERC reporting, they'll use a ledger approach as opposed to a work order approach. All of those are regularized accurate means of doing accounting and keeping reporting.

And our hope is that the Commission -- we really appreciate the work you've done trying to develop the proposal and we certainly appreciate the precursor in the PUHCA ruling. As you took the repealed PUHCA 35 and the implementation of PUHCA 05 in December or you recognized that Congress' intent was to streamline and not bring over all the detailed baggage that was in the '35 Act and you recognize that the PUHCA 05 is largely a books and records statute.

And that's what this is about. But what we were really pleased to see in the December order was a reasoned approach to say we're not under that '35 Act, we don't need to impose the burden and the level of detail requirements that were set out in that.

So those are our big picture messages. The time frame I guess is the last thing I would talk to. We obviously have detailed suggestions on streamlining the reporting requirement. We'd really like to see something much simpler. The original proposed Form 60 in the December order, if you had to start somewheres, is better than the new proposal and we'd like to see that for the streamline.

Timing of when the rule would take effect. As I mentioned earlier, it takes a lot of time and company resources to do the changes that the Commission's considering. Any changes in a company's charts of accounts and reporting requirements -- we've said in the past, it really takes six months and we want to try and stay out of the fourth quarter of any year in which the changes would be having to be made, because by the end of the third quarter you'd have to have gone through testing and so forth ideally so that the auditors can come in and say yeah, okay, fine. Because if you're doing changes in the fourth quarter, you can't be doing the testing and getting to where you need to be for the auditors.

So our recommendation is have any changes you do impose take effect January 1, '08. And that gives you time to issue this rule. There is no rush to judgment. It gives you time to issue a considered rule, deal with the issues on rehearing ideally by the spring of next year, give companies six months through the second and third quarters of next year to do any modifications and do this in a regularized way. The first reporting based on the new -- if there are changes in the charts of accounts, it would be the following year.

And we would encourage you to stick with May 1 as opposed to moving it earlier to April. There's a lot of stuff going on in April in terms of the annual reports to the SEC, to FERC, and the state commissions. It's a hugely busy time and it's a very difficult time to add another layer of something here. So we encourage you to stick with May 1.

The first reporting would be May 1, '09 and the first comparative data that would reflect any new changes should be the following year, in May 2010, rather than requiring people to go back and reform prior year's accounts.

That's our main message. Thank you very much.

MS. COURT: Very good. Thank you so much.

Our next panelist is Kathleen McNulty-Kropp, who is the manager of regulatory accounting, policy and reporting for Xcel Energy. Ms. McNulty-Kropp.

MS. MC NULTY-KROPP: Thank you very much.

With Xcel Energy, I can only echo a lot of what Henry just said and, as far as my remarks go, I'll be specifically addressing the questions and just providing some insight or just some additional comments and information we have from our perspective.

As far as a separate Uniform System of Accounts, we don't believe it's necessary for service companies to have a separate Uniform System of Accounts. We agree there should be a separate chapter within the federal records, just because service companies are obviously regulated under Order 667 and other FERC jurisdictional orders and so we believe there's a need for a separate subchapter. But going so far as to have a separate Uniform System of Accounts, we encourage the flexibility in the use of an accounting system.

As far as -- we currently keep our records in such a state to allow both state commissions, our auditors, and even the FERC oversight to come in and we provide our records there in such a manner to allow the transparency of viewing what types of services are performed and how those are allocated or charged out to the individual utilities from a ratemaking perspective. The states do come in and audit and, in a number of rate cases, do request additional information which is readily supported or provided in the current system.

We, at Xcel Energy, currently use the SEC chart of accounts which, from our perspective, we are mainly a service organization that provides services from a managerial, financing, accounting, legal -- those types of activities within the service company. And so the range of accounts we typically use are the 900 series of accounts. There are minimal activities that occur within the service company that are performed that would get charged to a functional service of account. So having to expand a Form 60 to include that range of accounts in a Form 60 report would just add sporadic amounts throughout that and then it would also go back to having us to retrain each and every service company employee to use this new system.

At Xcel Energy, we have at least 12 systems that currently interface with our general ledger system, so to convert currently from this 900 series of accounts to going to a full-blown it would entail us to go back and have to look at each and every one of those 12 systems, plus any potential manual feeder systems or manual access databases that are kept to ensure that any changes that would ultimately affect Xcel Energy's FERC system of accounts within the service company to make sure those changes are adequately made within their training, the individuals who are inputting their time, inputting in any invoices or payments or purchase orders in such contracts. We would have to ensure that those are adequately trained individuals to get the information in there correctly. As Henry said, it is not an overnight flip of a switch, it does take time to implement. And we would have testing not only from the internal audit, but also the external auditing group.

With respect to the burdensome accounting and reports from the NOPR, we do believe there are some parts of the NOPR that are burdensome. The first one is the effective date. With a proposed effective date of January 1, 2007, it would impose a significant amount of burden on the company to get these systems changed and to get the individuals retrained to have these changes effective for January 1, 2007.

Like many other companies, we do fall under SOCs guidelines and we have internal policies that prohibit us or would severely prevent us from making any system changes within the fourth quarter, so this would be a significant change and we would seriously need to address how we could make this occur effectively and we would have to get -- work with our external auditors to get adequate timing and get them in to do adequate testing to ensure the controls are met and that they can sign off and we can attest to the adequacy of the financial controls or the controls over those -- that information that is getting into the records.

As I mentioned, in addition to retraining each and every employee, one of the other things we would need to do is go back to our individual state commissions and also retrain them. Because we have worked closely with our state commissions and their staff to educate them on how the service company records are kept and the process by which we allocate the cost out and the methodologies and the allocators we currently use.

So in addition to our staff being retrained and our management, we would need to go out to our state commissions and reach out and explain to them what the changes are and how they are impacting the records that they see, as well as how they would see the costs come across in the general ledgers that we provide to them at the utility level, as well as any additional service company records we provide to them.

The Form 60, there are a couple of schedules that are in the Form 60s, specifically the schedules 15, 16 and

17, which lay out by specific O&M FERC account certain information. Those are laid out in varied formats. And we think that those three schedules should be assessed and revised to step back and look at what information is truly needed, what information really provides value.

Because we don't necessarily believe the three schedules are necessary, but some version of those three schedules would probably be helpful, and providing that information in a range of accounts -- if the FERC was to go to a full-blown system of accounts, providing that information in a range of accounts versus by individual FERC account balance, that would probably be more useful and less burdensome to compile. And should there be any additional information that would be required or requested, that can be provided at the request of the state commission or of the FERC if there is additional information required from our perspective.

We feel strongly that the filing deadline should remain out in May 1 with all of the annual reports that are required to be filed with the SEC and the FERC, as well as any of our state jurisdictional reports. A lot of those reports occur during the March to end of April timeframe. So to add this into the mix, it would lay over an additional burden, as well as the staff that we currently have in place we have in place to try and manage our peak load and our base workload. And adding another report to that would just increase the level of staff that would be necessary, whereas if we have this ability to file this report as of May, it would not necessarily require us to increase our staff in the reporting department.

Should a structured reporting format be required for service companies? We don't believe a formalized structured reporting format should exist. Having flexibility to provide information in the manner that is easily -- that is transparent to the operations of the service company is important. To the extent FERC can provide guidelines or provide a set of information or a set of requirements that would request that this information be compiled within this report then allow the service companies themselves to present that information in a manner that they deem to be adequately transparent of the operations.

For example, the SEC provides guidelines as to what they require in a balance sheet and income statement, the specific line items, but they don't necessarily go down to the individual level of account that is required; they allow a lot more flexibility into well how do you want to present that information, how does it make more sense for you to present that information to have it be transparent to the operations of your company. So we encourage a lot of flexibility in how the information is presented.

With respect to the question number four, if a separate Uniform System of Accounts and structured reports are adopted, what are the most significant modifications that should be considered?

Number one, again, going back to if a specific chart of accounts is developed, allow flexibility in its use. For example, if the formalized -- the full-blown chart of accounts is utilized, allow the flexibility to only use the 900 series of accounts and maybe provide a footnote in the notes or explain what's being used.

Secondly, as it relates to the extraordinary items, we feel that FERC should not require service companies to get FERC approval as to how those are accounted for; rather, we should be following the GAAP procedures. And since we typically start out with reporting under a GAAP basis and then switch to -- or overlay the regulatory requirements on top of that.

Again, we encourage the FERC to consider what the implementation date is or the effective date of the rule and consider that to the extent it is possible to delay the effective date to January 1, 2008, we would greatly support that because it would enable not only retraining to occur timely but also I believe it would also enable your staff to have a better appreciation and revisit and spend enough time to get to the true deliverable that you're looking for.

Thank you.

MS. COURT: Thank you so much.

Our next speaker is William Richer, who is assistant controller at National Grid USA. Mr. Richer.

MR. RICHER: Good morning. My name is Bill Richer. I am assistant controller for National Grid USA. I would like to thank the Commission for extending to National Grid an opportunity to address you at this technical conference.

As you may already know, National Grid is organized as a public utility holding company and was previously regulated by the Securities and Exchange Commission under PUHCA of 1935.

Within National Grid, we have a service company, National Grid USA Service Company, which was created to provide a wide range of shared services to the various National Grid operating companies. In the Commission's parlance, National Grid service company is a centralized service company. The service company was subject to the full range of service company regulations administered by the SEC under PUHCA of 1935. As requested in the technical conference notice, I would like to address each of the Commission's questions based on National Grid's experience as a formerly-registered holding company with operations in several states.

Is a separate Uniform System of Accounts necessary for the service companies? As a formerly registered holding company, National Grid is comfortable with a Uniform System of Accounts. We currently use Generally Accepted Accounting Principles, but we also see merit in having a reasonably structured Uniform System of Accounts to guide our accounting. I stress reasonably structured because, as we noted in our comments, and as I will state further, there are distinct periods where we would suggest improvement in the Commission's proposed system of accounts. As noted in our comments, we find the proposed Uniform System of Accounts to be burdensome in two specific respects. First and probably the most significant, the Commission is proposing to require service companies to adopt a formal work order system. This requirement appears in the NOPR at page 15 and proposed 18 CFR Section 367.30, but it also pervades the various instructions to the Uniform System of Accounts and also to record retention requirements.

Whittle the Commission seems to be basing this proposal on SEC rules under PUHCA of 1935 that required service companies to adopt work order systems, such systems were not a hard and fast requirement and this Commission should not impose such a requirement. For one thing, the adoption of a work order system for routine services such as day-to-day legal and accounting services rendered by the service company is overkill. Today's automated accounting systems and the accounting code block used by these systems allow for convenient summarization of accounting information in a manner akin to information that would be available through a work order system. The capabilities of current accounting systems allow for efficient analysis and sorting of accounting data to satisfy the needs of various users of service company accounting information, such as the utilities that are receiving services and the various regulators.

National Grid uses an activity-based accounting system with multi-dimensional codes. Inquiring into the detailed entries in our accounting system, we and the Commission can identify precisely what services are being charged. In contrast, the imposition of a formal work order system would come at a substantial cost in terms of, one, revision and reconfiguration of accounting software. We estimate it to be over $2 million. Two, retraining of employees under new timekeeping and procurement protocols. Three, the ultimate decrease of operating efficiency and increase in bureaucratic burdens, especially in performing routine work. And four, a work order system would not necessarily provide more or better information than is currently available.

Besides the work order system issue, a second and equally burdensome concern is the proposed requirement that service companies reclassify their costs and revenues to track the accounting treatment of the utilities who receive services under their own Uniform System of Accounts. This appears to arise in two places in the proposed Uniform System of Accounts.

One, in the NOPR at page 28, the Commission proposes to require service companies to use a full range of operations and maintenance expense accounts in the 500 and 800 series, which appears to suggest that the service company cannot simply use account 920 for labor costs or account 926 for employee benefits expenses, which are among the more significant cost components for most service companies.

And two, in proposed 18 CFR Section 367.24(a), the components of most -- the Commission proposes that expenses associated with the construction services performed by service company employees will not be separately accounted for but presumably must be treated as part of the capital investment of assets being constructed. While we understand that some service companies map their costs to the underlying accounts of the utilities that receive services, and while there may be some initial appeal for the Commission to want costs to be mapped in such a way, mandating such mapping across the board is ill-advised.

Based on discussions with other EEI members, it appears that the industry is pretty well split down the middle as to whether their service companies map their costs in the same manner as utilities and mandating that all service companies do so would require substantial reclassification of costs and more significant accounting burdens on an on-going basis.

More fundamentally, as explained in our comments, this type of as-received accounting treatment does not present an accurate picture of a service company's financial statements.

It reflects O&M expenses and capitalization of costs for assets that the service company doesn't actually own. We wouldn't expect third-party vendors or consultants to account for their costs and revenues in a manner that tracks our utilities' accounting. We shouldn't require service companies to do so, simply because they are affiliated.

Well, the work order system and reclassification issues are the most urgent issues with the NOPR, for National Grid, I would like to just list out a number of other issues that are in our comments: One, the monthly billing requirements under 18 CFR Section 367.27, is burdensome and requires cost detail, even for negotiated rate services.

The revenue control accounts, that being Accounts 457, 458, and 459, require further detail to break out services, based on whether they are rendered to utilities, non-utilities, and to associate companies and non-associate companies.

Three, the delegation of authority to the Chief Accountant, should explicitly include the authority to extend deadlines.

I would be happy to discuss these in detail during the question-and-answer session, if you wish.

Question 3 showed a structured reporting form that is required for service companies. Assuming that the accounting burdens are resolved, we do not object to some sort of annual reporting requirement for service companies.

This is something that we have lived with under PUHCA 1935. We would note, however, more detailed or more frequent reporting, such as a move from annual to quarterly reporting, could impose significant burdens.

Moreover, as a company that operates on a fiscal year basis, that being a March 31 year-end, we would hope and expect that the Commission would adopt the same flexibility it has with the FERC Form 1 in granting extensions of time.

