

Overview

EEl appreciated the opportunity to present remarks to Commission staff at the technical conference. Based on discussion at the conference, we will focus in these supplemental comments on how best to address some of the principal issues we raised in our June 2006 comments while reflecting key points discussed at the conference.

To address points raised by Commission staff and panelists at the technical conference, EEl believes that the primary focus of the Commission's final rule in this docket should be to set out a streamlined Form 60 for centralized service companies to file on May 1st each year. That Form 60 should be based on the Form 60 set out in the Commission's December 8, 2005 final rule ("December 2005 Form 60") implementing the Public Utility Holding Company Act of 2005 ("PUHCA 2005"),¹ with changes EEl has requested to further streamline the form. We believe that such a streamlined Form 60 will enable the Commission to provide regulatory oversight and will provide the transparency and uniformity that Commission staff noted the Commission desires, without imposing unnecessary burdens on the regulated community.

In turn, EEl encourages the Commission not to mandate that centralized service companies must adopt a burdensome single Uniform System of Accounts ("USoA") for keeping their financial records. The service companies already are keeping accurate, detailed financial records that have enabled them to complete

¹ Order No. 667, 70 Fed. Reg. 75592 (Dec. 20, 2005), FERC Stats. & Regs; Regulations and Preambles 2001-2005 ¶ 31,197 (2005) ("Order No. 667"); *order on reh'g*, Order No. 667-A, FERC Stats. & Regs. ¶ 31,213 (2006) ("Order No. 667-A"); *order on reh'g*, Order No. 667-B, 116 FERC 61,076 (July 20, 2006).

the first Form 60, which most companies filed earlier this year. Furthermore, the companies already are providing sufficient information to their utility clients to enable those clients to keep their own USoA-based records and to complete their own FERC and state reports. To require the service companies to change to a standard USoA would substantially increase their costs without producing corresponding benefits. In sum, there is no need for the Commission to impose standard accounting requirements on the service companies, and doing so would impose substantial burden. If the Commission does impose a standard accounting format, the Commission should provide substantial flexibility for each service company to adapt the format to its own circumstances, selecting the accounts that best reflect its own activities.

In these regards, at the technical conference, there appeared to be some key areas of agreement among the panelists who presented remarks, including both EEI and utility staff on the first panel and state commission and municipal power agency staff on the second panel. For example, the panelists generally seemed to agree that: A number of accounts within the FERC USoA – in particular the series 500 and 800 accounts – typically do not apply to service company activities and assets. Service company assets usually consist of office furniture, computers, and the like, not generation and transmission plant covered by those accounts. Proposed Schedule XV-A, “Utility Operating Expenses,” would not provide useful information and could be dropped. Information distinguishing between utility and non-utility activities outside a service company’s holding company is not necessary because there usually is little such

external activity and there is little risk of cross subsidization or need for regulatory review in such an arms-length context. EEI encourages the Commission to adopt our recommended streamlining changes in these areas – by not requiring companies to keep or to report information broken down into the 500 and 800 series accounts (though a company should be allowed the *option* of using these accounts) or broken down by utility versus non-utility activities outside the holding company, and by deleting proposed Schedule XV-A. We also encourage the Commission to adopt other streamlining measures, a number of which we have described in our June 2006 comments.

In addition, at the conference, Commission staff provided some helpful clarifications of certain provisions in the NOPR, and those clarifications were well received by the panelists. For example, the staff noted that when the NOPR uses the term “work order system,” this means a regularized system for tracking work done by a service company and ensuring that the work is accurately billed to the appropriate client with sufficient information so the client can properly reflect the charge on its own books. While this system can involve the use of actual “work orders,” other mechanisms can be used. Similarly, in sidebar discussions, staff seemed to agree that the concept of periodic “bills” does not mean that service companies need to send paper bills to each of their clients once a month, as long as the clients receive sufficient information about service company charges and the work performed to validate and reflect the charges in their own books. EEI encourages the Commission to adopt these clarifications, noting that service companies may use various methods for notifying their clients

of work performed and of charges for that work, that detailed billing is not required as long as affiliate companies have access to detailed information about the bills as needed, and that actual work orders and paper bills are not required.

