ABSTRACT

This paper argues that the judicial review of private party antitrust claims predicated upon market-based tariffs, filed with a regulatory agency, should not be precluded by the filed rate doctrine (an antitrust doctrine that prevents challenge of electricity rates once they have been filed with, and approved by, the regulatory agency). The paper analogizes the filed rate doctrine with the notion of agency inaction in administrative law. Applying the Heckler test to the specifics of a case study leads to the general conclusion that there is a strong case for making all agency market-based tariff approval decisions presumptively reviewable in spite of the filed rate doctrine. The case study utilized is the California’s electricity crisis of 2000-2001 and FERC’s mismanagement thereof, its aftermath, and the subsequent private antitrust claims.
ANALOGY BY NECESSITY: THE FILED RATE DOCTRINE AND THE JUDICIAL REVIEW OF THE AGENCY INACTION

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I. INTRODUCTION

This paper argues that judicial review of private party antitrust claims predicated upon market-based tariffs, filed with a regulatory agency, is not precluded by the filed rate doctrine. The scope of this study is limited to the electricity market. In order to argue in favor of judicial reviewability of private conduct under antitrust laws, the paper analogizes the filed rate doctrine with the notion of agency inaction in administrative law, which is governed by the doctrine of nonreviewability. In *Heckler v. Cheney* the Supreme Court of the United States articulated a test for the determination of whether or not agency inaction is reviewable.\(^1\) I argue that the application of the *Heckler* test to the specifics of a case study leads to the general conclusion that there is a strong case for making *all* agency market-based tariff approval decisions presumptively reviewable despite the filed rate doctrine. The case study is California’s electricity crisis of 2000-2001. In particular, the examination will concentrate on Federal Energy Regulatory Commission’s (FERC) poor handling of the crisis, its aftermath, and the antitrust claims which followed.

The presumption of reviewability shifts the burden to the agency to show that its approval of a marked-based rate was not arbitrary. Courts should subject an agency’s decision to the arbitrary and capricious standard of review. This standard would require explanation-giving and standard-setting. If the agency fails to show that the tariff related decision was not arbitrary, courts should refuse to apply the filed rate doctrine and should subject the claim to the operation of the antitrust laws. Courts should not, however, be involved in the determination of which tariff would best serve the interests of the properly functioning deregulated electricity markets.

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Such determinations should be best left to the legislature or the agency because antitrust law and agency regulation are complementary to each other.

Part II describes the advantages of private antitrust claims enforcement and the unique characteristics of the electricity market, due to its particular susceptibility to market power abuse and price manipulation by individual utilities. I argue that once the filed rate doctrine is abolished, the electricity market should be subject to the joint operation of antitrust laws and the agency regulation.

Part III explores the concept of the filed rate doctrine, its origins and current applications in regulated and competitive markets. Historically, the filed rate doctrine evolved to prevent price discrimination stemming from monopoly power, by entrusting the regulatory agency with exclusive authority to monitor and approve the rates charged by public utilities. The approved rates became immune from modification by the utilities and the courts alike.

Although the doctrine’s original purpose was consumer protection, this was gradually perverted into protection of privately owned utilities from antitrust claims if such utilities had previously submitted their rates for regulatory agency approval. The shielding of utilities from antitrust prosecution became particularly problematic in a context of market deregulation, following the shift from cost-of-services to market-based rates. The filed rate doctrine is harmful to the newly competitive markets by exposing consumers to potential market abuse by privately owned utilities.

Part IV argues that the continuing application of the filed rate doctrine in the context of deregulated electricity markets is undesirable and argues for judicial review of agency decision-making process related to the approval of filed market-based rates. Currently, such judicial review is effectively blocked by the filed rate doctrine, which dictates that courts may not
scutinize whether an agency has actually reviewed the data submitted to it or has merely rubberstamped the rate approval. The argument analogizes between the filed rated doctrine and the administrative law notion of agency inaction by concentrating on *Heckler v. Chaney* and its test for assessing the judicial reviewability of agency inaction.\(^2\)

Part V develops the argument in favor of presumptive judicial review of antitrust claims predicated upon filed market-based tariffs by applying the *Heckler* test to California’s electricity crisis of 2000-2001. I will examine aspects of the *Heckler* test such as the lack of institutional expertise, as well as the specific instances of harm suffered by the crisis’ participants due to FERC’s decision not to provide a remedy within its powers and jurisdiction. After exploring California’s electricity market deregulation scheme and the reasons for its subsequent failure (which was due, in part, to market power abuse by the partially deregulated entities), I will examine FERC’s poor regulatory response to the California electricity crisis and its aftermath. I will show that, by successfully applying the *Heckler* test factors to the particulars of the California’s crisis, there is a strong case for presumptive judicial review of FERC’s market-based tariff approval decisions despite the filed rate doctrine.

Part VI argues that the filed rate doctrine should be abolished, as its revision is an unworkable solution, and deference to the head of the executive branch is not a sufficient check upon the agency’s decisions not to act. Once the doctrine is overruled, the courts have several paths available in order to ensure that the agency’s tariff setting decisions are not arbitrary.\(^3\) Arbritrariness encompasses the instances when agency’s “conclusions […] do not follow logically from the evidence,” when agency’s “rules […] give no notice of their application,” or

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\(^2\) *Id.* at 823-4.

when the agency made “distinctions [that] violate basic principles of equal treatment.” In other words, the lack of arbitrariness means that the agency’s decisions are politically independent and procedurally consistent. To achieve that end, courts should subject an agency’s market-based tariff approval decisions to the arbitrary and capricious standard of judicial review. Under this standard, the court would force the agency to give explanations and set standards.

If the court concludes that a claim should be subjected to the operation of the antitrust laws, it should steer clear of the determination as to which prices are fair and how to correct the perceived market failures, because such determinations should be left to the legislature.

II. THE ROLE OF ANTITRUST LAWS IN DEREGULATED ELECTRICITY MARKETS

Because the filed rate doctrine precludes judicial review of an agency’s discretionary and often inadequate market-based rates approval decisions, the doctrine hinders the effective operation of competitive deregulated markets. However, once the filed rate doctrine is abolished and the court can scrutinize antitrust claims predicated upon market-based tariffs, the role of agency regulation should not become obsolete.

This section describes the advantages of private antitrust claims enforcement and the unique characteristics of the electricity market. The unique nature of the electricity market structure as well as poor suitability of antitrust laws to resolve policy concerns calls for the continuing parallel roles for regulation and antitrust laws in monitoring deregulated electricity markets.

4 Id.
A. Antitrust Laws and Agency Regulation.

Antitrust laws are codified in the Sherman Act, the Clayton Act, Robinson-Patman Act, and the FTC Act. Antitrust actions can be brought by either private parties, the Department of Justice (DOJ), or the Federal Trade Commission (FTC). The Antitrust Division of DOJ may enforce the Sherman, Clayton, and Robinson-Patman Acts “through either civil or criminal prosecution.” The FTC is the “sole enforcer” of the FTC Act (unfair trade practices), and it also shares jurisdiction with DOJ over the civil provisions of the Clayton Act.

For the purposes of this study, I will only address the potential enforcement of federal antitrust laws by private parties. Under the court-developed doctrine of “primary jurisdiction,” the antitrust laws are preempted by the specific provision of a federal regulatory statute “when it is clear that enforcement of the antitrust laws would frustrate the specific regulatory scheme.” As discussed below, the electricity market, which is the main subject of this study, is regulated by the Federal Power Act (FPA), which delegates to FERC the exclusive authority in reviewing and approving filed rates. Thus, enforcement by either the DOJ or FTC would be contrary to the Congressional scheme. However, private enforcement suits of antitrust laws is not preempted if the agency entrusted with evaluating the anticompetitive conduct is not engaged in “a full consideration of the consequences for competition,” but rather engages in a “pro-forma” evaluation. It is the argument of this paper that FERC’s inadequate review of filed market-based tariffs justifies judicial review of the agency’s decision in the context of the private party antitrust claims.

