UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Financial Reporting and Cost Accounting,	**)**	
Oversight and Recovery Practices for	**)**	**Docket No. RM04-12-000**
Regional Transmission Organizations	**)**	
And Independent System Operators	**)**	

COMMENTS OF THE AMERICAN PUBLIC POWER ASSOCIATION ON NOTICE OF INQUIRY

Pursuant to the "Notice of Inquiry" ("NOI") issued in the above-noted docket on September 16, 2004, and the Commission's October 8, 2004 "Notice of Extension of Time," the American Public Power Association ("APPA") submits its comments on accounting and financial reporting requirements for and oversight of Regional Transmission Organization ("RTO") and Independent System Operator ("ISO") costs.

I. EXECUTIVE SUMMARY

APPA appreciates the opportunity to comment on the NOI in this docket. The Commission in its NOI asked a number of specific questions on RTO/ISO accounting and financial reporting issues, which APPA answers in Section IV of these comments. APPA's main points, however, are as follows:

- APPA is increasingly alarmed by spiraling RTO development and operations costs. APPA recently surveyed its members in RTO regions. Most responding members reported substantially increased costs—both direct costs payable to their RTOs and indirect costs incurred to participate in RTO markets and to cope with RTO billings and settlements. The Commission cannot deal with RTO/ISO accounting and financial issues without also confronting this "elephant in the living room."

- The Commission should revise its Uniform System of Accounts ("USofA") to reflect changes in industry structure and reallocation of electric power supply and delivery functions among industry participants. RTO/ISO costs and functions do not "map" well to the current USofA functions and accounts. The same types of problems occur when RTOs/ISOs submit Form 1s. APPA therefore suggests specific new functional categories, accounts, and reporting requirements for RTOs/ISOs, as well as individual transmission-owning public utilities participating in RTOs/ISOs.

- Commission accounting and financial reporting requirements should allow stakeholders and regulators to identify easily the costs RTOs expend the carry out their various functions. In particular, they should be able to see clearly the costs that RTOs/ISOs expend to develop new functionalities and markets, separate from the ongoing costs of current RTO/ISO operations.

- APPA recommends that the Commission develop a revised "strawman" USofA and Form 1 reporting regime to account for RTO/ISO functions, and include these proposals in a formal Notice of Proposed Rulemaking ("NOPR") issued in this docket. This NOPR should also explore mechanisms to contain and reduce RTO/ISO costs, through more rigorous audits and rate reviews, increased stakeholder involvement in RTO/ISO rate and budget matters, and elimination of RTO/ISO cost centers and services that do not provide sufficient benefits to end-use consumers to justify their costs.

II. INTERESTS OF APPA AND ITS MEMBERS

APPA is the national service organization representing the interests of not-for-profit, publicly owned electric utilities throughout the United States. More than 2,000 public power systems provide over 16 percent of all kilowatt-hour (kWh) sales to ultimate customers in the United States. Approximately 1,870 of these systems are cities and municipal governments that currently own and control the day-to-day operation of their electric utility systems. They purchase nearly 70 percent of the power used to serve their ultimate consumers. Public power systems own about eight percent of the nation's high-voltage transmission lines, although many of these lines are configured to deliver energy to their own centers, and not to provide transmission service in interstate commerce. On balance, public power systems buy much more energy and transmission than they sell to third parties.

APPA members are located within the footprints of, provide services to, and purchase services from each of the currently functioning FERC-jurisdictional ISOs and RTOs, including ISO New England ("ISO NE"), the New York ISO ("NYISO"); the PJM Interconnection ("PJM"); the Midwest ISO ("MISO"), and the California ISO ("CAISO").[1] APPA also has members in the Southwest Power Pool ("SPP") region, where RTO formation is under active consideration, and in those regions of the country with no ISOs or RTOs. A number of APPA members participate in RTOs and ISOs as non-jurisdictional Transmission Owners ("TOs"), and numerous members take transmission service from one or more RTOs and ISOs as transmission customers.

All APPA members are Load-Serving Entities ("LSEs"), with the primary goal of providing customers in the communities they serve with reliable electric power and energy at the lowest reasonable cost, consistent with good environmental stewardship. This orientation aligns the interests of APPA member electric utilities with the long-term interests of the residents and businesses in their communities. The rising costs of RTOs and ISOs, particularly in light of APPA member skepticism that ultimate consumers are in fact benefiting from RTO formation, has raised RTO accounting, cost-effectiveness, and ratemaking procedures to the front burner in recent APPA policy discussions. For these reasons, APPA and its members have a substantial interest in the issue of oversight of RTO and ISO costs and proper accounting and financial reporting requirements for RTOs and ISOs.

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[1] The ERCOT ISO is not FERC-jurisdictional, and hence is not discussed in these comments, although APPA also has members in the ERCOT footprint.

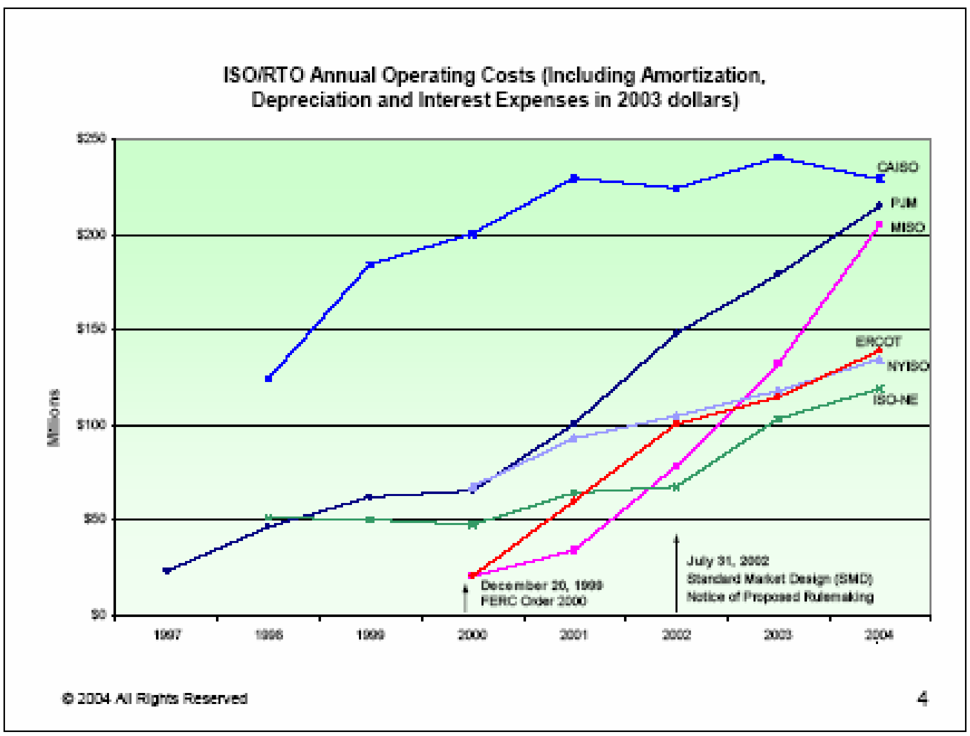
III. GENERAL COMMENTS

A. RTO Costs are a Pivotal Policy Issue

1. RTO Costs are Increasing Rapidly

APPA members have become increasingly alarmed by the spiraling development and operational costs of the current FERC-jurisdictional RTOs. The Public Power Council has estimated that since 2000, total U.S. RTO operating expenses have increased by 143 percent, and are growing at an annualized rate of 20 percent per year, largely due to increases in operational size and scope. In 2004, $1.04 billion will be spent funding the operation of the five FERC-jurisdictional RTOs and the ERCOT ISO.[2] It seems that RTO personnel, administrative, hardware and software costs are running out of control, without sufficient appreciation of the impact of these costs on the electric consumer.

