FY 2005 CONGRESSIONAL PERFORMANCE BUDGET REQUEST

FEDERAL ENERGY REGULATORY COMMISSION
FEBRUARY 2004

Pat Wood, III
Chairman

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INTRODUCTION

Budget Request: $210,000,000 and 1,280 FTEs

The Federal Energy Regulatory Commission (FERC, the Commission), requests funding of $210,000,000 and 1,280 FTEs for FY 2005. The increase in 30 FTEs in FY 2005 is targeted to support the Commission’s reliability efforts. This request does not reflect any requirements that would result from potential changes to the Commission=s statutory authority.

Resources by Program

(Dollars in Thousands)

Program	FY 2003 Actual	FY 2004 Estimate	FY 2005 Request	% (+/-) FY 2004 to FY 2005
Energy Infrastructure Funding FTEs	 $117,204 744	 $123,335 772	 $126,325 769	 2.4% (0.4%)
Competitive Markets Funding FTEs	 $38,259 251	 $45,083 258	 $46,768 291	 3.7% 12.8%
Market Oversight Funding FTEs	 $34,768 219	 $35,982 220	 $36,907 220	 2.6% n/a
Total Budget Authority **Funding** **FTEs**	 **$190,231** **1,214**	 **$204,400** **1,250**	 **$210,000** **1,280**	 **2.7%** **2.4%**
Application of Prior Years Authority	$1,769	$0	$0	n/a
Gross Budget Authority	$192,000	$204,400	$210,000	2.7%
Offsetting Receipts	($192,000)	($204,400)	($210,000)	n/a
Net Budget Authority	**$0**	**$0**	**$0**	**n/a**

The Commission has restructured its budget request from FY 2004 by eliminating its Resource Management program and allocating the funding and FTE requests for this program among the three main programs of the Commission. In the following chapters, funding and FTE requests are shown for each program allocated between program and support functions.

Full Cost Recovery

We recover the full cost of our operations through annual charges and filing fees assessed on the industries we regulate. We deposit this revenue into the Treasury as a direct offset to our appropriation, resulting in a net appropriation of $0.

Making Markets Work

The United States has the world's most durable market economy, every sector of which depends vitally on energy. Our primary duty is to promote dependable, affordable energy, and thereby support a strong, stable national economy. To fulfill this obligation, we have three main goals:

- *Adequate infrastructure*. Promote a secure, high-quality, environmentally responsible infrastructure.
- *Competitive energy markets*. Create and maintain competitive energy markets by advancing competitive market institutions and establishing balanced, self-enforcing market rules.
- *Vigilant market oversight*. Protect customers and market participants through vigilant and fair oversight of energy markets.

Confidence in our Nation's energy markets has been affected by the problems in Western energy markets that occurred in 2000 and 2001 and, more recently, by high prices for natural gas and the August 14, 2003, blackout experienced in large areas of the Midwest, the Northeast, and Canada. The Commission is making steady progress in resolving the Western energy crisis and has begun addressing the issues in natural gas markets that are within its authority. In the wake of the blackout, electric reliability is at the top of the Commission's agenda for 2004. Commission staff is participating in the joint U.S.-Canada investigation into the causes of the blackout and possible solutions to avoid future such blackouts. Yet, more remains to be done to restore confidence in energy markets so that necessary additions to infrastructure can be financed at reasonable prices. This will require balanced and fair market rules and vigilant oversight of energy markets in the future.

Immediate Responses

Immediately after the blackout of August 14th, Commission staff participated fully in the Joint U.S.-Canadian investigation. The Commission is reexamining the role it can play under its existing authority to assure the reliable operation of the Nation's electric grid. For example, the Commission ordered FirstEnergy Corporation to pay for an independent study of the adequacy of transmission and generation facilities in Northeastern Ohio, where the massive blackout started. The Commission expects to act on several reliability initiatives in the coming months, both to get ready for the summer peak period and to help ensure that necessary improvements to the grid are built in a timely fashion.

While the Commission hopes Congress will pass reliability legislation early in 2004, the Commission can not wait to move forward on reliability issues. The Commission's goal is to set up a viable mechanism for reliability standards by next summer, so is starting to work with industry and market participants on such issues as determining what types of reliability standards might be appropriate, what measures might be used for auditing, how training of control room operators might be improved, and how reliability might be better enforced.

The Commission has received an extra $5.0 million in FY 2004 earmarked for reliability. With that funding, the Chairman intends to establish a new reliability division, staffed with 30 engineers and other staff. This new division will be part of the Office of Markets, Tariffs and Rates (OMTR).

The Commission responded to the crisis in Western energy markets by mitigating unjustifiably high electric prices and ensuring that power sellers did not withhold supplies to drive prices up. These measures provided customers with relief from extreme spot market prices. Several of the Commission's efforts in this regard are not yet completed and require additional work in the future.

For example, the Commission has taken important steps to provide refunds to customers for purchases made in the organized spot power markets in California from October 2, 2000 through June 20, 2001. In an order issued in March 2003, the Commission adopted many findings proposed by a Commission Administrative Law Judge (ALJ) regarding refunds, and also revised the formula for calculating the refunds, which will increase refunds significantly compared to the ALJ's recommendation. While much of the Commission's work on the refund issues has been completed, certain steps are still pending.

The Commission responded to allegations of market manipulation by Enron and others by directing its Staff to undertake an exhaustive, year-long investigation, not only of Enron but also of all other market participants in the West. The initial phase of the investigation culminated in March 2003 with Staff's Final Report on Price Manipulation in Western Markets. In the Final Report, Staff found clear evidence of market manipulation in the Western markets.

Based on Staff's Final Report, the Commission has taken measures to prevent such behavior in the future. For instance, in June 2003, the Commission took the unprecedented step of revoking several Enron companies' authorization to trade in electric and gas markets at market-based rates. The Commission also directed over 60 power trading companies to explain why their trading practices were not manipulative and submit all relevant information pertaining to specific actions and transactions during the California energy crisis. Although this litigation will take time to complete, many settlements have already been reached.

Also in June 2003, the Commission proposed to amend electric power sellers' market-based rate tariffs and gas sellers' blanket certificate authority to include clear "rules of the road" that prohibit anticompetitive behavior. The Commission acted on these proposals in November 2003 by issuing a set of market behavior rules to help prevent market abuse, provide a more stable marketplace, and create an environment that will attract needed investment capital in the electric and natural gas industries.

In addition, we uncovered instances in which unregulated companies took loans from regulated subsidiaries to the detriment of ratepayers. We are currently examining ways to ensure that customers do not suffer from such behavior. For example, in June 2003, we implemented an Interim Rule requiring Commission-regulated companies to maintain documentation when they share their cash with affiliates. We also proposed new quarterly financial reporting rules to help the Commission meet its goal of vigilant oversight in energy markets by providing the Commission and the financial community with more timely, relevant and transparent financial information. The Commission implemented the rules on a final basis in October 2003, thereby providing additional financial transparency of these arrangements. This action will aid the Commission in its oversight and market monitoring responsibilities.

Long-Term Responses

Infrastructure

A robust natural gas pipeline infrastructure is critical for the reliability of the Nation's energy supply and for competitive market development. To meet growing demand for natural gas, the Commission must respond quickly to the need to expand and construct pipelines and related facilities. The Commission's rate policies, consistently applied to transportation infrastructure projects, must give investors confidence that they will have an opportunity to recover their investments, and provide rate certainty to customers as well.

For example, in 2003, we issued a certificate authorizing the "Grasslands" project proposed by Williston Basin Interstate Pipeline Company to provide much needed pipeline capacity for transporting gas produced in the Rocky Mountain supply area. The Commission continues to receive and expeditiously process similar applications for all parts of the country.

Another way our Nation can meet its growing need for natural gas is by importing liquefied natural gas (LNG). The Commission has facilitated this development by, for example, authorizing the resumption of LNG imports at Cove Point, Maryland. Similarly, we granted Hackberry LNG, an import terminal facility located in Louisiana, authority to provide service without becoming subject to unnecessary rate and tariff regulation. The Commission has recently received applications for other LNG facilities, based on current and projected market conditions.

In a series of orders, the Commission clarified credit and collateral requirements that pipelines may impose on their customers. These policies allow for the construction of pipeline infrastructure needed to meet critical demand growth, such as new electric generation, while protecting the pipeline and its existing customers from the risks and costs of a non-creditworthy customer's future default. Credit and collateral issues continue to arise in Commission proceedings and require prompt action to ensure that financial risks are allocated fairly among market participants.

In 2003, we issued a Proposed Pricing Policy for Efficient Operation and Expansion of Transmission Grid. This proposed policy will reward transmission owners for joining regional transmission organizations (RTOs) and turning their assets over for RTO operation by providing them with the opportunity to earn higher rates of return on assets than would otherwise be available. It also would reward transmission owners for forming independent transmission companies or taking other measures which make their transmission facilities operationally independent from the activities of market participants. It would also reward transmission owners for pursuing additional measures to operate and expand the transmission grid efficiently in ways that solve RTO-identified system needs using either traditional transmission investments or innovative technologies. Further Commission action is needed to implement this proposed policy.

Energy Markets
Crises can erupt quickly in energy markets, especially in electricity markets, and we are acting to provide a much more stable long-term platform for these markets. Two initiatives are especially important:

- Wholesale Power Market Platform; and
- Market Oversight and Investigations.