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6 Id.
7 Id. at 985.
8 Id. (quoting Hughes Tools Co. v. Trans World Airlines, 409 U.S. 363 (1973); AREEDA & H. HOVENKAMP, Antitrust Law ¶¶ 240-26 (2d ed. 2001)).
The private enforcement suit is traditionally embraced by courts and is authorized by Section 4 of the Clayton Act, which states that any person “who has been injured in its ‘business or property’ by reason of an antitrust violation may sue to recover treble damages, costs of the suit and attorney fees.” Section 4 of the Clayton Act authorizes private antitrust enforcement under “(1) sections 1, 2 and 3 of the Sherman Act, (2) section 2(a)–(f) of the Clayton Act (price discrimination), (3) Section 3 of the Clayton Act (exclusive dealing and tying arrangements), (4) section 7 of the Clayton Act (merger), and (5) section 8 of the Clayton Act (interlocking directorates).” The scope of this paper is limited to antitrust laws which deal directly with prices, namely Sherman Act Section 1 and 2, because the filed rate doctrine blocks antitrust suits predicated upon filed rates (i.e., the prices consumers pay).

Congress created modern antitrust law by passing the Sherman Act in 1890. The Act’s purpose was to preserve “free trade and competition as fundamental components of American economic policy.” Section 1 of the Act prohibits combinations of restraints on trade, and Section 2 prohibits monopolization. Courts have interpreted the Sherman Act to give specificity to the broad statutory language. The Supreme Court held Section 1 to apply to “unreasonable” restraints only. The court defined the term “restraints” as “cartelization—

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9 Id. at 70 (quoting §4 of the Clayton Act, 15 U.S.C. § 15 (1982)).
10 Id. at 71.
14 Clark, supra note 11, at 1127 (note 15 referring to US v. General Dynamics, 415 U.S. 96 (1974)).
15 Id.
agreements among competitors that possess market power, formed with the intent or that have the necessary tendency to restrict output of the cartel members.”

Compared to the regulatory response to anticompetitive behavior, the possibility of private enforcement of antitrust laws confers the advantages of both deterrence and considerable financial incentives for the successful plaintiff (treble damages as per Clayton Act § 4). Further, antitrust laws have the power to provide prospective and retroactive remedy to the injured parties, unlike a regulatory agency, which is limited by its legislative authority (see below for the description of FERC’s failure to compensate retroactively the injured parties in the California’s crisis, which was triggered by the market power abuse scheme).17

Although there is a valid argument that antitrust law is capable of policing the competitive market on its own, antitrust laws and agency regulation should not be viewed as “competing methods for correcting market failures.” Those two reinforce each other, since neither alone is a panacea for market power abuse in the deregulated public utility markets. In fact, the concept of “deregulation” refers to a highly regulated market. Deregulated markets in general, and the electricity market in particular, require both proper regulatory systems and application of antitrust laws in order to reach anticompetitive behavior which neither one is capable of reaching on its own.19

16 Id. at 1130.
19 Id. at 285.
Thus, antitrust law and regulation are complementary to each other.\textsuperscript{20} Their relationship is inverse: when the government controls price and output by means of regulation, the rules governing market forces, subject to antitrust laws, no longer apply.\textsuperscript{21} Likewise, when the government moves towards deregulation, the antitrust laws start to become more relevant as they perform the function of overseeing now-unleashed market forces.\textsuperscript{22} Thus, the increased role of antitrust is a “natural result of deregulation.”\textsuperscript{23}

Further, antitrust laws are effective only after the fully functioning regulatory scheme of the new and properly functional competitive market has been established.\textsuperscript{24} When the utilities market is at the beginning of deregulation, the uncertainty as to its function hinders the efficient application of antitrust law. Once deregulation has taken place and the market becomes subject to competitive market forces, antitrust law assumes an increased role in policing the market.\textsuperscript{25}

There are several valid justifications for the continued role of agency regulation in parallel with the operation of antitrust law in the deregulated markets

Firstly, the unique nature of the electricity market, described below, requires active regulation in order to prevent market power abuses and to allow the market to function properly.\textsuperscript{26}

Secondly, regulation is needed to correct several “market failures,” the most notable of which is the so-called “natural monopoly,” which denotes an “industry in which the cost of service declines as volume increases, all the way up to the market’s saturation point.”\textsuperscript{27} Under this

\textsuperscript{21} Id. at 341.
\textsuperscript{22} Id.
\textsuperscript{23} Id.
\textsuperscript{24} Bush & Mayne, \textit{supra} note 18, at 209.
\textsuperscript{25} Hovenkamp, \textit{supra} note 20, at 341.
\textsuperscript{26} Bush & Mayne, \textit{supra} note 18, at 209.
\textsuperscript{27} Hovenkamp, \textit{supra} note 20, at 338.
definition, electricity market is a natural monopoly. The effect of natural monopoly is such that a single firm “can realize economies of scale through a range of production, thus continually lowering the costs.” 28 Since natural monopoly only allows for the operation of a fixed number of firms, regardless of whether the market is deregulated or not, regulation assumes the role of preventing anticompetitive monopolistic behavior (producing too little and charging too much). 29

Lastly, it is critical to understand that antitrust law is poorly suited to resolve the policy issues which deregulation necessarily entails. 30 The role of antitrust is confined to remedies and deterrence, not to remedying anticompetitive harms. 31 Antitrust is best suited to “preserv[e] competitive incentives that are consistent with the regulatory regime […] whatever the regime’s internal merits.” 32 The role of curing market defects should be assumed by the legislature, not the courts. The courts are poorly suited to determine proper rates and prices. 33 Antitrust law takes the market as it is, “warts and all,” and “tries to prevent injuries to competition that the regulatory process leaves unattended.” 34 Antitrust’s role is most efficient where regulation stops short due to various impediments, such as limited legislative authority to grant retroactive compensation.

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29 Hovenkamp, supra note 20, at 338.
30 Id. at 342.
31 Id. at 376.
32 Id.
33 Id. at 342.
34 Id.
B. The Unique Nature of the Electricity Market and the Greater Potential for Market Abuse

The electricity market is different from any other competitive market in a way that makes it very hard to control. This makes the electricity industry particularly prone to market power abuse by individual utilities.\textsuperscript{35} The wholesale electricity market is currently under the jurisdiction of FERC. That means that private utilities are required to file their tariffs with FERC for its review and approval.\textsuperscript{36} During the approval process, FERC reviews the market share of the utility in order to determine whether or not the utility possesses the market power necessary to manipulate the market. Market power means the power of a single firm to drive prices upwards without losing its consumers. In its extreme form, market power leads to monopoly. Monopolies hurt consumers because they produce too little and charge too much.

Currently, FERC employs the Federal Guidelines developed by the DOJ and the FTC for non-electricity markets as a benchmark for the critical market share under which the utility is incapable of exercising market power (which currently stands at twenty percent).\textsuperscript{37} What FERC does not account for is that the unique characteristics of the electricity market “directly translate into enhanced market power for generators and traders holding much smaller market shares than 20%.”\textsuperscript{38} The nature of the electricity market is such, that when the right conditions are met even a utility with as little as 1% of the market share can exercise significant market power by withholding capacity and driving the prices upwards.