FIGURE 1



2 "Comparative Analysis of RTO/ISO Operating Costs, August 17, 2004." © Public Power Council. Used with permission. http://www.ppcpdx.org/ComparativeAnalysisTWO.FINAL.pdf.

APPA recently conducted a survey of its members located within RTOs/ISOs. The results were overwhelmingly negative. Few respondents identified significant cost savings or operational benefits that were directly attributable to RTO formation, while most reported increased costs—both the direct costs incurred to pay RTO expenses and the indirect costs required to modify their operations to participate in increasingly complex and always changing RTO markets. A few participants concluded that they benefited from the increased energy market transparency RTOs provided, but on balance, respondents reported that their incremental costs exceeded the measurable benefits. Where RTOs were compared to the pre-existing tight pools of the Northeast, respondents saw few benefits and substantially increased costs, due to the transition to bid-based markets. Members in the Midwest and in California believe equally strongly that RTO costs in those regions are out of control. That APPA members are concerned about RTO costs is not news to the Commission. Indeed, the first document placed on file in this proceeding was a letter to Chairman Pat Wood III from Marc Gerken, President and CEO of AMP-Ohio, Inc., outlining his concerns about rising RTO costs and seams issues that AMP-Ohio confronts on a daily basis because its loads and resources are split between two RTOs.[3]

In theory, properly designed and configured RTOs have the potential to provide significant benefits to ultimate consumers. But the actual experience of APPA members has been that RTO design flaws and problematic initial conditions (particularly

3 *See*, Letter dated September 9, 2004, from Marc S. Gerken, President and CEO of AMP-Ohio, Inc. to FERC Chairman Pat Wood, describing increased costs AMP-Ohio has incurred due to implementation of RTOs, including payment of $5.9 million annually in RTO administrative costs, at: http://ferris.ferc.gov:0/idmws/file_list.asp?document_id=4238777; Letter Response of FERC Chairman Pat Wood to Marc S. Gerken, dated October 14, 2004 (filed in FERC Docket No. RM04-12-000) (Document Accession No. 20041022-0037).

substantial transmission constraints and concentrated generation markets) have led to rising RTO costs and complexity, leaving consumers worse off than they were before the grand experiment with RTOs was initiated. APPA members also observe that the Commission has tended to give short shrift to existing regional institutions and innovations that could address many of the problems RTOs were formed to solve, but at much lower costs. The fact is that RTOs will not be successful unless and until they revamp their operations to put the interests of consumers first and foremost.

2. The Commission Should Develop Credible Estimates of the Economic Costs to Develop and Operate Day Two RTOs

The Commission's Staff on October 6, 2004, presented a report to the Commission on RTO costs.[4] That report asserts that a new RTO can be established for \$50–70 million, with annual revenue requirements of \$50–70 million, and that RTO costs can be minimized by taking a "lessons learned" approach. That report, however, suffers from at least three fundamental flaws. First, the report omitted costs incurred by certain RTOs which Staff regarded as outliers, including the CAISO (the very high costs of which a number of APPA members have paid and are still paying today). To provide a full picture, the costs of all ISOs should have been considered.

Second, the report considers only the costs required to set up a "Day One" RTO, without the "full functionality" that the Commission has sought from RTOs. According to Staff's own charts, investment costs for fully functional Day Two RTOs with bid-based markets featuring security-constrained economic dispatch, locational pricing, and

4 "Staff Report on Cost Ranges for the Development and Operation of a Day One Regional Transmission Organization," Docket No. PL04-16-000, Prepared by the Staff of the Federal Energy Regulatory Commission, October 2004. Available at http://www.ferc.gov/EventCalendar/Files/20041006145934-rto-cost-report.pdf

financial transmission rights could be expected to run from $100 million to $250 million, with annual operating expenses in the range of $125 million to $240 million.[5] Since the Commission's policy to date has been to require RTOs to move to Day Two operations, including only Day One costs presents only the tip of the cost iceberg. In APPA members' experience, development of complex "Day Two" LMP markets over large geographic regions can spawn huge increases in software-development budgets, which lead to correspondingly large increases in RTO hardware and personnel levels.

Third, the study considers only the RTO's own costs, and not the additional costs incurred by an RTO's numerous members and customers to comply with the RTO's procedures, markets, protocols and billings. ISO members and customers, including many APPA members, have had to ramp up their own internal operations, adding staff, hardware and software, simply to cope with ISO operations and markets, and to unravel the incredibly complex (and often erroneous) billings and settlement statements they receive from their ISOs. If the internal costs incurred by all market participants as a result of ISO formation and operation are taken collectively, APPA believes that they could be quite substantial.

For all of these reasons, APPA believes that already high and ever increasing RTO start-up and operations costs are a vitally important issue that this Commission must consider. The NOI is an important first step in the right direction, with its focus on improving accounting and financial reporting to put the right categories of RTO costs in the proper accounts, develop more precise cost allocations and rate designs, address RTO ratemaking processes and incentives, and permit more cross-RTO cost comparisons.

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5 Staff Report at pages 20-21.

While these are certainly worthy goals, APPA believes that any rulemaking in this docket must also address the “elephant in the living room”—why RTO costs are so high and getting higher, and what can be done to bring them down to more reasonable levels.

B. Cost Control and Accountability for RTOs

RTOs are government-sanctioned regional monopolies, designed to operate the grid, ensure safe and reliable operations, provide transmission and ancillary services, balance generation against load, and in many cases, use so-called “Day Two” bid-based energy and transmission markets to perform many of these functions. In the vast majority of cases, public power utilities and their counterparts in other industry segments have no choice but to participate in these RTOs’ markets. These markets are non-bypassable.

In APPA’s view, the Commission’s focus in Order No. 2000 on RTO independence was critically important and largely correct. However, there is now significant evidence that the Commission may have overshot the mark by creating independent boards that are insufficiently accountable to their ultimate stakeholders—the end-use customers that pay the RTO’s bills. No RTO is going to be successful until such customer accountability is hardwired into its operations and management. Processes that ensure accountability (for example, pre-approval of major RTO business initiatives) are key steps to ensure that RTO ratemaking processes result in rates that are both just and reasonable under the Federal Power Act and meet the needs of market participants.