Wholesale Power Market Platform. In July 2002, after ten months of unprecedented outreach and dialogue with state commissions, the public, and customer groups, the Commission issued a market design proposal. Since that time, the Commission has continued its extensive outreach efforts with interested parties and has reconsidered several aspects of its proposal to address concerns raised by various stakeholders. In a White Paper on Wholesale Power Market Platform, issued on April 28, 2003, the Commission emphasized its strong commitment to customer-based, competitive wholesale power markets, while underscoring an increasingly flexible approach to regional needs and outlining step-by-step elaborations of its key market design proposal.

The Wholesale Power Market Platform proposal would advance the competitive markets envisioned by two earlier Commission orders, Order Nos. 888 and 2000. Order No. 888, issued in 1996, opened up the Nation's transmission grid through open access transmission tariffs. In 1999, the Commission issued Order No. 2000, which encouraged the creation of RTOs to operate the interstate transmission grid. RTOs bring about increased efficiency through improved grid management and increased customer access to competitive power supplies.

The proposal is designed to establish a customer-based wholesale power market platform. Among its customer-focused objectives are:

- Reliable service - sufficient power to meet demand;
- Fairness – transmission and power at just and reasonable rates;
- Stability – service in a marketplace marked by certainty and fairness;
- Mitigation of market power – ensuring that customers are protected from the types of market power abuses that occurred in California markets in 2000-2001;
- Predictability – good price signals to encourage investment in needed generation and transmission infrastructure; and
- Innovative technology – future technological advances will be accommodated.

The Commission is implementing the proposed market design through voluntary filings. Regional authorities will play a significant role in establishing regional power markets. The Commission would rely on regional state committees to address significant market design features for their regions while ensuring that "seams" issues between regions are minimized. State commission and market participants in each region would have sufficient flexibility to work out the details of how certain core elements would be implemented in their respective regions.

Market Oversight and Investigations. One of the clearest lessons stemming from the electricity crisis in the West is that we need to do a much better job of policing natural gas and electric markets and addressing problems before they become severe. In August 2002, we established a new Office of Market Oversight and Investigations (OMOI). OMOI assesses market performance, ensures conformance with Commission rules, and reports on its findings to the Commission and the public. OMOI also analyzes overall energy markets to identify and remedy key issues before they become major problems, and serves as the "cop on the beat" to ensure that individual market players play by the rules. The Commission has two main objectives in meeting this goal:

- Assure pro-competitive market structures and operations; and
- Remedy individual market participant behavior as needed to ensure just and reasonable outcomes.

OMOI has given us the ability to track market conditions and address market problems quickly and effectively. This is a necessary part of restoring public confidence in energy markets. Commissioners are updated frequently on market developments.

Overview of the Document

The next three chapters detail plans to meet each of the goals in the Commission's Strategic Plan. Each chapter contains a discussion of goals and objectives and projected performance measurements. Our performance plan for FY 2005 is presented as an integral part of these chapters. Chapter 4 of this budget request details the efforts the Commission has undertaken in support of the President's Management Agenda. A series of appendices provide further details.

CHAPTER 1: ENERGY INFRASTRUCTURE

Promote a Secure, High Quality, Environmentally Responsible Infrastructure Through Consistent Policies

Energy Infrastructure Resources
(Dollars in Thousands)

	FY 2003 Actual	FY 2004 Estimate	FY 2005 Request
Total FTEs	**744**	**772**	**769**
Program	594	616	613
Support	150	156	156
Total Funding	**$117,204**	**$123,335**	**$126,325**
Program	95,910	100,481	102,957
Support	21,294	22,854	23,368

Introduction

Competitive energy markets require a secure, high quality and environmentally responsible infrastructure. The United States must encourage rapid, flexible infrastructure construction to meet market and operational demands. Adequate infrastructure helps make competitive markets work by:

- Improving reliability;
- Reducing barriers to entry;
- Allowing customers to choose between multiple supply sources;
- Improving customer access to low-cost resources;
- Better matching of demand and supply; and
- Encouraging price-responsive markets.

Natural gas and electric markets need adequate infrastructure because both markets can experience rapid, large price increases and potential market power abuses when demand and supply diverge, due either to insufficient supply or insufficient demand flexibility in response to those high prices.

Our role is to provide consistent policies that promote needed infrastructure development. We have four main objectives to meet this goal:

- Expedite appropriate infrastructure development to ensure sufficient energy supplies;
- Provide for timely cost recovery to infrastructure investors;
- Address landowner and environmental concerns fairly; and
- Promote measures to improve the security and safety of the energy infrastructure.

Objective 1.1: Expedite Appropriate Infrastructure Development to Ensure Sufficient Energy Supplies

Sufficient supplies of energy and a reliable way to transport those supplies are necessary to develop competitive markets. Without these, some suppliers will not be able to enter the market, customers will have limited choices, and prices will be needlessly volatile. Supply shortages could also leave the market vulnerable to manipulation. Therefore, having a reasonable supply relative to demand is essential for competitive markets to work.

Although we have no direct jurisdiction over the development of electric generation capacity or natural gas reserves, we do have certain jurisdiction over how the wholesale markets for these products operate. To the extent we have authority, we will ensure that markets have mechanisms for developing sufficient supplies to avoid market disruptions. Many approaches to this issue are possible. For example, in the Northeast, the industry pays extra for installed generation capacity. We will explore and evaluate all relevant proposals from interested parties and adopt programs that work.

To expedite appropriate infrastructure investment, we will use the following strategies:

Objective 1.1 Strategies

Identify Transmission and Pipeline Projects with High Public Interest Benefits and Facilitate Their Speedy Completion, Consistent with the Commission's Statutory Mandates and Due Process.
For competitive markets to develop, adequate transportation is necessary to deliver the supply to where demand exists. Inadequate transportation creates geographic price differences, price volatility, and barriers to market entry and can undermine reliability. Adequate transportation allows a choice of suppliers leading to better customer service, price competitiveness, and new services. All customers will benefit.

The Commission authorizes the construction of natural gas pipelines, storage facilities and liquefied natural gas (LNG) import terminals. We have moved aggressively to cut the time it takes to approve projects without compromising our environmental protection and public participation responsibilities. Although we have no direct authority over the siting of electric transmission lines, we will identify on a regional basis where additional electric transmission capacity is needed.

"Access to world natural gas supplies will require a major expansion of LNG terminal import capacity and development of the newer offshore regasification technologies."

Alan Greenspan
Chairman, Federal Reserve
Testimony before the Committee on Energy and Natural Resources, U.S. Senate
July 10, 2003

With respect to LNG import terminals, the Commission has signaled a regulatory approach that will remove Federal financial and economic regulatory oversight barriers to the development of onshore sites but will not affect the jurisdiction of the facilities. In its Preliminary Determination on the Hackberry LNG Project (December 2002), the Commission stated that the proposed import terminal is similar to gas production facilities and is, therefore, exempt from open access requirements and rate and tariff filing requirements. As a result, the Commission has provided financial certainty for companies looking to invest the billions of dollars often required to develop LNG facilities. Since that policy decision there has been an unprecedented movement to develop LNG facilities. FERC staff has been involved in discussions with proponents of more than a half dozen new LNG projects. Some are preparing to file proposals with the Commission and others have recently made such filings.

During FY 2002 and FY 2003, the Commission held regional conferences on the adequacy of the Nation's electric, gas and other energy infrastructure. FERC Commissioners participated along with Governors and utility commissioners from various States. These conferences and summits aim to identify current infrastructure conditions, needs, and investment and other barriers to expansion, as well as environmental and landowner concerns. For instance, in June 2003 the Chairman and other Commission staff participated in a transmission summit in Kansas attended by utility officials and Kansas State legislators. The purpose of this summit was to discuss regional issues concerning infrastructure planning and access to the electric transmission grid, including options specific to attaching wind power generators to the electric transmission grid in the Midwest. The conferences have fostered informative discussions on how FERC can facilitate and enhance a comprehensive, collaborative approach to energy infrastructure development and reliability. This effort has allowed FERC and all those affected by our decisions on infrastructure to become better informed about energy segment interdependencies and working together to ensure an adequate supply of energy to meet varying market requirements. These conferences are expected to continue into FY 2004 and possibly beyond.

Implement Power Plant Interconnection Rules; Complete Small Plant Interconnection Rules.
One major potential barrier to obtaining adequate generation supplies is the lack of a standard, expeditious way to connect to the transmission system. Standardized interconnection procedures and agreements for electric generators will encourage needed investment, reduce incentives for transmission owners to favor affiliated generation, and encourage efficient generation and transmission siting decisions.

To address this issue, the Commission issued a final rule for interconnection of large generators in July 2003. The Commission began a separate proceeding in August 2002 to specifically address generators no larger than 20 megawatts in size. The Commission issued a NOPR for interconnection of small generators in the summer of 2003, and is expected to issue a final rule in 2004. These procedures and agreements will give most competitive energy market participants reasonable certainty about the costs they will bear and the terms and conditions that will affect interconnection to the electric transmission system, and will hasten the interconnection process.

Generator interconnection procedures and agreements are currently processed by the Commission on a case-by-case basis. We expect that when the standardized procedures and agreements are in place, and after compliance filings have been submitted in FY 2004 (large) and FY 2005 (small) by jurisdictional transmission providers, Commission caseload in this area will decline.

Firmly Establish Regional Electric System Expansion Planning, with a Variety of Technology Solutions to Meet Reliability, Security and Market Needs.

Fully competitive markets will require extensive regional planning. Transmission constraints in one area can have wide-ranging effects for customers throughout a region, including the negative effects that transmission upgrades in one place can sometimes have on other parts of the grid. New generation construction can also have significant regional impacts beyond its immediate location.