Question 4: A separate Uniform System of Accounts and structured reports are adopted, one of the most significant modifications to what was proposed in the NOPR, that should be considered.

As noted in response to Question 2, the most significant concerns for National Grid are the work order system and cost/revenue reclassification issues.

Finally, 5, what should the effective date be for the new requirements? With respect to timing, there are a number of factors to consider:

As noted in our comments, the establishment of new accounts would take us roughly three months to implement, including necessary software changes and revising timekeeping and procurement protocols.

However, more significant changes like the adoption of a formal work order system, may take substantially more time for us.

The former type of changes, we would need a final audit to be issued in the August/September timeframe to meet the proposed January 1 effective date, and that is assuming that the Order doesn't have significant rehearing issues associated with it.

Also, we noted in our comments that the Commission should not require us to reopen the accounting of prior periods and should expect a phase-in of the new accounting requirements in the Form 60 reporting over the next few years.

Assuming an effective date of January 1, 2007, the Form 60, which is due in April of 2007, will obviously include information based on current Charts of Accounts, and while the Form 60 to be filed in April 2008 will include 2007 information in the new Uniform System of Accounts format, a number of statements requiring prior-year information, such as the balance sheet on Schedule 1 and the comparative income statement on Schedule 14, will not be in the new Uniform System of Accounts format.

Accordingly, the first Form 60 that will reflect the new Uniform System of Accounts format exclusively, will be the one filed in April 2009.

Until then, the Commission should allow some flexibility in how service companies report information under Form 60.

In closing, I would like to thank the Commission for the opportunity to speak today, and would respectfully request that you consider these remarks and our written comments in your deliberations. I'd be very happy to answer any questions you may have.

MS. COURT: Thank you very much, Mr. Richer. Our next panelist is Sandra Bennett, who is Assistant Controller at American Electric Power, Inc. Ms. Bennett?

MS. BENNETT: Thank you. I'm Sandra Bennett with American Electric Power. AEP is a utility holding company and owns 12 FERC-registered utilities and various non-utility subs, including primarily Merchant Power in Texas and Bardee Company in St. Louis.

We have about five million electric customers and we serve 11 states, so we are regulated by 12 regulatory bodies, including FERC.

In my experience in the industry, and having reviewed benchmarking that I've seen recently, working on some regulatory issues, the AEP service company model is one that's a lot larger than most other companies.

AEP has 18,000 employees, and a third of those employees work for the service company, so about 6,000 of those employees work for the service company.

We've allot over one billion annual to our associate companies, and we provide services across the board in the areas of generation, transmission, distribution, customer service, as well as the G&A type accounts.

We employ in the service company payroll, generation maintenance people, who are in regional service organizations. We have our customer service reps and our centralized customer centers are service company employees as well, so because of that, AEP tends to use and is probably on the far end from most of the other companies --

We use an expanded system of accounts, currently. AEP service company pretty closely monitors the FERC System of Accounts or mimics the FERC System of Accounts.

We do that where it makes sense, and where the service company makes sense on that, because for us and for the model that we operate under, and the highly-centralized model that AEP has, it gives us the flexibility we need and the efficiency we need to have to respond to all the multiple jurisdictions that we need to talk to.

Each of our jurisdictions has different reporting requirements, different rate schedules that have to be filed, different affiliate regulations, and different levels of affiliate hurdles for recovery of affiliate costs.

And for us, keeping our pre- and our post-bills consistent on the service company, because it is such a large piece of the operating expenses for the utilities, just saves us a lot in the preparation and the research and discovery and everything that goes with that.

Having said that, and because of our experience with the need to be flexible with multiple jurisdictions, AEP would strongly support not requiring that any companies adhere to a specific regimented system of accounts.

For the same reason that we need the flexibility to be able to move between the 12 jurisdictions, other companies are going to have their other needs, as well, and we recognize that. You know, a prescribed system of accounts may not meet all companies' needs; it may not meet the internal and external reporting requirements that we all have, other than SEC, which are all fairly different.

AEP believes that in those areas, maximum flexibility should be given to any companies. Had that flexibility not existed under the SEC, we probably would be keeping two sets of accounts or 12 sets of books, you know, as we tried to keep all of the different states happy, and FERC.

But, instead, because we have that flexibility under our current system of accounts and our current requirements, we can -- we felt like we could use those expanded accounts, even though that wasn't specifically prescribed by the SEC, and we just kind of translated back.

We support all the detailed comments from Edison Electric Institute, so I won't go through all of those in detail again. I would like to comment on two of them, though:

The FERC Form 60, in its current proposed state in the NOPR, would require a lot more time and resources and costs for us to complete. There are a lot of sections in there that people have talked about, especially the utility versus non-utility, the associate, non-associate.

Currently, we keep associated or non-associated companies, and having to break that out again, into the utility, non-utility for the non-associated, starts being a little burdensome, because it requires us to get into the business of people who are providing third-party services, too, that aren't our affiliates.

We would propose -- we would support the EEI's proposals for streamlining the Form 60, and the other panelists as they discussed in the EEI's comments.

Lastly, if changes are adopted that would require major modifications to accounting systems, as everybody here has talked about, from having done this, those kinds of changes to our systems over the years, the systems today are so highly integrated, that what seems to be a relatively minor change, just cascades its way through every system that we have.

And companies that don't have a work order system -- we currently use a work order system, but putting it in when we did, was a massive effort. It was a multi-year effort, and it was a multi-million-dollar effort.

So, if those types of things aren't required, in order for the companies to properly report to the states and to the FERC, we would highly caution the FERC that those systems are -- seem to have little benefit to the ratepayers, if they don't already exist, and if the state jurisdictions already are getting the types of reporting that they need.

That's all we have, and we appreciate being here.

MS. COURT: Thank you very much, Ms. Bennett. Our last panelist on this panel is Beverly Holmes, who is the Director of Accounting for Southern Company Services. Ms. Holmes?

MS. HOLMES: Good morning. Thanks for allowing us to comment this morning.

Our service company is the service company for Southern Company, which is a Fortune 500 electric utility company. We have six utility affiliates and several unregulated affiliates, as well.

Our centralized service company provides services, and I'm sure they are similar to the other service companies: Engineering, IT, HR, finance, and legal types of services.

We report to four different state commissions in the southeast, or our operating companies, our utility companies, are governed by four state commissions.

Our centralized service company was incorporated in 1949, and we've been filing U1360s since, I guess, since the inception of the U1360 in 1950, and, of course, filed the Form 60 required by FERC, last year.

The FERC's proposal that is of the most concern to us, is going to the USofA, Uniform System of Accounts.

Our service company currently uses a work order system, and we have thousands of work orders which are mapped to the correct FERC account on the books of the utility company.

So, the utility company has the ultimate flexibility in putting that cost where it belongs with respect to FERC and with respect to their own utility commission.

One of the things that we have actually seen happen, because there are four different jurisdictions reporting to the public service commissions, is that one commission will require something to be charged in one FERC account, above the line, and another utility commission will require that it be charged below the line, which is charged to ratepayers, versus charged to shareholders.

And so we think that for us at the service company to have to figure that out every time somebody changes something, would be the wrong place to do that. The utility company is the one that knows where that belongs, and, therefore, they know how to charge that correctly.

And we have many work orders where a portion of the cost of each of that work order, goes to all our utility affiliates, so, if we had it in one FERC account, that wouldn't necessarily mean that it would be in the same FERC account at those utility companies; it could be in two or three or four different places.

So we're not sure that we see that maybe what FERC is looking at, from the perspective of looking just at the Southern Company financial statements, would really get you what you think you're seeing, because that's not ultimately where this allotment -- we're not sure that that would get FERC where they needed to be as far as looking at their -- at looking at where ultimately the charges would be in the FERC Uniform System of Accounts.

Plus, the fact that we have non-utility affiliates who have no reason or there would be no benefit and there's no reason for them to account for their operations on a FERC Uniform System of Accounts, we would have to basically have to have two systems:

We would have to have a system for accounting to the utility companies, and then for SEC reporting, we'd have to have a different system, or else have those utilities change their entire accounting operations to a FERC Uniform System of Accounts.

Right now, we have a decentralized accounting organization, so that makes it even more difficult for us. The service company just only accounts for the service company costs, and I know a lot of other companies do have centralized accounting organizations, but, for us, that makes it even more expensive, more time-consuming, and a lot more training would be involved to have people at the service company understand how to change where they were charging their time, their labor costs, how to charge their expenses. It would be a massive retraining effort for people at the service company.

The current work order system allows a great deal of flexibility on the part of the company, as I've said, receiving our billings to account fo the charges in the way that is appropriate for that company.

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So we can't see how the proposals for the service companies to use a modified USofA, improves the information provided to either FERC or to the utility company.

As I said, we would incur significant costs to change our accounting systems. We'd incur significant training costs to explain to the service company personnel, how to charge the correct accounts, and we think there would be a lot greater chance for errors on the part of the service company employees as to where they charged their time.

And just to summarize, again, because of the remarks that EEI has made and several of the other companies have made, to change what we're already doing, would be costly, time-consuming, and we don't see how it would provide better information.

And for the second question; are the proposed accounting and reports too burdensome to comply with, I think I've answered that, that we think they are too burdensome. We were spending around 250 hours each year to prepare the U1360, and, of course, the Form 60, as proposed, is greatly expanded from the U1360, so there would be a significant level of increase in the detail and number of schedules, which would obviously increase the manhours or hours that are required to comply with the proposed new Form

60.

And these costs would just really be passed on to our utility customers, for the most part, so unless there's something that we're not understanding, that would provide significant benefits, since we have been reporting to the SEC and they've been satisfied, and we've been audited by the SEC with respect to our work order system and our allocations and everything has always been fine, and we've been able to furnish to our state utility commissions, everything they've asked for over these many years, we don't see that there's a compelling reason to change the way we've been doing things.

Question No. 3: Should a structured reporting format be required for service companies? We don't think so.

As a matter of fact, we were very hopeful that we would, after the repeal of PUHCA '35, that we would really be able to furnish financial statements to FERC, because we are publicly-audited and we have publicly-issued financial statements, which, of course, are filed with the SEC, and those service company financial statements are an integral part of that.

So, furnishing the financial statements would provide FERC the basis for asking us any questions that they thought that were necessary for us to report.

Of course, actually one of the comments, I think, in the NOPR, was related to the fact that consolidation would be easier, if we were all using the same FERC Chart of Accounts, for us, that's really not true at all, because the income statement is eliminated in consolidation for the service company, because we have zero net income.

All of our expenses are charged to our affiliate companies, so there is no income statement, and, in consolidation, it's eliminated.

We, of course, have balance sheet accounts that are primarily -- that primarily consist of receivables from affiliates for the billings that we make to affiliates, but, of course, we have our own pension and benefit-related liabilities, as well.

Question No. 4: If a Uniform System of Accounts and structured reports are adopted, what are the most significant modifications to what was proposed in the NOPR, that should be considered?

We would echo what some of the other companies have said, which is to limit the requirements for the 900 Series of Accounts, which is what we're using now. We would propose that certain schedules -- we did file in our extensive comments, specific suggestions about each one of the schedules that was in the proposed Form 60, but some of the ones that we thought really just should be eliminated, are Schedules 6, 11, Account 930.2, and the Organization Chart.

Those recommendations are based on the fact that it would be difficult to prepare those schedules, and that we really think the other information in Form 60 is sufficient.

Section 367.20(b) requiring engineering, economic or other depreciation studies to support the useful lives of depreciable property wouldn't be necessary for service company property because pretty much what we have is furniture and fixtures and PCs. So there isn't very much that would require a depreciation study, or I can't think of anything from our own service company perspective that would require that.

And then there's a Section 36759 which discusses retirement units which also would not be applicable to type of capital assets that we have. They're -- you know, the item itself is the asset; there's no component that's a retirement unit.

Section 36803, paragraph 24 requires a record retention period for accumulated depreciation. According to the classification of property of 25 years, which is unreasonably long for the typically short-life property for service companies. Most of our assets are three to 12 years in life, which again is the PC or software to furniture and fixtures.

Okay. Question five: what should the effective date be for the new requirements? We strongly agree with the other participants that the effective date should be no earlier than January 1st, 2008, which would mean the first form would not be filed until 2009. Because of the lead time required to modify accounting systems, to test, the implement, to train, it would be considerable. And again we'd hope that you wouldn't require that. So that if in fact it's a streamlined kind of report then it wouldn't take us that long to comply.

And we also recommend leaving the due date at May 1st. We already have a small accounting organization -- I know everybody is lean and we already incur a lot of overtime even to meet the May 1st date for the U1360. So that would help us a lot if that date were retained.

Thank you.

MS. COURT: Thank you very much, Ms. Holmes. And I thank all of the panelists for their comments.

At this time, what I'd like to do is open the floor for the Staff members who are here and any Staff member who has a question, so that the people in the audience who may not be able to see the tent cards, I would appreciate if you would give your name and your organization.

I'm going to start off though. I've got some general questions. And you have to appreciate, ladies and gentlemen, that I am not an accountant. I am a lawyer. So you're going to have to forgive me for that because I know I'm surrounded by accountants here.

And the way that I'm approaching this issue is what does the Commission need to put in place in order to fulfill its mandate under PUHCA, PUHCA 2005. How can it do its job properly, which is in a nutshell to ensure that there is not cross-subsidization. So that's the very general goal.

And I think that I can fairly speak for the Commission that it has -- or at least I think I can fairly speak for the Chairman that there is no intention here to overburden the industry, there's no intention to promote a program that Congress did not have in mind when it eliminated and rescinded PUHCA of 1935.

We have a good sense, the Chairman and the Commissioners -- I believe we have one Commissioner left; we will have three new ones so I'm assuming that they'll have a good sense as well of the goal of Congress in EPAct. So appreciate where we're coming from, we have a job to do.

Now over the years of implementing many regulations, one thing I have found is that uniformity is very helpful in implementing regulations. Now the Office of Enforcement also includes the Division of Audits, so we have an auditing function, as well as the financial regulation function.