Finally, as proposed in the NOPR, EEI encourages the Commission to keep the final rule's accounting and reporting requirements focused on centralized service companies. The Commission should not extend the accounting and reporting requirements to single purpose service companies, nor to parent holding companies. EEI strongly disagrees with proposals by others to prohibit holding companies from modifying their corporate structure or organization by shifting service company functions within or external to the holding company. Such constraints are not authorized by the Federal Power Act ("FPA"), the Energy Policy Act of 2005 ("EPA 2005"), or PUHCA 2005, and such constraints would be inappropriate as well as unnecessary.

II. The Commission Should Streamline the Service Company Reporting Requirement, and Keep the Final Rule Focused on That Issue.

A. *The December 2005 Form 60 With Streamlining Should Suffice.*

At the technical conference, Commission staff noted that they need sufficient information about service company activities and finances to be able to provide regulatory oversight and that they prefer uniformity and transparency to assist in providing this oversight. The staff expressed skepticism that service company financial statements for investors and the public, provided for example in Securities and Exchange Commission ("SEC") Forms 10-K and 10-Q, would suffice for Commission regulatory purposes. The staff also noted that one of

their key areas of concern is the need to ensure that there is no improper cross-subsidy when electric utilities are dealing with associates, such as a service company within their holding company. See, e.g., transcript pages 45 to 53. State commission and municipal staff on the second panel at the technical conference echoed this point, noting that they too want sufficient information to review company finances to ensure that their retail customers are charged appropriately for services by such companies.

In response to these concerns, EEI has reconsidered our recommendation for the Commission to rely on information provided in the SEC Forms 10-K and 10-Q, supplemented by selected additional information the Commission may need. Instead, we recommend that the Commission retain the December 2005 Form 60, with some streamlining, to provide the information, uniformity, and transparency that Commission staff have indicated the Commission needs to perform its responsibilities. We believe that a streamlined version of the December 2005 Form 60 would provide ample information for the Commission to understand and to evaluate centralized service company finances, without the need dramatically to expand the Form 60 as proposed in the NOPR. Such information, together with data the Commission receives directly from utilities and the Commission's new section 203 regulations, should suffice to enable the Commission to perform its regulatory responsibilities, including to prevent inappropriate cross subsidization.

At a minimum, we encourage the Commission to work with a streamlined version of the December 2005 Form 60 for some time before considering

whether the Commission really needs additional service company information. Then if the Commission believes it may need additional information, we encourage the Commission to engage in a collaborative dialogue with EEI members about the need for the information and how the information can be kept to a reasonable minimum. Such a dialogue would help the electric utility industry better understand the Commission's needs and would enable us to provide useful suggestions for minimizing burden and improving efficiency. At the technical conference, Commission staff invited such input, suggesting that such a dialogue would be useful. See, *e.g.*, transcript page 53.

Meanwhile, EEI believes that the Commission and its state counterparts already have ample information from the public utilities they regulate to ensure that the utilities are not incurring inappropriate charges or passing them along to customers. Indeed, such issues are at the heart of ratemaking reviews by the Commission under FPA sections 205 and 206,² as well as reviews of utility dispositions and acquisitions of property and securities under FPA sections 203 and 204,³ and state commissions engage in similar reviews as to retail rates and the costs that may affect them.

In individual cases, if the Commission or its state counterparts need additional information about particular charges showing on utility books, the Commission or the state counterparts already can and do request such additional information from the utility, which as necessary obtains that information from its associates, including associated service companies. The fact is that the service

² 16 U.S.C. 824d and 824e.

³ 16 U.S.C. 824b and 824c.

companies already are providing sufficient information about their activities to the utilities to enable the utilities to keep their books and report to the Commission and its state counterparts. This raises a fundamental question about whether the Commission does need more information from the service companies.

In fact, the Commission has recently put in place new regulations implementing FPA section 203 as modified by EAct 2005 section 1289.⁴ These regulations apply to dispositions of assets, acquisitions of securities, and changes of ownership or control involving utilities. The regulations provide some blanket authorizations for certain well-defined activities, but they require case-by-case Commission approval for other activities. The regulations also require utilities to provide assurances that those activities will not involve cross subsidies or encumber utility assets for the benefit of associate companies except as such subsidies and encumbrances are demonstrably in the public interest. Thus, the Commission is already ensuring that utilities will not engage in inappropriate cross subsidies through transactions with associates.