Regional planning must be performed by independent entities, like RTOs, which provide objective expert support for local siting authorities. Because they operate the transmission system and oversee the market, RTOs will be in a unique position to understand the grid's technical requirements and market needs, and integrate them into a long-term regional plan reflecting opportunities and needs for new generation, transmission, efficiency, demand response, and other measures in a reliable, cost effective mix. Full participation from state officials and stakeholders will be crucial for effective, meaningful regional plans.

In the aftermath of the August 2003 blackout that affected about 50 million people in the U.S. and Canada, the Commission is developing an order that will require transmission system operators to report violations of the industry's power-grid reliability standards. This order is the first step in exploring what authority the Commission has, and what additional measures it can take, under existing law to assure power grid reliability.

Implement Hydroelectric Rule and Gas Pipeline Interagency Agreement Facilitating Hydropower Licensing, Pipeline Certification and LNG Plant Authorization.

***Hydropower Licensing*.** Hydropower is an important component of the nation's energy portfolio and is necessary for efficient, competitive electric markets by providing low-cost energy reserves and ancillary services that support such markets. In addition to these power benefits, hydropower projects provide other benefits such as water supply, recreation, economic development, and flood control. At the same time, the projects can have adverse impacts on environmental resources.

We have authorized the construction and operation of over 1,600 hydropower projects, encompassing approximately 2,600 dams and impoundments and the associated lakes and reservoirs. Our workload in these areas is increasing due to the 218 relicense applications for projects that will be filed through calendar year 2008. These applications are for projects that are among the largest under Commission jurisdiction, having a combined capacity of approximately 22,000 MW and representing 20% of the nation's hydropower capacity. Over the next four years alone, of the 93 projects that are up for relicensing, 31 projects have an installed capacity of over 100 MW and eight projects have a capacity greater than 500 MW.

The hydropower licensing process allows citizen groups, environmental organizations, tribal interests, and state and Federal resource agencies to seek adjustments to projects to mitigate, protect and enhance impacted resources. However, as a consequence of legislative changes, court decisions, and shared authority with resource agencies that have mandatory conditioning authority, the licensing process has become a multi-year effort. Numerous efforts, on a programmatic as well as on a project-specific basis, have been undertaken to reduce the time required to issue a license.

Building on the success of the Alternative Licensing Process (ALP), the Commission worked to develop a more efficient licensing process. A NOPR issued in February 2003 proposed a new licensing process, the Integrated Licensing Process (ILP), in which a potential applicant's pre-filing consultation and the Commission's environmental scoping would be conducted concurrently, rather than sequentially. Unlike the ALP, the new ILP would better coordinate FERC's hydroelectric licensing process with the processes of Federal and state agencies and Indian tribes that can mandate conditions in Commission-issued licenses. The new process represents an enhancement over the ALP in that it would also ensure Commission staff involvement at all stages, establish deadlines for all participants, and provide a more effective vehicle for study dispute resolution.

In July 2003, the Commission adopted a final rule for hydro relicensing that improves the efficiency of the ILP by allowing for a greater opportunity for informal study dispute resolution, increasing stakeholder involvement in formal study dispute resolution, and consolidating and reducing the information necessary for a potential applicant's pre-application document and draft license application. While we expect license applications prepared using this process to take approximately 17 months to process, there are opportunities to reduce this time.

> *"We estimate that the proposed rule [ILP] would reduce the average time it takes to complete the licensing process by 30 months – cutting down 47 months of preparation and processing time to 17 months. Further, we estimate that the proposed process would reduce the cost of licensing for a project under 5 megawatts by $150,000 and for a project greater than 5 megawatts by $690,000."*
>
> *Nora Brownell*
> *Commissioner, FERC*
> *Testimony before the Subcommittee on Energy and Air Quality of the Committee on Energy and Commerce, U.S. House of Representatives*
> *March 5, 2003*

The July 2003 Rule designated the ILP as the default licensing process beginning in July 2005, however, for the 26 projects that must start the pre-filing process between October 2003 and June 2005, the use of the ILP is optional. Outreach efforts were undertaken immediately after issuance of the final rule to familiarize various stakeholder groups on the details of the ILP process. Regional workshops as well as project-specific conferences were undertaken to encourage the use of the ILP. Of the projects that were not already engaged in an alternative licensing process, namely the ALP, approximately one third of the eligible projects have indicated a desire to undertake this new process.

The Commission also adopted a policy statement that applies to all dealings with Indian tribes to assure their full consultation and participation in Commission proceedings.

In December 2003, the Commission sponsored the third in a series of workshops on hydropower licensing proceedings that are five years old or older. Interested stakeholders were invited to discuss, on a project-specific basis, procedural impediments that precluded the Commission from taking final action. At least in part due to the actions spurred by the first two workshops, the number of old cases dropped from 51 identified in the first workshop to 21 cases discussed in the last workshop. As with the other workshops, this last workshop identified a key source of licensing delay in the applicant's receipt of necessary state certifications and permits. For the workshop planned for 2005, the Commission has lowered the threshold to include those cases that would be three years and older.

The Commission also has begun issuing a schedule for processing individual licensing cases, putting stakeholders on notice as to when comments on NEPA documents or notices are due. As a result, delays associated with late-filed comments and requests for extensions of time to provide comments should be reduced.

Gas Pipeline Certificates. A robust natural gas pipeline infrastructure is critical for the reliability of the Nation's energy supply and for competitive market development. To meet the growing demand for natural gas, we must respond quickly to the need to expand and construct pipelines and related facilities.

In FY 2003 we continued our outreach program to collect and disseminate information on ways for applicants, citizens, and state and other Federal agencies to identify and resolve disputes before natural gas companies file application with us. These efforts will continue in FY 2004 and FY 2005 with a focus on refining the NEPA Pre-Filing Process. In FY 2003 the Greenbrier Pipeline Project, which used the NEPA Pre-Filing Process, received a certificate about nine months after the application was filed, or about seven months sooner than under traditional processing of major projects. The natural gas industry is beginning to increase its use of this new process. In the second quarter of FY 2003, Cheyenne Plains Gas Pipeline Company requested approval to use this process and has since filed an application. In the third and fourth quarters of FY 2003, five projects (the Weaver's Cove LNG Project, Williston Basin's Grasslands Expansion Project, Mitsubishi's Sound Energy Solutions LNG Project, El Paso Pipeline Group's Ruby Project, and Transwestern's San Juan 2005 Expansion Project) were approved for processing under the NEPA Pre-Filing Process.

President Bush's National Energy Plan recommended that an Interagency Task Force be formed to ensure swift processing of applications to construct and operate a pipeline to bring Alaskan natural gas to the "lower-48". The Departments of State and Energy lead, in coordination with FERC and Interior, and in conjunction with Canada, Alaska, and others. FERC has been meeting regularly with these partners throughout FY 2003, building the working relationships needed for efficient federal response to a pipeline from Alaska. This effort will continue through FY 2004 and into FY 2005.

We are actively working with other Federal agencies on various White House Task Force efforts. In addition, we participated in the following partnerships in FY 2003 and plan to continue these efforts in FY 2004 and FY 2005:

Interstate Oil and Gas Compact Commission (IOGCC). FERC is an active member of this organization representing the governors of 37 oil and natural gas-producing states.

Partnering with the Department of Transportation (DOT). In FY 2003, FERC continued its collaboration with DOT to coordinate DOT's regulatory responsibility for safety of natural gas facilities with FERC's siting authority.

Interagency Agreement for Improved Coordination for Environmental Reviews for Interstate Natural Gas Pipelines (Working Group). The Implementation Plan for the Interagency Agreement established a working group, chaired by FERC, to aid the signatory agencies in developing internal guidance and to monitor the effectiveness of the

Interagency Agreement.

Collaboration with Mexico and Canada. The Commission participates in six distinct working groups/partnerships with Mexican and/or Canadian agencies to work on electric, gas, and other energy cross-border issues.

Support for the United States Trade Representative (USTR). Beginning in FY 2002, Commission staff substantially increased its assistance to the USTR, advising USTR on a number of energy industry related matters impacted by international trade agreements. During FY 2003, Commission staff assisted USTR in the negotiation of reforms to Japan's electric power and natural gas and LNG industries. Commission staff also assisted USTR in the development of the U.S. position on various energy-related issues for World Trade Organization (WTO) and bilateral negotiation purposes.

Memorandum of Understanding between the Federal Energy Commission of the Russian Federation and the U.S. Federal Energy Regulatory Commission. The memorandum expresses the participants' intent to undertake cooperative efforts for the purpose of sharing information on, and where feasible providing expertise related to the technical-scientific methods and economic principles used in energy regulation. In FY 2003, the agencies jointly participated in the Russian-American Forum at the Russian Embassy, and the Commission welcomed FECRF officials to its Washington headquarters where the Chairman and staff briefed the visitors on Commission policies and the activities of the program offices.

California Energy Commission/California Public Utility Commission Workshop—Natural Gas Market Outlook 2006-2016. In December 2003, Commission staff worked closely with the California agencies to examine natural gas supply options for the state. Staff made a presentation on western regional infrastructure developments affecting California and discussed the issues with the various presenters.

The Commission encourages entities involved in pipeline certificate proceedings to resolve disputes that may arise during the certificate process. Encouraged by past successes in the use of alternative dispute resolution (ADR) in gas certificate cases, we have continued to actively promote its use both internally and in industry groups.