C. Accounting and Financial Reporting Issues

1. Scope of the NOI and Subsequent Proposed Rule

APPA agrees that the Commission should explore “changes to the accounting, financial reporting, and cost recovery practices … necessary to ensure the rates charged by RTOs/ISOs and their member transmission-owning public utilities are just and reasonable." NOI at P 16. With respect to accounting and financial reporting issues, the scope of this inquiry should not be limited to RTOs, ISOs and their participating TOs. Rather, APPA recommends that the Commission expand the scope of the instant docket to amend the FERC Uniform System of Accounts ("USofA") to more accurately reflect and fully accommodate changes in industry structure and allocation of electric power supply and delivery functions adopted over the last 30 years, since passage of the Energy Act of 1978 and the Energy Policy Act of 1992. The revised USofA should be applied to RTOs, ISOs and other public utilities that perform some or all of the electric system operations and electric market functions described below. APPA believes that the existing USofA can be extended to encompass these functions without substantial changes to the existing accounts, although some plant balances and operating expenses should be reclassified.

APPA members support clear, accurate, and transparent measurement and disclosure of the costs and benefits of electric restructuring, including:

- *ex post* analysis of the outcomes of past decisions;
- *ex ante* analysis of the costs and benefits of proposals to further expand the scope and functionalities of RTOs;
- more accurate determination of cost incurrence and cost responsibility in support of the reasonableness of public utility rates;
- development of better incentives for public utility performance (including, but not necessarily limited to, RTOs and ISOs); and finally,
- comparison of costs and performance by activity or function across organizations to identify best practices and ensure that public utilities subject to FERC jurisdiction adopt such best practices where practicable.

2. RTO, ISO and Market Operator Reporting on Transmission and Energy Market Activity

APPA recommends that FERC require all RTOs, ISOs[6] and other transmission and market operators[7] to report annually in Form 1 and quarterly in Form 3Q both aggregated and detailed information on the energy, ancillary services and transmission services purchased from and provided to customers, whether such services are provided directly by the RTO or arranged through RTO markets. The information provided should include identification of parties and counterparties, the MWs and MWh received and delivered, transaction dates, as well as the associated payments and receipts. APPA recognizes that RTOs do not take title to the energy and transmission services that flow through their systems. Thus, they have no current obligation to report the information required in Form 1 concerning sales for resale, purchased power, and sources and disposition of energy. Nonetheless, given the complex, multi-party relationships fostered by restructuring, it is exceedingly difficult to make judgments about the performance of RTOs and the markets they operate without such data, prepared on a regular and consistent, audited basis. Such data would provide initial support for performance benchmarking across RTOs as well as assisting policymakers in their evaluation of the electric industry.

[6] Hereafter, these comments will use "RTOs" and "ISOs" interchangeably and inclusively except as the context requires differentiating between such organizations, *e.g.*, based on considerations of independence or scope and configuration.

[7] Other public utility operators of transmission and energy markets could include power exchanges, independent transmission providers or other entities that provide jurisdictional services without taking title to the associated energy or transmission.

3. FERC's Accounting System Needs to Be Revamped to Respond to Changed Circumstances Caused by Industry Restructuring

The existing USofA was designed to account for the costs and revenues of vertically integrated public utilities that provide bundled, cost-based electric services to their retail and wholesale power supply customers, primarily though the direct ownership and operation of generation, transmission and distribution facilities. While many of the nation's ratepayers continue to receive and benefit from bundled cost-based electric services, today much of the nation is also served by RTOs, ISOs, stand-alone transmission companies (transcos), independent power producers (IPPs), wholesale marketers and retail marketers, which variously sell, purchase or self-supply a mixture of cost-based and market-based energy, transmission, and reliability-related services. In the past, review of a Form 1 would give the reader a basic understanding of a public utility's capital costs, production and transmission costs, the sources and disposition of its energy supply, and its sales to and revenues received from various relevant classes of customers. Today, the unbundled nature of wholesale and in some jurisdictions, retail electric services leaves FERC's electric accounting and reporting regime out of step with a changed industry.

To support the industry's blend of vertical integration and functional/structural unbundling, the USofA should be amended to establish plant, expense and revenue accounts corresponding to the transmission, ancillary service, generation interconnection, electric market, financial market and reliability functions identified in Order Nos. 888, 889, 2000 and 2003. The Commission should also continue to draw guidance from the

North American Electric Reliability Council's functional model.[8] This model is premised on the concept that reliability and market activities should be identified at a functional, task-analysis level, because while these activities must be performed by some entity, they nonetheless can be "rolled up" into different organizations in a variety of ways.

Much of the existing functional structure of the USofA is still sound. Plant and expenses are functionalized to major categories such as production (steam, nuclear, hydroelectric, other power production, other power supply), transmission, distribution and customer-related functions. General plant and administrative and general expense accounts remain as appropriate accounts for costs that can not be directly assigned to specific functions. The USofA, however, becomes inadequate when it comes to costs incurred and revenues received for new functions identified and required by industry unbundling. Nowhere is this more obvious than in the financial accounting of RTOs and ISOs, although we have no reason to believe that the accounting for such costs as incurred by other public utilities is any more consistent across companies.

APPA's review of the 2003 Form 1s of the existing FERC-jurisdictional ISOs and RTOs reveals substantial inconsistencies:

- One RTO recorded its plant balances as intangible plant (PJM), while others functionalized similar costs to transmission and general plant (MISO).
- In 2003, PJM recorded $52 million in Transmission Load Dispatching Expense (Account 561). ISO-NE reported $3 million. MISO recorded $0.
- NYISO recorded greater expenditures for Outside Services (Account 923, $20 million) and Regulatory Commission Expenses (Account 928, $14 million) than it

[8] Documents describing the NERC Reliability Functional Model can be downloaded at http://www.nerc.com/~filez/functionalmodel.html. *See* Midwest Independent Transmission System Operator, Inc., 105 FERC ¶ 61,145 (October 29, 2003) and Southwest Power Pool, Inc., 106 FERC ¶ 61,110 (February 10, 2004) for Commission Orders relying on the model.

did for Production and Transmission Expenses combined. ISO-NE, in contrast, recorded no Regulatory Commission Expenses.

- All three ISOs recorded all or nearly all of their revenues in a single account, Account 456, Other Electric Revenues, with no delineation for:

  — generation interconnection studies and fees;
  — tariff administration;
  — ancillary services;
  — energy market services;
  — financial transmission rights administration; or
  — billing and settlements,

  to name a few of the relevant charges.

- The detailed breakdown of Transmission of Electricity for Others included in Account 456 at Form 1, pages 328 – 330, is blank for PJM and NYISO. MISO's response is over 700 pages.

- And, of course, because jurisdictional RTOs and ISOs do not take title to any of the energy and capacity they transmit and do not take title to the energy, capacity and ancillary services that flow through their markets,[9] details on the sources and disposition of energy, monthly peaks and output, as well as the detailed presentations of Sales for Resale (Account 447) and Purchased Power (Account 555) are blank.