So from a regulators' perspective, it's very helpful to have things -- the utilities and the other regulated companies provide information in a uniform fashion. Because otherwise every single audit, every single examination, every time someone in our Office of Administrative Litigation, for example, is working in a rate case, it has to sort of reinvent the wheel because every presentation of the data may be in a different format.

And it's very difficult -- and I'm just speaking from a regulator, an old-time regulator's perspective here -- as far as implementing regulations. So flexibility and variety I can truly appreciate from the perspective the industry is preferable, but I'd like you to kind of think of the issue from our perspective in implementing these regulations across the country.

So one is -- because what I've heard here this morning is that except for National Grid, who is not being hurt by anybody surrounding him, Mr. Richer did at least seem to concede that there might be some benefit in uniformity as opposed to flexibility -- at least appreciating the benefits of uniformity, even though I think that perhaps what the Commission proposed might have been too much.

So that's a very general issue for me anyway in trying to formulate my thoughts and what I would recommend to my client. So we have -- the Commission has a mandate, it's usually considered helpful in fulfilling such a mandate and implementing rules that material and information be presented in a uniform fashion.

So I'd like to ask, I'd like to start off and ask each panelist if he or she would like to address that issue. I'm going to start over to the right and then, for the next question, I'll start over to my left.

MR. BARTHOLOMOT: Thanks. Henry Bartholomew for EEI.

I think we appreciate that concern by the Commission and I think my initial reaction is several-fold. First, we're coming over from SEC regulation, not only under PUHCA '35 but, as that's been pulled back, what's really left is books and records. And what's more -- that's more at the heart of SEC regulation, using things like the Form 10-K and the Sarbanes-Oxley requirements and so forth, the array of accounting and financial recordkeeping and reporting requirements that have been in place for shareholder-owned companies for many decades.

And even under the PUHCA '35 structure and all of its sort of substantive requirements, what you've heard today is that the SEC allowed a variety of approaches in terms of keeping records and how folks would allocate the service company costs to the utilities. And that has sufficed to provide oversight under the much more regulatory structure of PUHCA '35 and our message is really it ought to suffice and the regularity of the financial recordkeeping and reporting that goes on through the 10-Ks.

And on the utility side, you know, the utilities are where your primary area of concern is going to be in the cross-subsidization issue and so forth and that's -- you have already the structure in place to monitor that.

Again, I also am not an accountant and I can't tell you line by line the schedules and the account numbers -- I know some of it, I'm learning -- but I think it would be preferable if you felt that there were some areas of information that the 10-Ks and the normal financial statements by the service companies aren't providing sufficient detail, I like the concept of provide a list of the types of information you do want, but not to the level of each of the Uniform System of Accounts individual accounts.

I would hope -- because, you know, we're talking about service companies that are providing services across multiple affiliates of a holding company with the goal for everybody being to reduce those costs, that's what holding companies set these things up. And we don't want to turn that, what's really supposed to be an economic, an efficiency, good, into something we're going to penalize people for doing by making them try and fit into -- you know, round pegs into square holes if they're not doing 500, 800 series accounts type worth then, you know, it doesn't fit, it's not accurate, both on the recordkeeping side and the reporting side. That needs to be recognized.

So I would hope we can provide guidance in terms of where the Commission feels it needs perhaps additional information. But I really do start with can we look at the 10-Ks, the annual financial statements for the service companies, recognizing that allocation is going on and by the time you get over to the utility side you got that stuff in the type of detail you really want and isn't that enough. Isn't that enough. And GAAP-compliant accounting on the service company side. Isn't that enough.

And the ideal -- I mean, it could be useful endeavor to sit around a table for another session where you tee up, you know, this is the kind of information we want and let's look at the 10-Ks and say okay, well the following is missing. And maybe what it is is the supplemental schedule that provides that additional information.

But you know when I look at some of the stuff that's in the proposed new Form 60 and it's reflecting the part 367 and it's allocating, you know, taxes and this, that and the other, the affiliate and the non-affiliate and the utility and the non-utility and it's like, you know, this massive spreadsheet of stuff that folks aren't keeping it in that way now. And you start with well how is that going to help anybody when by the time you get to the utility side you're getting the information in sufficient detail.

And as Ms. Holmes noted, you know, each of the companies is going to be doing it on the utility side in a way that meets their state commission needs as well as the FERC needs and having the service company have to do it in one fixed way is just -- it doesn't fit. So that's where I sort of staff is what's broken?

MS. COURT: Did EEI, in its comments -- and I've just read a summary and I apologize for not having read each comment but I did, through the kindness of the folks who are sitting around me, did read a summary of the comments -- did EEI, were you specific in your comments as to -- since I know that you don't like the proposal, did you explain in your comments how your alternative which is, from what I can tell you're saying it's the status quo, right --

MR. BARTHOLOMOT: Yes.

MS. COURT: -- as far as the SEC is concerned, did you explain how that would satisfy, how specifically that coiled satisfy the Commission's goals here?

MR. BARTHOLOMOT: I have to take a fresh look at that.

MS. COURT: Okay. Because the record is going to be open for a couple more weeks. As I mentioned earlier -- and I started out in the rulemaking division of this agency 25 years ago, it is if you don't like what the Commission proposes, it really helps us if you could give us an alternative with some specificity, keeping in mind what the Commission's goal is for that particular project. So if you have time, it might be very helpful to do that.

MR. BARTHOLOMOT: Okay. I mean, I think on the Form 60 side, we said let's start there because that ultimately drives what companies may need to either be keeping in their charts of accounts or be able to translate over. And let's look at the essentials there.

I teed up in the remarks today -- and it was reflected again in one of the other panelists' remarks, the ideal would be the financial statements that the service companies are providing as shareholder-owned or members of shareholder-owned public holding companies. It's hard to answer that question in a lot of detail without having a clear sense -- and I appreciate, you know, you put your finger on one issue, the cross-subsidy issue.

And with the new final rule in place on Section 203, including the cross-subsidy issue, our assumption is that the Commission already has regulations in place that are going to police that. And so it's a little hard for us in the abstract -- you know, this feels like a gold-plated Cadillac in terms of the amount of detail. And on the other side, the 10-K, the annual financial statement of the service company side combined with the Form 1-s, the 3Qs and so forth as well as 10-Ks et cetera on the utility side feels to us like a reasonable place.

In other words, when we say status quo, you know, we're really saying status quo. So saying how can we meet the uniformity sounds like there may be a perception on the Commission Staff side that there's something more needed. And all we can say back is, you know, the more we can go streamlined and the more we can make it guidance in terms of -- or a simplified schedule, the better -- whether EEI could come up with that magic solution, because we won't know necessarily, especially again looking at it from your position in the enforcement area, looking at cross-subsidy, that's something Barbara in our shop probably would know better than I do what the specific elements you look at in the enforcement.

But that's the sort of thing we need. We need to have a sense, you know -- we hope it's not the Part 367 and the current proposed Form 60 in all its detail, we hope it's something more streamlined than that. And that's where it would be helpful to have maybe some follow-on dialogue, another work session. And by an effective date being a little more reasonably set we'd have a chance to do that. It'd be nice to get it right and not -- with the burden involved, what we're trying to say is let's look for information that really provides real value if we're going to make people go through the kind of burden that's involved in getting to changes. That's all.

MS. COURT: Thank you. If any of the other panelists would like to add something, because I don't want to hog the discussion here and I do want to have my colleagues ask questions as well.

Ms. Kropp, do you have any --

MS. MC NULTY-KROPP: Actually I guess -- I think I understand where you're coming from. I used to be an auditor and uniformity is useful and helpful. And I guess I'm wondering if we do step back and if we start with what type of reporting requirements or what type of information and again probably have a follow-up dialogue on what specific information would be helpful to validate, ensure that -- or help the FERC ensure that there is no cross-subsidization, what the reporting requirements would be.

Because by enabling -- like Henry said, if we know what the reporting requirements are then to some extent we're able to back into what our systems are and how we meet those reporting needs. Because as I think either Beverly or Sandra mentioned, we have a lot of different reporting requirements with some of the different states and some states treat costs differently, above or below the line. So to the extent that our systems are able to meet those reporting requirements, is there a need to actually push back the individual accounting starting in reporting or at the starting general ledger or starting interface.

At the end of the day, it enables the company to step back and go well in order to meet this reporting requirement for the Form 60 or this reporting requirement for this particular state jurisdiction, how do we meet it from an internal perspective. Do we need to go back and rehash and reinvent the wheel from our initial feeder systems or is it something that it's a back-end solution for us, that it's simply reporting a manipulation of the data.

So I think having us stepping back and assessing well what are the requirement needs versus saying okay full-blown -- implement full-blown FERC chart of accounts, is that ultimately the right solution or is it more on the reporting end? What types of schedules are helpful? What type of information is useful to help you ensure that there is no -- that the allocation of costs is fair and just?

MS. COURT: Thank you.

Mr. Richer?

MR. RICHER: I think the existing Form 60 that we filed with the Commission this year is a good report. It's an improvement over the U1360 that the SEC had required. I think following that type of a format provides the uniformity that you're seeking. I think that the added detail of the additional accounts would actually create less uniformity.

I think there's uniformity that already exists in what was brought over and what the companies are already used to reporting to the SEC. To now expand it to additional accounts I think may create less uniformity and may make it less clear as to how you might -- how each company might use those accounts.

MS. COURT: Ms. Bennett?

MS. BENNETT: I just have a quick comment on your question on how do we make sure that we're not cross-subsidizing. Because as far as state commissions, that's also what I see as their bigger concern. And I think the issue is there's really no way that an accounting system is going to ensure that you don't cross-subsidize. The only way that I see, having been a witness on the affiliate side in state regulatory cases for some years, is that regulatory process. You know, it's coming in and filing your reports and getting in front of state commissioners and going through the discovery process that does it and having systems that can support as transparently as possible the service company costs.

But any of the systems themselves -- or you make the rules and you can make the laws, but if a company is going to try to subvert that, they're going to. I mean, there's no way to do that through an accounting system.

So, I think the need to make sure that payment is not cross-subsidized, is there quite strongly, and changes to the systems to accommodate that, I think, are just really not that useful.

They don't really work until you get --

MS. HOLMES: I agree exactly what Sandra. I was thinking that if the ultimate goal for FERC is to make -- to ensure there's no cross-subsidization, having the service company costs in a FERC Chart of Accounts, tells you nothing.

I mean, you still have to look at how the allocation of those costs went to the utility companies and how it went to the non-affiliated companies. That ultimately can be accomplished any number of ways: Through a chart of accounts, through a work order system, which is what we have, and you're never going to know if the charges are correctly charged, until you look at the guts of those accounts or those work orders. You're never going to know that by looking at the accounts.

Yes, you might get some sense, I guess, of where things were charged, if you had a full Uniform System of Accounts, but even then, the nature of the service company's services, are mostly 900-type services, anyway.

So there -- I think someone else said earlier that there would be very few things that would probably end up getting charged to the 500 to 800 series of accounts, anyway, but it would be difficult and it would be a massive change to have to do that.

MS. COURT: Thank you very much. So, at this point, I'd like to just go around. Most of the folks sitting around the table, are from the Division of Financial Regulation, NOE, but, as I mentioned earlier, the other offices, OMER and ODC, are very much involved in accounting policy, as well, and will also very much be involved in the implementation of both PUHCA-I and PUHCA-II Orders implementing EPAct 2005 provisions.

So, they are also sitting around the table. I don't want to give the impression that we're hogging this task, because it takes a village here at the FERC for FERC aficionados.

So, many of the -- anybody -- we'll start over here to the right. Brian, go ahead. Introduce yourself.

MR. HOLMES: I'm with the Division of Financial Regulation. I just have a few questions here.

I'm trying to get -- I'm really having a difficult time getting a sense of the work order system. Do most of the companies here use work order systems?

MS. BENNETT: We have one, we have a work order system for our capital projects. We have a work order system for our deferred projects and for our capital projects, but not for our O&M projects. We manage those via a business unit or a cost center approach.

MR. HOLMES: How are the -- how are the costs ultimately -- are they collected? Or, as --

MS. BENNETT: They are collected as --

MR. HOLMES: Is everything indirect, then? Is that what you're telling me?

MS. BENNETT: No. For example, I have a particular business unit and a particular cost center for the individuals who work for me, and we charge out our time to what we call a sub-ledger. That is a position on one of the utility companies or another affiliate that gets, so that we direct-charge our time that we spend working on that particular utility company, to that particular utility company.

So we use what we call a sub-ledger or an accounting code that can get it the appropriate utility company.

MR. HOLMES: Okay. I have a question regarding the requirements -- it was -- EEI had comments about that these rules should be specified as far as the accounting requirements, that it shouldn't spill over to holding companies.

And that they should be clearly specified that a holding company doesn't -- shouldn't be subject to accounting requirements.

And I think they raise a point. Do holding companies without a service company, perform services for public utilities?

MS. HOLMES: Not in our case. Our holding company mainly holds things like stockholder expense or board of directors expenses and advertising expenses and some things like that, that are on behalf of the Southern Company, rather than -- they don't perform services for the utility company.

MR. HOLMES: Well, I guess the most people, since you aren't -- you're in service companies, so you wouldn't, but, Henri, in the EEI comments was there any -- EEI raised these comments.

MR. BARTHOLOMOT: Yes, I know, and it was in response to done or two specific companies. Let me take a look at that and come back in a moment, if I could.

MR. HOLMES: Okay.

MR. BARTHOLOMOT: That was --

MR. HOLMES: Do you think, if the holding company didn't have a service company, and they were performing -- the holding company was performing the services, instead of a service company, do you think that holding company should be subject to the Commission's accounting requirements?

MS. HOLMES: Yeah, yeah. I mean, the reason -- I think we asked that question, because there was a little confusion about the language in the NOPR itself.

In one section, it appeared clear that this wouldn't apply to a holding company, the reporting requirements wouldn't relate to a holding company, and then in another section, it was sort of a fray that included holding company and service company in the recordkeeping requirements.

