

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Part 45

(Docket No. RM05-6-000)

Commission Authorization to Hold Interlocking Directorates

(March 25, 2005)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Notice of Proposed Rulemaking.

SUMMARY: The Federal Energy Regulatory Commission is proposing to amend its regulations to clarify the time frame within which individuals must file applications for authorization to hold interlocking positions, and the information provided in certain informational reports required for automatic authorization of certain interlocking positions.

DATES: Comments are due **[60 days after publication in the FEDERAL REGISTER]**.

ADDRESS: Comments may be filed electronically via the eFiling link on the Commission's web site at <http://www.ferc.gov>. Commentors unable to file comments electronically must send original and 14 copies of their comments to: Federal Energy Regulatory Commission, Office of the Secretary, 888 First Street N.E., Washington, DC, 20426. Refer to the Comment Procedures section of the preamble for additional information on how to file comments.

**FOR FURTHER INFORMATION CONTACT:**

James Akers (Technical Information)  
Office of Markets, Tariffs and Rates  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426  
(202) 502-8101

Melissa Mitchell (Legal Information)  
Office of the General Counsel  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426  
(202) 502-6038

**SUPPLEMENTARY INFORMATION:**

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Commission Authorization to Hold  
Interlocking Directorates

Docket No. RM05-6-000

NOTICE OF PROPOSED RULEMAKING

(March 25, 2005)

1. Section 305(b) of the Federal Power Act (FPA)<sup>1</sup> prohibits individuals from concurrently holding positions as officer or director of more than one public utility; or to hold the positions of officer or director of a public utility and of an entity authorized by law to underwrite or participate in the marketing of public utility securities; or to hold the positions of officer or director of a public utility and a company supplying electrical equipment to that particular public utility, unless the holding of such positions has been authorized by the Commission upon a showing that neither public nor private interests will be adversely affected thereby.<sup>2</sup>
2. The Commission implemented Congress' mandate in part 45 of the Commission's regulations.<sup>3</sup> Section 45.3 of the regulations currently states that "the holding of positions within the purview of [section 305(b)] shall be unlawful unless the holding shall have been authorized by order of the Commission. Nothing in this part shall be construed as authorizing the holding of positions prior to the order of the Commission on

---

<sup>1</sup> 16 U.S.C. 825d(b) (2000).

<sup>2</sup> *Id.*

<sup>3</sup> 18 CFR part 45 (2004).

application therefor. Applications shall be filed within 30 days after election or appointment to any positions within the purview of section 305(b) of the Act.”<sup>4</sup>

3. In this Notice of Proposed Rulemaking (NOPR), the Commission is proposing to clarify the time at which a person must apply for authorization to hold interlocking positions under section 305(b) of the FPA and part 45 of the Commission’s regulations. Specifically, and as described more fully below, we propose to clarify in revised section 45.3 that persons are prohibited from holding interlocking positions prior to receiving authorization from the Commission, and that “holding” shall mean acting as, serving as, voting as, or otherwise performing or assuming the duties and responsibilities of the interlocking positions for which the authorization is requested. Similarly, we propose to clarify in revised section 45.9 when filings need to be made. Finally, we solicit comments on the continued waiver of the full requirements of part 45 for officers and directors of certain public utilities with market-based rate authority.

### **Background**

4. Section 305(b) of the FPA prohibits persons from concurrently holding positions as an officer or director of more than one public utility; or to hold the positions of officer or director of a public utility and of an entity authorized by law to underwrite or participate in the marketing of public utility securities;<sup>5</sup> or to hold the positions of an officer or

---

<sup>4</sup> 18 CFR 45.3 (2004).

<sup>5</sup> However, section 305(b)(2) of the FPA, 16 U.S.C. 825d(b)(2) (2000), exempts from this prohibition certain interlocks between public utilities and securities underwriters and marketers.

director of a public utility and of a company supplying electrical equipment to that particular public utility, unless the holding of such positions “shall have been authorized by order of the Commission” upon a finding that neither public nor private interests will be adversely affected thereby. The Commission’s regulations, 18 CFR part 45 (2004), currently require that an application for approval be filed within 30 days of election or appointment to a qualifying position. If an application is filed after 30 days, it is considered late. The Commission has stated in previous orders that it does not look favorably on late-filed applications for authorization to hold interlocking positions.<sup>6</sup>

5. In examining Congress’ intent in enacting section 305(b) of the FPA, the Commission has explained that “among the evils sought to be eliminated by the enactment of section 305(b)” was “the lack of arm’s length dealings between public utilities and organizations furnishing financial services or electrical equipment.”<sup>7</sup> In this regard, the legislative history indicates that with respect to section 305(b) of the FPA “Congress exhibited a relentless interest in, bordering on an obsession with, the evils of concentration of economic power in the hands of a few individuals. It recognized that the conflicts of interest stemming from the presence of the same few persons on boards of

---

<sup>6</sup> *William T. Coleman*, 21 FERC ¶ 61,242 at 61,535 n.3 (1982).