In addition, as the Commission properly noted in Order No. 667, Congress has repealed the complex regulatory structure of the Public Utility Holding Company Act of 1935 (“PUHCA 1935”) and in its place passed the streamlined books-and-records provisions of PUHCA 2005. As a result, in that order, the Commission properly took careful steps to streamline its regulations under

⁴ Transactions Subject to FPA Section 203, Order No. 669, 71 Fed. Reg. 1348 (January 6, 2006), FERC Stats. & Regs. ¶ 31,200 (2005) (“Order No. 669”); *order on reh’g*, Order No. 669-A, 71 Fed. Reg. 28422 (May 16, 2006), FERC Stats. & Reg.s ¶ 31,214 (2006); *order on reh’g*, Order No. 669-B, 71 Fed. Reg. 42579 (July 27, 2006), 116 FERC 61,076 (2006).

PUHCA 2005 and to avoid importing unnecessary requirements from the prior regulatory regime under PUHCA 1935, including complex reporting requirements such as the SEC Form U13-60.

Indeed, Chairman Kelliher issued a statement relating to the Commission's recent order on rehearing of Orders No. 667 and 669. In that statement, the Chairman noted:

For example, with respect to the argument that the exemption for transactions independent of public utilities should be interpreted to "ring fence" jurisdictional utilities from the holding-company's non-utility operations, we note that Order No. 667 rejected requests that urged the Commission to adopt new rules on cross-subsidization, encumbrances of utility assets, and diversification into non-utility businesses. We [rejected such requests] there, which [action] we uphold here, because PUHCA 2005 gives the Commission no authority to issue additional rules in these areas and because we believe rules under the Federal Power Act and the Natural Gas Act are sufficient to prevent cross-subsidization. With respect to the argument that the Commission should adopt regulations to prohibit public utilities from providing financial support to the non-utility businesses of their parent holding companies, the order notes PUHCA 2005 is primarily a books and records statute and does not give the Commission any new substantive authorities, other than the requirement regarding review of certain non-power goods and services cost allocations. In addition, PUHCA 2005 does not give the Commission the authority to pre-approve holding company activities.

See <http://www.ferc.gov/press-room/statements/kelliher/2006/04-20-06-kelliher-M-1.asp>. See also Order No. 667-A at P.23, n.43, and PP.48-59, and Order No. 669-A at P.62.

In this current rulemaking, EEI encourages the Commission not to undo its careful analysis in the Order No. 667 by imposing unnecessary new accounting and reporting requirements. In this regard, we note the opening remarks by Susan Court at the technical conference: "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.” That rehearing has since concluded, leaving those orders intact.

We also encourage the Commission not to collect each item of information that one or more state commission staff or others might find useful if the information is not directly needed by the Commission or its staff. State commissions already collect voluminous information from utilities and as needed their associate companies, and the companies provide substantial information to the public. The Commission need not expand its information collection activities to collect information for others.

Instead, if the Commission believes that it needs information regularly and directly from the service companies, as appears to be the case based on the NOPR and technical conference, EEI encourages the Commission to keep the service company reporting requirement as streamlined as possible. In Order No. 667, the Commission set out a relatively simple version of the Form 60 that most centralized service companies completed earlier this year. While quite detailed, that version of the Form 60 was less onerous than the old SEC U13-60 and than the version of Form 60 proposed in the April 2006 NOPR. Indeed, EEI was dismayed to see the dramatic expansion of the Form 60 proposed in the NOPR.

Therefore, in crafting a service company reporting requirement in the final rule, EEI encourages the Commission to start with the December 2005 Form 60 and to adopt the streamlining recommendations that we made in our June 2006 comments. We encourage the Commission not to expand the Form 60 as proposed in the NOPR.

B. *EEI Recommends Streamlining the December 2005 Form 60.*

As for streamlining the Form 60, given the general agreement that the series 500 and 800 accounts typically do not fit typical service company activities, the Commission should not require service companies to use those accounts in the form, though companies should have the option to do so.

Likewise, given the general agreement that the information in Schedule XV-A is not needed, the Commission should not include it in the form.