And so we wanted to make sure that if you want the service company -- and a holding company that performs services, would be defined as a service company, but if it's just nothing more than a holding company, you weren't subject to these rules.

There were -- and we did say specifically in the Southern Company's comments, we told you what sections those were, that were strange.

MR. HOLMES: I also had a question regarding the use of the 500 and 800 accounts. If this requirement were -- if it was optional, rather than being mandatory, would you -- your objections kind of be reduced?

MS. HOLMES: Yes.

MS. NULTY-KROPP: Sure, absolutely.

MR. HOLMES: Now --

(Laughter.)

MR. HOLMES: I know AEP uses the 500, and, I think, the 800-series of accounts in reporting in the Form 60, the --

MS. BENNETT: The 500 series.

MR. HOLMES: Yes, so that I know you probably have no objections. Do you use that primarily for the utility? In other words, it provides them a basis for putting it in their system of accounts?

MS. BENNETT: Right, and because such a high percentage of our costs are coming from the service company, because we're so highly centralized, it's not just administrative and general we do, but we're out doing generation, customer service, distribution, and transmission.

So it provides primarily for our state commissions, it provides a transparency that makes it easier for us at AEP to report 12 different ways to 12 different people, if we have the same basis everywhere.

And we do have the ability to map charges to certain accounts, to different accounts, to different utilities, if they require. You know, if you have a cost that maybe is a reg asset on one company and it's an expense on the other, we can map those in different ways, if we need to.

MR. HOLMES: I know you guys, you do use, like, other regulatory assets and whatever, which normally you would be associating with a utility company.

MS. BENNETT: But we'll take things through the balance sheet. We'll take it through the balance sheet to the same company, then it will end up on the balance sheet in the utility, especially for reg assets and liabilities, because we just bill out the balance sheet on a monthly basis and close that out, as well, for the most part.

MR. BARTHOLOMOT: We did get feedback from our members. I think we've answered the question on the holding company that might act as a service company. Was that officially answered?

MR. HOLMES: That they would be subject to the accounting.

MR. BARTHOLOMOT: Yes. The concern was whether, by accident, holding companies that were not acting as service companies would be swept in, even though that's not the Commission's intent.

And a related issue is if a holding company is also a public utility, you know, it would have potentially two different sets of record retention requirements, and we asked the Commission to clarify that only one of those need apply, that you can't sort of meet two requirements that may not be entirely consistent.

But we did get comments from companies on the details of the USofA and the Form 60, that, gee, you know, you should be able to, you know, reflect this or that here, it's not specifically provided for or there's no way you'd need that information, and that goes to the flexibility issue.

I think that having the 500 and 800 Series of accounts optional, is a piece of that, but another is allowing companies to reflect if there are things that aren't specifically spelled out in whatever the final rule might say, should be kept as a Chart of Accounts, allow the flexibility for companies to sort of fill in the interstices, add some subaccounts in order to do it with some degree of flexibility, some regularity, but to allow companies to tailor it a bit, without having to come back to the Commission and get a mandate that says everybody's got to do it exactly that way.

MR. HOLMES: Okay.

MS. COURT: Steve, do you have any questions?

MR. HUNT: I had a few questions. First, with the -- back to the work order system, if the Commission were to allow flexibility with work order systems, kind a like how the SEC did,
what are the core requirements that should be in that work order system, and should the Commission require a filing and approval process in those variations of a work order system?

MS. COURT: Mr. Richer, do you want to try that first, since you were the first one to bring that concept up?

MR. RICHER: Sure. I mean, I believe the rules should be written in such a way as to be able to provide sufficient detail to the regulated subsidiary, the company that's receiving the services, such that they're fully aware of what it is that they're being charged for.

And I'm not sure that a strict work order system necessarily does that. But that would be my response.

MS. COURT: Does anybody else want to address that particular question?

(No response.)

MR. HUNT: In the SEC's rules and also in the proposed NOPR, we require that if a service company provides a service to a non-affiliate company, that the profit and losses be recorded in separate accounts.

How frequent do those types of transactions occur, and about how much money are we talking about?

MR. RICHER: For National Grid -- you're asking about charges to non-affiliates?

MR. HUNT: Yes.

MR. RICHER: Yeah, it's very infrequent for us. We don't perform a lot of services for non-affiliates.

Segregated between utility and non-utility, to the extent that you're asking for non-utility, I would suggest that you have separate accounts to split out the non-utility between charges to affiliates with non-utilities as well as non-affiliates that are non-utilities.

MS. BENNETT: For AEP, we have very few profits or services that we provide outside of our affiliated system. We do some, but it's de minimus.

MS. HOLMES: Ours is the same. We do some work with the DOE, Department of Energy, and that's pretty much the extent of our external billings, which are also of course heavily regulated as to what we can charge.

MS. MC NULTY-KROPP: We don't bill any outside parties under the service company.

MR. HUNT: My last question is in EEI's comments they suggested that we add several accounts to it, several balance sheet accounts to the system of accounts. And two of them were the regulatory assets and liability accounts. For a non-rate-regulated service company, what are some of the examples of times when those accounts would be used?

MS. BENNETT: I may want to answer that because I think that was one of our comments. And it goes back to us being kind of on the extreme, on the other side of using the utility accounts. If, for example, I'm working on a rate case and my time is recoverable and so generally if you're on the utility side, you're charging your time when you're working on that case you're a reg asset if you know that you have recovery in that particular state. I charge my time the same way, so my time would go to a reg asset and in that same month bill over to the utility in that reg asset account. So it's really just used as a pass-through and we don't keep balances on the books. Our service company doesn't have balances in accounts that aren't appropriate, so it wouldn't have balances in those types of accounts that weren't billed out or being held to bill out.

MR. HUNT: All right. So it only applies to AEP as far as --

MS. BENNETT: That's here, I guess.

MR. HUNT: Okay.

That's all the questions I have.

MS. COURT: Thanks.

By the way, for the Staff members, just because I'm going around the table, you're not obligated to ask questions because we do want to for sure wrap up this panel by 11:00. But feel free to ask questions.

Andy, do you have any?

MR. MOSIER: I have two. Thank you, Susan.

First, this is directed principally to the accountants and the controllers and then, Mr. Stringfellow, I think you too perhaps. I'm wondering, would you characterize the presence of cost allocation manuals, cost allocation agreements or internal cost allocation policies as universal among the holding companies and companies with service companies or typical or unusual?

MS. HOLMES: Certainly with Sarbanes-Oxley controls that we have in place, every allocation with every company is signed by our comptroller and their comptroller certifying that it's an equitable allocation and all those things are in cost allocation manuals for us.

MS. BENNETT: We have cost allocation manuals that we're required to file in several states. And, quite frankly, it's more just an exercise in keeping the manual updated. It's not something that we use routinely to help us. So as far as those types of requirements that you file cost allocation manuals, it tends to -- at least for us, it tends to turn into any other report and then you're just getting your report out and making sure you have all the things in there and we don't really use it internally that much.

MR. RICHER: We have service agreements that we prepare and submit to the operating companies on an annual basis.

MS. MC NULTY-KROPP: We have service agreements as well that we provide to the operating companies on a regular basis, on an annual basis, as well as we have cost allocation manuals for currently two out of the three operating companies, and that is just narrative data talking about the types of services that are provided and the methodology that the allocations are -- how the costs are charged out that provide narratives.

MR. MOSIER: Mr. Stringfellow, do you have a sense of the other member companies and what they're typically doing?

MR. STRINGFELLOW: I simply know that a lot of them have the manuals but I think that the comment that typically they are required but perhaps more as a pro forma requirement than any great benefit.

MR. MOSIER: So if perhaps those policies or manuals or whatever the nomenclature might be were required to be filed with FERC and then an audit was done based on those, they wouldn't necessarily find a correlation between what's in the policy and how costs are allocated, or did I misunderstand you, Ms. Bennett?

MS. BENNETT: There would be a correlation. The cost allocation manuals are accurate. But they're not -- and they're used to tell commissions how we allocate things. But as far as being useful internally as, you know, a document that's used around, it's really not. It's kind of like the service agreements, they're done every year, you know, and we file them with commissions and we file them with people that need them filed but they don't really -- you know, everything is at such a high level that it doesn't really govern how you're going out and getting your accounting and getting your costs pulled in.

MR. RICHER: And for National Grid, our cost allocation methods don't change much. They don't change from year to year. And the practice in the past when we were regulated by the SEC was that any time you were to change a method of allocation, you'd file what was called a 60-day letter with the SEC and it would get approved and it would also be distributed to all of our states. And we also have -- certain of our state regulatory agreements require us to also file with the states any time we make any type of a cost -- a change in a method of allocation.

MR. MOSIER: Thank you, Mr. Richer. That's a nice segue into my second question.

The PUHCA '35 was administered by the SEC. It was repealed. All of that regulation is gone. But there was an interest or a suggestion perhaps in relying on other financial reports made to the SEC for some of the purposes here. And I'm wondering, in the 10-Ks, the 10-Qs, the other forms that are filed with the SEC, what specifically would you point to that this Commission could rely on in order to determine whether there was inappropriate -- with due regard to Ms. Bennett's comment about you only find these things in audits, but what would you point to in the SEC documents that this Commission could rely on to notice perhaps inappropriate cross-subsidization?

MS. BENNETT: There would be nothing in AEP's 10-K and 10-Q. The service company is not really even mentioned in there because it's incorporated in our utility companies, so it doesn't even come up.

MR. RICHER: I think the comfort that you get from 10-Ks and 10-Qs is that they've been audited by external auditors, and that's where -- you can take some comfort that the accounts have been assembled, have been fairly assembled and are fairly stated.

MS. MC NULTY-KROPP: At Xcel Energy, I believe within our utility 10-Qs and -Ks, we do provide some information on related party transactions and we would disclose in that particular footnote section of the utility 10-K the amount of services provided and the nature of the services provided by any affiliate transactions.

MR. BARTHOLOMOT: I was going to echo a comment that was made earlier that, you know, if we're focusing on cross-subsidy -- and again I'm not the expert at EEI on how those rules operate in place. I have worked a bit on the Section 203 rulemaking.

But I think the heart of that is with the Commission's new authority, including under Section 203 and its enforcement authority to police and prevent cross-subsidization starts with the rules that prevent that and clarity on those and knowing that at the end of that you're subject to -- not only your financial and internal control audits to make sure the systems you're using to apportion those costs are accurate and reflective, but also that you're -- at the end of the day, you're subject to review by the Commission and state commissions to ensure that -- and that's where the issue certainly is going to be addressed to the greatest extent is at the state commission before you get approval to pass those costs on through to the retail customers. And that's a serious enforcement mechanism. I mean, that's where companies recognize they either will or will not recover those costs.

A related issue that's something, again, not practiced in detail in the cross-subsidy area and the enforcement area -- I can only sort of think about it. But when the point was made that most of the service companies are providing services internally to the holding company, it would seem to me there's -- you know, again, it's providing -- the goal is to provide efficiencies of scale by centralizing some of these services which ought to be to the benefit of the regulated utilities and their customers.

And I understand what you're trying to do is say how can we sort of be sure of that. But I would hope between the regulations that say there shall not be any and if you're going to do certain transactions under 203 that will involve encumbrances and so forth, you're going to have to make the case and get Commission approval, much less your state commissions, that that's to a large extent driven by those regulations and self-policing.

And then the accounting and recordkeeping and reporting becomes -- the question for me in the big picture is do you have enough detail there to be able to say, as the Commission Staff looking at this, that we feel comfortable, is this -- you know, we understand what's going on and the recordkeeping and allocation are being done with sufficient regularity. And it may not be through a work order system, it may be through a ledger allocation, there are various ways it can be done. But as long as it's done in a regularized way to reflect accurately the costs that the service company's incurring on behalf of that utility that it's providing the services for that should be, I would hope, sufficient.

MR. MOSIER: Then you're not suggesting that there's anything in the existing SEC reports that would give this Commission that level of comfort or detail? I mean, if you are --

MR. BARTHOLOMOT: No. I mean, I take what the companies have said, because they'll know the details of that better than I. But what I look to the 10-K and 10-Qs to say, their income statements and balance statements, that you have a reflection of what's going on at some level of detail in the overall service company and, given the nature of the operations of the service company where they don't have a lot of the capital assets and so forth that fit well in the US of A, both on the chart of accounts and recordkeeping side and on the reporting side, we're looking at those and saying isn't that a reasonable place to start at least in saying we have indicia of reliability that they have the systems in place, the reporting out what's going on and we see that in the big picture and then if more is needed, what more. Rather than starting from the other --

MR. MOSIER: Okay. Thank you.

MR. BARTHOLOMOT: -- we can start either place. We can start there and say what more is needed or we can start with the proposed chart and Form 60 and say what can be pared out. This, at least in part, is in exercise to try and say could we start on the streamline side and say what more is needed, at least as an exercise, to be judicious.

MR. MOSIER: Good enough. Thank you.

MS. COURT: Thank you, Mr. Mosier.

By the way, Mr. Mosier is from the Office of Energy Markets and Reliability. We also have representatives from the Office of General Counsel and the

Office of Administrative Litigation.

And so what I'd like to do is ask each representative from those offices if they have any questions and then we'll go back to enforcement and financial regulation because, as I said, we do want to wrap up this panel by 11:00.

Ms. Lake, do you have any questions?

MS. LAKE: Like Susan, I am an attorney and not an accountant, so I'm approaching it from a different angle. At one point in your discussions this morning you suggested that we start with the financial statements as the starting point and then figure out from there what additional details we would need.

I'm trying to figure out financial statements, as I understand it -- and, forgive me, I'm an attorney -- I think really set out a more corporate shareholder kind of a focus, and I was wondering how we could use those as a starting point, when the focus here at the Commission, is utility ratemaking regulation and not really a shareholder/stockholder approach.

So I'm curious as to how we could use that as a launching point. I have never -- I don't have a financial statement in front of me, but perhaps as you're coming in with your reply comments, I'd like to see what a sample financial statement would look like, and maybe have some suggestions from you on how we could use that as a starting point, if you think that that would be a way to start.