\textsuperscript{35} Martin, III, \textit{supra} note 17, at 278.
\textsuperscript{36} FPA, 16 USC §824d(c).
\textsuperscript{37} Timothy P. Duane, \textit{Regulation’s Rationale: Learning From the California Energy Crisis}, 19 \textit{Yale J. on Reg.} 471, 514 (Summer, 2002).
\textsuperscript{38} \textit{Id.} at 515.
The electricity market is unique in several ways. First, the demand for electricity is highly uneven between different periods of time.\textsuperscript{39} Second, electricity cannot be stored. That means that “each unit consumed must be produced at exactly the nanosecond it is consumed.”\textsuperscript{40} Thus, unless the consumers are responsive in their demand for electricity, the only way to stabilize prices is to add more generators since the future capacity cannot balance out the present capacity.\textsuperscript{41} The demand for electricity is fairly inelastic due to the lack of price information amongst consumers.\textsuperscript{42} Inelasticity of demand describes “the extent to which quantity demanded decreases in response to an increase in the price of the good or service.”\textsuperscript{43} This means that consumer demand does not act as a constraint upon market power because consumption will continue at the same rate regardless of the price charged. Further, the number of generating facilities is relatively fixed due to the substantial entry barriers for production of electricity.\textsuperscript{44}

Thus, the first and the second characteristic combined may result in tremendous price volatility in the electricity market.\textsuperscript{45} Further, these characteristics open the door to potential market power abuse by making it possible for one firm to artificially inflate prices by withholding its electricity generation capacity or raising its prices with impunity.\textsuperscript{46} The fact that the exercise of market power in the electricity market does not demand collusion makes the

\begin{itemize}
  \item \textsuperscript{39} Richard J. Pierce, Jr., \textit{How Will the California Debacle Affect Energy Deregulation?}, 54 \textit{Admin. L. Rev.} 389, 395 (2002).
  \item \textsuperscript{40} \textit{Id.}
  \item \textsuperscript{41} Bush & Mayne, \textit{supra} note 18, at 235.
  \item \textsuperscript{42} \textit{Id.} at 236.
  \item \textsuperscript{43} Pierce, Jr., \textit{supra} note 39, at 397.
  \item \textsuperscript{44} Martin, III, \textit{supra} note 17, at 278.
  \item \textsuperscript{45} Pierce, Jr., \textit{supra} note 39, at 395.
  \item \textsuperscript{46} Bush & Mayne, \textit{supra} note 18, at 255.
\end{itemize}
electricity market particularly vulnerable to abuse.\textsuperscript{47} In case of collusion, however, the price of electricity can soar even higher.\textsuperscript{48}

Third, electricity is transmitted thru the integrated transmission grid which may include several regions in the United States and Canada.\textsuperscript{49} That means that individual states can impact the grid significantly yet have very little power to control it.\textsuperscript{50} Further, because electricity cannot be stored, the only way to operate the grid without causing blackouts is to carefully balance generation and demand in order to avoid surplus in the wires.\textsuperscript{51}

\section*{III. THE ORIGINS AND APPLICATIONS OF THE FILED RATE DOCTRINE TO THE ELECTRICITY MARKET}

Deregulation dictates abandoning the cost-of-service rates in certain markets (such as a wholesale generation, for example) in favor of market rates in order to achieve “improved efficiencies, lower costs, and ultimately lower prices for consumers.”\textsuperscript{52} Both full and partial industry deregulation unleashes market forces which are usually regulated by antitrust law. The electricity market is particularly vulnerable to market manipulation and market power abuse. However, antitrust law’s regulatory power is effectively thwarted by the court’s application of the filed rate doctrine, which shields the utilities from such claims.

The filed rate doctrine first appeared as a judge-made defense in 1906, based on a statutory interpretation of the Interstate Commerce Act (ICA) of 1887 and the common law concept of

\textsuperscript{47} Duane, \textit{supra} note 37, at 535.
\textsuperscript{48} Martin, III, \textit{supra} note 17, at 278.
\textsuperscript{49} Pierce, Jr., \textit{supra} note 39, at 396.
\textsuperscript{50} \textit{Id.}
\textsuperscript{51} Bush & Mayne, \textit{supra} note 18, at 236.
\textsuperscript{52} Martin, III, \textit{supra} note 17, at 274.
However, the Supreme Court treats the doctrine as a “type of statutory precedent,” which is now binding courts and agencies alike. The ICA was enacted as a counter-measure to price discrimination and accusations of abusive monopoly power in the interstate railroad system. The dominance of the interstate railroad system over interstate commerce had given the railroads unprecedented market power, which allowed for widely varying and discriminatory rate setting. The subsequent popular discontent led to the adoption of the ICA. The overarching principle underlying the adoption of the Act “was the notion that prices should reflect the cost of producing the services subject to such regulation.” The Act created the filed rate doctrine by prohibiting providers from charging the end-users any other rate than the one filed with the regulatory agency.

The FPA borrows the concept of the filed rate doctrine from the ICA. The FPA entrusts FERC with jurisdiction over the wholesale electricity markets, and requires the regulated private utilities to file their rates with FERC for approval. Faithful to the original goal of the filed rate doctrine (preventing price discrimination stemming from monopoly power), FERC is obliged to ensure that the rates filed are “just and reasonable” and non-discriminatory.

FERC’s approval means that filing utilities may not charge any other rate than the one they filed and got approval of from FERC; utilities purchasing in the wholesale market for later resale on a retail market may not negotiate a different rate; and the courts may not question the

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54 *Id.* at 1601-02.
56 *Id.*
57 *Id.* at 1030.
58 *Id.* at 1031.
60 16 USC §824d(a).
approved rate as inappropriate or offer an alternative rate.\textsuperscript{61} Further, the filed rate doctrine, coupled with the rule against retroactive ratemaking, prevents FERC from granting retroactive refunds.\textsuperscript{62}

The filed rate doctrine first appeared in the antitrust claim in \textit{Keogh v. Chicago & Northwestern Railway Co.}\textsuperscript{63} In \textit{Keogh}, the petitioner alleged that the respondent, a group of interstate carriers, has formed a conspiracy to set uniform prices higher than reasonable and in a discriminatory fashion.\textsuperscript{64} The Court, however, was precluded from determining whether or not the rates were in fact “unreasonable” or discriminatory because these rates were filed and approved by the ICC.\textsuperscript{65} Thus, the filed rate doctrine acts as a type of firm-specific immunity when the antitrust claim is predicated upon the agency-approved rate.\textsuperscript{66}

Judicial application of the filed rate doctrine evolved further after the deregulation of electric utilities began. Although originally the filed rate doctrine only applied to cost-of-service rates prevalent in the regulated industries, the courts have extended the filed rate doctrine to market-based rates in the newly deregulated public utilities.\textsuperscript{67} However, the application of the doctrine to the market-based rates is harmful to consumers and the competitive markets alike for two reasons. First, the doctrine prevents judicial review of the agency approval process of the rate. As shown below, such process is often inadequate and entails nothing more than a mere rubber-stamping. Second, because of inadequate supervision of the competitive markets by the agency,

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\textsuperscript{61} \textit{Pacific Gas}, 216 F.Supp.2d at 1032.
\textsuperscript{62} \textit{Id.}
\textsuperscript{63} \textit{Keogh v. Chicago & N.W. Ry. Co.}, 260 U.S. 156 (1922).
\textsuperscript{64} \textit{Id.} at 160.
\textsuperscript{65} \textit{Id.} at 161-2.
\textsuperscript{66} Martin, III, \textit{supra} note 17, at 293.
\textsuperscript{67} \textit{Id.} at 296.
\end{flushleft}
the application of the doctrine to such markets is an invitation to anticompetitive behavior and market abuse.