Also, given the general agreement that service company work for non-associates need not be broken into utility versus non-utility work, the Commission should not require reporting of costs of such non-associate work broken down by utility versus non-utility. See, e.g., comments by Mr. Ferris on page 97 of the transcript: "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." Also, see comments by Mr. Mitchell on page 107 of the transcript: "Second there are several schedules in the proposed FERC Form 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." Thus, for example, as EEI requested in our June 2006 comments, we encourage the Commission not to require breakdowns by associate utility versus non-utility in Schedules XVI and XVII. Instead, the Commission should rely on the information provided following Schedule XV of the December 2005 Form 60, "Analysis of Billing Associate Companies – Account 457."

In addition, EEI encourages the Commission to adopt the other streamlining changes described in our June 2006 comments, in particular section III of the comments. Those changes involve capital, tax, and other information.

We also encourage the Commission to delete certain additional information that we did not mention in our June 2006 comments, specifically: (1) in Schedule V, the line item “Analysis of Convenience Payments,” which does not provide useful information; and (2) following Schedule XVII, the account 920 “Analysis of Salaries,” which duplicates Schedule XVII information.

We further recommend that the Commission allow companies to set a materiality threshold, so items less than some *de minimis* amount do not need to be broken out in the Form 60. We suggest as the *de minimis* amount \$100,000, 1 to 5 percent of company billings, or 10 percent of the total amount on a particular schedule, whichever is higher. In this regard, the SEC “PUHCA Staff Examination Instructional Manual,” Section IV.A.3(c), advised their staff to use a \$50,000 or 5 percent threshold to determine if allocation methods should come to the attention of the SEC for approval.

In addition, we encourage the Commission to reinstate a rounding instruction contained in the December 2005 Form 60, which provided that “All money amounts required to be shown in financial statements may be expressed in whole dollars, in thousands of dollars or in hundreds of thousands of dollars, as appropriate and subject to provisions of Regulation S-X (210.3-01).” The NOPR relies on Form 1 instructions, which do not include this ability to round. We encourage the Commission to reinstate the earlier instruction.

III. The Commission Should Not Require All Service Companies to Keep a Single Uniform System of Accounts.

EEl encourages the Commission, in the final rule, not to require service companies to keep a single, standardized chart of accounts. The Commission can achieve the uniformity, transparency, and regulatory oversight it desires through a reasonable Form 60, without being prescriptive as to how a service company keeps its books. In turn, service companies will naturally update their accounts to report the required information, and they are likely to do so more cost effectively than if the Commission requires a single, rigid approach to keeping their books.

It is one thing to require service companies to provide access to their books and records, for example by reporting their finances in a streamlined annual Form 60, if the Commission needs such information to oversee interactions between the service companies and utility associates – though as we have already said, we believe such oversight more appropriately occurs through review of utility rate and transactional proposals and case-by-case requests for further information when needed rather than imposing a far-ranging information burden on the service companies.

It is quite another thing, however, to require the service companies to keep their books and records in a single, standardized format, especially if that format does not fit the service company activities, or imposes a significant new burden on the companies with little if any corresponding benefit. The SEC did not require such a single, standardized chart of accounts under PUHCA 1935, nor should the Commission do so under PUHCA 2005.

As long as service companies are keeping accurate books and records, are providing the Commission with information it needs, and are providing utilities with information they need to reflect on their own books and FERC reports, the Commission should not require the service companies to change their charts of accounts. In fact, service companies are keeping accurate financial records in accordance with Generally Accepted Accounting Principles (“GAAP”). Those records are subject to review by company management and by internal and external auditors to ensure accuracy and to ensure compliance with the securities laws and the Sarbanes Oxley Act of 2002 (“Sarbanes Oxley”). Furthermore, those records have enabled the service companies to complete the December 2005 Form 60 and to provide associate utilities with the information that the Commission and its state counterparts have needed.

At a minimum, the Commission should not require use of accounts that do not make sense for a given service company. As already noted, for example, for many service companies, the series 500 and 800 accounts will not make sense. Furthermore, depending on each service company’s activities, a different array of accounts will most accurately reflect the company’s activities. This calls for flexibility, not a standardized chart of accounts.