The nature of the costs and revenues that RTOs incur are well known. Almost all fall into categories such as buildings, computers and communication equipment, software and personnel used to manage system and market operations, and the staff and consulting expenses incurred to design these systems, gain stakeholder and regulatory approvals and then operate these systems. The RTO functions each of these activities support appear to be generally known. However, the absence of a meaningful functional framework to support cost accounting means that stakeholder and regulatory commission understanding of which costs support which functions is at best incomplete.

9 APPA notes that the Independent Market Operator in Ontario, Canada, does purchase and resell emergency energy required to reliably serve customers. See testimony of Stephen Kosey, Vice President and General Counsel of MISO, during presentation to FERC at the October 27, 2004, Commission Meeting, Agenda Item A-3, Presentation of John Bear, COO, MISO, on MISO market transition and seams agreement progress.

4. Next Steps

APPA recommends that the Commission propose a strawman accounting scheme, based on a review of the comments received in response to this NOI. APPA proposes one such strawman in Part IV of these comments. The Commission can incorporate this strawman scheme into a more formal Notice of Proposed Rulemaking, with technical conferences and less formal working meetings as appropriate. APPA also recommends that the Commission propose revisions to the FERC Form 1 and Form 3Q to reflect the revised accounting strawman and to ensure that RTOs and ISOs (and other public utilities) report fully on the jurisdictional services provided by the RTO/ISO or arranged through RTO/ISO markets.

IV. SPECIFIC COMMENTS ON QUESTIONS RAISED IN THE NOI

The Commission in its NOI (at P 20) requested commenters to "identify each specific question posed by the NOI that their discussion addresses and to use appropriate headings." In this section APPA complies with this Commission request by discussing the topics and questions the Commission has raised in the NOI, in the order there presented.

Accounting and Financial Reporting Issues for RTOs/ISOs

A.1. Are the individual account descriptions and instructions under the existing USofA adequate for the functions typically performed by RTOs/ISOs? If not, what changes should be made to the account descriptions and instructions under the existing USofA to accommodate the RTO/ISO business model? Are the changes so extensive that an entirely separate USofA should be developed to accommodate RTOs/ISOs?

The electric production and distribution cost account classifications in the current USofA do not correspond well to the RTO business model, as they are transmission service providers and market operators and not electric asset-owners and operators that provide electric services to their own customers. New account classifications should be developed that track RTOs' business functions, including their provision of transmission service, market-making functions, ancillary services provision, reliability functions and market monitoring activities. Such account classifications should be sufficiently detailed to allow the Commission to track separately the RTO/ISO start-up and operational costs incurred to create and administer full Day Two day-ahead and real-time markets, and costs incurred to administer Financial Transmission Rights ("FTRs") regimes. In the following sections, APPA proposes functional categories and associated modifications to the USofA to address these deficiencies.

A.2 Under the existing USofA costs are accounted for as electric production, transmission, distribution or general plant. What other accounts and functional classifications should be provided for RTO/ISO transactions and events? For example, are additional revenue, expense or detailed fixed asset accounts needed?

APPA Proposed Functional Framework

APPA recommends Commission consideration of the following functional categories for RTO Accounting. The central premise of the functional framework outlined below is that the core functions of RTOs, as identified in Order No. 2000, combine generation and transmission-related aspects of system operations and market operations in ways that are difficult to unwind. Thus, APPA proposes grouping such core RTO functions under a new category, "System Control and Market Operations." Then, where meaningful and economically significant cost centers can be identified, costs should be further functionalized using three categories:

- Production (including generation-related ancillary services) and transmission
- Planning and operations time horizons
- Reliability services and market services

To provide a foundation for the specific accounts proposed, in some cases additional detail is proposed to mirror RTO/ISO functions discussed in Order Nos. 888, 2000 and 2003.

System Control and Market Operations

System Operations:

- Real-Time Operations, Unit Commitment and Dispatching
  - Generation
  - Transmission
- Operations Planning (yearly, seasonal and shorter term of system operations)
- System Planning and Expansion
  - Bulk Electric System Transmission
  - Local Electric System Integration
  - Generator Interconnection
  - Generation Adequacy
- Reliability Coordination and Compliance
  - System Studies
  - Market Participant Compliance
  - Coordination with Interconnected System Operators

Transmission Services and Energy Market Operations:

- Tariff Administration
  - Transmission Service
    - — Request Evaluation
    - — OASIS and Transmission Rights Administration
    - — Transaction Scheduling (bilateral, RTO market, and interchange)
  - Ancillary Services:
    - — Reactive Power and Voltage Control
    - — Regulating Capacity
    - — Operating Reserves (spinning, non-spinning and replacement)
    - — Black Start
- Transmission Congestion, Energy and Capacity Markets Administration
  - Day-Ahead and Real-Time Energy Markets
  - Generation Capacity Markets
    - — Installed Capacity Markets
    - — Must-Run Generation Procurement
  - Transmission Congestion Markets
  - Transmission Rights Markets and Rights Administration (FTRs, TCCs)
- Market Monitoring and Market Rules Compliance

APPA has reviewed the FERC tariffs and budgetary documents of several RTOs and concludes that the many activities they perform can be mapped into the functional categories shown above. Many activities will of course support multiple functions and therefore will require specific instructions to ensure consistency in the functionalization and allocation processes RTOs use to link these cost centers to FERC accounts. It is our hope that the industry and the Commission will agree that we have properly followed the admonition that theoretical constructs should be "made as simple as possible—but no simpler," as Einstein reportedly advised.

APPA believes that most of the remaining functions RTOs perform (those not properly falling under "System Control and Market Operations" activities) are common to all types of public utilities and in all likelihood can be mapped in a straightforward manner into the existing FERC USofA for Customer Accounting, Customer Service and Information, and Administrative and General expenses.

APPA further recommends that costs incurred to redesign and modify existing RTO operating practices and procedures—including all costs incurred to develop or redesign Day Two markets—should be segregated from the ongoing costs of providing reliability, transmission and energy services to market participants. If the cost of current RTO operations is mingled with the substantial cost of market redesign on an RTO's books, then the Commission and the industry will have a distorted picture of the costs and benefits of current versus future operations—in the same way that including the costs of construction work in progress ("CWIP") in current public utility rates will overstate the costs incurred for current service and understate the real costs incurred to provide service in the future.[10] Activities such as market redesign, modification of existing rules to address design flaws and market abuse, and the negotiation of seams agreements with neighboring systems are analogous to the inclusion of CWIP in rate base.

APPA does not oppose *per se* the inclusion of such costs in current rates. Nor is it necessarily required that such costs be recovered separately from the costs of current system operations. The ongoing costs of such forward-looking incremental activities, however, should be segregated for cost accounting purposes from the costs of current system operation and maintenance, so that all stakeholders (and the Commission) can fully understand the costs required to achieve market redesigns and additional RTO functionalities.

APPA proposes the following cost categories for RTO administrative costs.