IV. THE THEORY OF NONREVIEWABILITY AND THE HECKLER TEST

Application of the filed rate doctrine is ill-suited for consumer protection in deregulated electricity markets. FERC alone is not properly equipped to monitor the newly competitive markets. Unfortunately, the filed rate doctrine effectively blocks judicial review of the agency’s decision-making process related to rate monitoring and approval. This paper contends that such review is necessary and highly desirable in order to protect consumers and maintain properly functioning competitive markets.

The argument in favor of judicial review of the agency’s market-based rates approval decisions proceeds by analogizing the filed rate doctrine to the notion of agency inaction in administrative law. The two concepts share many functional similarities.

Administrative law analyzes agency inaction under the theory of nonreviewability, which bars the court from hearing an issue inappropriate for judicial review even when the parties have established standing as to a particular claim. The theory of nonreviewability is codified under the APA §701(a)(1)-(2). In general, agency action is presumed reviewable while agency inaction is presumed unreviewable.

Although the court has analyzed the nonreviewability doctrine in several landmark cases, most notably Abbott Laboratories v. Gardner, Citizens to Preserve Overton Park, Inc. v. Volpe, and Heckler v. Chaney, this paper will concentrate only on the Heckler case. In Heckler, the

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68 Bressman, supra note 3, at 1665.
FDA refused to initiate the proceedings designed to stop the use of certain drugs in human executions.\textsuperscript{70} The challenge was brought by a group of the death row prisoners who claimed that the drugs were not approved by the FDA for human executions and thus their continuing use violated the Food, Drug, and Cosmetics Act.\textsuperscript{71}

The \textit{Heckler} case is particularly interesting because the court has interpreted APA §701(a)(2) as insulating the “entire class of administrative decisions-- namely, agency inaction” from judicial review.\textsuperscript{72} Thus, \textit{Heckler} extended the nonreviewability doctrine beyond the individual facts of the case and articulated a generally applicable test for the determination of whether or not agency inaction is reviewable.

The \textit{Heckler} test asks several questions. Most and foremost, the test is interested in establishing whether considerations of agency expertise and the separation of powers involve an obstacle to the judicial reviewability of the agency inaction. Courts defer to agency expertise if the issue concerns allocation of the agency’s resources because such matters involve “complicated balancing of a number of factors which are peculiarly within [the agency’s] expertise.”\textsuperscript{73} Further, a court will look at whether the result of the agency inaction is coercive: whether rights-- such as the right to liberty or property-- were infringed.\textsuperscript{74} Judicial review will be precluded if a court has no harm to remedy or record to review.

I argue that the filed rate doctrine is a form of agency inaction, and thus the \textit{Heckler} test is a valid tool for assessing the judicial reviewability of antitrust claims that the doctrine currently blocks. The concept of agency inaction “might encompass any instance in which an agency fails

\textsuperscript{70} \textit{Heckler}, 470 U.S. at 823-4.
\textsuperscript{71} \textit{Id}.
\textsuperscript{72} Bressman, \textit{supra} note 3, at 1667.
\textsuperscript{73} \textit{Heckler}, 470 U.S. at 831.
\textsuperscript{74} \textit{Id}. at 832.
to take desired or desirable action.”75 The filed rate doctrine is a form of agency inaction because “it is the filing of the tariffs, and not any affirmative approval or scrutiny by the [federal] agency that triggers the filed rate doctrine.”76

I contend that judicial review of agency oversight and scrutiny of filed market-based rates is a highly desirable public policy outcome. Without judicial review, there is a perverse incentive for private utilities to file their rates with the regulatory agency solely in order to foreclose any future possibility of antitrust litigation.77 Although the doctrine was initially promulgated to protect consumers from discriminatory prices thru regulatory oversight of the utilities’ rates, the continuing application of the doctrine tends to privilege private choice over public interest by preventing judicial remedies for its anticompetitive behavior.78

Effectively, the doctrine freezes market-based tariffs and prevents their modification or challenge by anyone other than the regulatory agency.79 The court is precluded from reviewing the agency’s decision-making in the rate approval process. That means, for example, that the court may not examine whether or not the agency has reviewed all the data necessary to the approval of the tariff submitted (such as the firm’s market power, for example).80 However, the federal agency may or may not have reviewed the accuracy and relevance of all of the information submitted in order to ensure that the public interest is served and that market abuse is prevented.81 In many instances, the agency merely rubberstamps the submitted market-based

75 Bressman, supra note 3, at 1664.
77 Jim Rossi, Debilitating Doctrine, 142 NO. 11 FORTHNIGHT 16, 17 (November 1, 2004).
78 Rossi, supra note 53, at 1592.
79 Id. at 1593.
80 Town of Norwood, 202 F.3d at 419.
81 Rossi, supra note 53, at 1618.
tariffs.82 Because the filed rate doctrine prevents the courts from reexamining the agency’s decisions, the doctrine, in effect, provides an opportunity for filing process manipulation by private firms bent on escaping agency oversight in order to exercise unlawful market power.83

Thus, the filed rate doctrine can function as a “firm-specific defense” due to the virtual immunity from the antitrust claims the doctrine provides to filing utilities under current law.84 A private utility is given a perverse incentive to file its rates with the regulatory agency in order to foreclose any future possibility of litigation.85 It is quite lamentable that the main applications of the filed rate doctrine is its use as a “shield” against the antitrust claims brought against the private utilities for abuse of monopoly power, considering the fact that the doctrine was historically formulated to prevent the unwanted effects of monopoly power.86

V. HECKLER TEST APPLICATION TO THE FILED RATE DOCTRINE

This Part applies the Heckler test to the filed rate doctrine’s devastating effect upon deregulated markets by examining California’s electricity crisis of 2000-2001. The application of the Heckler test to the specifics of this case leads to the general conclusion that FERC’s failed attempt to control and regulate the newly competitive market is indicative of a larger problem, which extends far beyond the particulars of the situation in California. The bigger problem, I suggest, is that of entrusting the oversight, review and approval of the filed market-based tariffs to FERC’s sole and unreviewable discretion. There is a strong case for making all the agency’s tariff approval decisions presumptively reviewable despite the filed rate doctrine.

82 Id. at 1626.
83 Id. at 1618.
84 Rossi, supra note 77, at 17.
85 Id.
86 Rossi, supra note 53, at 1591.
The following sections describe California’s electricity market crisis and focus on FERC’s attempts (or the lack thereof) to mitigate the crises, the antitrust claims that followed, and the demand for compensation from the injured parties.

**A. Introduction to the California Electricity Crisis**

California moved towards deregulation of its electric industry in 1996 and started to deregulate in April 1998. The state’s deregulation efforts were limited by the nation-wide jurisdictional split between the states and FERC. While FERC has the “authority over the wholesale, bulk segment of the industry,” the states, including California, “have the authority over the industry’s interstate and retail segments.”

California encouraged its investor-owned utilities (IOUs) to unbundle their generation capacity. In order to purchase electricity, IOUs were required to turn to a state created spot market. Simultaneously, the state capped retail prices, effectively freezing them below the then current market levels. The deregulation proceeded without any major issues until May 2000 when wholesale prices soared, retail prices remained capped, and the IOUs became heavily indebted, unable to recover their expenses in the retail market. At that point, in order to prevent interruptions in power service, the state started purchasing electricity on behalf of the IOUs. Despite that effort, massive blackouts still rolled though California. The only agency with the jurisdictional authority to discipline the soaring wholesale prices-- FERC-- did not...

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89 Fels & Lindh, *supra* note 87.
90 *Id.*
91 *Id.*
92 *Id.*
respond to the crisis until several months after its peak, and the response did little to remedy the situation in California.