In addition, as described in some detail in our June 2006 comments, requiring companies to adopt a single chart of accounts will impose substantial costs. It takes months and substantial resources to adopt changes to a company’s accounting system. Company staff must determine how best to redirect financial information to the new accounts, this information must be

conveyed company-wide through training and information, company accounting software must be modified, the internal controls that ensure accuracy within the accounting system must be adjusted, these changes must be tested, and all of these modifications must be reviewed by company management and internal and external auditors. Companies need at least six months to make such changes, all the while completing quarterly and annual financial reports. Substantial changes can cost in the millions of dollars. Thus, the Commission should not impose changes in service company charts of accounts lightly, nor do so without significant, comparable, demonstrable need and benefits.

IV. The Commission Should Define “Work Order System” and Interpret “Billing” Broadly, As Discussed at the Technical Conference

As already noted, at the technical conference, Commission staff provided some helpful clarifications of the terms “work order system” and “billing” that offered hope that the NOPR is not proposing onerous changes in these areas. EEI encourages the Commission explicitly to adopt those clarifications in its final rule.

Specifically, at the technical conference, seeing that industry panelists were concerned about having to institute a formal work order system for tracking work done by service companies for their clients, the staff noted that they view the term “work order system” broadly as “a system of accounting that allows costs to be captured and aggregated in such a way that it achieves some objective.” Jim Guest remarks at page 121 of the transcript. As industry panelists noted, and Commission staff seemed to agree, such systems can

include use of actual work orders, electronic notifications, bills, ledger entries accessible to the companies for whom the work is being done, summary reports, activity-based accounting systems, or the like. Jim Mitchell of the NYPSC also agreed with the concept of such flexibility, in remarks at pages 105-106 and 121-122 of the transcript.

EEl recommends that the Commission replace the current definition of “work order system” in proposed 18 C.F.R. § 367.1 (49) with the following broader definition: “Work order system means a system for the accumulation of service company costs on a job, project, or functional basis. It includes any method used to account clearly for charges billed to single and groups of associate and non-associate companies, including but not limited to use of actual work orders, electronic notifications, bills, ledger entries, or activity-based accounting software systems.”

EEl also encourages the Commission to reflect this broad meaning of the term “work order system” throughout its final rule, by conforming the rule’s regulatory text and preamble to this broadly defined concept. A number of the regulations proposed in the NOPR contain specific references to “work orders” or assume that a company will have “work orders.” These provisions need to be revised to avoid implying that work orders are required. These proposed regulations include 18 C.F.R.:

- § 367.24(a), which says the work order system should be able to track construction costs to specific service contracts or projects;
- § 367.27, which refers to “summary of the accounts by work order”;

- § 367.28, which says “Indirect costs and compensation for use of capital must be allocated to work orders”;
- § 367.58(a), which says “Each service company must record all construction and retirements of service company property by means of work orders or job orders. Separate work orders may be opened for additions to, and retirements of, service company property or the retirements may be included with the construction work order”;
- §§ 367.4571, 4581, and 4591, which say “This account must include those direct costs that can be identified through a work order system as being applicable to services performed for” associate utility companies, associate non-utility companies, and non-associate companies, respectively;
- §§ 367.50(d), 367.52(c), 367.1070(b), 367.1080(c), 367.1520, 367.1850, and 367.9240(d), which explicitly refer to “work orders”; and
- Record Retention Requirements No. 13, 15, 16, 17, and 19, which also refer to “work orders.”

These regulations need to be modified by deleting references to work orders or that otherwise suggest a particular work order system or method of allocating costs is required.

Without these changes, as we noted in our June 2006 comments, the cost to companies to adopt formal systems actually based on use of work orders would be quite high, and it would produce no comparable benefit. Again, the SEC did not require the use of a formal work order-based system, nor should the Commission.

Similarly, the NOPR’s reference to monthly bills has raised a concern that service companies would have to produce detailed monthly bills, potentially even on paper, to each of their clients. In this modern age of electronic billing and bill payment, such a requirement is both unnecessary and inappropriate, as long as the service company clients are receiving accurate, timely information about the

work being done for them and the cost of that work. Again, that information can be conveyed in a number of ways, not simply through monthly bills. In sidebar discussions, Commission staff at the technical conference seemed to agree and said they certainly did not envision paper bills. The staff's main goal seemed to be to have some way to see a breakdown of charges to the service company clients, in particular associate utilities.

