

adequate infrastructure, balanced market rules, and vigilant oversight.⁷ This rulemaking helps in achieving the goal of vigilant oversight by providing the Commission with more timely, relevant, reliable and understandable financial information from certain participants in the energy market.

14. Quarterly reporting of financial information will provide the Commission with an important tool to help identify emerging trends and issues affecting jurisdictional entities within the energy industry. 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. In conclusion, full disclosure of all material facts to the Commission, as well as, other users of financial information is necessary if competitive markets are to function efficiently. Transparent reporting of information proposed in this rulemaking will help the Commission to achieve the above objectives.

II. Background

A. General

15. The primary objective of financial reporting is to provide financial statements to the Commission that accurately measure the results of operations and the financial condition of a company. Financial statements are the foundation for understanding the financial position of a business and are used to assess a company's past, present, and future performance. One of the principle means that jurisdictional entities use to communicate financial information to the Commission is through the filing of FERC Annual Report Forms 1, 1-F, 2, 2-A and 6. Additionally, jurisdictional entities file certain registration statements individually, or as part of a consolidated group, with the SEC and issue annual reports on a consolidated basis to shareholders. These registration statements and annual reports provide information about the financial condition of the parent company and its corporate family.

16. The FERC Annual Reports filed with the Commission report on the financial condition of a company at a

jurisdictional entity level, and are compiled using a standard chart of accounts contained in the Commission's Uniform Systems of Accounts.⁸ The use of a uniform chart of accounts permit public utilities and licensees,⁹ natural gas companies,¹⁰ and oil pipeline companies,¹¹ to account for similar transactions and events in a consistent manner, and communicate those results to the Commission on a periodic basis.

17. Additionally, it helps in presenting accurately the entity's financial condition and produces comprehensive data related to the entity's financial history helping to act as a guide for future action. The uniformity provided by the Commission's chart of accounts and related accounting instructions permits comparability and financial statement analysis of data provided by jurisdictional entities. Comparability of data and financial statement analysis for a particular entity from one period to the next, or between entities within the same industry, would be difficult to achieve if each company maintained its own accounting records using dissimilar accounting methods and classifications to record similar transactions and events.

18. The benefits of a standardized and uniform accounting system however, would not be realized if the financial information once compiled were withheld from public view. To ensure that these benefits are realized, and to provide transparency of economic consequences to all affected interests, the Commission has prescribed a program of periodic financial reporting that makes financial and non-financial information publicly available to all interested parties.

⁸ Section 301(a) of the Federal Power Act (FPA), 16 U.S.C. 825(a), section 8 of the Natural Gas Act (NGA), 15 U.S.C. 717g and section 20 of the Interstate Commerce Act (ICA), 49 App. U.S.C. 20 (1988), authorize the Commission to prescribe rules and regulations concerning accounts, records and memoranda as necessary or appropriate for the purpose of administering the FPA, NGA, and the ICA. The Commission may prescribe a system of accounts for jurisdictional companies and, after notice and opportunity for hearing, may determine the accounts in which particular outlays and receipts will be entered, charged or credited.

⁹ Part 101 Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. 18 CFR part 101 (2003).

¹⁰ Part 201 Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act. 18 CFR part 201 (2003).

¹¹ Part 352 Uniform System of Accounts Prescribed for Oil Pipeline Companies Subject to the Provisions of the Interstate Commerce Act. 18 CFR part 352 (2003).

B. Basic Financial Statements

19. Under existing regulations, jurisdictional entities subject to the Uniform Systems of Accounts must annually file with the Commission a complete set of financial statements, along with other selected financial and non financial data through the submission of FERC Annual Report Forms 1, 1-F, 2, 2-A, or 6.¹² The basic financial statements contained in the FERC Annual Report Forms are the Comparative Balance Sheet, the Statement of Income, the Statement of Cash Flows, the Statement of Retained Earnings, and the Statement of Accumulated Comprehensive Income and Hedging Activities.

20. The Comparative Balance Sheet's primary focus is on the financial position of the entity. This information is comprised of the entity's assets, liabilities and equity. Assets represent the valuable resources (e.g. probable future economic benefits) used by the entity. The liabilities (e.g. probable future economic sacrifices) are the obligations such as debt, accounts payable, and other amounts owed to creditors and others. The equity section of the Comparative Balance Sheet shows the other source of funds (e.g. common stock, preferred stock, and retained earnings) that the entity used to acquire its assets.

21. The equity section of the balance sheet is broadly divided into three sections. One section shows the amounts of equity provided by shareholders through the sale of common and preferred stock. A second part shows the amount of earnings resulting from profitable operations that have been retained by the entity commonly referred to as retained earnings. The third section of equity reflects changes in the fair value of certain assets and liabilities resulting from transactions and events from nonowner sources. For example, this section shows the changes in fair value of certain financial instruments due to changes in the market price of those instruments, and changes in the fair value of certain cash flow hedge transactions. This section of equity is generally referred to as accumulated other comprehensive income and is separately shown in the FERC Annual Report Forms in the Statement of Accumulated Comprehensive Income and Hedging Activities schedule.¹³

22. The Income Statement explains how income was earned during the period and is prepared on the accrual

¹² See 18 CFR parts 141, 260, and 357.

¹³ See 67 FR 67692 (Nov. 6, 2002), III FERC Statutes and Regulations ¶31,134 (Oct. 10, 2002).

⁷ See the Commission's Strategic Plan FY 2002 through 2007, and the Chairman's March 5, 2003, testimony before the Subcommittee on Energy and Air Quality of the Commerce, United States House of Representatives, available online at <http://www.ferc.gov/>.