The following are the particulars of California’s deregulation plan. Retail customers were now able to choose their own electricity provider. The three largest state utilities-- PG&E, Edison and SDG&E-- were compelled to unbundle and transfer their transmission facilities to the state-owned independent system operator (ISO), which was to assure indiscriminatory access to the transmission facilities.93 Further, the utilities were required to sell their generation facilities, and purchase the needed electricity at wholesale prices through the state created spot market conducted by the FERC-approved Power Exchange.94 In order to allow the utilities to recover the costs of the transition, the retail prices included the “competition transition charge” (CTC).95

The generation of electricity was controlled by independent companies subject to FERC’s jurisdiction.96 Those companies could continue selling electricity wholesale and at the market-based rates if they could demonstrate to FERC that they lacked market power and that their prices were reasonable in relation to the “interplay of supply and demand in well-functioning markets.”97 Despite these requirements, however, the rates filed with FERC were not subjected to the proper analysis needed to maintain well-functioning markets. Prior to approval of the filed rates, the agency failed to evaluate the actual market power of the filing utility or the actual conditions of supply and demand in the newly competitive market.98 To make things worse, those rates were not subject to judicial review, effectively shielded by the filed rate doctrine.99

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93 Id. at 8.
94 Id.
95 Id.
96 Martin, III, supra note 17, at 274.
97 Id.
98 Id. at 277.
99 Id.
The mechanics of FERC’s supervision of wholesale prices (or lack thereof, to be precise), opened the door to the possibility of market abuse by the wholesale vendors who, being in sole possession of the generation capacity and shielded from the antitrust prosecution by the filed rate doctrine, could easily inflate prices by limiting their electrical output. Although it is still not entirely clear whether or not the private firms’ colluded (which is illegal under the Sherman Act §1), there was nothing that could have prevented such collusion from occurring. In fact, the post-crisis released Enron memos strongly suggested that market abuse did occur by means of “strategic withholding of bids and supplies.” Further, because most of the generation companies diversify their assets, such as baseload generation and peaking facilities, each company individually was capable of exercising market power during peaking demand for periods. As discussed in detail below, FERC proved to be incapable of protecting the market from abuse by either collusion or monopoly, and antitrust laws were neutralized by the filed rate doctrine because potential market abusers filed their tariffs with FERC.

The state’s deregulation proceeded down this path until April 2000 when, within a span of eleven months, wholesale electricity prices increased one thousand percent and exceeded California’s fixed retail prices by several multiples. Utilities were forced to absorb the price increases since they were unable to recover in the capped retail market. The state found itself in a severe electricity shortage, the utilities became heavily indebted, and several utilities, such

100 Id. at 278.
101 Id. at 284.
103 Bush & Mayne, supra note 18, at 257.
104 Pierce, Jr., supra note 39, at 395.
105 Martin, III, supra note 17, at 272.
as PG&E, declared bankruptcy.\textsuperscript{106} The resulting blackouts rolled through California for 3 months, from November 1999 through May 2001.\textsuperscript{107}

There were several factors that contributed to California’s crisis: “poorly structured markets, ineffectual regulatory responses to correct market flaws, limited generation supply, higher-than-anticipated increases in demand, […] economic slowdown, [and] dryer than normal weather.”\textsuperscript{108} Also, there was a severe imbalance between the supply and the inelastic demand for electricity.\textsuperscript{109} Because California’s retail prices were capped, the consumers did not feel the yoke of the rapidly increasing wholesale prices.\textsuperscript{110} Thus, the demand for electricity did not diminish but, in fact, was steadily increasing due to the unusually hot seasonal weather. The demand for electricity rose by thirty-eight percent between the years 1990 and 2000, eventually causing serious electricity shortages.\textsuperscript{111}

During the time of the crisis, FERC did little to remedy the situation.\textsuperscript{112} On November 1\textsuperscript{st}, FERC issued a report which largely blamed the situation in California on the flawed retail electricity market as well as on the imbalance of supply and demand in the state.\textsuperscript{113} Thus, FERC blamed the entire crisis on California’s allegedly flawed deregulation plan, which was, ironically, pre-approved by FERC itself.\textsuperscript{114} Further, although FERC had the jurisdictional

\begin{thebibliography}{9}
\bibitem{106} Id.
\bibitem{107} Id. at 271.
\bibitem{109} Pierce, Jr., \textit{supra} note 39, at 397.
\bibitem{110} Id. at 395.
\bibitem{111} Id. at 401.
\bibitem{112} Fels & Lindh, \textit{supra} note 87, at 13.
\bibitem{113} Id.
\bibitem{114} Duane, \textit{supra} note 37, at 516.
\end{thebibliography}
authority over wholesale vendors, it refused to discipline wholesale prices by imposing cost-of-service pricing.\footnote{Fels & Lindh, supra note 87, at 13.}

**B. The Lack of Expertise**

Perhaps the most convincing justification that the *Heckler* test proposes for the insulation of agency inaction from judicial review is the “administrative concerns,” which refer to the balancing of factors falling squarely within agency’s expertise.\footnote{Bressman, supra note 3, at 1678.} The reason for deference to agency expertise is twofold. First, under the political accountability theory, the best check upon agency’s expertise is the President’s supervision and not that of the courts. Second, the courts do not have the necessary institutional expertise, experience, or guidelines to micro-manage agency decisions.\footnote{Bressman, supra note 3, at 1678.}

Thus, when the court invokes the filed rate doctrine in order to shield the utility from antitrust prosecution, it is, in effect, deferring to the agency’s expertise both in evaluating the tariffs filed by regulated utilities and in assuring that these tariffs are “just and reasonable” and non-discriminatory, as required by the FPA.\footnote{16 USC §824d(a).} However, because the court focuses on the mere fact of the tariff being filed, such deference risks “privileg[ing] private behavior rather than the actual or anticipated actions by regulators.”\footnote{Rossi, supra note 53, at 1647.}

Unfortunately, the actual actions by the regulators are very troubling. The FERC’s failure to detect market manipulation in California stems from the agency’s general lack of familiarity with

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\footnote{Fels & Lindh, *supra* note 87, at 13.} \footnote{Bressman, *supra* note 3, at 1678.} \footnote{Bressman, *supra* note 3, at 1678.} \footnote{16 USC §824d(a).} \footnote{Rossi, *supra* note 53, at 1647.}
deregulation and market-based tariffs monitoring. The agency has extensive expertise with cost-of-services rates, but market-based tariffs are very different. Thus, while FERC has the expertise to determine just and reasonable cost-of-service based rates, it lacks similar expertise in determining which market-based rates are just and reasonable. Further, FERC has failed to make the requisite findings to address this problem. Until recently, FERC has never taken upon itself to devise rules and parameters for efficient markets.

Thus, judicial deference to FERC’s expertise in the context of market-based tariffs is unwarranted because the agency lacks both experience and expertise in the subject matter. Further, the agency is not equipped with the proper jurisdictional authority to retroactively remedy the claims resulting from tariffs FERC itself has found to be unfair and unreasonable. Given the situation, judicially-enforced antitrust laws would be more efficient in addressing potential market power manipulation. Unlike FERC, courts possess a solid and constantly evolving expertise in dealing with competitive markets. Further, the court is more responsive than the agency to legislative actions aimed at remedying potential market power abuse. Also, the court is able to issue retroactive remedies.

In the case of California’s crisis, FERC found itself confronted by a market which operated extremely fast and which was not structurally competitive. Further, the agency was faced with “aggressive traders and generators primed to find and use loopholes in the protocols to increase their companies’ profits and their personal bonuses.”

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120 Martin, III, supra note 17, at 297.
121 Id.
122 Bush & Mayne, supra note 18, at 223.
123 Weaver, supra note 102, at 80.
124 Id.
FERC, however, did not take these competitive market realities into account. It analyzed the filed market-based rates by looking at the market share of the regulated utility under the faulty assumption that insufficient market share effectively denies the potential for market manipulation.\textsuperscript{125} FERC assumed that generators with market share of less than twenty percent were incapable of exercising market power.\textsuperscript{126} However, the numbers employed by FERC were erroneously borrowed from the measures used by DOJ and FTC in analyzing the firm’s market power in non-electricity markets.\textsuperscript{127} The unique characteristics of the electricity market confer market power on a utility with market share as small as one percent during peak hours of demand.