To process cases expeditiously, we set tight case processing time targets and clearly define our expectation of applicants and other parties. Greater acceptance and voluntary use of our NEPA Pre-Filing process has helped us to meet aggressive performance goals for pipeline certificates. To date only one project has fully completed its use of the NEPA Pre-Filing process and it allowed the company to receive a certificate about 7 months sooner than the average project of its size and complexity. For all other categories of projects considered as a whole, we are well within our established performance targets for FY 2003.

Objective 1.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: < unprotested cases that involve no precedential issues, 159 days < protested cases that involve no precedential issues, 304 days < cases of first impression or containing larger policy implications, 365 days < cases requiring a major environmental assessment or environmental impact statement, 480 days	Office of Energy Projects
Percentage of relicense filings based upon alternative licensing process (ALP)	25% of all relicense cases using ALP	Office of Energy Projects
Percentage of final NEPA documents, required for hydropower license applications filed after FY 2002, completed within specified time frames	75% of final NEPA documents prepared for licenses approved within the following time frames: < ALP case, less than 16 months < Traditional case, less than 24 months	Office of Energy Projects
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	Office of Energy Projects
Percent of final NEPA documents based upon comprehensive settlement agreements completed within specified time frames	75% of final NEPA documents prepared for final comprehensive license settlement agreements are completed within 12 months	Office of Energy Projects
Average processing times for hydropower relicensing	Additional 5% reduction each year	Office of Energy Projects
Complete implementation process of Large Generator Interconnection Policies	Process 100% of remaining compliance tariff filings	Office of Markets, Tariffs and Rates
Complete implementation process of Small Generator Interconnection Policies	By end of fiscal year, process 90% of all compliance tariff filings submitted by July 31	Office of Markets, Tariffs and Rates

Objective 1.2: Provide for Timely Cost Recovery to Infrastructure Investors

Competitive energy markets depend on the monopoly services provided by the underlying transportation infrastructure B natural gas and oil pipelines and electric power transmission lines. To support competitive energy markets, our policies toward regulated monopoly services must:

- Give transmission infrastructure investors confidence that they have the opportunity to recover their costs and make a fair return on their investment;
- Give transportation customers (generators, gas producers, demand aggregators) reasonable certainty about the costs they will bear for transmission and about future terms and conditions that affect access to transmission facilities; and
- Give infrastructure owners the right incentives to provide customers with better services, lower costs, or both.

These three needs provide the basis for our strategies to meet this objective and are particularly important for industries that are as capital-intensive as electric power and natural gas and oil pipelines.

Objective 1.2 Strategies

Establish Clear Cost Recovery Process for Transmission Investment in Each Region, Consistent with Regional Transmission Plan.
For investors to invest in facilities that provide regulated monopoly services, such as electric transmission and natural gas and oil pipelines, they need to know quickly and with certainty how and when they will have the opportunity to recover their costs. Thus we must establish clearly understood cost recovery processes and act quickly on rate proposals, especially for new construction. Our policies must provide a fair opportunity for cost recovery, allowing those who propose expansion projects to gain access to capital markets. Without such assurances, investors will bear greater risks, find it more difficult to obtain financing, and invest in fewer projects than the Nation needs. That in turn will undermine the adequacy of supply that is a prerequisite for reliable, reasonable energy markets.

Pipeline and powerline cost recovery and rates are set in tariffs filed with and usually litigated before the Commission. We are working to ensure that these cases are processed and settled or litigated with appropriate speed. The resulting tariffs should be clear and meet both business needs and the public interest.

Like other Commission regulatory objectives, effective monitoring of markets and understanding the role of transportation in those markets requires accurate, complete, and timely financial information from the participants. These needs are met for jurisdictional companies through the Commission’s Uniform System of Accounts and program of periodic public financial reporting. Accounting and reporting requirements were enhanced in FY 2004 to improve the agency and public understanding of the financial condition of public utilities.

An essential prerequisite to the Commission's efforts in this area is the existence of reliable financial information based on sound accounting principles consistently applied to all jurisdictional companies. Generally, the accounting information is used to establish just and reasonable cost-based rates and measure historical economic performance. Uniform accounting standards significantly reduce regulatory uncertainty and make workload processing easier.

The Commission's rate policies, consistently applied to transportation infrastructure projects, give investors confidence that they will have an opportunity to recover their investments, and provide rate certainty to customers as well. For example, in 2003 we issued a certificate authorizing the "Grasslands" project proposed by Williston Basin Interstate Pipeline Company to provide much needed take-away capacity for gas produced in the Rocky Mountain supply area. Our order provided for rolled-in rates, giving customers a measure of certainty as to the service rates we believed appropriate for the project. Our entire process – including preparation of an environmental impact statement – was completed within 9 months from the date a complete application was filed, or 2 months ahead of schedule.

For oil and petroleum products (e.g., gasoline, fuel oil, diesel fuel, kerosene and aviation fuel) and liquefied petroleum products (e.g., butane, isobutene, ethane, and propane), pipeline transmission rates are established generally by index: the Producer Price Index. The Commission established this simplified and generally acceptable method for setting oil pipeline rates pursuant to Congress' mandate in the Energy Policy Act of 1992. Recently the Commission approved, for the first time, an international joint rate for the Express Pipeline which runs from Canada into the United States.

Ensure That Revenue Levels and Rate Design for Regulated Company Services Support Long-term Competitive Markets, through Formula Rate or Other Administratively Efficient Means, when Possible.

Just as investors in regulated monopoly infrastructure need to know the rules for cost recovery, electric utility customers, and gas and oil pipeline ratepayers need reasonable assurance of the transportation costs they can expect to face and that they will continue to have nondiscriminatory access to transportation services.

The same measures we are undertaking to provide cost recovery assurance for infrastructure investors provide greater rate certainty for customers. We have worked hard to promote full, open and equal access over the long term to both the electric power, oil pipeline, and natural gas transportation systems, especially through Order Nos. 888 and 2000, the Interconnection Policy NOPR and the Wholesale Power Market Platform (in electric power), Order Nos. 636 and 637 (in natural gas), and Order Nos. 561, 571 and 572 (for oil pipelines). We will continue to ensure that terms and conditions of service promote reliable open access for all customers. To the extent that disputes arise concerning rates and/or access, they may be set for hearing and resolved through settlement or litigation.

In a series of orders, the Commission clarified credit and collateral requirements transporters may impose on open access transmission customers. In Tennessee Gas Pipeline Company and Northern Natural Gas Company, the Commission established creditworthiness and collateral requirements pipelines may impose on open access customers. In Calpine Energy Services v. Southern Natural Gas Co., the Commission clarified credit and collateral requirements for customers supporting the construction of new pipeline capacity. These policies allow for the construction of infrastructure needed to meet critical demand growth, such as new electric generation, while protecting the pipeline and its existing customers from the risks and costs of a non-creditworthy customer's potential future default.

The Commission has modified its negotiated rate policy for natural gas pipeline transportation in two respects based on its experience with the existing negotiated rate program and industry comments to a Notice of Inquiry issued by the Commission concerning its Negotiated Rate Policy. First, the Commission will no longer permit the use of gas basis differentials to price negotiated rate transactions. Allowing the use of gas commodity basis differentials by a pipeline as a mechanism for pricing transportation by a pipeline with market power, threatens the Commission's regulatory structure for the transportation of gas and the Commission's attempts to improve and maintain a competitive natural gas commodity market. The Commission has recently determined that it will permit pipelines to use gas basis differentials to determine discounted rates. Discount rates are subject to the maximum rate cap and must retain the same rate design as the maximum tariff rate. Second, the Commission will require that a pipeline filing a contract proposing material changes from its form of service agreement must clearly delineate differences between its negotiated contractual terms and that of its form of service agreement. Additionally, a pipeline must provide a detailed narrative outlining the terms of its negotiated contract, the manner in which such terms differ from its form of service agreement, the effect of such terms on the rights of the parties, and reasons why such deviation does not present a risk of undue discrimination.

Encourage Balanced Innovative Rate of Return Proposals That Provide Incentives for Pro-competitive Behavior.
Traditional cost-of-service rate regulation provides few incentives for regulated companies to lower their costs or to provide better service. As a result, such regulation is not necessarily the best way to set rates for regulated services that support an overarching competitive energy market. We support innovative rate proposals that promise reduced costs, improve service or remove trade barriers. For example, the Commission encourages formula rates or rates set through other efficiently administered means. It is important that such proposals:

- Are balanced. Any increased returns, for example, must be linked to good performance, and the company must face some downside for bad performance;
- Support competitive markets for electric power and natural gas; and
- Give companies an incentive to build key new projects as well as to operate efficiently.

In December 2003 the Commission conditionally accepted a proposal filed by American Transmission Company (ATC) to modify its rate formula to incorporate incentive rate mechanisms including allowing Construction Work in Progress (CWIP) in rate base. ATC is a stand-alone transmission company that owns, plans, operates and maintains transmission facilities and is one of the most congested systems in the Nation. Over the next 10 years, ATC expects to spend $2.3 to $2.8 billion on transmission infrastructure in order to increase reliability on its system, meet load growth, and alleviate congestion that is preventing market participants in Wisconsin and upper Michigan from accessing newly developed markets in the Midwest ISO region. Its proposal to include CWIP in rate base will allow ATC to maintain adequate cash flow during the construction process. The proposal is expected to help maintain the company's overall financial health and, therefore, ensure the availability of reasonably priced capital. Lower capital costs are expected to minimize the rate impact associated with the increased infrastructure investment.