But is there any explanation you can provide to me about how we could use a financial statement as a starting point, when the focus is so different from the way we regulate?

MR. BARTHOLOMOT: I'd be reiterating the big-picture points we've made, which are that what we're talking about on the reporting side for service companies, is at least partly, I assume, getting some sense of the nature of the activities that they're engaging in, and the magnitude of the revenues and the costs.

Certainly the financial statements will give you that, and then behind that -- and when it comes to issues like what rates get approved and whether there's cross-subsidization, the primary focus, traditionally, has been, on the utility side, are you being charged appropriately, and if there's an affiliate involved, additional safeguards are in place, and do you have accounts and records to be able to substantiate it, if you're audited on that by the Commission and by state commissions, that the charges you've been assessed, are fair and not inappropriate.

And there are allocation mechanisms that are getting you from one to the other. Now, some companies on the service company side, driven in part by having, as Sandy pointed out for AEP, 11 or so state commissions to deal with, have gone toward a USofA to have some foundation, but it's an expanded one -- flexibility, again -- and, on the reporting side, would be maybe relatively more able to mirror that out in something like the Form 60, especially the Form 60 that was proposed last December.

So, the question -- I think the answer to your question is partly that maybe there isn't enough, and that's detail in the financial statements, but what we're trying to construct with what's there now and what has served well enough, in terms of financial reporting on the service company side, that's a starting point.

Now, if you said you need a Form 60, some variation of it that's more than a Form 10K or 10Q, I think our statement would echo what was mentioned earlier on the panel; that we'd certainly prefer something like the Form 60 that was issued last December, as a starting point, than the proposed revised, which reflects the more full-blown, including 500 and 800 series of accounts, in the USofA Part 367.

So we'd rather start there, because that was a more streamlined one, and we very much appreciate the Commission proposing that Form 60, streamlined quite a bit from the U1360, and a number of the requirements that the Commission could have imported from the SEC, but, as we've said in our comments going through that rulemaking, didn't make good sense.

So, that's not a bad first snapshot. If the 10K feels like it's too distant from where we need up, start with that version, but it still would be useful to take a fresh look at it and say is there -- are there things in there that the Commission doesn't really need?

It's just that Paperwork Reduction Act exercise of what's the minimum burden we can impose, and what are the benefits, if we're going to impose burden in terms of reporting? It's an ongoing, every-year thing.

Ideally, it's to produce information that is of real value and necessary for some specific purposes, and not just to try and mirror what's been done for 20 years, just because that's how it's been done.

MS. COURT: Thank you. Ms. Patterson, do you have any questions? Ms. Patterson represents the Office of Administrative Litigation.

MS. PATTERSON: I have one followup. Earlier today, it may have been Ms. Bennett who suggested that a lot of the information, if it is not sufficient, comes through, more particularly with the states, through the discovery process, to sort out the data.

Is there a suggestion then -- is the implication that to the extent the information is not available in the current forms, that most of the detail comes up more through discovery to satisfy the regulatory needs of, for example, FERC, or the state agencies?

MS. BENNETT: Well, I think what we try to do is, we try to have the sufficient amount of detail for filing packages, but every state of the 11 states, has a different level. Texas has a huge amount of detail; Ohio has quite a bit; some of them have very little, if any.

So their review of the service company costs -- really, it's from what they've told us to file, and the amount of detail we file, and we do our best to really meet all of those requirements.

But a lot of the things like cross-subsidization and, you know, what's being built in non-affiliates versus affiliates, that really does come out in the discovery process for rate cases, I mean, because there's not any type of schedule that's filed to tell us how you may or may not cross-subsidize or do you file.

So that really comes into almost the audit process part of the rate case, which, again, in different jurisdictions, is different for when they come in. And we haven't seen FERC for awhile at AEP, but when they come in, you know, they tend to dig through a lot of records and look for things, and want to track costs back and forth, and that's really where that type of investigation is best done, I think.

It's hard to do from a high level; you have to get down into the details.

MS. PATTERSON: Thank you; that's all.

MS. COURT: We have a few more minutes before this panel concludes. Janice, do you have any questions?

MS. NICHOLAS: There are two areas that I'd just kind of like to quickly explore this morning. Again, I look at it in terms of transparency.

Susan talked in terms of ensuring there's not cross-subsidization with utilities that we regulate, as well as the states. The thing that I'm continually struggling with here, is trying to ensure that there's a sufficiency with the accounting systems used by centralized service companies, and the data that we receive here at FERC on a regular annual basis, to have an adequate level of transparency.

And the difficulty that I have in reading the comments and hearing this morning's presentations, is that I see such a variety of what's going on.

To achieve some level of adequate transparency here at the FERC, seems to be quite a challenge, and that's why I struggle with this notion of flexibility in we, as regulators, trying to oversee and evaluate what's going on with respect to service company, centralized service company activities. We need some basic transparent data information that gives us something, as regulators, to look at and evaluate the activities.

And I just -- I'm struggling with this idea of how a flexible approach can achieve that. I don't know if you have any further comments, starting maybe on the left end?

MS. HOLMES: I think you could achieve that with probably a couple of schedules like methods of allocation and to whom allocated, how much was allocated to each of our affiliate companies and what method of allocation that we used. That would be the summation, to me, of where you would ultimately then need to audit, if you ever wanted to audit.

And you would also know from the utility company's perspective, always how much service charges they actually received from the service company. You'd be able to compare that year-to-year, to know if there was anything odd or strange that had changed from one year to the next.

I mean, that would be, to me, the simplest way to cut through everything, and there you have it. And it doesn't matter what account system you use, in order to furnish that information.

MS. NICHOLAS: Ms. Bennett?

MS. BENNETT: I think I would only -- I would agree with everything you say on that, and the only problem is at what cost does that come? That's really where we come from, is -- I don't think that anybody disagrees that if something is more consistent, it's easier to review, but when we start out at such different points with our systems and work orders and not work orders, and companies coming in and out of the old holding company structure, and so, you know, at what cost to the utilities and, ultimately, to the ratepayers, didn't get to that consistency?

MR. RICHER: I think the consistency and the uniformity exists up at the reporting level, at the Form 60 level, and I think the methods of getting to that report, companies may be doing it in different ways, but, I mean, to the extent that we're all providing a consistent report to you, would seem to me, the way to get that consistency and uniformity that you're looking for.

MS. NULTY-KROPP: I also think that having an additional description within the Form 60, to explain the nature of services provided by the centralized service company, might be helpful.

There's a narrative required in the Form 60 for the non-centralized service company, but it might be helpful to better explain the types of services that a particular service company is performing. For example, there may be some services that AEP service company performs, but ours doesn't, so it might be helpful to get a better background and understanding of what those services are, as well as to your point, Mr. Mosier, that I believe you mentioned, would the cost allocation manuals be helpful or the service agreements be helpful?

They might provide some additional insight into what individual service companies are and how costs are accumulated or allocated out.

MR. BARTHOLOMOT: The only thing I would add is just to try and distinguish what we're looking at here with the service companies and the type of services they provide, from the regulated utilities, where FERC and the states have much more of a line-by-line sort of focus from a rate perspective.

Here, the focus is different. If my -- Dominion Virginia Power went out and hired a consultant to do some legal or accounting services, I'd care that they were getting a reasonable price for that and that, you know, that was work being done well.

And, just like EEI hiring a consultant or, you know, if we had a service company and they were providing it, I would want to know they were doing decent work for the price. If they are not, they are not going to stay, you know, in the business of doing that very long for us. We'll find somebody else and so would the utility.

It's a different focus, and the idea of coming to the service companies with a new USofA in its full-blown extent, just fuels unnecessary detail not providing benefit. You can get the transparency on the reporting side, and that's why I've said time and again, start with what we need on the reporting side.

And companies use various approaches to get there, because there are going to be GAAP-compliant, SOC-compliant, and subject to audit, a financial and internal control audit, as well as Commission and so forth review.

MS. NICHOLAS: Thank you. The other aspect of transparency that concerns me, is when the billings occur over to the public utilities. I think I heard, maybe this morning, as well as from reading the comments, I think I see a variety of methods maybe being used.

I've heard mapping; I've heard ledgers; I've read -- I know I've read in the comments, the suggestion that some utilities bulk almost all of their service company costs in one account, 923, Outside Services.

So there's a lumpiness to how those costs are accounted for when they come over to the public utility. The question that poses in my mind is, where is the transparency when it gets to the public utility?

I mean, I thought I heard some comments this morning about there will be sufficient detail at the public utility, but if these costs are all lumped in one particular account, I don't see where the transparency comes in at the public utility level.

MR. BARTHOLOMOT: I would take a first cut at that, just from an answer that was given earlier. Where that comes is, the public utility knows what work it had the service company performing, and it's going to know best, and within the regime of what the state wants, as well as FERC wants on the utility book side, that if 100 hours of service company time was billed to me, as the utility, this month, I'm going to know that 20 of that went to Project X dealing with transmission issues, and 20 of that went to Project Y that may have dealt with some generation issues.

MS. NICHOLAS: And how would a regulator coming in, know that by looking at the company's books or accounting records?

MR. BARTHOLOMOT: Well, I think -- and it's probably the proper focus. Again, going back to that stupid analogy, although this may not be direct and proper, but my analogy of hiring a consultant to do some work.

And I just did some purchase orders and engagement letters for consultants doing work for EEI, and I know where that stuff goes, and when we go to EEI's Accounting Department, they know, in terms of the purchase order structures, where those costs get allocated.

But when I hired a law firm to do 100 hours of work for us this month, I'm not expecting them to know that that 20 of those hours went to this particular area. We direct them to what purchase order number to use, and then we deal with the allocation, and that's appropriate.

I mean, we're the ones who know we're having to do that work. We tell them what work we want done and constraints on that and the size of the budget available, but we don't expect them to know which 500, 600, or 800 or 900 accounts and specific issues that would go in.

So I assume that, but I do defer to the company folks to say whether there's right or not.

MS. HOLMES: Janice, that's how we use or work order system. In other words, every work order has a specific mapping to the right FERC account on the utility company's books, and those mappings and allocation methods are agreed on in advance, so they know that when we charge labor to a certain work order, that it's mapped to a certain FERC account.

So that's how you trace back into the service company, what was charged to the utility company.

MS. NICHOLAS: Sandra?

MS. BENNETT: I think we are pretty close to going straight out to the FERC accounts, so we don't use 923.

MS. NULTY-KROPP: We go straight at the utility level. We go to an appropriate FERC account; we don't lump them within 923, but we do have the ability at the utility company, to trace back into the service company, because there is a field that would identify the position, and on the service company cost center, where the charge came from, and thus be able to track back and get to the original cost that was booked there.

As well, we do issue -- we don't print out, but we make available -- we have PDF files of what we'll call an invoice to the individual utility, summarizing, by department, what types of costs were incurred for that particular month. It's just routed internally to the certain individuals who are responsible for those utility companies.

MS. COURT: Ladies and gentlemen, by my clock, it's 11:00. Again, I want to thank all of the panelists for their participation this morning. Also, what I'd like to mention is, my schedule does not permit me to chair the second half of today's program, and Ms. Nicholas is going to take over after the break.

I want to take this opportunity to extend to the state commissions and other panelists who are going to be on the second panel, my personal thanks for their participation, and also my commitment and my promise that I will read the transcript. So, even though I'm not going to be here, I will read the transcript to help formulate my thoughts with respect to any recommendations that I make to the Commission.

Also, let's see, we will have the -- the transcript will be available -- is it two weeks? In two weeks, the transcript will be available for free, two weeks after today, but it can be purchased before then from the vendor.

So, with that comment, again, my thanks. We will break for 15 minutes, and Ms. Nicholas will resume this at 11:15. Thank you.

(Recess.)

MS. NICHOLAS: Our second panel today contains representatives from state commissions and other interest groups. We have with us this morning Tom Ferris from the Public Service Commission of Wisconsin, Joe Buckley from the Public Utilities Commission of Ohio, Jim Mitchell from the New York State Public Service Commission, and Steven Ruppel from the Florida Municipal Power Agency.

Like the first panel, each panel member will be given 10 minutes to make comments. We'll move down the panel. At the end of the four presentations, then we'll open it up for Staff comments, questions, and then we'll proceed on to the remainder of the agenda.

So Tom, if you would kick it off for us.

MR. FERRIS: I'd like to thank you for the opportunity to participate in this technical conference, to provide my comments and NARUC's comments in your rulemaking. In addition to representing the Public Service Commission of Wisconsin, I am representing the National Association of Regulatory Utility Commissioners. Until very recently, I was the chair of the NARUC staff subcommittee on accounting and finance, which helped draft the comments that NARUC filed.

NARUC and the Wisconsin Commission and many of the state -- I believe all the state commissions I think agree on one thing, that service company costs are a very important piece to the ratemaking responsibilities at the state level. Typically the costs originating at the service company make up a very large and increasing percentage of the operating expenses of the regulated utilities. As affiliated companies, these transactions are not made on an arm's length basis and therefore require additional controls. Therefore, NARUC supports FERC's effort in attempting to increase transparency in bringing uniformity of these costs. Today I'd like to briefly summarize the position of NARUC in these proceedings, provide my thoughts as a state regulator, and then quickly address the five questions.

Regarding centralized service companies, NARUC's concern in this area is that you can go through all this rulemaking and all the companies have to do then is get rid of their service companies and put it in a holding company, the utility, a special purpose company, and none of those are covered by these rules.

So to assure that the rules apply to the entity performing the service -- NARUC feels that you should assure that the rules apply to the entity performing the service company functions. To NARUC, the function is the important thing, not the company providing it.

In addition, as to utilities, the preference is that the USA should prohibit the service company functions from being transferred to the utility because, while the utilities have a system of accounts themselves, adding the service company functions within the utility just further complicates the process and in a rate case, for instance, you not only have to come up with fair and reasonable rates, you have to make sure there's no cross-subsidy from the utility to the holding company if all the costs are in there.