RTO Administrative, Corporate and Customer Support Functions

Customer Accounting, Services and Information:

- Settlement and Billing
- Customer Support (other than billing)
- Customer Training and Compliance

Administrative and General:

- Corporate Functions
  - Executive
  - Finance and Accounting
  - Information Technology
  - Legal
  - Human Resources
  - Internal Audit
- Regulatory and External Affairs
  - Stakeholder Activities
  - Regulatory Affairs
  - Tariff Modification and Redesign

[10] As a practical matter, APPA members have from time to time supported (or not opposed) including CWIP in rate base, to (for example) address the cash flow needs of public utilities in the midst of significant expansion programs. However, the Commission requires specific justification, including a showing of customer benefits and lack of anticompetitive effects, before allowing the inclusion of most types of CWIP in rate base, due to the intergenerational equity issues presented. See 18 C.F.R. § 35.25.

The administrative, corporate and customer support functions that RTOs perform are common to all types of public utilities subject to government economic regulation. In all likelihood, RTOs can map these functions in a straightforward manner into the existing FERC USofA for Customer Accounting, Customer Service and Information, and Administrative and General expenses. Thus, the current USofA should continue to be used. For example, the costs associated with performing billing and settlements properly belongs in Account 903, while regulatory activities, including the development of new energy market rules, belong in Account 928, Regulatory Commission Expenses.

APPA supports modification or clarification of the instructions for Account 928 to include costs incurred to obtain stakeholder approval and to prepare formal cases for filing before regulatory commissions.

APPA Proposed Accounting Strawman

APPA suggests the following "strawman" redesign to the USofA and to Form 1, which would allow retention of the existing accounts, without substantial renumbering.

- **Electric Plant**

Electric plant accounts 374 through 388 are currently unused. APPA recommends that a new functional group, System Control and Market Operations Plant, be established, with the following accounts that address the major plant cost centers for the information technology-based functions performed by RTOs, ISOs and other potential public utility system and market operators:

System Control and Market Operations Plant

380 Land and Land Rights
381 Buildings
382 Office furniture and equipment
383 Computer hardware
384 Computer software
385 Communications equipment
386 Miscellaneous equipment
387 Reserved

The additional account categories APPA suggests should also facilitate more straightforward calculation of applicable depreciation rates, by not commingling property types with dissimilar useful lives. For example, computer hardware and software have very short economic lives, in the range of two to seven years, even if the physical lives of such equipment is much longer. In contrast, some classes of communications equipment may have lives of 10 or 20 years.

Plant costs incurred within each account will, as a practical matter, require additional functional analysis, to determine the appropriate functional classification of RTO plant items for cost recovery. Creating separate plant accounts for RTO costs within the production and transmission plant series would not avoid the need for functional analysis and would in fact likely distort proper accounting. Most RTO cost centers serve multiple functions—production and transmission, planning and operations, reliability and markets. It is, however, necessary to segregate costs incurred to develop and perform these functions from the general and administrative costs of running the RTO and meeting regulatory obligations.

Back-office facility costs should continue to be assigned to general plant.

▮ Operation and Maintenance Expenses

Operations and Maintenance Expense accounts 600 through 900 are currently unused. APPA recommends that a new functional group, System Control and Market Operations Expenses, be established, with the following accounts that address the major functional activities RTOs, ISOs and other potential public utility system and market operators perform:

System Control and Market Operations Expenses

System Operations

- 600 System Operations: Supervision and Engineering
- 601 Real-Time Operations, Unit Commitment and Dispatching Expense
  - 601.1 Generation
  - 601.2 Transmission
  - 601.3 Distribution and Load Dispatching
- 602 Operations Planning Expense
- 603 System Planning and Expansion Expense—Bulk Electric and Local
- 604 Generator Interconnection Expense
- 605 Generator Interconnection Study Costs
- 606 Generation Adequacy
- 607 Reliability Coordination and Compliance
  - 607.1 System Studies
  - 607.2 Market Participant Compliance
  - 607.3 Coordination with Interconnected System Operators

Transmission Services

- 610 Transmission Services, Reservation and Scheduling—Supervision
- 611 Transmission Service Operations
- 612 Transmission Service Request Evaluation and OASIS Operations
- 613 Transmission Reservation Administration
- 614 Transaction Scheduling (bilateral, RTO market, and interchange)
- 615 Reserved

Ancillary Services

- 620 Ancillary Services—Supervision
- 621 Reactive Power and Voltage Control
- 622 Regulating Capacity
- 623 Operating Reserves (spinning, non-spinning and replacement)
- 624 Energy Imbalance and Schedule Deviation
- 625 Black Start
- 626 Reserved

Market Administration

630 Transmission, Energy and Capacity Markets Administration—Supervision
631 Day-ahead and Real-time Energy Markets Expenses
632 Generation Capacity Markets
633 Must-run Generation Procurement
634 Transmission Congestion Markets
635 Transmission Rights Markets and Administration (FTRs, TCCs)
636 Market Monitoring and Market Rules Compliance
637 Uplift Charges
638 Reserved

Maintenance of System Control and Market Operations Plant

650 Buildings and Equipment Maintenance
651 Computer Hardware Maintenance
652 Communications Equipment Maintenance
653 Miscellaneous Equipment Maintenance
654 Reserved

APPA believes this account structure encompasses the services RTOs, ISOs and stand-alone transcos provide. The structure is also workable for and should be applied to similar and related costs incurred by vertically integrated public utilities. For example, all such utilities have incurred and will continue to incur substantial costs for control area operation. These costs should be separated from other generation and transmission costs, to support comparisons between the costs incurred by RTOs and those incurred by vertically integrated public utilities for such functions (and possible duplications of functions). Even where responsibility for control area operations is transferred to an RTO, utilities will continue to incur significant costs for the ownership and operation of their individual Energy Management Systems (EMS).

APPA understands that many utilities now record EMS plant costs in General Plant, under either Account 397, Communications equipment, or Account 398, Miscellaneous equipment. The EMS supports production, transmission and distribution activities, because it is used to ensure generation/load balance, transmission system reliability and that all equipment is operated within physical design limits during normal and emergency operations. Under the account structure proposed above, EMS plant costs would now be recorded in Account 383, Computer hardware, Account 384, Computer software, and Account 385, Communications equipment.

Operating expenses associated with System Control and Market Operations that vertically integrated public utilities incur should also be reclassified. For example, system dispatching expenses now recorded in Account 556, Production System Control and Load Dispatching, Account 561, Transmission Load Dispatching, and Account 581, Distribution Load Dispatching, would be included entirely in new Account 601, Real-time Operations, Unit Commitment and Dispatching Expense. Amounts that can be directly functionalized to generation, transmission or distribution/load dispatching should be assigned to the applicable subaccounts delineated above.

This functionalization would help ensure that the costs a vertically integrated utility incurs to allow its energy merchant function to balance generation with its own load (thereby minimizing the RTO imbalance energy charges it incurs) is not included in the transmission revenue requirement billed through the RTO to other transmission customers. Similarly, the accounting structure provides support for the unbundling of RTO grid management charges from costs properly born by market participants that trade in RTO energy and capacity markets.