FERC supports innovative rate proposals that encourage pro-competitive behavior when infrastructure additions are being considered, and acts quickly on these proposals. We granted Hackberry LNG, a liquefied natural gas import terminal facility located in Louisiana, authority to provide service to its affiliate, without becoming subject to rate and tariff regulation. Hackberry LNG was fully contracted to provide service to its affiliate LNG importer, who would be selling LNG into the competitive natural gas supply markets in the Gulf of Mexico region. In December 2003, the Commission received applications for two new LNG import terminals on the Gulf Coast, both of which would be based on the Hackberry financial model. Since the Hackberry decision in December 2002, we have received six applications or Pre-Filing requests for new LNG import terminals.

In May 2003, the Commission conditionally approved negotiated-rate authority for the Conjunction LLC Empire Connection merchant electric transmission project. This project will provide for the transmission of 2,000 MW of electric energy from Upstate New York to New York City. Existing railroad rights-of-way will be utilized for the project, avoiding environmental issues typical of new transmission. The project will consist of AC to DC and DC to AC converter stations plus overhead and underground DC cable. All costs for the project, both capital and operating, will be recovered from the revenue derived from voluntary, negotiated sales of transmission rights. An open season bidding process will be established to initially allocate transmission rights. The project will significantly increase the amount of electric capacity available in New York City. This much-needed relief will reduce the need for price mitigation.

Under this proposal, project developers will assume the full market risk, with users of adjacent grids at no risk of assuming costs. Transmission service will be provided under the open access tariff of the New York ISO having operational control over the cable, thus providing rate certainty for customers as well. Approval of such projects adds substantial transmission capacity to the grid, enhancing competitive energy markets.

In 2003 we issued a Proposed Pricing Policy for Efficient Operation and Expansion of Transmission Grid. This new policy would reward transmission owners for joining RTOs and turning their assets over for RTO operation by providing them with the opportunity to earn higher rates of return on existing assets than would otherwise be available. It would reward transmission owners for forming independent transmission companies (ITCs) or taking other measures which make their transmission facilities operationally independent from the activities of other market participants. It would also incrementally reward transmission owners for pursuing additional measures to operate and expand the transmission grid efficiently in ways that solve RTO-identified system needs using either classic transmission investments or innovative technologies. Comments on the proposed policy are under consideration.

Objective 1.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Establish clear cost recovery process for transmission investment in each region	Allow flexibility to ensure utilities or pipelines have sufficient revenue stream to recover investment costs and provide rate certainty for customers	Office of Markets, Tariffs and Rates
Process statutory workload	All cases processed by statutory action date	Office of Markets, Tariffs and Rates

Objective 1.3: Address Landowner and Environmental Concerns

Infrastructure projects inevitably involve competing economic, environmental and landowner interests. To avoid delays approving natural gas pipeline certificate and hydropower license applications, we attempt to reconcile these interests.

Objective 1.3 Strategies

Encourage Potential Applicants for Licenses or Certificates to Utilize the Commission's Collaborative Pre-Filing Process.
While reconciling competing interests is never easy, we believe they are best addressed openly and early in the application process. For pipeline certificates, we encourage landowners and other affected parties to become involved early in the process. For hydropower licensing, we promote the licensing process which requires early involvement of state and federal agencies, Indian tribes, and the public. We provide technical and legal assistance as well as our Dispute Resolution Service so the parties can resolve issues before they file with the Commission.

For hydropower licensing cases, a little over a third of the 32 relicensing cases filed with the Commission since October 1, 2002 were prepared using the ALP process. The use of this nontraditional licensing process continues to result in license applications being filed with the Commission that contain comprehensive settlement agreements.

Finally, through either the prefiling or post-filing part of the license process, there are an increasing number of cases where diverse stakeholder groups have reached settlement agreements to retire hydropower projects. For any number of reasons, some hydropower facilities, in the view of the majority of the stakeholder groups, have reached their useful life and participants have formulated complex agreements designed for projected retirement. Included in these cases are the 22 MW Bull Run Project, 6 MW Powerdale Project and the 1.04 MW American Fork Project. In each case, the agreements represent a multi-year collaborative effort encompassing dozens of federal and state resource and environmental groups.

"Revisions to the pipeline certification processes have resulted in reduced processing time from an average of 273 days in 1995 to 195 days today."

Nora Brownell
Commissioner, FERC
Testimony before the Subcommittee on Energy and Air Quality of the Committee on Energy and Commerce, U.S. House of Representatives
March 5, 2003

For natural gas certificates, we conducted an outreach program to collect and disseminate information on ways for applicants, citizens, and state and other federal agencies to identify and resolve disputes before filing with us. We informed parties how to participate effectively in the process, and gave the public early access to information. In FY 2002 and FY 2003, we convened workshops to get additional feedback. From the industry, we are seeing a renewed focus on public participation and communication, and are continuing to receive reports about the efforts the regulated companies are making in this area. Additional stakeholder involvement workshops are planned for FY 2003 and FY 2004.

Incorporate Reasonable Environmental Conditions into Permits,

Licenses, and Certificates and Ensure Compliance with Conditions. Natural gas pipeline construction and hydropower projects have environmental impacts that can be mitigated with appropriate measures. We are committed to satisfying environmental concerns through cost effective mitigation of environmental impacts, while also seeking to avoid construction delays. Through the relicensing process, we can require mitigation for impacts associated with ongoing hydropower project operation as well as enhance environmental conditions.

Natural Gas Pipelines. We require environmental measures in certificates and inspect natural gas facilities for adherence to prescribed environmental mitigation measures. To ensure environmental compliance without delaying construction, we adhere to the target inspection schedule laid out in the performance measures in Appendix E.

Hydropower Projects. Hydropower licenses include requirements for monitoring the environmental resource protection conditions to be implemented at the projects. The Commission reviews the results of monitoring efforts for water quality, shoreline management, and fish passage to evaluate whether the environmental measures are providing the appropriate levels of protection, mitigation and enhancement of environmental resources.

In FY 2003, we issued a final water quality report, a draft fish passage report, and held a public workshop on fish passage to discuss results. During FY 2004, we will issue a final report on fish passage and a draft report on recreation. We will also conduct a workshop on recreation to receive public input to our draft recreation report. In FY 2005, we will issue a final report on recreation, and hold two outreach meetings to disseminate the final report.

In recent years, there have been increased numbers of shoreline development applications that involve complex issues, many of which require environmental assessments. The Commission has issued a guidance manual for shoreline management, and continues to hold shoreline management workshops in the affected regions of the country.

To further ensure effective compliance, we have instituted a compliance assistance program to ensure that licensees and exemptees understand their responsibilities under their license or exemption and the steps necessary to achieve compliance. In FY 2003, we inspected 170 projects, many of which include multiple developments. We expect to conduct a similar number of inspections in FY 2004 and FY 2005. In FY 2003, we also completed over 200 investigations into allegations of non-compliance with environmental requirements. In FY 2004 and FY 2005, we anticipate the same number of investigations.

Objective 1.3 Performance Measures

Performance Measures	Performance Targets	Data Source

Performance Measures	Performance Targets	Data Source
Evaluate the effectiveness of Commission required resources protection measures, and disseminate information on the results.	Conduct a workshop and disseminate one report on the results of the evaluation.	Office of Energy Projects
Maintain environmental quality at hydropower projects.	Resource protection measures constructed and implemented according to license requirements.	Office of Energy Projects
Time to complete NEPA Prefiling Process	8 months after a complete application is filed	Office of Energy Projects
Yearly increase in the percentage of hydropower projects using the ILP pre-filing process	25%	Office of Energy Projects

Objective 1.4: Promote Measures to Improve the Security and Safety of the Energy Infrastructure

For customers to enjoy the benefits of competitive energy markets, the Nation's energy infrastructure must be secure and safe. In the past, we thought of secure and reliable infrastructure in two ways: adequacy and security. Adequacy is the ability of the electric and natural gas system to supply the aggregate requirements of all consumers most of the time. Security is the ability of the system to withstand sudden disturbances for a short time. Following the September 11, 2001, terrorist events, security also means ensuring that such infrastructure is safe from attack or sabotage. To help maintain a secure and safe infrastructure, our strategies are:

Objective 1.4 Strategies

Ensure Strictest Adherence to Prudent Dam Safety Practices, Pipeline Construction Measures and LNG Plant Safety Requirements.

Dam Safety Practices. To protect life, health, and property, we work to protect the safety of the approximately 2,600 non-federal hydropower dams we license. Potential dam failure caused by terrorists is a real and significant threat. During FY 2003 we focused closely on security issues and developed the FERC Hydropower Security Program. Specific activities included:

- Revised the Security Program for Hydropower Projects, including requiring the development of vulnerability and security assessments at approximately 1,000 high and significant hazard potential dams and providing guidance to dam owners on conducting these assessments;
- Participated in workgroups, such as the Interagency Forum on Infrastructure Protection and a Security Task Force of the National Dam Safety Review Board, to assist in the development of a unified national response to security at dams and conducted two workshops on dam site security;
- Conducted security audits of approximately 1,500 dams;
- Participated in the development of a national Dam Sector Information

Sharing and Analysis Center;

- Developed an abbreviated Vulnerability/Security Assessment tool for dams and participated in several field Vulnerability Assessments for FERC-jurisdictional dams;
- Trained all FERC dam safety technical staff in security issues and procedures; and
- Continued to work with the Office of Homeland Security and the FBI to coordinate a national response to security at dams.