Regarding the purchase of assets, the rules state that the service company would require the purchase of property at the acquisition cost. The concern of NARUC in this regard is that this provision could be used as a vehicle to inflate a utility's rate base in the event that the service company bought an asset at a premium over the original cost to the party, recorded the asset on the service company books at the acquisition cost, and then the utility would purchase it. So if the utility would have purchased it directly, it would be at the original cost if it had been used to provide utility service before. If it goes to the service company and then to the utility, it coiled be at a higher price.

To avoid such problems, the new USOA should require that an asset purchased by a service company not be transferred at an amount higher than the original purchase price or the remaining original cost, whichever is lower.

Regarding transactions with non-associated companies, the rulemaking provides that profits achieved in providing services to non-associated companies should be used to reduce the cost of providing service to associated companies, and NARUC has supported this. We feel this is good.

The concern we have, and it showed up in the telephone industry to a large extent, was that as soon as something gets to be really profitable then all of a sudden they put it in another company or deregulate it and then that's lost. So NARUC's preference is that services being provided outside the corporate umbrella should not be transferred to a new affiliate if and when they become profitable.

Regarding the 500 and 800 series of accounts, according to the NOPR, FERC proposes to include in the new USOA all of the 500 and 800 series of accounts. According to the NOPR, service companies use these accounts on providing utility-related services to utility companies.

The NOPR appears to require service companies to book costs and revenues based on how the utilities treat the service they receive. These accounts more properly apply to the regulated utility's books, not service company books. NARUC is uncertain how these provisions are relevant to a service company and it's unclear to NARUC how these accounts impact the service company. Bottom line, NARUC feels that you should -- the records should be based on services provided, not on how they're treated by the utility. Apparently one proposal of the industry is to have those available and not make them mandatory, and that seems like a good option.

Regarding services to associated and non-associated companies, the only comment I have here is that if FERC is considering the EEI's suggestion to retain the current breakdown into services rendered to associated and non-associated companies, we hope they will also follow the EEI's suggestion to subdivide the associated company formation by utility and non-utility. As EEI states, this information is necessary to address cross-subsidization concerns.

Regarding the proposed Form 60, the industry is proposing that a number of schedules be eliminated. I want to discuss a few of these. Regarding schedule 15A, first of all, if the FERC eliminates account series 500 and 800, it seems like this information can easily be included in the comparative income statement schedule. And even if you keep the 500 and 800 series accounts, it seems like this information could be already included in the schedule and maybe this schedule is not needed.

Regarding schedule 16, however, this schedule is one of the important schedules in this report since it allows a comparison of direct and indirect costs allocated to the utility companies and non-utility companies while showing the allocation of 100 percent of these costs to the various billing groups. This is needed to make sure that utility companies are not treated any differently from non-utility companies. It's possible that you may be able to simply this schedule to allow a company to provide information by groups of accounts, especially if you retain the 500 and 800 series of accounts.

Regarding schedule 17, this again is a very important schedule to regulators. This schedule assists regulators in classifying charges on utility records, it helps in judging the reasonableness of service company charges and whether such charges duplicate what the utility incurs internally and may be used to focus attention and comparisons between what gets charged to associated utility companies and non-utility companies.

Now I want to address the questions briefly. First, is a separate Uniform System of Accounts necessary for service companies? Yes, it is. Both types of entities have separate needs and they're best addressed by individual systems of accounts.

As to question two, are the proposed accounting and reports too burdensome to comply with? What parts cause the most burden? From my standpoint, other than possibly the use of the 500 and 800 series accounts which was discussed previously, I don't believe so. Most of the USOA and Form 60 annual reporting is already required by the SEC.

Should a structured reporting format be required for service companies? In order to have consistent reporting and ensure that necessary information is available, a structured reporting format is required. Even EEI points this out in their comments where it says if there's some detail that the Commission does not now have but wants to obtain, a simpler and much less expensive way to obtain that information would be to add selective items to the Form 60.

One thing I think is important is that annual reports under a USOA and detailed information go together; they are not mutually exclusive. I think what we heard from the industry was well you've got this, why do you need this, and I think you need both pieces.

Another concern is that, in addition, past experience in the energy industry and in the telecommunications industry indicates that if companies are not required to report necessary information then it may not be available when needed. I don't know how many times I've heard well you don't need to report this, we'll make it available when you want it, and then when you want it it's like well we don't keep that information any more.

MS. NICHOLAS: Two minutes.

MR. FERRIS: If a separate Uniform System of Accounts structure reports are adopted, what are the most significant modifications? I have two suggestions: one, regarding schedule 17, I would like to see a breakdown by associated utilities and non-utilities and non-associated companies. This is important to make a comparison of departmental costs allocated to utility companies and non-utility companies. This is needed to make sure that utility companies are not treated differently from non-utility companies. To do this, however, may require the reporting of information by groups of accounts, at least for some accounts.

The other schedule I would be interested in seeing would be consider adding a schedule showing charges from affiliate companies to the service company. This schedule would show the affiliate, the nature of the charges, and the basis of charges: cost, market or other. This schedule is important since an affiliate may charge a service company a market-up prices. Since this would be a cost to the service company, the marked-up item would be passed on to the utility at a cost higher than if it was directly charged to the utility.

As to the effective date of the new requirements on question five, I think to me this depends on the extent of the final changes. If they are substantial changes, then possibly a delay in the date may be warranted.

Finally, the problem as I see it may be at the utility level in some of the differences we have here. I've heard of many cases where it sounds like the charges from the service company to the utility are only put in Account 923. They're considered an outside service. I consider it an extension of the utility and it should be split across the accounts that it fits to.

A question was asked about how is there transparency if it goes into Account 923. It's easy. There isn't any transparency. You need to split it across the different accounts.

Thank you.

MS. GARRISON NICHOLAS: Thank you.

Mr. Buckley?

MR. BUCKLEY: Hi. My comments are brief, and I will just be addressing the questions that were asked. I would like to thank you for inviting me here to provide input into the rulemaking. I thank the FERC staff for taking on such a worthwhile project.

Before I start, these are my comments and not the comments of our commission.

I guess the first question is:

Is a separate Uniform System of Accounts necessary for the service companies?

We in Ohio have experienced an explosion of service company costs recently. They make up a large and increasing percentage of the costs that are ultimately passed on to ratepayers. Mergers and consolidations are moving the physical records and altering the existing relationships that we have with the companies that we regulate. It is making it harder to know who to go to to get information. Therefore, we see any increases in transparency as a positive step.

Are the proposed accounting and reports too burdensome to comply with?

In Ohio we ask for a lot of the same detailed information that is being talked about to be put into these accounts. So the information will be used whether it's put in this format or not.

Should a structured reporting format be required for service companies?

A structured format could aid in tracking costs from year to year. We have found in Ohio that when a company comes in for rate relief, they tend to inflate the service company costs, for whatever reason. I think this would help explain that phenomenon. Usually we have to trend those increases out. So I think this year-to-year tracking of costs would be very beneficial.

Also, I know the FERC is taking a real hard look at some other situations about cost and about how efficient operations are. If you have companies, service companies, following the same General Accounts, then you can start to compare how much it costs to offer certain service between one company and the next. I know that is something you're looking at with ISOs and RTOs, and I think you could probably do something like that with service companies. I think that would be helpful for the state regulators to look at whether one company is charging a lot more to offer a certain service than another one.

If a separate USOA and structural reports are adopted, what are the most significant modifications to what was proposed in the NOPR that should be considered?

I think an earlier panelist touched on this, but I would really like to see a detailed listing of the goods and services provided by the service company both internally and externally.

One of the things that has been talked about is a service or a good becoming very profitable, and they move it out of the service company. Instead of having detailed reports about that, you could just follow it and see, oh, this service is no longer listed. So it's not being provided by the service company? What happened to it?

And what should the effective date be?

We just think it would be prudent that there's not a gap between the SEC rules being followed and when the new rules go into effect. I would like to echo an earlier panelist's comment on these proposed rules will not eliminate cross-subsidization or the ability to game the system. I look back to what Tom said about whether acquisition costs, or what cost is used to transfer services. I think that system is still ripe for gaming. I don't know whether utilities would actually do that or not, but it doesn't eliminate that.

Those are the end of my comments, and I look forward to answering any questions you might have.

MS. GARRISON NICHOLAS: Thank you. Mr. Mitchell?

MR. MITCHELL: Hi. Again, my name is Jim Mitchell and before I left the office my supervisor told me to say basically what Joe said. My views don't necessarily represent the views of the New York State Public Service Commission. So with that caveat:

I would like to thank the FERC for inviting me to speak on the Proposed Rulemaking For The Accounting and Reporting Requirements Under the Public Utility Holding Act of 2005.

By hosting this Technical Conference, it is clear the FERC wants to address the concerns of all interested parties in the final rules. From my perspective, I hope the final rules minimize the reporting burdens on the service companies. I think that is important. But it is also very important that certain data that was required under the Securities and Exchange Commission under the '35 Act should continue, and possibly be enhanced under the 2005 Act.

My statement responds directly to the questions distributed by FERC on June 30th, 2006.

FERC Question No. 1: It is critical that a separate USOA be established for service companies. Transactions between a service company and affiliated utilities are related-party transactions. Additional controls need to be in place for these transactions because they are not arms' length, given there is common ownership between the service company and the utility.

In addition, service company costs allocated to utilities are recovered through the rate-making process when setting retail rates. These two facts mandate that service company costs be subject to a USOA.

The establishment of a USOA provides detailed and consistent accounting records which assist in the assessment and whether a utility's rates are just and reasonable.

Some may argue that accounting records that meet Generally Accepted Accounting Principles and External Audit Requirements are sufficient to provide assurance that service company costs are reasonable. I disagree. There are differences between GAAP and regulatory accounting requirements.

You do like them to be the same, but sometimes that is not possible. For example, differences may occur in the allocation of regulated and nonregulated costs. GAAP accounting permits costs to be allocated based on Avoided Cost Methodology.

The New York State Commission does not accept this allocation method because it does not provide an easy audit trail and a sharing of efficiencies between regulated and nonregulated activities.

I also disagree with solely relying on External Audit Requirements. The External Audit function serves an entirely different purpose than the regulatory function. The primary purpose of the External Auditors is to express an opinion to investors on the degree to which a company's financial statements conform to GAAP. They do not judge the reasonableness of rates. The Federal and various State Commissions have the unique responsibility to evaluate the prudence of service company costs and determine whether the allocation of those costs produce just and reasonable rates.

As a result, it is necessary and yet reasonable for regulators to have a separate set of requirements to assist in such an evaluation.

FERC Question No. 2: Are the proposed rules too burdensome?

I agree with the intent of the proposed rules. However, I believe the proposed regulations can be streamlined. In order to provide for a seamless transition from SEC regulation to FERC regulation, the final rule should reflect the SEC rules wherever practical. I have three examples.

Example number one is very similar to what you've heard from other panelists. The proposed rules for service companies conforms to the USOA as set forth in Parts 101 and 102 of FERC Regulations. I suggest a final rule more closely follow the expense accounts that we use in Part 256 of the SEC Regulations, including the requirements for costs to be broken down by department or activity.

This segregation of costs by department in the service company billings will provide for a mapping of costs so the proper USOA account can be recorded on the utility's books and records. The former SEC accounts recognize that service companies perform labor-intensive functions, support functions like management, accounting, and engineering services. By adopting the SEC accounts broken down by activity, it will provide more useful information than the proposed rules.

Example number two: The proposed rules for Work Order Systems can be streamlined. In the SEC Rules it states that the differences in the nature of work render impractical an attempt to prescribe the specific accounts in all cases. This implies a certain amount of flexibility was inherent in the SEC regulations for Work Order Systems.

Allowing flexibility in the Work Order System is reasonable, given the FERC proposal also adopts the SEC's requirement for detailed invoicing of service company costs. This invoicing detail is necessary for a readily available way to trace costs from utility records to the original support in the service company records.

Example number three: The proposed rule eliminates the five-percent net income threshold requirement to recognize an extraordinary item because service companies typically have little or no net income. However, the NOPR requires service companies to seek Commission approval to record all extraordinary items.

I suggest the proposed rule be revised to require an item to be classified as "extraordinary" without Commission approval, prior approval, if the item is more than 5 percent of expenses before the extraordinary item.

FERC Question No. 3: Obviously a structured reporting format should be required consistent with what is required of utility operations in FERC Form One and Two. It is also consistent with what company managements require when they evaluate their own operations. It is simply common sense that regulators have the same sort of reporting to evaluate the costs which are part of the ratemaking process.

An argument could even be made that the reporting should be enhanced in some cases because an increasing percentage of utility costs originate from the service company.

In summary, a structured report allows for high-level analyses to be performed and provides for a cost-effective way to verify compliance with the Commission's rules.

FERC Question No. 4: --

MS. GARRISON NICHOLAS: Two minutes.

MR. MITCHELL: What are some other proposals in the NOPR that could be made?

In addition to the ones that I've already made, there are three.

The first revision: Several schedules in the proposed FERC Form No. 60 can be significantly streamlined to reflect our proposal, my proposal, on the SEC Expense Structure.

Second, there are several schedules in the proposed FERC No. 60 that require a breakdown of data for associated companies and non-associated companies between utility and non-utility. I believe it is only necessary to break down the utility/non-utility data for associated companies.

Third, consistent with a service company and--the SEC service company report, I believe there should be schedules in the FERC Form No. 60 that detail outside service and employee benefits and pensions. Because these cost elements, along with labor, make up the majority of the costs in a service company. This detail is essential for evaluating the reasonableness and consistency of service company costs and for allocating those costs within the holding company organization.

The second revision:--

MS. GARRISON NICHOLAS: One minute.

MR. MITCHELL: --the proposed NOPR should be modified to eliminate the exemption provided to special purpose service companies.

Third revision: Consistent with the SEC requirements, I believe service companies should be required to file with the Commission the allocation methods and notice of all changes in those allocations. This requirement will facilitate comparisons between holding companies and provide a readily available way to analyze changes in methods.