- **RTO Revenues**

As noted above, most RTOs record in Account 456, Other Operating Expenses, all or nearly all of the revenues they receive from market participants to cover their own costs. RTOs do not report separately in Form 1 the revenues received for various charges.

At a minimum, administrative and other charges reported in an RTO's Form 1 should summarize by rate schedule the level of detail under which such charges are actually recovered from market participants and the associated billing units.

APPA also recommends that a new Operating Revenue account be established for RTOs to separate the electric revenues they receive for performance of core business functions from other non-core revenue sources.

Revenues

457 System Control and Market Operations Revenues

Use of this account should be restricted to revenues RTOs, ISOs and other public utilities receive for provision of reliability services, transmission services or for market operation, without taking title to the associated energy, ancillary services or transmission services.

A.3 Should the Commission develop a new financial reporting format for the functions typically performed by RTOs/ISOs? If so, what financial information and financial-related information should be reported? If not, how may the existing annual and quarterly financial reports be changed or modified to report relevant RTO/ISO transactions and events?

A new financial reporting format should be developed for RTOs/ISOs that better reflects the functions they perform. The new format should separately present those costs that RTOs/ISOs are recovering as a pass-through expense (for example, the embedded costs of service of member Transmission Owners and those costs that RTOs/ISOs incur for their "own account"—costs of RTO/ISO start-up and operation. This latter class of costs should be separately reported by RTO/ISO function, as discussed above in response to Questions A.1 and A.2.

As discussed above in Section III.C.2., RTOs, ISOs and market operators should report on the transmission services, ancillary services and energy market activities that take place under their FERC Tariffs. The functional categories shown in APPA's response to Question A.2 above should be carried forward into a detailed breakdown of expenses (payments by market participants) and revenues (payments to market participants) that flow through RTO and ISO tariffs.

The Commission should consider two alternatives to accomplish this reporting. First, the Commission could direct RTOs to report in detailed and summary form the energy and capacity-related expenses and revenues incurred by the RTO's market participants as *pro forma* Account 555, Purchased Power, and Account 447, Sales for Resale. Transmission expenses "incurred" by the RTO to provide transmission service, primarily the transmission revenue requirements of participating transmission owners, would be reported as *pro forma* Account 565, Transmission by Others expenses, while the revenues "received" from customers for transmission services would be reported on a *pro forma* basis under Account 456, Transmission for Others.

As part of this alternative, the Commission should revise the existing USofA to renumber existing Account 456, Other Operating Revenues, as new Account 460, Other Operating Revenues, to ensure that generally minor sources of other electric and non-electric revenues received by RTOs and other public utilities are separated from revenues reported for or received for transmission service. Only these minor revenue sources should be recorded in Account 460.

The various operating expense categories proposed above[11] could be used under this first alternative to ensure functional consistency in reporting across RTOs, by treating these operating expense accounts as the appropriate subaccounts for Accounts 555, 565,

[11] System Control and Market Operations Expenses, Accounts 600–654. See response to Question A.2.

447 and 456. Thus, a transmission revenue requirement payment to a participating transmission owner would be designated as 565.611 (transmission service operations expense). Transmission-owning public utilities would in turn report their annual RTO transmission revenue requirements in Account 456, Transmission Revenue.

As a second alternative, the Commission could develop a new set of purchased power, sales for resale and transmission expense accounts, each mirroring the functional design described above. APPA would not oppose Commission investigation of this approach. However, this alternative would raise the question of whether various types of bulk power, energy, transmission and ancillary services should each be accorded separate revenue and expense accounts. On balance, APPA concludes that this alternative would add unwarranted complexity to the scope of the rulemaking being undertaken here.

A.4 Is additional accounting and financial reporting guidance needed for market operation and market monitoring functions of RTOs/ISOs? If so what transactions and events require additional accounting and financial reporting guidance?

Yes. The accounting and reporting structure described above in response to Questions A.1, A.2 and A.3 address these concerns. In addition, RTOs should be directed to separate the costs they incur to develop and operate Day Two markets from the costs associated with Day One RTO operations. See Sections III.A and III.B above.

A.5 Is there sufficient detailed financial and financial-related information being provided to users of RTO/ISO data? If not, what additional information would the users of the information find helpful and why? For example, if detailed technology cost data is necessary, would it also be helpful for the RTO/ISO to include the cost driver of the data (e.g., quantity of desktop computers in relationship to the number of employees)?

While the Commission may not mean to refer to this class of "user" by this question, APPA members that are customers of RTOs and ISOs report substantial and ongoing problems with the quality of the settlement and billing data they are receiving from their RTOs. They note that their RTOs often provide incomprehensible and flatly incorrect settlement and billing data, requiring many hours of member employee time to unravel and correct. Moreover, "corrected" statements often come from their RTOs months after the billing month in question, upsetting the economics of power supply arrangements already consummated and in some cases adversely affecting the figures for accounting periods that APPA members had already closed. If RTOs are to gain the confidence and respect of their customers, they must supply timely and correct billing and settlement statements.

A.6 Currently, the quarterly and annual Commission financial reports include a schedule that requires respondents to report data concerning the transmission of electricity for others. Should RTOs/ISOs report transmission of electric[ity] for others for its Commission-jurisdictional members or should those individual members report the information in their individual filings? If the RTO/ISO should report the information, what information should be reported and how should it be shown in the filing?

See APPA's response to Question A.3. Since the RTO is the transmission provider, it should report information regarding transmission service over the facilities of participating TOs. However, to permit calculation of TO embedded cost transmission rates, Form 1 should be revised to show the RTO and TO transmission revenue requirements and associated billing MWs and MWhs used to calculate the RTO's transmission rates in each year. A separate schedule similar to Form 1, pages 326–328, should be used to report detailed transmission transaction data. Volumes (including the load ratio shares of network service customers) and revenues should be shown by customer, transmission system, contract and by source and sink, so that network, point-to-point and through-and-out transaction volumes and revenues for each TO's system can be determined.

<u>Accounting and Financial Reporting Issues for Public Utilities and Licensees that are Members of an RTO/ISO</u>

B.1 Are the individual account descriptions and instructions under the existing USofA useful and applicable for classifying revenues received from RTOs/ISOs? If not, what changes should be made to the account descriptions and instructions under the existing US of A to accommodate these transactions and events?

No, the individual account descriptions are not adequate. *See* APPA's response to Question A.3 above for suggested changes.

B.2 Are the individual account descriptions and instructions under the existing USofA useful and applicable for classifying costs related to providing various services such as ancillary services, energy markets, or costs associated with transmission congestion? If not, what changes should be made to the existing USofA to accommodate these transactions and events?

No, the individual accounts and account descriptions are not adequate. *See* APPA's response to Questions A.1 and A.2 above for suggested changes.

B.3 What additional detailed information should be collected or disclosed in the quarterly and annual Commission financial reports of individual utilities to provide greater transparency of RTO transactions and events?

Financial information regarding the revenues obtained from FTR auctions and the disposition of those revenues should be provided, to ensure maximum transparency regarding this vital market function.

