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# FEDERAL ENERGY REGULATORY COMMISSION

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WASHINGTON, D.C. 20426

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## NEWS RELEASE

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### FOR IMMEDIATE RELEASE

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Docket No. RM04-12-000

## COMMISSION SEEKS COMMENT ON RTO/ISO FINANCIAL REPORTING, OVERSIGHT AND COST RECOVERY PRACTICES

In order to provide greater transparency and more effective oversight, the Federal Energy Regulatory Commission is seeking public comment on the accounting, financial reporting and cost recovery practices of regional transmission organizations (RTOs) and independent system operators (ISOs).

Since 1997, the Commission has approved several ISOs and RTOs, five of which have begun market operations. The operating entities are: PJM Interconnection; ISO New England; Midwest Independent Transmission System Operator; New York ISO; and California ISO. The Commission has not mandated any particular business model for RTOs and ISOs, which to date have all been not-for-profit entities, making cost review more difficult.

Although there are similarities among RTOs and ISOs, each developed independent of the others, using different business models and accounting designs. Moreover, there are significant differences between RTOs/ISOs and vertically integrated public utilities, including some of the functions they perform and the types of costs they incur.

These differences have led the Commission to seek comment on:

1. whether the Commission needs to adopt new regulations to better account for, and report RTO and ISO cost information;
2. whether RTOs and ISOs have appropriate incentives to be cost efficient; and,
3. whether the Commission's rate review methods for RTOs and ISOs are sufficient.

(2)

More specifically, the current accounting regulations, found in the Uniform System of Accounts, were developed to capture information about traditional public utilities' primary business functions – generation, transmission and distribution of electric energy. The primary business functions of RTOs and ISOs differ from those of the traditional public utility. As a result, the Commission's current accounting regulations and related financial reporting requirements may not provide sufficiently detailed information about the costs incurred by RTOs and ISOs and their relationship to provided services or other business activities.

RTOs/ISOs develop their proposed rates through a collaborative process with their respective advisory processes. In general, the RTO/ISO determines the cost side based on the level of expenditures budgeted to accomplish its functions and works with its stakeholders, through the advisory committee process, to arrive at a proposed allocation methodology. However, some RTO/ISO stakeholders have suggested that this process may be insufficient.

Comments on the NOI are due November 4, 2004.

R-04-42

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