These efforts have better prepared the hydropower industry and the Commission to keep dams safe and secure, and to respond quickly and successfully to any safety threats. In FY 2004 and FY 2005 we will improve the Commission's security program as we, and dam owners, gain more experience in assessing security needs, applying preventive measures, evaluating effectiveness, and improving security plans. In FY 2004, we will expand our annual operation inspections for the approximately 1,000 high-risk projects to include a review and analysis of the newly-developed, site-specific vulnerability and security assessments.

Our program inspects high- and significant-hazard-potential dams (about 1,000) once a year and the remaining dams (low-hazard-potential dams) at least once every three years. Many of the Nation's dams were constructed more than 100 years ago. Therefore, we are working with licensees, dam safety experts, and other federal and state agencies to develop and apply state-of-the-art safety criteria appropriately.

Even with the best safety program, emergencies can occur. Emergency action plans specify actions owners must take, in coordination with federal, state and local preparedness agencies, in case of emergencies such as floods, earthquakes, project failures, or improper operation. We conduct tests to ensure that emergency action plans work as designed.

During FY 2003, we implemented our Potential Failure Modes Analysis and Performance Monitoring Program, using the new Engineering Guidelines on *Monitoring Performance of Dams* developed by Commission staff in coordination with licensees. The goal of performance monitoring is to detect and measure physical changes in the structure through appropriate instrumentation, before dam safety problems develop.

Our new guidance provides procedures and criteria for dam owners to develop a Performance Monitoring Program which: (1) uncovers data that may be significant to failure modes analysis; (2) identifies the most significant potential failure modes; (3) identifies risk reduction opportunities; (4) focuses instrumentation, monitoring and inspection programs to provide information on failure modes that present the greatest risk to the safety of the dam; and (5) develops operating procedures to assure there are no weak links that could lead to dam failure caused by mis-operation of the dam. This performance monitoring program provides targeted results and is cost-effective, compared to other alternatives. The failure modes analysis for a dam will be conducted by the dam owner, independent consultant, and Commission staff at the next independent consultant inspection. Full rollout of this program will encompass five years (FY 2002-FY 2006), as an independent consultant inspection is required once every five years.

We also oversee remediation to correct deficiencies in project structures. In FY 2003, Commission staff worked with the licensee and independent engineering consultants on the remediation of the Saluda Dam. Saluda Dam is over a mile long, 210 feet high, and impounds the 2.2 million acre-foot Lake Murray in Columbia, South Carolina. It has been determined that the dam would fail if subjected to a repeat of the 1886 Charleston Earthquake, inundating over 120,000 downstream residents. To alleviate this potential hazard, a massive rock fill and concrete structure is being constructed at the existing dam with completion scheduled for 2006. Commission staff will continue to work with the licensee, engineering consultants, State and Federal agencies, and the public to fix the dam as quickly as possible, while minimizing the associated disruption to the local area.

Gas Pipeline. Commission staff convened several conferences and initiated other activities to improve the security of the natural gas and oil pipeline infrastructures. These efforts included:

> *Technical Conference on Reconstruction of Interstate Natural Gas Facilities*. With the Department of Transportation's Office of Pipeline Safety (OPS), a conference on whether and how to clarify, expedite and streamline permitting and approvals for interstate pipeline reconstruction in the event of a natural or terrorism disaster. As an outcome of this conference and subsequent discussions with industry and other agencies, the Commission adopted a rule in May, 2003 to expedite reconstruction in the event of major emergency pipeline damages.
>
> *Technical Conference on Reallocation of Natural Gas*. With the Department of Energy, a conference on whether and how to coordinate reallocation of natural gas among customers, shippers, pipelines, and local distribution companies in today's non-vertically integrated industry in the event of a disaster, whether natural or otherwise. FERC is following up by working with the National Association of Regulatory Utility Commissioners (NARUC) and the industry to develop voluntary guidelines for emergency gas reallocation.

FERC has also been working to reduce the vulnerability of the Nation's electric grid and market operations to physical and computer failures. The bulk electric system is complex and highly interdependent and a failure of its computer or communications systems could cause widespread harm to both electric service and facilities. Thus, FERC has worked with the electric industry (through the NERC Critical Infrastructure Protection Advisory Group) to facilitate proposed cyber-security standards for electric system participants. These standards were proposed in FERC's Standard Market Design NOPR. They have since been refined and adopted by NERC as an industry standard.

Work with Other Agencies and Industry to Address and Improve Infrastructure Security.
The Commission views the reliability of the Nation's energy transportation systems and energy supply infrastructure as critical to meeting the energy requirements essential to the American people. Thus, electric, gas, and oil companies need to continue to adopt new procedures, update existing procedures, and install facilities to further safeguard their electric power transmission grid and gas and oil pipeline systems. To alleviate the uncertainty about companies' ability to recover the prudent expenses necessary to further safeguard our energy infrastructure, the Commission supports efforts by FERC-regulated companies to improve security by promptly allowing recovery of such costs, and in other ways as security issues and needs are identified.

Although the security and safety of gas and oil pipeline and storage facilities are not under the Commission's purview, we do support the activities of the agencies with regulatory responsibility for security. With regard to LNG facilities, the Commission supports the U.S. Coast Guard, which has jurisdiction over offshore facilities, and the Department of Transportation (DOT), which has jurisdiction over onshore facilities. Both agencies have recently issued new guidelines that significantly expand security requirements.

For all gas-related permitting issues (pipeline and LNG) where security concerns are raised, if necessary, FERC conducts a closed-door detailed technical workshop on the site-specific security issue with all relevant stakeholders and federal, state and local expert agencies to explore and resolve the security concerns. To date FERC has conducted two such sessions.

A month after the September 11, 2001 attacks, the Commission removed from easy public access categories of documents that detailed specifications of energy facilities licensed or certificated by the Commission. Over the next sixteen months, the Commission conducted a notice of inquiry and notice of proposed rulemaking regarding the treatment of previously public documents that could facilitate a terrorist attack on the energy infrastructure. On February 21, 2003, the Commission adopted a final rule in Order No. 630 regarding submission of and requests for critical energy infrastructure information (CEII). Order No. 630 established a new position of CEII Coordinator, and set out a formal process for requesting and processing requests for CEII. There is no apparent conflict between FERC's CEII rule and the recent critical infrastructure information rules proposed by the Department of Homeland Security.

With regard to hydropower facilities, the Commission, as discussed in more detail below, devotes a significant amount of resources to reviewing, and updating as appropriate, its security program.

Following the August 14, 2003 blackout effecting 50 million Americans and Canadians in the northeast and Ontario, Canada, FERC has participated at the Commissioner and staff level in the Joint US-Canada Power System Outage Task Force and investigation. This produced an interim report (November 19, 2003) and a final report will be released in early 2004. FERC will act on the report's recommendations to prevent further blackouts to the full extent allowed under the agency's statutory authority.

Allow Prompt Recovery of Prudently Incurred Security and Safety Expenses.

On September 14, 2001, only three days after the terrorist attacks, the Commission issued a Statement of Policy regarding "Extraordinary Expenditures Necessary to Safeguard National Energy Supplies" to assure its regulated companies that it would approve reasonable proposals, such as a separate rate recovery mechanism, for costs incurred to safeguard the reliability and security of the Nation's energy supply infrastructure. The Commission will give its highest priority to processing any filings made for the recovery of extraordinary expenditures to safeguard the reliability of our energy transportation systems and energy supply infrastructure.

To date few such applications have been filed, but the Commission has approved five security surcharge requests. We continue to meet with representatives from the Association of Oil Pipe Lines and individual company officials to discuss ways to recover costs associated with enhanced security measures.

Objective 1.4 Performance Measures

Performance Measures	Performance Targets	Data Source
Recovery of companies' prudently incurred costs to safeguard the reliability and security of energy transportation and supply infrastructure	Timely processing of filings seeking recovery of security and safety costs in jurisdictional rates by statutory action date	Office of Markets, Tariffs and Rates
	Encourage innovative proposals to recover prudently incurred security costs	
Enhance dam safety	100% of high- and significant-hazard-potential dams inspected annually	Office of Energy Projects

Objective 1.4 Performance Measures

Performance Measures	Performance Targets	Data Source
	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high 100% of qualifying dams in compliance with EAP requirements	
Timely handling of CEII without disrupting requesters' participation rights in other proceedings	No requester's failure to obtain CEII in a timely manner will affect requester's ability to participate effectively in a proceeding	Office of General Counsel
Prevent unauthorized access to security-related documents	No instances of unauthorized access to security-related documents	Office of General Counsel
Number of instances of improved regulation to facilitate security and emergency response	Number of specific measures (e.g., number of security surcharge requests approved, gas allocation principles set)	Office of General Counsel

CHAPTER 2: COMPETITIVE MARKETS

Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation

Competitive Markets Resources

(Dollars in Thousands)

	FY 2003 Actual	FY 2004 Estimate	FY 2005 Request
Total FTEs	**251**	**258**	**291**
Program	200	206	238
Support	51	52	53
Total Funding	**$38,259**	**$45,083**	**$46,768**
Program	31,065	37,455	38,817
Support	7,194	7,628	7,951

The increase in FTEs in FY 2005 is earmarked for the Commission's reliability efforts. The Commission intends to establish a new reliability division that will be part of the Office of Markets, Tariffs and Rates (OMTR).

Introduction

One of the Commission's primary goals over the next few years will be to continue creating fully-functioning, competitive wholesale electricity markets. In accomplishing this, we hope to both gain the benefits of competition as soon as practical and to minimize transition difficulties. However, progress in opening electricity markets has been uneven in different parts of the country and has been considerably slower than it was for natural gas. This has required greater attention and new measures and has also included a transition period with unanticipated market disruptions.