The lack of synchronization between retail and wholesale rates, which contributed greatly to the California crisis, further highlights FERC’s inexperience with market-based rates, as well as the poor fit between the filed rate doctrine and maintenance of a properly functioning competitive market.

When California froze its retail prices, it assumed that FERC would impose much lower wholesale prices during the period of transition to the new deregulated market.\textsuperscript{128} If such calculations were true, the “headroom” between retail and wholesale prices would have allowed utilities to recover costs following the state ordered unbundling.\textsuperscript{129} This assumption proved to be a serious miscalculation on part of the state. When the wholesale prices soared, utilities, such as

\begin{footnotes}
\item[125] Martin, III, \textit{supra} note 17, at 297.
\item[126] Duane, \textit{supra} note 37, at 514.
\item[127] \textit{Id.}
\item[128] \textit{Pacific Gas}, 216 F.Supp.2d at 1021.
\item[129] \textit{Id.}
\end{footnotes}
PG&E, started to accumulate massive debts and eventually filed for bankruptcy, unable to recover costs in the retail market.\textsuperscript{130}

While the state retail market based its rate calculation on a mistaken assumption in regards to wholesale rates, FERC’s wholesale rates were approved based on retail tariffs. FERC required that wholesale sellers either show that they lacked market power or that they took measures to mitigate such power in order to have their rates approved.\textsuperscript{131} One of the “measures” taken by the wholesale sellers was to successfully claim that the retail market rate freeze would prevent them from passing higher costs to the consumers.\textsuperscript{132} However, FERC’s decision to approve these wholesale rates, no manner how faulty, was immune from judicial review pursuant to the filed rate doctrine. In \textit{Pacific Gas and Elec. Co. v. Lynch} the court held that FERC is not “obliged to adjust wholesale rates to harmonize with retail rates,” even if FERC did rely on the state retail price freeze in its initial calculation of market-based rates.\textsuperscript{133}

Further, FERC’s authority to impose penalties only extends to ordering prospective refunds for rates not found to be “just and reasonable.”\textsuperscript{134} FERC cannot administer any other penalties against violators.\textsuperscript{135} Thus, FERC is not effective in policing deregulated markets and deterring future violations. Further, the “just and reasonable” rate standard does not account for the fact that the market-based rate may seem “reasonable” to FERC yet be a result of a price-fixing conspiracy, and thus higher than the rate dictated by free market competition.\textsuperscript{136} Thus, antitrust violations could pass FERC’s review unnoticed.

\textsuperscript{130} Id. at 1022.
\textsuperscript{131} Id. at 1036.
\textsuperscript{132} Id.
\textsuperscript{133} Id. at 1040.
\textsuperscript{134} Martin, III, \textit{supra} note 17, at 305.
\textsuperscript{135} Id.
\textsuperscript{136} Id. at 299.
FERC’s Order, issued on November 1, 2000 in response to California’s electricity crisis, revealed the extent of FERC’s inability to discipline the wholesale market.\textsuperscript{137} The Order announced that FERC would not intervene and stated two major conclusions.\textsuperscript{138} One acknowledged that FERC was under the obligation to ensure that wholesale prices were just and reasonable and that the state’s current wholesale rates, all previously filed and approved by the FERC, were neither just nor reasonable.\textsuperscript{139} That conclusion notwithstanding, FERC refused to cap the current wholesale prices.\textsuperscript{140} The second conclusion referred to the demand for retroactive relief, which FERC denied. It cited the filed rate doctrine as justification for the assertion that all rates previously found by FERC to be just and reasonable were not eligible for a refund.\textsuperscript{141}

FERC’s Order made it clear that the filed rate doctrine applied to cost-of-service and market-based rates alike, thus revealing FERC to be a “paper tiger,” incapable of disciplining competitive markets.\textsuperscript{142} The filed rate doctrine became a legal loophole for rampant abuse in the already dysfunctional California market.\textsuperscript{143} The Order, coupled with the knowledge that FERC was probably incapable of deterring price and market power manipulation invited regulated utilities to “game the system at will” by manipulating electrical supply and demand and driving prices upwards.\textsuperscript{144} Predictably, the prices increased substantially, and the general result of the FERC Order was “the equivalent of outright looting in plain sight.”\textsuperscript{145}

\textsuperscript{137} Weaver, supra note 102, at 83.
\textsuperscript{138} Duane, supra note 37, at 516.
\textsuperscript{139} Weaver, supra note 102, at 83.
\textsuperscript{140} Id. at 85.
\textsuperscript{141} Id. at 83.
\textsuperscript{142} Id. at 84.
\textsuperscript{143} Id.
\textsuperscript{144} Id.
\textsuperscript{145} Duane, supra note 37, at 517.
The extent of FERC’s lack of expertise in dealing with deregulated market prices was further confirmed by the findings of the Senate Committee on Governmental Affairs staff report in regards to FERC’s investigation of the Enron scandal. The report cited a “shocking absence of the regulatory vigilance on FERC’s part and a failure to structure the agency to meet the demands of the new market-based system that the agency itself championed.”

C. Coercive Inaction (Harm Done).

The lack of coercion or harm is the last justification the Heckler test offers for the insulation of agency inaction from the judicial review. This inquiry translates into an examination of harm that FERC had an opportunity, power, and proper jurisdiction to remedy, yet did not do so. Thus, it is the agency’s inaction that inflicted the harm. The rationale for this is that if there is no harm done, the court has no remedy to provide.

The court’s analysis in Heckler distinguishes the agency inaction from agency action as noncoercive, and thus “analogous to prosecutorial discretion.” However, this distinction does not apply to the filed rate doctrine which is, in fact, coercive, and thus should be reviewed under the same principles as agency action. Further, the distinction on the grounds of coercion is not persuasive enough, as argued by Justice Marshall in Heckler’s concurrence. Both agency inaction as well as agency action can have “just as devastating an effect upon life, liberty, and the pursuit of happiness.”

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146 MAJORITY STAFF REPORT, SENATE COMM. ON GOVERNMENTAL AFFAIRS, STAFF INVESTIGATION OF FERC’S OVERSIGHT OF ENRON CORP. 2, at 223 (Nov. 12, 2002).
147 Bressman, supra note 3, at 1693.
149 Id. (citing Chaney, 470 U.S. at 851, Marshall, J., concurring in judgment).
In the case of California’s crisis, the continued application of the filed rate doctrine “cause[d] an affirmative harm for energy-market development and policy” by precluding potential antitrust claims against generators’ market abuse, and by denying a remedy to those injured by it.\footnote{Rossi, supra note 77.} As such, the doctrine prevented the development of properly structured competitive markets.\footnote{Id.}

FERC’s decision not to act wrecked chaos upon the participants in the California’s electricity crisis. As discussed above, because the filed rate doctrine was applied to market-based rates, the generators of electricity could have and likely did easily abused the vulnerable market by means of strategic withholding of electricity supplies, which sent California’s wholesale prices skyrocketing in the May of 2000. Simultaneously, FERC refused to cap wholesale electricity prices on the California Power Exchange, which was under FERC’s jurisdiction.\footnote{Weaver, supra note 102, at 51.} According to Robert McCullough’s study, price caps would have prevented the entire crisis from occurring.\footnote{Robert McCullough, Revisiting California: Market Power after Two Years, PUB. UTIL. FORTNIGHTLY, at 28 (Apr. 1, 2002)} However, as the later released Enron memos showed, FERC was either not ready or unable to contain the crisis.\footnote{Weaver, supra note 102, at 52.}

As prices soared, utilities, such as PG&E and Edison, were unable to recover their losses in the retail market and became heavily indebted, forcing the Power Exchange to bail them out by purchasing electricity on their behalf. Eventually, trapped between FERC’s lack of an effective response and constantly defaulting utilities, the Power Exchange significantly reduced its operations and declared bankruptcy on March 9, 2002.\footnote{Fels & Lindh, supra note 87, at 12.}
Following the collapse of the Power Exchange, a barrage of antitrust claims followed. The buyers of wholesale electricity sued sellers for alleged market manipulation and unfair business practices. The court held that such suits are barred from the courts under the filed rate doctrine and denied recovery to the plaintiffs.