FERC Question No. 5: The effective date should be set to allow service companies enough time to adjust to any new requirements. The New York State Commission allows utilities a period of six months to implement any major changes in the USOA.

It seems reasonable that the adjustment period could be much shorter if the final rules are close to the SEC rules, since service companies would already have the necessary systems in place to implement the final rules.

In order to provide a gap in reporting, it seems reasonable to require service companies to comply with the SEC's USOA and service company end report until the final FERC Rules are in place.

This concludes my prepared comments, and I would like to thank you for inviting me here.

MS. GARRISON NICHOLAS: Thank you, Mr. Mitchell. Mr. Ruppel [pronouncing the name several ways]?

MR. RUPPEL: That's all right.

MS. GARRISON NICHOLAS: I got it wrong again.

MR. RUPPEL: My name is Steven Ruppel. Any pronunciation I'll accept. I am the Contract Compliance Audit Manager for the Florida Municipal Power Agency. I am here representing FMPA, which is a joint action municipal power supply agency that represents, or was created by 29 municipals in the State of Florida, 15 of which make up our All Requirements Members.

I was also required to speak on behalf of APPA, the national service organization that represents 2000 not-for-profit publicly owned electric utilities throughout the U.S. I worked with their consultants and legal staff in preparing my written statement for today.

For FMPA I service as a Contract Compliance Audit Manager. In that role, I manage and conduct audits to ensure that FMPA is properly charged in accordance with FERC jurisdictional formula rates for wholesale power and transmission services we obtain in the State of Florida.

I also audit any contracts to make sure they are billed in accordance with the joint ownership arrangements that we have with FERC jurisdictional companies. These contracts, the cost recovery provisions, are key to the Uniform System of Accounts.

I am going to summarize what was passed out in my detailed written statements, so if we don't get to everything it is in there.

I've got 17 years of utility experience ranging from state regulatory auditor, a regulatory analyst, and for the last eight years as an auditor for FMPA. My school of hard knocks experience confirms the importance and wisdom of the Commission's proposal of applying the Uniform System of Accounts to the centralized service companies.

FMPA and APPA support this NOPR and would like to compliment FERC on the proposed standards, accounting requirements, and new accounts for centralized service companies.

The proposed rule provides long-needed transparency and consistency for centralized service companies' accounting. The current method is broken; we would not be here, otherwise, today. Contrary to the impression that other commenters conveyed, it undermines the Commission's ability to ensure just and reasonable rates.

Without the proposed reforms, the problem will only get worse. With consolidation and mergers of companies likely to follow the PUHCA repeal, inadequacies in the current systems will face increasing stress leading to consumer harm. Restructuring under the PUHCA repeal is inviting to holding companies, especially inviting if they can create a centralized service company which they can shift functions to and impede scrutiny of costs.

There is growing reliance on formula rates at FERC that heightens the need for greater transparency and consistency which also aids in our ability to audit and intervene in the rate cases.

Based on my direct experience auditing, operating companies associated with centralized service companies bring some of the threat to consumers of current accounting methods not found in the Uniform System of Accounts. I've got experience with mergers, both pre- and post- to see that the people who perform the duties pre-merger are very often the very same people post-merger, but now they're hiding behind the veil of the centralized service company and how costs are scrutinized and passed through to the ultimate utility at the operating level.

Also, there are other existing centralized service companies we deal with and have extreme difficulty getting the information we need to see the transparency, and when we do get the access to the information it is very time-consuming ferreting out, purging and finding the information we need because there is not consistency between utilities. Each one is different. It is an expensive process not only for us, but also for the utilities we audit. So there should be benefits on both sides to get to some sort of consistent treatment of costs.

The Commission should not be swayed by the Generally Accepted Accounting Practice, or GAAP, argument. GAAP is good for financial reporting. It is oriented towards investor protection. It does not suffice regulatory scrutiny which provides protection of the wholesale and retail ratepayers, or prevent cross-subsidization.

Now if you look at it, if GAAP were enough we wouldn't have the Uniform System of Accounts in the first place.

The Commission should also not be swayed by the outside service argument. This is the argument where, you know, the charges are all lumped in and charged in Account 923. Some make the superficial observation that the centralized service company may be recorded at the operating level as "Outside Services." The material financial reality is otherwise.

Holding companies can shift costs and functions between and among subsidiaries and their ultimate shareholder interests as maximizing the profits of the overall enterprise, even if it is at the subsidiary's expense.

Our experience is that it is more the service company dictating how the costs will be charged. When they come down to the operating level, they're not pulling the bills and reposting them to the FERC accounts. It's all dictated by the service company.

It's very different than an arm's length transaction. We have related parties here. And as I mentioned earlier, often in the same positions in the same jobs but just in a different building classified as a centralized service company.

For example, in cases we run into--and not only us but the consultants I work with regularly that deal with other APPA members--the costs are being lumped into Account 923. It is much harder for the commission and ourselves, or for the commission to fill its responsibility under the

Florida--the Federal Power Act if it can't see what costs are included in those accounts. Applying the Uniform System of Accounts we hope, and we have a feeling, would provide the needed transparency and the consistency we need to make our audits and your audits easier.

We need to be able to ensure the reasonable and fair depreciation rates, and ensure long-standing regulatory policy on treatment of below-the-line. We are seeing in Account 923, you know, 400 Series accounts' charges, Account 928-type charges for formula rates. These might have specific treatments, especially Account 928. Out there in Account 923, they're run through a different formula component and different treatment and there's potentially recovery under the formula rates.

We are seeing it impeding functionalization. Instead of directly charging, we're indirectly allocating costs. We're seeing more and more shifts to that, especially in dealing with the company that was pre-merger and post-merger and we had the service company develop.

Now this is really cued in the context of formula rates. We need the transparency of this NOPR to ensure the consistent treatment of the centralized service company and the final Rules should acknowledge long-standing Commission policy. Recording costs for accounting purposes is not determinative of treatment for ratemaking. It should facilitate scrutiny of costs passed through to the customers, particularly as we need under formula rates proper functionalization of costs.

We ask you to not water down the NOPR. It would only undermine the transparency and the consistency that's needed. We request that you reject suggestions for grouping of accounts or suggestions to not require separate identification of non-utility associate companies. We need to be able to identify those to be sure they're being treated properly.

Require the details set forth in Schedule 16. When I saw the FERC Form 60 and others, we were able to see more clarity and more transparency of types of costs coming through from the service companies. Municipals like us don't have the pull to get that information as many of the state commissions do. So that report is helping by FERC Account. That's one it identifies by 900 and 400 Series.

Ultimately, mirror the Uniform System of Accounts, Parts 101, 201, 125, and 225 for proper consolidation at the proper level.

There are concerns that the cost concerns are not outweighed here. We're looking at long-term consumer protection. This provides cost savings through the transparency and clarity by both better billing practices, decreased time not only we would have to spend on auditing but that the utilities would have to serve and spend resources on handling the audits.

MS. GARRISON NICHOLAS: One minute.

MR. RUPPEL: The Commission needs to adhere to and implement NOPR's overarching objectives and its obligations under the Florida Power Act--not the "Florida," the Federal Power Act.

(Laughter.)

MR. RUPPEL: Coming from Florida, tongue-twisters here. We also ask you to be aware that the holding companies may seek to evade the centralized service companies requirements by transferring services to single-purpose or special-purpose companies.

The Commission stated that the auditing process will be used to monitor this under Order 667. However, let me stress one of the resource limitations that you have and downsizing pressures. These limitations may not catch every attempt to recast provisions to take advantage of the lighter-handed accounting of single-purpose or special-purpose companies.

For example, for nuclear operations, there's -- a vast amount of money goes through there that are spun off to single purpose or special purpose. How much of a bill can they hide behind and eliminate scrutiny of costs flowing through? Is this just a loophole?

The Commission needs to be prepared to monitor this and be prepared to close the exemption if needed. I would request that you look through the special purpose, single purpose label and extend the requirements to the -- of the centralized service company Uniform System of Accounts.

So in sum, overall the Uniform System of Accounts we all know and love has served the customers and the investors very well. It's limited ability to camouflage costs and facilitate overseeing of just and reasonable rates has done well to serve in the past, but with the transitions to centralized service companies we're not seeing that any more. With the PUHCA repeal, a centralized service company can avoid the Uniform System of Accounts unless extended to them and we're just asking that you extend it to them for the transparency and the consistency throughout the industry.

Thank you for this time.

MS. GARRISON-NICHOLAS: Thank you for your comments.

At this juncture, we'll start with Staff questions and we'll go through Staff that's on the left side of this table, your right. Mr. Guest, if you have questions.

MR. GUEST: I was a little bit surprised by comments from I guess it was NARUC about -- requesting that we reconsider adopting the 500 and 800, and I think your view was that they may not be necessary and particularly for a service company that is in a large way, such as the AEP system, and consolidating their operations and providing I believe all of the operation and maintenance activity, for example, related to transmission assets.

And the idea behind the proposal was well if the service company is providing those kinds of services, that the service company should break out in the 500 and 800 accounts the expenses associated with that as opposed to rolling them all together with, let's say, A&G services and reporting all of those costs in or most of those costs in 921 or 922.

And so I'm curious as to whether the observations from the states is from the perspective that most service companies really don't do that, provide that level of O&M active functions for certain groups of assets and therefore, you know, want us to reconsider on that basis or whether they really do prefer that if a service company is providing all of the maintenance activity for the system's transmission assets, for example, that they would prefer to see that rolled together with all of the other expenses.

MR. FERRIS: Tom Ferris, Wisconsin Commission.

I have a few thoughts. One is initial comments from my standpoint were based on what I have seen as a service company, that they don't provide that type of services. One in Wisconsin does provide quite a bit but they only use the 900 and 400 series of accounts and the utility is the one that, based on the billings, makes the decision where it gets allocated. So what I have normally seen by service companies, 500 and 800 accounts don't seem to fit.

I made the statement that the industry, EEI anyway, said well maybe if they just don't make it mandatory that would be better and maybe if there are companies like AEP and the ones you referred to that do have these accounts already and do split it like that then maybe just not making it mandatory would be the best way to go.

I guess the only other concern I might have is if you got the service companies allocating these accounts to different transmission, production, generation accounts and then billing the utility, what happens when the utility gets the bill and says well that doesn't have anything to do with that project, it has to do with this and they start reclassifying everything. Do you get a -- does the audit trail go away?

MR. GUEST: Well I think the proposal that's out there would have the same instructions for the account classifications at the service company as exists for the utility, so there should be consistency. But I would like you to think about my comments and if any clarifying positions are appropriate or you want to file additional comments -- including one thought that I had was, you know, maybe there's a threshold that should be established and maybe that's one way to avoid some of the objections of the utilities that don't have a lot of that kind of activity would be well if the activity is significant we want you to go to the trouble of putting it in the 500 and 800 accounts. If it's, you know, rarely -- it's done but it's rare, you know, maybe in that situation it's a burden for them to try to change all the rules so that their staff knows what pigeonholes to stick it in.

MR. BUCKLEY: I guess, Jim, you have to recognize NARUC is made up of unique individual bodies and sometimes there's different opinions within NARUC. And one of the things about the 500 and 800 account is it kind of provides for growth. If the service companies kind of change and -- AEP is a great example, where things are more centralized. And again we're seeing consolidation in the industry and hopefully things will become more centralized. So maybe the 500 and 800 accounts will provide for growth. And if a threshold is established I think that might be the way to go with it.

MR. GUEST: Another area that I heard from industry earlier was the burdens associated with requiring a work order system. And I think when -- the term permeates a lot of the proposal that it's a holdover from the SEC's system of accounts because that's where I think we found most of the references to a work order system. And I think, at least in my mind, I think of a work order system as just a word that is attempting to describe a system of accounting that allows costs to be captured and aggregated in such a way that it achieves some objective.

And so I was wondering, a, what has been states' experiences with the work order system or the alternatives that apparently are already in practice and whether a solution to this issue of don't mandate a work order system could most easily be solved by somehow defining what a work order system is in general terms that captures what we hope to achieve by these work order systems.

MR. MITCHELL: In my comments, I was actually explaining that I think there is room for maybe some streamlining or for some flexibility within the work order system. I know when I think of work order systems I have bad dreams about CPR audits I used to go on when I was a young auditor.

But I think what you're trying to do is you want to be able to trace the cost from the utility by element to the originating place on where they are, the service company. As long as they're able to do that -- maybe have some broad guidelines, maybe that's a better direction to go versus saying okay this is the stuff that needs to be identified, you know, having a number of classifications. Because it can be not only time consuming, I'm sure, to do it from a company's point of view but also if you do have an opportunity to do a CPR audit, it can be quite time consuming and confusing to go through.

So I think that flexibility, coupled with a monthly bill -- I heard one of the companies say that they actually provide a billing by department, which a lot of times you don't see, I think is definitely a good first step. So again I think those two things I think gives you some satisfaction, you know, that there is some organization to the cost, there's reasonableness to them.

MR. GUEST: If somebody thinks the flexibility issue related to the work order system can be solved by coming up with a definition of a work order system that's broad enough or flexible enough to meet what the objective is of a work order system in general terms, I would encourage you to while the record remains open to send it in and let us know -- you know, we could easily adopt as part of the definitions in the system of accounts what we mean by work order system so that every place it shows up you could say well that's what it means and it might be a way to avoid what some folks might see as being unnecessarily restrictive.

MR. FERRIS: One thing that I was thinking of, the ones I've seen are basically -- I don't know if they call it a work order system or what they call it. I mean, it seems like you've got to have something like a work order system to get the charges back and forth. But usually I see it broken down by project and department and things like that. But to me it's still how I would define a work order system.

But one thing you possibly could do is if you had these broader definitions a work order system would be to require them to file information with FERC saying, you know, okay, here's our system and here's how it complies with this definition.

MR. BUCKLEY: I think there was a woman that touched on it in the last panel about filing your allocation process or making that available. It's kind of like everyone allocates costs differently and sometimes it's called a project system, sometimes a work order system. But

I thought that was a good idea.