Meeting this goal includes two objectives:

- *Advance Competitive Market Institutions Across the Entire Country.* Market institutions must be strong and stable enough to be credible to all market participants and produce benefits for all.
- *Establish Balanced, Self-enforcing Market Rules.* Consistent, known, fair market rules enable market participants to do business with confidence and act as the first line of customer protection in a competitive energy market.

Only when market institutions are strong and market rules are known, accepted and enforced will the electricity market transition be complete.

Objective 2.1: Advance Competitive Market Institutions Across the Entire Country

Open access to transmission is the underpinning for competitive regional electricity markets. Traditional approaches to transmission access and pricing create several obstacles to competitive power markets. For example:

- The existence of many transmission owners with differing rules and practices within a region makes it cumbersome and costly for customers to do business over a wider area. This can balkanize markets, prevent trade, and often limit the number of competitors who can offer service to customers.
- Common ownership and operation of generation and transmission provides an incentive for companies to use their control of transmission to favor their own generation and disadvantage competitors, who could serve customers more cheaply.
- The lack of regional planning means that both transmission providers and generators act parochially, and transmission bottlenecks are difficult to remedy, perpetuating congestion that raises costs for all customers.

We believe that the best sustainable path to competitive power markets is to establish regional transmission organizations (RTOs) implementing fair market rules, allowing for regional differences. RTOs must operate the transmission system across large geographic areas, operating independently of market participants. As a result, the most immediate task is to complete development of independent RTOs and competitive electric wholesale markets. Our goals include:

- Ensuring that RTOs evolve and grow to serve the nation's bulk power system;
- Ensuring that sound wholesale market competition develops in regional markets, to improve grid reliability and reduce delivered electricity costs for customers;
- Ensuring that developing markets serve legitimate interests at both the local and regional levels; and
- Ensuring that RTOs stimulate use of new technologies that result in benefits to customers.

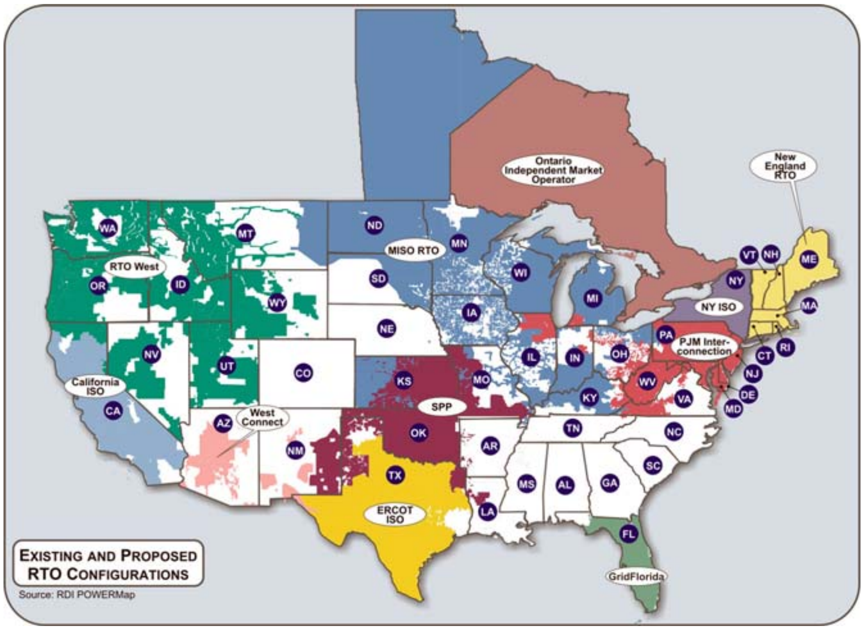
Objective 2.1 Strategies

Complete the Adoption of Wholesale Regional Power Markets in ISO-New England, New York ISO, PJM Interconnection, Midwest ISO, Southwest Power Pool and California, Phasing Changes as Appropriate.
and
Encourage Further Development of Regional Transmission Organizations in Southeast and Western (outside California) Regions of the Country.

Although much has been accomplished in establishing RTOs there is still a significant amount of work ahead of us. Today, proposals for RTOs are in various stages of completion in all regions of the United States (see RTO map on next page):

- The Midwest Independent System Operator, Inc. (Midwest ISO) operates in all or parts of fourteen Midwestern States and one Canadian province.
- The Southwest Power Pool (SPP) has a pending RTO application before the Commission and is currently contemplating operational startup in 2004.
- The Pennsylvania-New Jersey-Maryland Interconnection (PJM), which was granted RTO status in late 2002, is working with the Midwest ISO to create a joint and common market that will span from the Atlantic Ocean to the Rocky Mountains.
- ISO-New England recently filed a proposal, currently under Commission review, to become an RTO.
- The New York ISO and ISO-New England have working groups that are striving to make the two ISOs act as if they were a single operator, and dispatch across seams in a manner that would be more consistent with dispatch over internal constraints.
- The California ISO, currently operating as a state-wide ISO, is in the process of implementing a redesign of its wholesale electricity markets.

Additionally, the Commission (1) gave preliminary approval to WestConnect RTO that would operate in parts of the Desert Southwest States of Arizona, Colorado, New Mexico and Utah; and (2) approved key aspects of the RTO West proposal which includes all, or part of, eight Pacific Northwest States. The Commission had provisionally approved GridFlorida’s proposal for an RTO for the state of Florida in 2001; the Florida Public Service Commission’s consideration of a revised GridFlorida proposal had, until mid-2003, been suspended pending state court review; the state commission review process has now resumed and final state action is anticipated in 2004. Finally, a group of Southeast U.S. utilities has suspended its 2-year effort to create the SeTrans RTO although the Commission had previously approved key aspects of SeTrans, which was proposed to extend over eight Southeastern States.



Support Creation of Regional State Committees to Develop and/or Help Oversee Regional Power Markets.

The State-Federal split of jurisdiction is defined in the Federal Power Act. While States have legal responsibilities for retail markets, transmitting electric power in wholesale markets in almost all areas of the country is an inherently interstate business. As a result, the Commission and States must address how to adapt the traditional regulatory models to new market realities.

Developing a competitive wholesale electric power industry requires communication and complementary efforts at the Federal and State levels. To expand our cooperation with the States, we are establishing new organizational relationships specifically to coordinate and improve our relationships with the States. We are working closely with States at every stage of regional market development, including State commission participation and comment in RTO and market design discussions and proceedings to understand State and regional concerns and needs.

In 2003 we continued our regional outreach program convening local technical conferences between FERC Commissioners and staff, State representatives, and industry officials to discuss regional wholesale electric power market platform issues consistent with the features described in the Commission's White Paper on Wholesale Power Market Platform, issued on April 28, 2003. For instance, in June the Commission met in Omaha, Nebraska, with the newly established Organization of MISO States, Inc., a regional State committee formed by representatives from 14 Midwest State regulatory agencies and the Canadian province of Manitoba. As a result of this meeting and others like it, we are able to achieve greater clarity on a number of important issues related to independent grid operation, transmission planning and market monitoring that impact both wholesale and retail electricity markets. Similar conferences were convened in Boston, Massachusetts; New York City, New York; Wilmington, Delaware; Atlanta, Georgia; and San Francisco, California; and are being planned for other regions of the U.S.

Also during 2003, we placed experienced Commission staff members at the offices of the Midwest ISO so that we can become better informed about day-to-day operational issues and market development issues. These issues include, among other things, tariff implementation, market protocol implementation and development, and conducting informal pre-filing meetings with ISO staff. A similar arrangement has been in place with the California ISO since 2002. In addition, Commission staff works closely with ISO stakeholders, including transmission owners, State commissions, end-users and generators to better understand their issues. We believe this combination of efforts will significantly influence our ability to realize our common goal of regional competitive bulk power markets that will benefit customers and consumers for years to come.

Overall we can achieve these results if the Commission and the States work together to develop strong, workable definitions of the role each entity needs to play. To help make this joint enterprise succeed, we plan to continue:

- Staffing a Division of State Relations within the Office of External Affairs to interact with state officials and commissioners;
- Holding infrastructure issues conferences in the various regions;
- Establishing FERC staff teams to participate in and facilitate dialogue among states and market participants on RTO and market design issues;
- Working with state commissioners and officials on specific projects, including demand response in New England and transmission congestion on the Delmarva Peninsula; and
- Holding discussions with the New England Conference of Public Utility Commissioners (NECPUC) to discuss issues related to ISO-New England RTO formation currently pending before the Commission.

Develop Means of Ensuring Transparency of Market and Transmission Information.

The Commission's investigation into the energy crisis across the West, and particularly in California, in 2000 and 2001 yielded significant evidence of price manipulation by energy companies, which was exacerbated by flawed market rules. When the Staff Final Report on Price Manipulation in Western Markets was released in March 2003, it concluded that dysfunctions in wholesale natural gas markets partly stemmed from deliberate misreporting of natural gas prices to trade publications, including the use of nonexistent transactions and wash trading, which created the false impression of liquidity in certain markets.

Price reporting to index developers declined significantly in 2002, creating widespread concern over the accuracy and reliability of price indices. In January 2003 OMOI took the lead in examining the process by which wholesale natural gas and power transactions are reported to price index developers and published for industry use.