In one of such cases, the plaintiff-- Public Utility District No. 1 of Snohomish County-- asserted that the wholesale rates it was forced to pay for electricity “far exceed[ed] the price [for] which energy would be sold in a truly competitive market.” The District alleged a strategic withholding of electricity supply in order to cause price inflation. The court dismissed the suit and denied recovery under the filed rate doctrine, because in order to resolve the claim the court would have to review the rates filed with FERC. However, the court was prohibited from setting a rate different from the FERC approved one. Thus, the court barred the claim because in order to resolve it, “the Court would presumably have to measure the difference between the allegedly fixed wholesale price and an otherwise ‘just and reasonable’ wholesale price.”

The court further refused to review FERC’s decision-making process in setting the tariff and flatly denied plaintiff’s claim that the filed rate doctrine should not apply because FERC “did not consider all the variables necessary for filing the cost-of-service tariffs in its calculation of the market-based tariff.” The court interpreted the FPA as granting the agency wide discretion and authority in reviewing filed rates. The filed rate doctrine applied to cost-based as well as market-based rates, and FERC could employ any elements it wished in the calculation and

156 In re California Wholesale Electricity Antitrust Litigation, 244 F.Supp.2d 1072, 1075 (S.D.Cal. 2003).
157 Id.
158 Id.
159 Id. at 1077.
160 Id.
161 Id. at 1080.
approval of either rate. The filed rate doctrine was satisfied when the mere act of filing with the agency took place.

In one of the most recent cases, the court reaffirmed that the filed rate doctrine bars damages stemming from antitrust claims against filing utilities. A group of public entities sued a group of wholesale electricity generators for alleged antitrust violations “arising from defendants' manipulation, distortion, and corruption of California's deregulated wholesale electricity market.” Such violations included “combining to withhold supply from electricity markets and colluding to fix electricity prices” during the California’s electricity crisis of 2000. Allegedly, the defendants conspired to “game the market” by creating “false shortages and preventing the sale of electricity at competitive rates.” The alleged manipulations forced the plaintiffs to pay highly inflated market prices, leading to their inability to pay and to subsequent electricity shortages. The harms alleged were blackouts and economical instability.

Nonetheless, the court refused to entertain these claims because, as per FPA, FERC alone had exclusive authority to determine the reasonableness of the wholesale rates charged. If the court were to grant plaintiff’s remedy, it would be required “to second-guess FERC rate determinations in fixing antitrust damages to punish the defendants for the alleged anticompetitive conduct.” Such review would necessitate the determination as to the

162 Id.
163 Id.
165 Id. at 2.
166 Id.
167 Id. at 3.
168 Id. at 2.
169 Id.
170 Id. at 7.
171 Id. at 12.
reasonableness of the charged rates.\textsuperscript{172} The court has reaffirmed that the mere act of filing the tariffs with a regulatory agency elevates them to a level of the federal regulation, and places them beyond the reach of the court by the combined means of the preemption principle and the filed rate doctrine.\textsuperscript{173} These principles continue to apply when the market-based rates of deregulated wholesale market are involved.\textsuperscript{174} The court further elaborated that “notwithstanding those past institutional failures on the part of FERC,” the agency “possessed ‘broad remedial authority to address anti-competitive behavior’” such as ordering refunds.\textsuperscript{175}

In some cases, however, FERC determined that the rates were not just and reasonable. Such was the case with the rates charged in California during the summer and the fall of 2000.\textsuperscript{176} Despite this determination, FERC refused to provide retroactive refunds. The agency based its decision on a combined effect of the filed rate doctrine, the prohibition against the retroactive ratemaking, and, ironically, the absence of the “precise legal standard for determining when a market-based rate is unjust and unreasonable.”\textsuperscript{177} As indicated in its December 15 Order, FERC was willing to administer prospective refunds only for the rates charged during January 2001.\textsuperscript{178}

\textbf{VI. JUDICIAL REVIEW OF THE FILED RATE DOCTRINE}

There is little reason to continue to disallow judicial review of antitrust claims against utilities on account of the filed rate doctrine. As argued in the preceding section, such claims are likely to be found reviewable if subjected to the \textit{Heckler} test in lieu of FERC’s limited expertise with

\textsuperscript{172} \textit{Id.}
\textsuperscript{173} \textit{Id.} at 8.
\textsuperscript{174} \textit{Id.}
\textsuperscript{175} \textit{Id.} at 14 (citing California ex rel. Lockyer v. F.E.R.C., 383 F.3d 1006, 1015 (Cal. App. 9th 2004)).
\textsuperscript{176} \textit{Yuffee, supra} note 108, at 78.
\textsuperscript{177} \textit{Id.} at 79.
\textsuperscript{178} \textit{Id.}
the competitive markets, and its subsequent lack of capacity to monitor and effectively deter market abuse by private utilities. Such claims should be subjected to the same principles courts utilize in reviewing claims arising from agency action under the arbitrary and capricious standard of review, namely, the requirement for explanation-giving and standard-setting.

Judicial scrutiny should be limited to the determination of whether or not the agency’s decision was arbitrary, and if it was, subject the claim to antitrust laws. The determination as to whether the rates approved by the agency were indeed sufficient for the proper functioning of a competitive market should be left to the legislature. The courts are poorly suited for the determination of proper rates and prices.

Although there are several other alternatives to judicial review of the agency decision-making process for tariff approval, such as the expansion of the filed rate doctrine or judicial deference to the most politically accountable figure, judicial review seems to be the most workable solution in light of the “founding principles of the administrative state” which “are dedicated not only to promoting political accountability, but also to preventing administrative arbitrariness.”

The danger of arbitrariness undermines the legitimacy of the agency’s decisions by generating “conclusions that do not follow logically from the evidence, rules that give no notice of their application, or distinctions that violate basic principles of equal treatment.” Such arbitrary results are evident in the continuing application of the filed rate doctrine, which shields private utilities from antitrust claims and prevents remedy even when such rates were approved as a result of an inadequate agency review process and lack of agency expertise.

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179 See Part IV.
180 Hovenkamp, supra note 20, at 342.
181 Bressman, supra note 3.
182 Id. at 1687.
Further, the filed rate doctrine, as it exists in its current form and application, poses a serious problem as an impediment to the effective operation of properly functioning deregulated electricity markets. The doctrine has to be either abolished or revised. The latter solution would result in keeping the doctrine while expanding the agency’s enforcement authority. This solution is simply not workable, since the agency’s authority expansion will not be an effective substitute for the agency’s expertise and experience (or lack thereof) with competitive markets. The former solution of abolishing the doctrine entirely is a more viable answer to the problem at hand. Such an abolition, however, must be accompanied by judicial review of agency decision-making processes related to tariff approval.