<sup>7</sup> *Paul H. Henson*, 51 FERC ¶ 61,104 at 61,231 (1990), *citing John Edward Aldred*, 2 FPC 247, 261 (1940)

companies with intersecting interests generated subtle and difficult-to-prove failures in the arm's length bargaining process.”<sup>8</sup>

### **Applications For Authorization To Hold Interlocking Positions**

6. While the statute requires prior authorization to hold otherwise proscribed interlocking positions, the regulations allow for applications to be filed up to 30 days after the fact and also do not expressly address how applications filed more than 30 days late should be treated.

7. Consistent with the statute's express direction as well as its underlying intent, the Commission proposes to clarify section 45.3 to provide that an application must be filed, and authorization granted, before a person may hold otherwise proscribed interlocking positions, and that late-filed applications will be denied.

### **Automatic Authorization Of Certain Interlocking Positions**

8. In addition to clarifying section 45.3, the Commission also proposes to clarify section 45.9, which governs automatic authorization for certain interlocking positions. Section 45.9 of the Commission's regulations provides that a person seeking to hold the positions of (1) an officer or director of a public utility and officer or director of another public utility (or utilities), where the same holding company owns, directly or indirectly, wholly or in part, the other public utility, (2) an officer or director of two public utilities, if one utility is owned, wholly or in part, by the other and (3) an officer or director of

---

<sup>8</sup> *Hatch v. FERC*, 654 F.2d 825, 831 (D.C. Cir. 1981) (*Hatch*), *citing, e.g.*, 79 Cong. Rec. 10379 (1935) (remarks of Representative Lea), 79 Cong. Rec. 8524 (1935) (remarks of Sen. Norris), *and* 15 U.S.C. 79a(b)(2) (2000); *see also Paul H. Henson*, 51 FERC ¶ 61,104 at 61,230 n.5 (1990) (discussing this quotation).

more than one public utility, if such person is already authorized under part 45 to hold different positions where the interlock involves affiliated public utilities, may apply for “automatic authorization” to hold the interlocking positions.<sup>9</sup> The regulations require that, as a condition of such authorization, persons seeking automatic authorization under section 45.9 must file with the Commission an informational report containing the full name and business address of the person requesting authorization, the names of all public utilities that the person holds or seeks to hold positions with, the names of any other entity that the person serves as an officer or director of and a brief description of those positions, and an explanation of the corporate relationship between or among the public utilities involved. This informational report is required to be filed “not later than 30 days after assuming the duties of the position.”<sup>10</sup> The Commission proposes to change the current regulation to require that informational reports for automatic authorization must be filed with the Commission prior to an officer or director assuming the duties of the requested interlocking position.

9. The Commission proposes to address the issue of the timeliness of the informational filings for automatic authorization. Increasingly, the Commission is receiving informational reports under section 45.9 that are filed after the 30-day deadline specified for submitting the informational reports. While the Commission believes that

---

<sup>9</sup> Automatic authorization is only for interlocking positions between two or more public utilities; it does not authorize a person to hold an interlocking position with, for example, an electrical equipment supplier. For those interlocking positions, an application under section 45.3 is required.

<sup>10</sup> 18 CFR 45.9(b) (2004).

the current regulation regarding automatic authorization is clear with regard to when a person must file an informational report, the Commission proposes to include an additional requirement in the informational report. Currently, the informational report outlined in section 45.9(c) does not require persons to state when they assumed the positions for which they seek automatic authorization. Therefore, in order to assist the Commission in determining the timeliness of the informational report, the Commission proposes to add a requirement that persons state the dates that they assumed the positions for which they seek automatic authorization under section 45.9; a person will not be entitled to automatic authorization if that person's informational report is untimely, as the person will not have satisfied the condition of timely submission of an informational report.