Again, therefore, we encourage the Commission to clarify in both the regulatory text and preamble to the final rule that service companies can "bill" their clients using a variety of mechanisms, including electronic notifications, bills, ledger entries accessible to the companies for whom the work is being done, summary reports, or the like. Furthermore, the Commission should clarify that it is not requiring detailed bills for non-associate companies, nor for associate companies as long as the associates have access to additional information if they need it. As we noted at the technical conference, centralized serviced company bills should not have to be any more complex or detailed than bills by any other service provider.

In providing these clarifications, the Commission can take comfort that it already has information from each company about the tracking and billing mechanisms the companies use. Item 10 of the Instructions to the December 2005 Form 60 required each service company to "submit with each annual report a listing of the currently effective methods of allocation being used by the service company and on file and approved previously by" the SEC pursuant to PUHCA 1935. Ideally, the Commission should modify this instruction to require a

company to provide the information only once, with later notification only of substantial changes in method in subsequent Form 60s.

V. The Commission Should Apply the New Recordkeeping and Reporting Requirements Only to Centralized Service Companies

The Commission should not adopt requests by others to extend the final rule's accounting and reporting requirements to single purpose service companies. Nor, contrary to our brief discussion of this issue at the technical conference, should the Commission extend the accounting and reporting requirements to parent holding companies, even if the parents provide some services to their subsidiaries. Also, the Commission should not adopt requests to impose constraints on whether and how holding companies establish service companies to provide services to their subsidiaries.

As EEI staff noted at the technical conference, and as we observed in our June 2006 comments, the purpose of centralized service companies is to provide economies of scale by consolidating services to subsidiaries within a holding company. These services may include accounting, legal, engineering, computer, operation and maintenance, or other services, depending on whether a holding company determines that it makes sense to have a service company provide such services centrally.

The decision whether to establish a centralized service company, and what services it should provide, is one that must be made by each holding company and its subsidiaries. In many cases, having a centralized holding company provide certain services will make sense, but not in all cases and not as

to the same array of services for each holding company. Also, circumstances may change so that use of a centralized service company at least for certain services no longer makes sense, and holding companies need to be able to adjust their organization and operations accordingly.

The decision whether and how to use service companies must be left to the holding company and its subsidiaries, not determined by the Commission in this rulemaking as some have advocated. Furthermore, neither the FPA, nor EPAAct 2005, nor PUHCA 2005 gives the Commission authority to regulate holding company structure and operations in such a manner. As the U.S. Court of Appeals for the D.C. Circuit noted in *CAISO v. FERC*,⁵ the Commission's authority under the FPA is not unbounded, but is defined by the statute, starting with the plain language of its provisions. Nothing in these statutes authorizes the Commission to place limits suggested by others on a holding company's use or modification of its use of service companies.

In some cases, rather than using a centralized service company, a holding company may elect to have one or more relatively narrow functions performed by a single purpose service company. For example, some EEI member holding companies have single purpose branches that provide such narrow services as credit factoring services or managing accounts receivable. Those companies may not even have independent staff, and they perform such narrow services as not to warrant application of the PUHCA rule's accounting and reporting requirements. Therefore, the Commission is correct not to extend the rule to

⁵ 372 F.3d 395 (2004).

apply to such single purpose companies. As the Commission noted in Order No. 667-A, special purpose service companies and centralized service companies are different and “it is appropriate to adopt a different standard for each.” Order No. 667-A, P.48.

At the technical conference, the question arose whether a holding company that itself is providing centralized service company services to its subsidiaries should be subject to the final rule’s accounting and reporting requirements. The NOPR would apply those requirements only to centralized service companies, not to parent holding companies, a distinction EEI fully supports. Despite discussion to the contrary at the technical conference, therefore, EEI encourages the Commission not to extend the final rule’s accounting and reporting requirements to parent holding companies, even if the parent is providing some services to its subsidiaries.