B.4 What additional disclosures should be made in the quarterly and annual Commission financial reports of individual utilities to describe the economic effects resulting from the respondent transmitting public utility participating in an RTO?

Individual public utilities should be required in their financial statements to provide a periodic accounting of additional costs they have incurred and costs that they have been able to reduce as a result of their RTO participation, *e.g.*, reduction in personnel dedicated to control room, reliability or planning functions. If such cost reductions are not occurring, then this raises substantial questions as to whether the

RTO and its TOs are duplicating functions, and if so, why this is happening. *See also* the response to Question B.5 below.

B.5 Does the Commission's USofA and existing financial reporting requirements for public utility members of RTO/ISOs provide regulators with adequate information to clearly identify which functions are performed by the RTO/ISO and which are performed by the member transmission-owning public utilities, and to ensure that costs are not being double recovered through either Commission-jurisdictional or state-jurisdictional rates? If not, what changes to the Commission's accounting and reporting rules should be made?

No. The accounting and financial reporting framework discussed in response to Questions A.1 through A.3 should be adopted to address the Commission's well-founded concerns about proper functionalization. To APPA's knowledge, the formation of RTOs/ISOs has not triggered corresponding reductions in individual TO costs of service for similar functions, *e.g.*, transmission control operations, reliability and planning.[12] APPA suspects that the question may be less one of pure "double counting" (the same set of costs being recovered in both FERC-jurisdictional and state-jurisdictional rates) than of duplication of effort (individual TOs and RTOs/ISOs incurring duplicative costs to carry out many of the same functions, and each charging its own costs to customers and hence to end-use consumers). This comports with APPA member experience that transmission costs are not being reduced under RTO/ISO regimes. Rather, RTOs are layering an additional set of costs on top of individual TO costs that are not decreasing. If this is the case, this is as much an operational and economic efficiency issue as it is an accounting and reporting issue.

[12] Many FERC-jurisdictional utilities have simply allowed their existing transmission rates to remain in effect for an extended period of time, raising the issue of possible overcollections.

Public utilities may also be improperly including the costs they incur to take transmission service from RTOs and to participate in RTO markets in their transmission revenue requirements. These market participant costs should be recovered from the public utility's sales customers, not through its transmission revenue requirement.

Cost Management

C.1 Do not-for-profit RTOs/ISOs currently have the appropriate incentives to contain costs? If not, what are the right incentives (and why would they be the right incentives) and how should they be implemented?

APPA and its members believe that at present, RTOs have insufficient incentives to contain their costs. This is not because they are not-for-profit entities, as many critics claim—APPA members are themselves not-for-profit, yet they keep a close eye on their costs and revenues.[13] Rather, APPA believes the relevant issue is one of accountability to ultimate consumers and consistent stakeholder review of costs before they are incurred. While APPA members are owned by the customers they serve through the medium of government, RTOs have little connection to their ultimate customers, and hence little conception of the impact of their cost increases upon those who must eventually pay them.

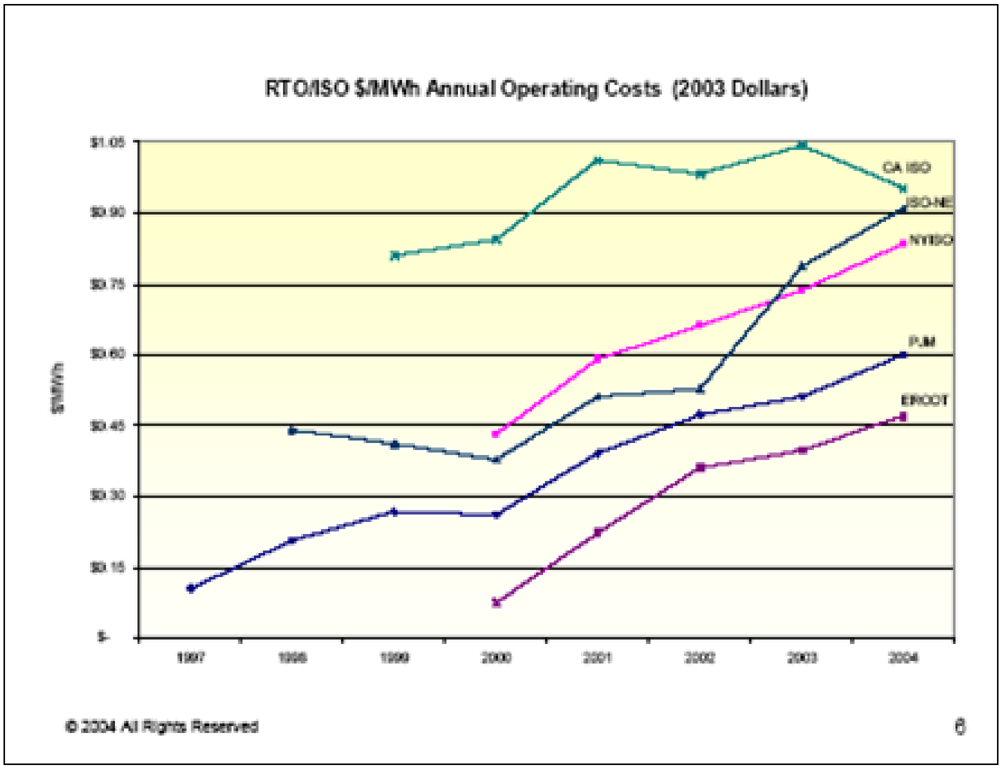
[13] The Commission notes in its NOI (at P 9) that all current RTOs and ISOs are not-for-profit entities, and that this can make review of their costs "more difficult." According to the Commission, these entities' not-for-profit status "complicates a prudence review after the costs are incurred." *Id.* APPA does not agree that not-for-profit status is problematic. APPA members are themselves not-for-profit. Their rates are set accordingly to their incurred costs and generally accepted utility ratemaking and accounting principles, and are available to the public for review, since they are publicly owned. APPA members are, however, owned by the end-use customers they serve, through the medium of state and local government, and are therefore directly responsible to these customers for their rates and costs. This makes them very concerned about controlling their costs and maintaining reasonable rates to their customers.

The Commission notes in its NOI that it has relied on advisory committees of market participants to act as a check on RTO expenditures. But as the Commission itself notes, such advisory committees have "no ability to block an action of the RTO/ISO; it can only offer advice on budget and other matters." NOI at P 9. The fact of the matter is that RTOs are effectively regional monopolies, with only remote connections to end users in the region, and hence limited incentive to control costs. If such a regime is to work, it must be because RTO customers, other stakeholders and the Commission itself provide effective regulation of RTO costs, thus safeguarding the interests of customers and consumers. And this in turn means that the Commission and its staff must undertake the same close and timely scrutiny of RTO rates and charges that they have historically done with public utilities' transmission rates and charges.

