

gas and petroleum products. Congress granted the Commission authority under these Acts to prescribe periodic financial and non-financial reporting pursuant to sections 4, 304 and 309 of the Federal Power Act, sections 10(a) and 16 of the Natural Gas Act, and section 20 of the Interstate Commerce Act.⁵ The Commission has implemented its long standing statutory authority to collect financial information by requiring electric, natural gas and oil pipeline companies to submit financial statements only on an annual basis, and until recently, in a paper format.

3. However, the information and market demands of the 21st century require that the Commission, as well as other users of financial data, receive timely, relevant and reliable information to make informed decisions about matters affecting the energy industry. Quarterly financial reporting will aid the Commission in assessing the economic consequences of transactions and events on jurisdictional entities, measuring the effects of regulatory initiatives, evaluating the adequacy of existing traditional cost-based rates and aid in the development of needed changes to existing regulatory initiatives. Financial statements are a primary source of this critical information.

4. Financial accounting information provides needed information concerning a company's past performance and its future prospects. The need for current and better disclosures drives the increasing demand for timely financial information. These needs have never been more evident. Enron and other widely reported financial accounting scandals have shaken public and investor confidence in the U.S. financial reporting system generally, and in our capital and energy markets. This crisis in confidence, unless reversed, will continue to compromise the energy industry's financial health and inhibit investments in critical energy infrastructure.

5. During the past year, the Commission has listened to Wall Street, representatives of investment and commercial banks, financial analysts, credit rating agencies, accounting standard setting bodies, and preparers of financial statements including the Chief Credit Risk Officers which represents companies that account for approximately half of the power and natural gas transactions in the United States. These groups delivered many messages, but all agreed that accounting

transparency and better disclosure requirements are essential for the functioning of efficient markets and strengthening investor confidence. Rapid and current dissemination of financial information is essential to the efficient functioning of capital markets and strengthening investor confidence is crucial in a highly capital intensive energy industry that needs to attract funds in the market place to improve and expand the necessary infrastructure.

6. Congress recognized the importance of financial transparency and passed the Sarbanes-Oxley Act of 2002 which ordered public companies to disclose financial information on a rapid and current basis.⁶ Additionally, this legislation requires executive officers to review and certify that the financial statements do not contain any untrue statement of material fact, are not misleading, and fairly represent the financial condition of the company. As a result of this legislation the United States Securities and Exchange Commission (SEC) has issued numerous regulations to implement this legislation including the acceleration of filing requirements for publicly held companies, and a new officer's certification statement attesting to the reliability of the information presented in the financial statements.

7. In order to improve transparency of the financial information related to FERC jurisdictional entities in a parallel fashion, the Commission is proposing to require financial reporting for FERC purposes on a quarterly basis. The proposed action taken today will allow the Commission, as well as other users, to identify and evaluate financial trends and emerging issues facing the energy industry. More frequent financial reporting will give the Commission and the public another tool to improve decision making. It will aid the Commission in assessing the economic consequences of transactions and events on jurisdictional entities, measuring the effects of regulatory initiatives, evaluating the adequacy of existing traditional cost-based rates and aid in the development of needed changes to existing regulatory initiatives.

8. We conclude that the benefits obtained from jurisdictional entities reporting financial information on a quarterly basis far outweigh any additional burden. The benefits to the Commission, as well as the public, of greater transparency and understandability of financial statements far outweigh the costs to an individual company. In fact, we find

that the burden should be minimal. It is standard practice for companies to compile and summarize accounting transactions on a monthly basis, or even more frequently depending on the operational need for selected data. Thus, the information needed to compile quarterly financial statements is readily available.

9. Currently, the public can access financial information through the Commission's FERRIS system or by using Commission-developed software. To improve access to FERC-held financial information, we will make it easier for users to electronically access financial information filed with this Commission. It is also our intent to collaborate with the SEC to establish new Web links between our respective Web home pages so that all users can access FERC-held financial information in a timely and efficient manner.

10. The increased transparency of financial information will be accomplished by adding the following two new quarterly financial report forms: FERC Form No. 3-Q, Quarterly Financial Report of Electric Utilities, Licensees, and Natural Gas Companies (Form 3-Q), and FERC Form No. 6-Q, Quarterly Financial Report of Oil Pipeline Companies (Form 6-Q). The proposed quarterly reports will require companies to file with the Commission a complete set of quarterly financial statements including appropriate notes to the financial statements, a management's discussion and analysis of financial condition and results of operations (commonly referred to as an "MD&A"), and ancillary service purchase and sales information.

11. The proposed quarterly reports will also require company officers to sign a certification statement attesting to the reliability of the filed information. Additionally, when a certified public accountant (CPA) has reviewed the quarterly report, this certification must also be filed with the Commission.

12. The Commission also proposes to update the financial reporting and disclosure requirements of the FERC Annual Reports to be consistent with the requirements contained in the quarterly reports. Jurisdictional entities will be required to include certain fourth quarter financial data in the FERC Annual Reports, including an MD&A schedule, and officers will be required to sign a certification statement attesting to the reliability of the filed information. Finally, the Commission is proposing to accelerate the filing dates for the FERC Annual Reports.

13. The Commission has determined that dependable, affordable, competitive wholesale energy markets require an

⁵ See 16 U.S.C. 797, 825c and 825h; 15 U.S.C. 717i(a) and 717o; and 49 App. U.S.C. 1-85 (1988).

⁶ Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745-810 (2002).