The Commission already has concluded in Order No. 667 that the Form 60 and related accounting requirements should apply only to centralized service companies, not parent holding companies. We believe this decision is well founded. Parent holding companies and their subsidiaries may own a variety of assets and undertake a variety of activities that include but are not limited to or even necessarily primarily focused on electric or gas utilities. At the same time, the parent company’s primary activity may consist of holding stock in its subsidiaries. In other cases, the parent company itself may be a utility that owns another utility.

To require the parent companies to shoehorn their finances into a USoA chart of accounts or to the Form 60 would not make sense, especially given that their utility subsidiaries already comply with the USoA and file detailed financial information in the Form 1, and their centralized service companies will file detailed financial information in the Form 60. Again, even under PUHCA 1935, the SEC did not require such detailed information from registered or exempt holding companies.

Moreover, if the Commission should start to extend the final rule's requirements beyond centralized service companies, the Commission would have to address a variety of potential scenarios in order to define the circumstances in which the requirements would apply to others. This would further complicate the rule and certainly cannot be undertaken based on the record in this proceeding. Also, the Commission would increase the burden of the final rule substantially, requiring additional companies to undertake additional measures to comply with the extension of the rule. This is a slippery slope that we encourage the Commission not to take.

As reflected in the above quote from Chairman Kelliher's statement in relation to Orders No. 667 and 669, in PUHCA 2005, Congress gave the Commission only one substantive role – the authority to review non-power cost allocations by centralized service companies *if* requested by a State or holding company under EAct 2005 section 1275. That Congress itself focused only on cost allocations relating to centralized service companies lends substantial credence to the Commission's focus in this NOPR on such centralized service

companies and not their parent holding companies or single or separate-purpose service companies. This distinction makes good sense because centralized service company charges are cost-based.

In fact, in Order No. 667, at P.84, the Commission adopted a definition of “service company” based on EPCRA section 1275, as recommended in EEI’s comments in that earlier proceeding. See 18 C.F.R. § 366.1. We encourage the Commission to stay the course set out in the NOPR, by applying the final rule’s reporting requirements, and accounting requirements if any, only to centralized service companies.

VI. Conclusion and Contact Information

In conclusion, if the Commission believes that it does need such information from centralized service companies, EEI encourages the Commission to adopt a streamlined Form 60 based on the Commission’s December 2005 version of the form, with changes EEI recommended in our June 2006 comments and these supplemental comments to further streamline the form. We strongly encourage the Commission not to adopt the version of the form proposed in the NOPR.

In addition, we encourage the Commission not to require each service company to keep a single, standard chart of accounts. Instead, the companies should be able to continue keeping their books and records using charts of accounts tailored to their individual activities and circumstances, the best way to ensure accurate, representative information.

Furthermore, we encourage the Commission to adopt broad interpretations of the concepts “work order system” and “billing” that allow service companies substantial flexibility in how they track and bill clients for work the companies perform, without the need for actual work orders, detailed bills, or paper bills, as discussed at the technical conference. The service companies should not have to change their current allocation or billing mechanisms, which already accurately track and provide information to their clients on the work performed.

We also encourage the Commission to keep the final rule’s accounting and reporting requirements focused on centralized service companies rather than expanding these requirements to apply to single or separate purpose service companies or parent holding companies. We agree with the NOPR’s focus on the centralized service companies. Single or separate purpose companies typically perform functions that are too narrow and specialized to warrant the level of accounting and reporting envisioned in this rule. On the other hand, parent holding companies are too diverse to shoehorn into the utility-focused accounting and reporting anticipated in the NOPR for centralized service companies. Thus, the Commission is correct not to impose its accounting and reporting requirements on single purpose service companies and parent holding companies.

Finally, EEI requests that the Commission adopt the other recommendations we have made in our June 2006 comments, including as to timing of the new rule, delegations of authority to the Commission Secretary, and

not requiring Commission approval to list items as extraordinary. Taken together, our June 2006 comments and these supplemental comments recommend improvements that should reduce the complexity and burden of the proposed rule without impeding the Commission's ability to implement its responsibilities under PUHCA 2005.

If you have any questions regarding these supplemental comments, please contact either me or Henri Bartholomot at (202) 508-5622 or David Stringfellow at (202) 508-5494 on EEI staff.

Respectfully submitted,

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