Cost controls in a not-for-profit business does affect the incentive structure within the organization. RTOs are under tremendous pressure from the Commission and other stakeholders to get a myriad of new functions in place in an extremely short period of time, given the complexity of the issues that must be resolved. As shown in **FIGURE 2,** RTOs such as PJM that were established using long-existing tight power pool platforms have had a better track record of cost effectiveness than entirely new RTOs and ISOs such as CAISO and MISO that adopted "big bang" approaches to start up.[14]

[14] "Comparative Analysis of RTO/ISO Operating Costs, August 17, 2004." © Public Power Council. Used with permission granted by the Public Power Council. Source document available at: http://www.ppcpdx.org/ComparativeAnalysisTWO.FINAL.pdf.

FIGURE 2



On a going-forward basis, APPA urges the Commission and each of the RTOs subject to FERC's jurisdiction to develop and adopt a project pre-approval process for all new functions and cost-centers that each RTO takes on. Each new function should be supported by a business case showing the total projected costs and benefits of the project—including the estimated costs of customer compliance, an implementation plan and contingency plans if the project does not unfold as planned. Most importantly, if such a project does not garner sufficient stakeholder support and cannot be clearly shown to benefit the region's consumers, it should not go forward.

C.2 Should the Commission revisit the means by which RTO/ISO rates are reviewed, particularly with respect to cost incurrence? If so, what means should the Commission employ to ensure that RTOs'/ISOs' expenditures are prudent and their rates are just and reasonable? Would a "best practices" or "benchmark" approach, where one RTO/ISO's expenditures in a particular cost category are measured against those of other RTOs/ISOs, be sufficient?

The Commission should revamp its current regime for reviewing RTO/ISO rates and cost incurrence. APPA suggests that the Commission Staff conduct a vigorous annual field audit of RTO/ISO costs and rates, timed appropriately to feed into the annual adjustments in the charges for the RTO's various schedules filed under FPA Section 205. The Commission should take the results of the audit into account in acting on the RTO's Section 205 filing, along with any protests filed by customers or other interested parties.

The Commission might also wish to consider retaining an outside business consultant to study all of the currently operating FERC-jurisdictional RTOs and ISOs and to assess the efficiency of their operations. Any such consultant, however, should have prior experience in auditing operations and costs of comparable business enterprises.

APPA does not think that sole reliance on a "best practices" or "benchmark" approach to RTO/ISO costs and expenditures is wise, given the limited number of such entities and their fiscal performance to date. While such comparison studies can yield useful data and identify trends, no RTO has performed well enough to date to merit establishing best practices for others. The Commission should therefore use a "zero-based budgeting" approach that requires each RTO to justify its expenditures from the bottom up, based on its own functions, location and cost environment. Review of similar expenditures by other RTOs could be useful for comparison purposes, but should not be used to establish any presumption of reasonableness.

C.3 What is the appropriate role for the Commission with respect to overseeing RTO/ISO software costs? Should an RTO/ISO be required to justify contracting for the development of new software rather than using or modifying "off-the-shelf" software developed for a comparable application for or by another RTO? To what extent would the use of standardized or at least compatible software in neighboring RTO/ISO markets reduce the cost of doing business across RTO/ISO boundaries? How would any such standardization be accomplished?

APPA hesitates to advocate a "bright line" standard, under which all RTO procurements of software that are not "off the shelf" are presumed imprudent unless shown otherwise. Whether or not a prepackaged or custom software program is most suitable depends on the specific use to which the RTO will put it. Attempting to "force fit" a prepackaged software program to accomplish a task for which it is ill-suited could in the end cost as much or more than investing in a customized software program that does the job right the first time. Hence, APPA suggests that the Commission require RTOs to justify *all* decisions to invest in software above a specified *de minimis* dollar level, whether it be customized or prepackaged. The inquiry should be what software will accomplish the intended purpose best at the least cost.

C.4 To what degree should an RTO/ISO's stakeholder/advisory committee be involved in reviewing or shaping the RTO/ISO's budget and spending decisions? Are there independence considerations that should prevent or limit such review by market participants?

APPA believes it is essential to have substantial stakeholder involvement "up front," during the preparation of RTO budgets and prior to major spending decisions. The stakeholders will have to pay the resulting bills, and their input would serve as a valuable "reality check" for the RTO's staff and management during (rather than after) the decision-making process.

Stakeholders should be an integral part of RTO decisions to take on additional functions that promise to increase costs. APPA members generally believe that RTOs and ISOs have taken on far more functions (in particular market-making functions) than originally envisioned when ISOs were first discussed and developed. APPA questions whether these additional functionalities have been cost-effective and necessary. Each RTO's current services and functions should be reviewed to see if they can be eliminated, combined, or carried out in a more efficient and less costly manner. New services and functions should not be added unless there is a clear regional consensus that they need to be undertaken and can be carried out in a cost-efficient manner.

The primary area in which APPA believes independence concerns might arise is market monitoring. Some market participants might find it in their self interest to minimize the financial resources available for this function. On the other hand, other market participants would find it in their self interest to maximize the resources devoted to this function, so these competing interests could well cancel each other out. In any event, the Commission presumably would review with special care the RTOs' market monitoring budgets, to ensure that this function receives sufficient resources.

C.5 Should the Commission allow differences between RTOs/ISOs with regard to cost allocation and rate design to recover the operation and capital costs for each of their functions (e.g., tariff administration and markets for energy, ancillary service, and FTRs)? If so, how should the various rates be designed, i.e., what are the correct billing determinants for each service?

APPA's experience is that RTOs are very regionally based entities. Flexibility should therefore be given to each RTO and its stakeholders to work out the difficult cost allocation and rate design issues associated with each RTO's rates and charges. A cost allocation and rate design considered fair and equitable in one RTO region could produce very inequitable results if employed in another region with different circumstances and issues. The revised RTO accounting, financial reporting and market performance reporting discussed above will provide a sound basis for cost comparisons among RTOs.

Differences in rate design, however, should not be allowed to create an undue preference for customers located within an RTO as compared to entities in adjacent areas. In particular, through and out transmission rates may discriminate against LSEs that are located outside of the RTO's transmission region. Similarly, RTOs should not be allowed to impose bundled grid management charges that include costs for control area services which are not needed or used by the customer, because it is located in another control area.

C.6 Should the compensation of senior RTO/ISO management be linked to specific performance measures, including cost reductions?

Yes. A substantial portion of the compensation of senior RTO/ISO managements should be tied to performance measures, and in particular to the results of customer satisfaction surveys regarding RTO performance in the areas of provision of transmission service, billings and settlements, timely resolution of inquiries and cost containment. Such surveys should be administered by third-party entities to ensure accurate and comprehensive results. Stakeholder groups must have a central role in the design and administration of such incentive programs. Ultimately, the customers that pay the RTO's bills are the best judges of the RTO's performance.

V. CONCLUSION

For the foregoing reasons, APPA respectfully requests the Commission to expeditiously commence a rulemaking proceeding in this docket to examine not only RTO/ISO cost accounting and reporting, but to examine the root causes underlying the steadily increasing costs of the current ISOs and possible ways to bring them under better control.

Respectfully submitted,

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