

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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PUBLIC SERVICE COMMISSION

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General Counsel

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Secretary

March 11, 2002

Honorable Magalie R. Salas,
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket No. RM02-3-000 - Accounting and
Reporting of Financial Instruments,
Comprehensive Income, Derivatives and Hedging
Activities

Dear Secretary Salas:

For filing please find the Notice of Intervention and
Comments of the New York State Public Service Commission in
the above-entitled proceedings. Should you have any
questions, please feel free to contact me at (518) 473-8178.

Very truly yours,

David G. Drexler
Assistant Counsel

Enclosures

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

)

Accounting and Reporting of Financial) Docket No. RM02-3-000
Instruments, Comprehensive Income,)
Derivatives and Hedging Activities)
)

**NOTICE OF INTERVENTION AND COMMENTS OF THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF NEW YORK**

Pursuant to the Notice of Proposed Rulemaking (NOPR) dated January 16, 2002, and Rule 214 of the Federal Energy Regulatory Commission's (FERC's or Commission's) Rules of Practice and Procedure, the Public Service Commission of the State of New York (NYPSC) hereby submits its Notice of Intervention and Comments.

Copies of all correspondence and pleadings should be addressed to:

| | |
|-------------------------------|--------------------------------|
| Lawrence G. Malone, Esq. | Ronald Liberty |
| David G. Drexler, Esq. | Director Fed. En. Interv. |
| Public Service Commission | Public Service Commission |
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INTRODUCTION

The Commission's NOPR proposes to amend the accounting and reporting requirements under its Uniform Systems of Accounting (USOA) for jurisdictional public utilities, natural gas companies (collectively "utilities") and oil pipelines. The

amendments will establish uniform accounting requirements and related accounts for the recognition of changes in the fair value of investments in securities, other comprehensive income, derivative instruments, and hedging activities.

The NYPS&C supports the Commission's proposal to implement improved accounting that will assist us in reviewing financial activities that may subject utilities to financial risk. However, since the requirements would not apply to affiliates of utilities, a significant portion of financial information affecting those utilities will not be available. To the extent that the Commission has authority over such affiliates, it should require them to disclose financial activities that may impact utilities.

DISCUSSION

I. The Commission Should Implement The Proposed Accounting And Reporting Requirements

The proposed accounting and reporting requirements are an important step towards obtaining better information on corporate finances. The events of the last few months justify these new requirements. With the complex financial transactions taking place in the open market, uniform reporting rules will aid the Commission and the states in meeting their obligations.¹

¹ New York's Public Service Law §65(1) requires that gas and electric charges are "just and reasonable."

Financial information that reflects changes in the fair value of investment securities, derivatives and hedging activities will facilitate assessment of the impacts that utility activities have on its customers. For example, a utility's use of derivatives or hedging activities may expose it to greater financial risk. Current accounting practices do not easily lend themselves to analysis of the risk. With the proposed uniform accounting and reporting requirements, we will have better access to the information necessary to determine whether to intervene, in the unlikely event it becomes necessary.

II. The Commission Should Apply The Accounting And Reporting Requirements to Affiliated Power Marketers And Generators

While the NOPR only applies to jurisdictional public utilities, natural gas companies and oil pipelines, the Commission requested comments on the extent to which affiliated power marketers and power producers should be required to follow the USOA, including the information proposed in the NOPR.

Affiliates of utilities should be subject to existing and proposed USOA reporting and accounting requirements insofar as their transactions may impact and affect utilities. These entities have the ability to enter into transactions that may subject utilities to greater risk and the associated consequences noted above. Therefore, they should be required to

furnish information regarding transactions that might affect a utility's financial viability.

CONCLUSION

The NYPS&C supports the revised accounting methods described in the NOPR and encourages the Commission to move beyond these requirements and mandate similar accounting of affiliate transactions that may impact utilities.

Respectfully submitted,

Lawrence G. Malone
General Counsel
By: David G. Drexler
Assistant Counsel
Public Service Commission
of the State of New York
3 Empire State Plaza
Albany, NY 12223-1305
(518) 473-8178

Dated: March 11, 2002
Albany, New York

CERTIFICATE OF SERVICE

I, Naomi Tague, do hereby certify that I will serve on March 11, 2002, the foregoing Notice of Intervention and Comments of the Public Service Commission of the State of New York by depositing a copy thereof, first class postage prepaid, in the United States mail, properly addressed to each of the parties of record, indicated on the official service list compiled by the Secretary in this proceeding.

Date: March 11, 2002
Albany, New York

Naomi Tague