

***Resolution Regarding Cost Allocation Guidelines for the Energy Industry***

**WHEREAS**, There is ongoing concern regarding potential cross-subsidization between the regulated monopoly operations and the non-regulated businesses of electric and gas utilities; and

**WHEREAS**, Utilities are adopting various business strategies to adjust to the changing retail markets, including forming alliances and creating subsidiaries, divisions and partnerships to participate in non-regulated, competitive markets; and

**WHEREAS**, State utility commissions are examining and adopting various policies to monitor the competitive activities of regulated energy utilities; and

**WHEREAS**, State utility commissions are examining and adopting policies and rules concerning potential cross-subsidies between regulated utilities and non-regulated affiliates including pricing of assets, products and services; and

**WHEREAS**, The National Association of Regulatory Utility Commissioners (NARUC) requested the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations"; and

**WHEREAS**, The Staff Subcommittee on Accounts together with the Staff Subcommittees on Gas and Strategic Issues have prepared for NARUC's consideration "Guidelines for Cost Allocations and Affiliate Transactions"; and

**WHEREAS**, Each State or Federal Regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing; and

**WHEREAS**, The "Guidelines for Cost Allocations and Affiliate Transactions" are to provide guidance to the states and are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled; and

**WHEREAS**, The Staff Subcommittees on Accounts, Strategic Issues and Gas should periodically review the Guidelines for Cost Allocations and Affiliate Transactions, taking into consideration the progression of competition in the electric and gas industries nationally, and report their findings, including proposed changes to the guidelines, if necessary, that promote efficiency in competitive energy markets while guarding against cross-subsidization by monopoly ratepayers; *now therefore be it*

**RESOLVED**, The Board of Directors of the of the National Association of Regulatory Utility Commissioners (NARUC), convened in its 1999 Summer Meeting in San Francisco, California, adopts the attached "Guidelines for Cost Allocations and Affiliate Transactions"; *and be it further*

**RESOLVED**, The NARUC directs the Staff Subcommittees on Accounts, Strategic Issues and Gas, to review the Guidelines for Cost Allocation and Affiliate Transactions, taking into consideration the progression of competition in the electric and gas industries nationally and report their findings to NARUC, including proposed changes to the guidelines, if necessary, on or before January 1, 2001, and annually thereafter, *and be it further*

**RESOLVED**, The NARUC applauds and thanks the Staff Subcommittees on Accounts, Gas, and Strategic Issues for their excellent work in developing the guidelines.

*Sponsored by the Committees on Electricity and Finance and Technology*

*Adopted by the NARUC Board of Directors July 23, 1999*

Exhibit No. 3  
Date 9/14/99 Case No. EX-99-442  
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