#### **Waiver Of Part 45 In Commission Orders Granting Market-Based Rate Authority**

10. The Commission provides certain persons with a waiver of the full requirements of part 45. An "abbreviated" filing requirement, with essentially "automatic authorization", has developed in Commission orders granting market-based rates for certain public utilities. While the Commission has explained that it cannot waive the statutory requirements regarding authorization of interlocking positions, the Commission did lessen the filing requirements and permit the filing of an "abbreviated statement



identifying any jurisdictional interlock.”<sup>11</sup> The authority to make these abbreviated filings is granted in orders that permit companies to charge market-based rates. Typical language in these market-based rates orders, regarding abbreviated filings, states:

[U]ntil further order of this Commission, the full requirements of Part 45 of the Commission’s regulations, except as noted below, are hereby waived with respect to any person now holding or who may hold an otherwise proscribed interlocking directorate involving the applicants. Any such person instead shall file a sworn application providing the following information:

- (a) full name and business address; and
- (b) all jurisdictional interlocks, identifying the affected companies and the positions held by that person.<sup>12</sup>

11. Since the abbreviated filings only require the identification of affected companies and positions held by the applicant, there is no description in the abbreviated filing of what business the affected company is engaged in. This lack of information makes it difficult for the Commission to determine the nature of the interlock and how, if at all, it might adversely affect public or private interests. In addition, this abbreviated filing is not required before the person begins holding the interlocking position. Since the provisions of section 305(b) of the FPA are intended to be prophylactic in nature and prevent any harm from a person holding otherwise prohibited interlocking positions, the

---

<sup>11</sup> *E.g. Citizens Energy Corporation*, 35 FERC ¶ 61,198 at 61,455 (1986); *Howell Gas Management Company*, 40 FERC ¶ 61,336 at 62,025 (1987); *Torco Energy Marketing, Inc.*, 48 FERC ¶ 61,294 at 61,948 (1989); *National Electric Associates Limited Partnership*, 50 FERC ¶ 61,378 at 62,157 (1990).

<sup>12</sup> *CLECO Energy, LLC*, 82 FERC ¶ 61,152 at 61,557 (1998).

lack of timely information from these abbreviated filings can make it very difficult to determine if the interlock might adversely affect public or private interests.

12. Therefore, the Commission is examining the possibility of no longer granting a waiver of the full requirements of part 45 in its orders granting market-based rate authority. Rather, the Commission would require that for public utilities that receive authority to charge market-based rates, their officers and directors would still need to comply with the full requirements of part 45 and timely file any applications for Commission authorization to hold any interlocking positions that meet the requirements set forth in section 305(b) of the FPA. The Commission seeks comments.

13. It is important to note, however, that this proposal essentially to cease granting waivers of part 45 in orders granting market-based rate authority would not apply to those persons who may qualify for automatic authorization of their interlocking positions under section 45.9 of the Commission's regulations. Automatic authorization would remain unchanged should we cease to grant waivers of the full requirements of part 45 in orders granting market-based rate authority.

#### **Information Collection Statement**

14. The following collection of information contained in this proposed rule has been submitted to the Office of Management and Budget (OMB) for review under Section 3507(d) of the Paperwork Reduction Act of 1995.<sup>13</sup> OMB's regulations require OMB to approve certain information collection requirements imposed by agency rule.<sup>14</sup>

---

<sup>13</sup> 44 U.S.C. 3507(d).

Comments are solicited on the need for this information, whether the information will have practical utility, the accuracy of the provided burden estimates, ways to enhance the quality, utility, and clarity of the information to be collected, and any suggested methods for minimizing respondent's burden, including the use of automated information techniques. The additional information the Commission proposes to require should have a minimal impact on the current reporting burden which is as follows:

Data Collection	Number of respondents	Number of responses	Hours per response	Total Annual Hours
FERC-520	28	1	51.8 hours	1,450

Total Annual Hours for Collection (reporting + recordkeeping, if appropriate) = 1,450.

*Information Collection Costs:* The Commission seeks comments on the costs to comply with these requirements. It has projected the average annualized cost of all respondents to be:  $1,450 \text{ hours} \div 2,080 \text{ hours} \times \$108,558 = \$75,677$ . Cost per respondent is \$2,703. The estimate of costs for respondents is based upon salaries for professional and clerical support, as well as direct and indirect costs. Direct costs include all costs directly attributable to providing this information, such as administrative costs and the cost of information technology. Indirect or overhead costs are costs incurred by an organization

---

<sup>14</sup> 5 CFR 1320.11.

in support of its mission. These costs apply to activities which benefit the whole organization rather than any one particular function or activity.