MR. RUPPEL: You're asking on the same thing on the work order system. Through our experience, some people do use a project accounting system to charge to specific activities, whether it's the direct assignment with the remainder going to indirect allocation. It's the goal to use a work order system to make sure that costs are directly assigned when appropriate, it doesn't matter if you're using the work order or the direct assignment versus indirect definitions.

MS. GARRISON-NICHOLAS: Mr. Klose?

MR. KLOSE: I don't have any questions of this panel.

MS. GARRISON-NICHOLAS: Okay. Ms. Womack?

MS. WOMACK: No, I don't have any.

MS. GARRISON-NICHOLAS: Ms. Lauermann?

MS. LAUERMANN: No.

MS. GARRISON-NICHOLAS: Okay. Ms. Kuhns?

MS. KUHNS: No.

MS. GARRISON-NICHOLAS: Ms. Patterson?

MS. PATTERSON: No.

MS. GARRISON-NICHOLAS: I also wanted to go back to our representatives from the General Counsel's office. Mr. Mosier, do you have any questions?

MR. MOSIER: No, I don't. Thank you.

MS. GARRISON-NICHOLAS: Ms. Lake?

MS. LAKE: No.

MS. GARRISON-NICHOLAS: Then I'll start down with Mr. Holmes.

MR. HOLMES: EEI has proposed elimination of a number of schedules which I think runs in conflict to what you've proposed today. They essentially want to do away with 16, schedule 16 and 17. What's your reaction to their proposal?

MR. FERRIS: I guess as I stated I think schedule 16 and schedule 17 are, to me, two of the more important schedules in the annual report. It provides a breakdown of charges -- in fact, I'd like to see 17 even expanded to break down the departmental charges by who the service is provided to.

If you don't have those schedules, then you basically have to start from scratch and ask all the questions anyway. But otherwise, it's a good starting point. It provides the information available to be able to compare. I mean, if you've got direct and indirect costs, for instance, you can see what level of indirect costs are being charged to the associated companies and utilities -- associated companies especially and non-associated companies or non-associated but non-utility companies. In other words, are they not charging indirect costs to them or are they charging indirect costs but not at the same level. As to departmental costs, we use this type of information quite a bit because -- especially if you break down by type of who they provide service to, you know, they may have -- if they're providing accounting services, tax accounting services, say, to the utility but not to anybody else, well why not? Well, you know, if anything you'd think the utility has the tax accountants and the other ones wouldn't because they're smaller. So it provides a good comparison there.

And the other thing is to be able to identify 100 percent of these charges is allocated to the different entities. So in other words, if you take total charges and you have them unallocated, you've just got a total amount of charges of these things, okay, that's the amount of charges. But when you see the breakdown by who the services are provided to, if you have -- you could have a utility and that makes up about 75 percent of the total and there's nothing else charged then, you know, what's going on with the other 25 percent, why are the other ones not being charged. There's a lot of cross-subsidy questions I think involved there.

I think those two schedules are two of the more important schedules in the report.

MR. MITCHELL: I agree with Tom. I think those two schedules are very important. One of the earlier panelists talk about, you know -- I forget exactly what it related to, but like the nuts and bolts, you know, what do you really need?

I mean, this is one of the first schedules that, you know, I would look at, you know, when I'm, you know, reviewing service company charges. It gives you the total charges and it gives them, or hopefully gives them by a department of activity or cost center, and it provides -- you first look at what you need to evaluate the cost.

MR. HOLMES: And compensation for use of capital, that's one of the elements that the propose to eliminate.

Any thoughts there?

MR. MITCHELL: I think it should be reported, because, just by reporting it, it's out there for everybody to see. If it's not there for everybody to see, you know, you have to ask about.

I don't want to sound like a regulatory dinosaur here, but there is a self-policing type mechanism, you know, that if it is reported, it is there for everybody to see, you take maybe better care in calculating that number.

MR. RUPPEL: And it opens it up for scrutiny also, of those rates, are the rates fair and reasonable, can they shift financing over to relying more on the centralized service company to fund indirectly, activities at the operating level and shift costs and funding there?

MR. HOLMES: Particularly the Schedule 15-A, I mean, do you see the need for that schedule, or would you move that schedule, or at least whatever -- if we were to adopt the 500 and 800 series of accounts, would you move it to the income statement?

MR. MITCHELL: Jim Mitchell. In my prepared remarks, I said that some schedules could be streamlined.

And I did favor or I do favor going to the SEC element of expense accounts, and if you did that, you would be able to consolidate this schedule within the income statement.

Now, if you adopt the 500 to 800 accounts, which I'm still not sure if it's necessary, then I think you may need another additional layer of reporting. I'm just not sure if it would fit all within the income statement.

MR. FERRIS: I guess, from my standpoint, if you don't have the 500 and 800 series of accounts, then it fits in the comparative income statement, which I think is always reported under SEC today.

If you have those series of accounts, it seems like all the schedule does, is break down the total expenses by those accounts, and 16 does that; 17 does that, and it also does other things, but it provides that detail, so I don't know that it's necessary.

MR. BUCKLEY: As we have heard, some companies report 500 and 800 accounts, and any change is going to be a burden on somebody. It's just that you almost want to just do what you think is right, and, yes, it's going to burden some people, but it won't burden other people.

So that's -- there are times when I get kind of discouraged when I hear that it's going to cost us so much money. Well, when you merge with a company or you change your accounting software, that's an expense, too, but you manage to do that.

So, there are certain things that are just the cost of doing business, and being a regulated utility and having to comply with regulations, is a cost of doing business.

MR. HOLMES: When we eliminated schedules from the U1360, put together the Form 60, we eliminated the outside services schedule. Was that a mistake?

MR. MITCHELL: Yes. In my prepared comments, I said that schedule should be included and the employee benefits and pension one should be included. Those two expense elements, along with labor, are, you know, the three most -- those make up the majority of the service company costs.

With respect to outside services, what we have found, a lot of times what you see is, you have outside services being incurred by the service company, but also are some direct charges, directly to the utility.

And what happens is -- and, again, it could be unintentional -- again, as these companies merge, as they get bigger, sometimes internally, maybe the communication isn't there, the way it should be.

But what happens is, the one that was charged to a utility, directly, they absorb 100 percent of a particular billing, and then the common costs part of the service company, also was allocated to the utility.

And without that schedule, I'm not sure if we would be able to get that detail, at least wouldn't have ready access to that detail, so, yes, I think it's a very important schedule and I think it should be retained.

MR. HOLMES: So they're charging -- they're performing services for the utility company and putting it into 923.

MR. MITCHELL: Right.

MR. HOLMES: And because we took that schedule out, you no longer have --

MR. MITCHELL: No, it would actually be incurred in two places: One as a direct charge to the utility, but also has a service company cost, okay? This particular utility should not have been charged any costs from the service company, however, with the way the methods of allocating were, they did get a piece of that charge when they shouldn't have.

MR. HOLMES: Okay.

MR. MITCHELL: And then I mentioned the pension and benefits ones.

MR. HOLMES: So you would add --

MR. MITCHELL: I would add the outside services and the pension and the benefits. And the pension and benefits, the majority of those costs are pensions and other post-retirement benefits, retiree benefits.

And, you know, pension OPEDs are kind of a different animal. It's not like a normal expense. There are a lot of assumptions, actuarial assumptions that go into those expenses.

You really need as much detail as you possibly can have, to properly evaluate those expenses, you know, as they come onto the utility books. I think that schedule was helpful. You know, those items were isolated.

MR. HOLMES: Some of the others are proposing to eliminate the methods of allocation schedule, departmental analysis of salaries. Any thoughts on those?

MR. MITCHELL: I think it's inconsistent with other panelists. I think one of the women said that -- that was on the panel, said that methods of allocation actually should be enhanced, and, actually, that was an excellent comment.

MR. HOLMES: So you're totally at odds with the --

MR. MITCHELL: Actually, I think that in my prepared comments, I said the SEC required the methods of allocation be filed, and I think they should continue to be filed.

In fact, I think any changes in allocation, should also be filed, so those things can be highlighted, again, because that is the nuts and bolts. This is how these costs are being allocated.

MR. HOLMES: Thank you. The annual statement of compensation for use of capital build, is one of the schedules. Any thoughts on that schedule?

MR. MITCHELL: Consistent with my prior remark, I think it should continue to be reported.

MR. BUCKLEY: One of the things that, again, the service companies are kind of set up differently, and I know for us in Ohio, that wouldn't be an really important schedule, but, for others, it might be, just because of the way the money pool is in the reporting.

MR. HOLMES: I think it's 3-A that's dealing with non-utility property. Essentially, we didn't know whether to adopt a non-utility account or provide it in a schedule.

Any comments on -- it essentially breaks it out into service company, common, and non-utilities.

MR. RUPPEL: If it's not broken out, how will we trace how the costs are being excluded, to prevent cross-subsidization? You've got non-utility property in there flowing through formula rates where it excludes under formula rates.

MR. HOLMES: So whether it's in account or whether it's in the schedule, you need some --

MR. RUPPEL: Some sort of clarity or transparency of where this cost is and how is it broken out of the total amount of their assets.

MR. HOLMES: The analysis of billing, Schedule 457, 458, 459, that attempts to break it out into the revenue accounts and into utility and non-utility within an associated company. I think the comments have been that it really doesn't matter in terms -- for non-associate companies, you don't need the breakout, but, with the associated companies, would you want to see that breakdown?

MR. FERRIS: I would, because you could have different methods of billing or charges for a utility and for a non-utility, so I would want to see that breakdown. Non-associated companies?

MR. HOLMES: It's not that important?

MR. FERRIS: To me, it's not that important.

MR. HOLMES: There doesn't seem to be a lot of companies that are doing services for non-associated companies, anyway, so I guess it's not relevant because if they're not doing it, it's not relevant.

MR. FERRIS: I mean, to me, I want to be able to have as much information to compare billings to the associated utilities, to compare that with billings to associated non-utilities and to non-associated companies.

MR. HOLMES: Okay, I think I'm through.

MS. NICHOLAS: Mr. Hunt?

MR. HUNT: I don't have any questions.

MS. NICHOLAS: Okay, thank you. Well, I thank the panel members from the second panel. I appreciate your time and your comments -- I'm sorry?

MR. GUEST: I have more questions.

MS. NICHOLAS: Oh, I'm sorry.

MR. GUEST: There were some comments filed and, I think, some heard at the table today, about the monthly billing, the requirement that there be monthly billing.

And I think that some of the comments indicated that this would be an onerous requirement, and I was surprised by that, in that I always thought that most service companies would have been already billing monthly, and I don't know how the associated utilities comply with our requirements that transactions be done monthly or accounted for monthly and the books closed monthly, without billing monthly.

And so I was interested in your perspective on this issue of monthly billing.

MR. FERRIS: Everyone I've seen, has had monthly billings, both the utilities and non-utilities, which I want to make sure that they were consistent, but I've always seen monthly billings.

MR. BUCKLEY: We used to require -- and not for the electric companies, but for smaller companies, not only a monthly bill, but the ability to -- a written process to question charges, but we've never gone to that step with the electric utilities, or gas utilities, for that matter. It was mainly for smaller companies.

MR. RUPPEL: We've seen both, where there has been monthly billings. Usually monthly billings are coming from associated companies, flowing through the service company, but, normally, their accounting systems are so intertwined that, you know, they're making the entries and allocations electronically, and it's flowed through the accounting system there.

MR. MITCHELL: I was actually surprised by EEI comments that said that that was burdensome. I mean, it seems like you would want a monthly bill. I mean, I can't just imagine that you wouldn't want one.

MR. GUEST: But do the states require it?

MR. MITCHELL: The monthly bills?

MR. GUEST: Monthly bills.

MR. BUCKLEY: We don't.

MR. FERRIS: We have -- all these types of transactions are done through affiliate interest agreements, which we proof up front in Wisconsin, and they all contain 30-day billing provisions. It is the norm, from what I've seen.

MR. GUEST: Thanks.

MS. NICHOLAS: Any further questions from Staff?

(No response.)

MS. NICHOLAS: Again, I thank the second panel for their participation, their comments today, and welcome any --

MR. HOLMES: We encourage the panelists to submit --

MS. NICHOLAS: Okay, I'm not done yet.

MR. HOLMES: Oh, I'm sorry.

MS. NICHOLAS: Okay. I just wanted to thank this panel for their participation today. Yes?

MR. MITCHELL: If you were going to -- like, for example, there was a question about the work order system. Who do we file those comments with?

MS. NICHOLAS: You just submit them within the

Docket RM06-11-000.

And so as part of my concluding remarks, I'll talk about how long the record is going to be open. We still have another question and answer session from anyone who's attending today, who hasn't had an opportunity to ask questions.

But, essentially, the record is going to be held open until August 8. That's different from what Susan said up front.

This will allow participants to get a copy of the transcript and to review it. And so the record will be extended. We will be issuing a notice, indicating that the record will stay open until August 8th, so additional comments can be submitted in writing as part of that docketed proceeding.

Similarly, we will be submitting the written statements that were presented to Staff today, and those will be included in the docket, as well, along with the transcript, okay?

But I did want to open up -- at this point, I wanted to open up to those that are attending the conference, if they had any particular questions that they wanted to pose as part of the discussion today.

We do have microphones on both sides of the room, if anyone is interested in making any comments or asking any particular questions.

(No response.)

MS. NICHOLAS: Okay, all right, I don't see anyone that's interested in any further Q&A. Again, we thank you for your participation and we thank you for your attendance.

Again, let me repeat that record will be held open until August 8th. You can submit any additional comments related to this proceeding, as part of that extended comment deadline.

The transcript, I've been told, should be available within about ten days, so that should provide sufficient time to review the transcript and submit any additional written comments.

Thank you for your participation. It's been very valuable to Staff. We look forward to your further comments and input on this important proceeding. Thank you.

(Whereupon, at 12:30 p.m., the technical conference was concluded.)