Keeping the filed rate doctrine in its current state is an unwise policy decision. As elaborated earlier, the filed rate doctrine was developed by the courts as a rule of statutory construction out of “deference to a ‘congressional scheme of uniform [...] regulation’” delegated to the agency.\textsuperscript{183} The construed congressional intent behind the filed rate doctrine was to protect consumers from price discrimination by public utilities. This intent, however, was later perverted when courts started employing the doctrine to shield regulated utilities from antitrust claims. The mere act of filing with the agency, such as FERC, effectively insulates the utility from antitrust claims, even when the agency’s market-based rate approval process is nothing more than rubberstamping the submitted rates. Thus, the doctrine opens the door to market power abuse which poses a serious danger to the proper functioning of deregulated electricity markets.

Despite current judicial deference, FERC’s limited authority to impose penalties in deregulated markets, as well as its lack of competitive markets expertise, makes FERC a poor institution to deter market power abuse and manipulation. Thus, unless Congress acts to expand

FERC’s legislative authority to impose meaningful penalties, the filed rate doctrine continues to shield violators of the Sherman Act and conceals poorly made administrative decisions from judicial oversight. This legislative expansion of penalty authority, however, is unwise, because FERC does not have the much-needed expertise to police the newly deregulated and competitive markets, so the ability to punish effectively will only resolve part of the problem.

Abolishing the filed rate doctrine is likely to be a Congressional task. Because the Supreme Court is likely to decline to overrule Keogh’s filed rate doctrine, as it has recently done in Square D Co. v. Niagara Frontier Tariff Bureau Inc., Congress should take the lead. Keogh could be overruled by statute, opening the door to judicial oversight of the market by means of antitrust laws.

If the filed rate doctrine is abolished, the courts must step in to make sure that the agency’s decision-making process in regards to market-based tariff approval is a proper one. In order to preserve the Congressional intent of delegation expressed in the FPA, judicial scrutiny should not touch upon the substantive component of the agency’s decision, such as whether the rate in question is indeed ‘just and reasonable’ according to the standards set by the agency. Such questions can be referred to the agency itself, as the court has already done several times before in other contexts, or simply left to the legislature.

The increased role for the courts is justified by the fact that the filed rate doctrine itself is a judicial construct. Congress has not spoken directly to the filed rate doctrine. Absent clear

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184 Rossi, supra note 53, at 1629.
185 Martin, III, supra note 17, at 308.
186 Id. (citing Square D Co. v. Niagara Frontier Tariff Bureau Inc., 476 U.S. 409, 424 (1986)).
187 Id.
188 Id. at 301.
189 Id. (citing Square D, 760 F.2d at 1354 (citing three U.S. Supreme Court cases, which referred the question of tariff’s reasonableness to ICC)).
Congressional policy-making as to the current application of the doctrine, the courts have two paths to follow in future interpretation and application of the doctrine in order to prevent arbitrary agency decisions. The court could defer to the executive branch to fully supervise the agency’s decisions under the theory of political accountability. Alternatively, the court could step in and scrutinize the agency’s decisions by acting as a restraint upon agency discretion and ensuring that the agency has made a politically independent and procedurally consistent decision.

A. Political Accountability Doctrine

Judicial reluctance to scrutinize agency inaction reflects the so-called political accountability doctrine. The agency’s legitimacy, which gives clout to its decision not to act, resides, according to the doctrine, in the close scrutiny that politically accountable officials submit the agency’s decisions to.\(^{190}\) This doctrine, however, is no more than a popular view and does disservice to the “founding principles of the administrative state,” which “are dedicated not only to promoting political accountability, but also to preventing administrative arbitrariness—and reserves judicial review toward that end.”\(^{191}\)

The political accountability doctrine achieves its purpose by entrusting the most politically accountable official with the task of scrutinizing agency inaction decisions.\(^{192}\) The President is considered to be more appropriate for that role than Congress, since the President is capable of exerting personal pressure on the agency and since he represents the majority of the electorate.\(^{193}\) Congress has more room to escape accountability by writing the statutes too broadly, thus

\(^{190}\) Bressman, *supra* note 3.

\(^{191}\) *Id.*

\(^{192}\) *Id.* at 1659.

\(^{193}\) *Id.*
opening the door to private interests’ abuse, while blaming the result on the agency’s inadequate implementation of the statute.  

However, the Presidential political accountability alone is not a sufficient check upon the agency’s decision not to act. First, the agency itself is not accountable to the electorate and thus is not subjected to direct pressure. Second, Presidential control is not entirely free from corruption and improper influence, making him an unsuitable candidate for the efficient supervision of agency decisions. As an elected and fully accountable official who must raise campaign funds, the President faces both private and public pressure. Third, the practical reality is such that the President is constrained in his review to the major administrative decisions, so that more minor agency decisions slip though the net of his supervision unnoticed.

B. Judicial Scrutiny

Judicial scrutiny is necessary to ensure that the agency makes a politically independent and procedurally consistent decision. The judiciary is shielded from the political influences and budget allocations that the other two branches are exposed to. Further, the courts benefit from the long experience and acquired competence in enforcing competitive markets. Because of the harm to competitive markets inherent in the process of the tariffs approval, the courts should be able to scrutinize these agency’s decisions by “focus[ing] on the extent to which the agency itself considered the matter.” There are two firmly established administrative checks the court may employ to police agency inaction: the requirements for reason-giving and standard-
setting. The reasons-giving check would require the agency to explain why it has elected not to act in a particular way. The explanation requirement effectively shuts the door to improper and arbitrary private influences by making the administrative decision-making process more transparent.

The reason-giving requirement was articulated in the landmark case of Motor Vehicles Mfrs. Ass’n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co.. In State Farm, the court held that the rescission of the passive restraint standard by the National Highway Traffic Safety Administration was arbitrary and capricious because the agency did not present an adequate explanation of the basis for its decision. Further, the standard rescinded was burdensome upon the very influential automobile industry but was highly beneficial for public safety. Thus, the potential for an arbitrary and politically dependent agency decision was fairly high. State Farm reiterated that agency’s expertise alone is not effective in preventing arbitrary administrative decisions. Expertise “can become a monster which rules with no practical limits on its discretion.” The agency needs “to justify the choice made,” indicate the expertly basis for its decision, and “cogently explain why it has exercised its discretion in a given manner.”

The standard-setting check requires the agency to supply the court with guiding standards necessary for both consistent agency action and its judicial review. The standard-setting also minimizes the possibility for narrow private interests of privately owned utilities to be treated

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200 Bressman, supra note 3, at 1691.
201 Id. at 1690.
202 Id.
204 Id. at 29.
205 Bressman, supra note 3, at 1690 (citing State Farm, 463 U.S. at 46-57).
206 State Farm, 463 U.S. at 48 (1983).
207 Id.
208 Bressman, supra note 3, at 1690.
differently than the public interest. 209 Further, “it must be possible for the regulated class to perceive the principles which are guiding agency action.” 210

The explanation-giving and the standard-setting requirements would allow the court to independently verify that the agency’s decision was not arbitrary and thus the filing utility qualifies for shielding from the application of antitrust laws. If the agency provides the court with the appropriate explanations and standards for the decision it made, yet the court determines that the agency’s decision was in fact arbitrary, the antitrust claim against the utility would be allowed to proceed.

VII. CONCLUSION

The filed rate doctrine should be abandoned and private antitrust claims predicated upon the market-based tariffs filed with the regulatory agency should be presumptively subject to judicial review. Such review should focus on the process of policing the agency decision-making process related to the tariff approval, and should steer clear of trying to correct the market defects which, allegedly, have given rise to the antitrust claim in consideration. Such determinations should be left to the legislature. Thus, antitrust laws, as enforced by courts, and regulation, as enforced by the regulatory agency, should work together in monitoring the deregulation of the electricity markets and in deterrence of future anticompetitive behavior.

209 Id. at 1691.