*Title:* FERC-520, “Application for Authority to Hold Interlocking Positions”

*Action:* Proposed Data Collection

*OMB Control Nos.* 1902-0083

The applicant will not be penalized for failure to respond to this information collection unless the information collection displays a valid OMB control number or the Commission has provided justification as to why the control number should not be displayed.

*Respondents:* Businesses or other for profit.

*Necessity of the Information:* The information collected under the requirements of FERC-520 is used by the Commission to implement the statutory provisions of Section 305(b) of the Federal Power Act and implemented by the Commission in the Code of Federal Regulations under 18 CFR Part 45. Under Part 45, each person that desires to hold an interlocking position(s) must submit an application to the Commission, or if qualified, comply with the requirements for automatic authorization. Section 305(b) of the FPA makes the holding of certain defined interlocking positions unlawful unless the Commission has authorized the interlocks to be held, and requires the applicant to show in a form or manner as prescribed by the Commission, that neither public nor private interests will be adversely affected by the holding of the position. The proposed rule will clarify (1) the time at which a person must apply for authorization to hold

interlocking positions under section 305(b) of the Federal Power Act and part 45 of the Commission's regulations, (2) clarify automatic authorizations for certain interlocking positions authorization is requested and (3) add a requirement that persons state the dates that they assumed the positions for which they seek automatic authorization under section 45.9. It is necessary to make these clarifications and require the additional information to ensure the Commission receives timely submissions and also to have sufficient information to make a determination as the appropriateness of the position.

*Internal Review:* The Commission has reviewed these requirements pertaining to holding of interlocking positions and has determined the proposed revision is necessary because the Commission needs to have adequate information filed in a timely manner. These requirements conform to the Commission's plan for efficient information collection, communication, and management within the electric industries. The Commission has assured itself, by means of internal review, that there is specific, objective support for the burden estimates associated with the information requirements.

15. Interested persons may obtain information on the information collection by contacting the following: Federal Energy regulatory Commission, 888 First Street, NE, Washington, D.C. 20426, Attention: Michael Miller, Office of the Executive Director, Phone: (202) 502-8415, fax: (202) 273-0873, e-mail: [michael.miller@ferc.gov](mailto:michael.miller@ferc.gov).

16. For submitting comments concerning the collection of information and the associated burden estimate, please send your comments to the contact listed above and to the Office of Management and Budget, Office of Information and Regulatory Affairs,

Washington, D.C. 20503, [Attention: Desk Officer for the Federal Energy Regulatory Commission, phone: (202)395-4650, fax: (202)395-7285.

### **Environmental Analysis**

17. The Commission is required to prepare an Environmental Assessment or an Environmental Impact Statement for any action that may have a significant adverse effect on the human environment.<sup>15</sup> The Commission has categorically excluded certain actions from this requirement as not having a significant effect on the human environment. Included in the exclusion are rules that are procedural, ministerial, or internal management programs or decisions,<sup>16</sup> as well as actions under section 305(b) of the FPA.<sup>17</sup> The rules proposed in this NOPR address the need to make a timely filing of an application for authorization to hold otherwise prohibited interlocking positions. Therefore, this NOPR falls within the categorical exemptions provided in the Commission's regulations, and, as a result neither an environmental impact statement nor an environmental assessment is required.

### **Regulatory Flexibility Act [Analysis Or Certification]**

18. The Regulatory Flexibility Act of 1980 (RFA)<sup>18</sup> generally requires a description and analysis of final rules that will have significant economic impact on a substantial

---

<sup>15</sup> Regulations Implementing National Environmental Policy Act, 52 FR 47897 (Order No. 486, 1987), FERC Stats. & Regulations Preambles 1986-1990 ¶ 30,783 (Dec. 10, 1987).

<sup>16</sup> 18 CFR 380.4(a)(1) (2004).

<sup>17</sup> 18 CFR 380.4(a)(16) (2004).

<sup>18</sup> 5 U.S.C. 601-12 (2000).

number of small entities.<sup>19</sup> The Commission is not required to make such analyses if a rule would not have such an effect.

19. The Commission does not believe that this proposed rule would have such an impact on small entities. Most persons affected by this proposed rule are officers or directors of companies that do not fall within the RFA's definition of a small entity. Further, the proposed rule does not substantially change the current requirements and regulations that persons who are officers and directors must comply with. Therefore, the Commission certifies that this rule will not have a significant economic impact on a substantial number of small entities.

### **Comment Procedures**

20. The Commission invites comments on the matters and proposals in this notice, including any related matters or alternative proposals that commentors may wish to discuss. Comments are due [**60 days from publication in the FEDERAL REGISTER**]. Reply comments will be due 30 days thereafter. Comments must refer to Docket No. RM05-6-000, and must include the commentor's name, the organization they

---

<sup>19</sup> The RFA definition of "small entity" refers to the definition provided in the Small Business Act, which defines a "small business concern" as a business that is independently owned and operated and that is not dominant in its field of operation. 15 U.S.C. 632 (2000). The Small Business Size Standards component of the North American Industry Classification System defines a small electric utility as one that, including its affiliates, is primarily engaged in the generation, transmission, and/or distribution of electric energy for sale and whose total electric output for the preceding fiscal years did not exceed 4 million MWh. 13 CFR 121.201 (2004) (Section 22, Utilities, North American Industry Classification System, NAICS).

represent, if applicable, and their address in their comments. Comments may be filed either in electronic or paper format.

21. Comments may be filed electronically via the eFiling link on the Commission's web site at <http://www.ferc.gov>. The Commission accepts most standard word processing formats and commentors may attach additional files with supporting information in certain other file formats. Commentors filing electronically do not need to make a paper filing. Commentors that are not able to file comments electronically must send original and 14 copies of their comments to: Federal Energy Regulatory Commission, Office of the Secretary, 888 First Street N.E., Washington, DC 20426.

22. All comments will be placed in the Commission's public files and may be viewed, printed, or downloaded remotely as described in the Document Availability section below. Commentors on this proposal are not required to serve copies of their comments on other commentors.

### **Document Availability**

23. In addition to publishing the full text of this document in the Federal Register, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through FERC's Home Page (<http://www.ferc.gov>) and in FERC's Public Reference Room during normal business hours (8:30 a.m. to 5:00 p.m. Eastern time) at 888 First Street, N.E., Room 2A, Washington D.C. 20426.



24. From FERC's Home Page on the Internet, this information is available in the Federal Energy Regulatory Records Information System (FERRIS). The full text of this document is available on FERRIS in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in FERRIS, type the docket number excluding the last three digits of this document in the docket number field.

25. User assistance is available for FERRIS and the FERC's website during normal business hours from our Help line at (202)502-8222 or the Public Reference Room at (202) 502-8371 Press 0, TTY (202)502-8659. E-Mail the Public Reference Room at [public.referenceroom@ferc.gov](mailto:public.referenceroom@ferc.gov)

List of subjects in 18 CFR part 45

Electric utilities; Reporting and recordkeeping requirements

By direction of the Commission.

Linda Mitry,  
Deputy Secretary.

In consideration of the foregoing, the Commission proposes to amend part 45, Chapter I, Title 18, Code of Federal Regulations, as follows:

**PART 45 – APPLICATION FOR AUTHORITY TO HOLD INTERLOCKING POSITIONS**

1. The authority citation for part 45 is revised to read as follows:

**Authority:** 16 U.S.C. 791a-825r, 2601-2645; 31 U.S.C. 9701; 42 U.S.C. 7101-7352; 3 CFR 142.

2. Section 45.3 is revised to read as follows:

§ 45.3 Timing of filing application.

The holding of positions within the purview of section 305(b) of the Act shall be unlawful unless the holding shall have been authorized by order of the Commission. Nothing in this part shall be construed as authorizing the holding of positions within the purview of section 305(b) of the Act prior to order of the Commission on application therefor. Applications must be filed and authorization must be granted prior to holding any interlocking positions within the purview of section 305(b) of the Act; late-filed applications will be denied. The term “holding”, as used in this section, shall mean acting as, serving as, voting as, or otherwise performing or assuming the duties and responsibilities of officer or director within the purview of section 305(b) of the Act.

3. In § 45.9, paragraph (b) is revised and paragraph (c) (5) is added to read as follows:

§ 45.9 Automatic authorization of certain interlocking positions.

\* \* \* \* \*

(b) Conditions of authorization. As a condition of authorization, any person authorized to hold interlocking positions under this section must submit, prior to assuming the duties of the position, an informational report in accordance with paragraph (c) of this section, unless that person is already authorized to hold interlocking positions of the type governed by this section. Failure to timely file the informational report will constitute a failure to satisfy this condition, and will constitute automatic denial.

(c) Informational report.

\* \* \*

(5) The dates that the person assumed the duties and responsibilities of each position listed in paragraphs (c) (2) and (c) (3) of this section.