Since issuance of the Final Report, significant progress has been made in remedying trade data reporting by improving the index development process. For example, on July 23, 2003, the Commission accepted eleven energy companies' accounts of their internal remedies for reporting natural gas trading data; at the time of the Staff investigation, these companies either admitted to false reporting to trade publications, or lacked internal controls necessary to ensure accurate reporting of trading information. The eleven companies met the requirements set forth in an April 30, 2003, order requiring that:

- employees, including trading desk heads and managers, who participated in manipulations or attempted manipulations of the published price indices have been disciplined;
- the company has a clear code of conduct for reporting price information;
- all trade data reporting is done by an entity within the company that does not have a financial interest in the published index; and,
- the company is cooperating fully with any government agency investigating its past price reporting practices.

The Commission took several other actions to improve the quality of the price indices. The Commission's staff held technical conferences, issued staff discussion papers, and held a follow-up workshop to explore the desirability of a "safe harbor" for good faith reporting of prices to price index developers. As a result of these conferences, on July 24, 2003, the Commission issued the Policy Statement on Natural Gas and Electric Price Indices. The Policy Statement explained what the Commission expects of natural gas and electricity price developers and companies that report transaction data to index developers, and created a rebuttable presumption that companies that report trade data in accordance with the principles of the Policy Statement do so in good faith and will not be subject to administrative penalties for inadvertent errors in reporting.

On November 17, 2003, the Commission issued two orders adopting behavior rules for market participants. Both of these orders adopt a behavior rule requiring that, to the extent affected parties to natural gas or electricity sales report transactions to entities that develop and publish price indices, they must report such transactions in accordance with the Policy Statement. All holders of market based rate authority and all sellers using blanket certificate sales authority were directed to notify the Commission whether or not they report prices to index developers in accordance with the Policy Statement.

Provide Regulatory Certainty Through Clear Market Rules and Case-Specific Decisions.

Finding that the absence of clear rules governing the wholesale electric industry and other impediments were preventing markets from realizing their full potential, the Commission implemented common power market rules designed to help prevent market abuse, provide a more stable marketplace and create an environment that will attract needed investment capital in the electric and natural gas industries.

The need for clear, common market rules arose because of persistent and costly problems in the Nation's wholesale electric power markets. These include a decade of under-investment in needed transmission, which raises energy costs by billions of dollars across the grid and exacerbates reliability problems, generation siting in locations far from customers, unduly discriminatory behavior by transmission providers against independent generators, and fundamental design flaws in certain existing electricity markets which have reduced efficiency of grid operations. Sound market rules and fair and open transmission access, as implemented under these rules, should cure many of these problems.

Proposed market behavior rules evolved over many months as the result of extensive outreach efforts with interested parties. For example, the Commission indicated in its RTO rulings that flexibility is needed in appropriate aspects of market design to accommodate regional concerns. Regional development through RTOs is proceeding and elements of the Wholesale Market Platform will develop on varying implementation schedules depending on local needs and regional differences. The Commission is committed to customer-based, cost-effective, competitive wholesale power markets and sound wholesale market rules.

An important foundation to RTO operation is a transmission system that is independent of any bias of one market participant relative to another. In 2003, the Commission approved applications to establish independent transmission companies (ITCs) that will operate under the umbrella of an RTO. For instance, we approved the formation of ITC Holdings, Inc., and GridAmerica, two independent transmission companies that will operate under the Midwest ISO. Since neither of these entities has a financial connection with other aspects of the electric industry (i.e., generation and distribution) in the region in which they will operate, they should have the impetus to focus exclusively on the growing electric transmission business in their respective regions. As needed transmission infrastructure is added, electricity customers will benefit by having access to a wider array of competing suppliers.

Objective 2.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Timely processing of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs)	All filings processed within 6 months of filing, or before applicant's proposed effective date (whichever is later)	Office of Markets, Tariffs and Rates
Timely processing of proposed rulemakings adopting industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Non-controversial rulemakings completed within 9 months and controversial rulemakings completed within 12 months	Office of Markets, Tariffs and Rates
Establish cost-effective elements of the wholesale electric market platform within 3 years of RTO/ISO approval	For each approved RTO or ISO, additional wholesale market platform elements will be added: ▪ Regional independent grid operation ▪ Regional transmission planning process ▪ Fair cost allocation for existing and new transmission ▪ Market monitoring and market power mitigation ▪ Spot markets to meet customers' real-time energy needs ▪ Transparency and efficiency in congestion management ▪ Firm transmission rights ▪ Resource adequacy approaches	Office of Markets, Tariffs and Rates
Assist multi-state regional organizations (Regional State Committees (RSCs)) in resolving regional policy and planning issues	Meet at least annually with multi-state organizations established for each approved RTO/ISO	Office of Markets, Tariffs and Rates
Monitor electric transmission system reliability thru joint NERC-FERC reliability audits	Participate in NERC-FERC reliability audits of entities serving greater than 50% of the nation's electric customers served by public utilities	Office of Markets, Tariffs and Rates

Objective 2.2: Establish Balanced, Self-Enforcing Market Rules

A market can only be as good as the rules that govern it. Therefore, rules for regional electricity markets must balance the interests of all market participants B ensuring they are fair and equitable, prevent abuse, and build the market=s credibility B while being as self-enforcing as possible. Otherwise, endless disputes could arise preventing the market from operating efficiently which could invite or even require continued regulatory distortions.

Objective 2.2 Strategies

Complete Revisions to Market-Based Ratemaking Policy to be Implemented through Periodic Rate Reviews.
The Commission allows the use of market-based rates for electric power if the seller and its affiliates do not have, or have adequately mitigated,

market power in generation and transmission. The Commission also considers whether any barriers to entry exist and whether there is evidence of affiliate abuse or reciprocal dealing. In practice, our traditional test for market power led to approval of market-based rates for most generators who requested them. The crisis in California made clear that our traditional definition of market power did not always prevent markets from developing problems. In particular, when demand nearly reaches supply, markets become unbalanced and the opportunity for exercising market power grows. In such situations, even an otherwise well functioning market may no longer guarantee the full benefits of competition that justify market-based pricing. We intend to complete revisions to our market-based ratemaking policy and implement the policy through triennial rate reviews.

The Commission, in November 2003, issued a set of behavioral rules for jurisdictional sellers of wholesale electricity and natural gas. These rules, designed to provide direction about prohibited behavior in energy markets, form part of the Commission's response to the Nation's recent energy market failures. Additionally, the rules contain the breadth and flexibility to address new and unanticipated activities as they may arise. The market behavior rules call for all electric market-based rate tariffs and gas blanket certificates to contain provisions relating to (1) market manipulation, (2) reporting, and (3) record retention. Electric market-based rate tariffs must also contain provisions relating to unit operations, communications and related tariffs. Under the rules, if a seller is found to have engaged in prohibited behavior, the seller would be subject to disgorgement of unjust profits and non-monetary remedies such as revocation of the seller's market-based rate authority or blanket certificate authority.

Work with States to Support Robust Programs for Customer Demand-side Participation in Energy Markets.
Energy markets must allow response from both the supply and the demand side of the industry. Historically, industry has assumed most demand is fixed, and has priced power to most customers at constant rates during fairly long periods of time (i.e., a month or year). The result is that customers have seldom seen prices change in the short run and have had little if any incentive to change their usage to meet the true costs of producing power at any given time. The lack of short-term demand response was a major contributing factor to the problems in western electricity markets, just as individual customer decisions to conserve electricity were a significant part of the solution to the problem. In the future, electricity markets at both the wholesale and retail levels will require a full demand response to better balance supply with demand and reduce supplier market power.

Although states have direct jurisdictional authority over many demand-side measures, the Commission is working to encourage more demand response by:

- Ensuring that wholesale markets facilitate equal participation by demand-side and supply-side resources;
- Encouraging States to adopt programs that let customers respond to changing prices; and
- Helping to remove any impediments that prevent full demand-side participation in electricity markets.

FERC efforts to support demand response have included supporting the six-State New England Demand Response Initiative, developing region-wide demand response programs that link retail and wholesale demand response and that work effectively in both competitive retail markets and traditionally regulated markets; frequent outreach on demand response, distributed generation, and advance metering; and working with DOE to develop and implement a demand response research program.

Encourage Standardized Business Rules and Practices to Maximize Market Efficiency, Ease Market Entry and Reduce Transactions Costs, relying on NAESB, NERC and the RTO/ISOs where Appropriate.

Absent consistent, non-discriminatory rules for all transmission customers, there are substantial competitive consequences and higher costs to all customers. Therefore, the Commission has proposed a common set of principles for the design of electric transmission markets, based on an extensive discussion about the best practices for wholesale electric markets. The wholesale market platform would address persistent and costly problems in the nation's wholesale electric power markets. Our goals are to:

- Remedy remaining undue discrimination in transmission service;
- Provide more choices and improved services to all wholesale market participants;
- Reduce delivered wholesale electricity prices through lower transaction costs and wider trade opportunities;
- Improve reliability through better grid operations and expedited infrastructure improvements; and
- Increase certainty about market rules and cost recovery for greater investor confidence to facilitate much-needed investments.

After issuance of a proposed rule in 2002, FERC reviewed the 1,000 plus comments received and issued a white paper on wholesale market design in April 2003, in which we modified positions in the NOPR by acknowledging the appropriateness of regional and timing flexibility in the adoption of key market design elements. RTOs and ISOs in many parts of the country are already implementing many key market design elements. For example, in the Northeast where most market design elements are already in place and the region is continuing to move toward a common market design across all three ISOs, New England implemented locational marginal transmission pricing in early 2003. California, the Electric Reliability Council of Texas (ERCOT), and the Midwest are also working to implement most of the market design elements. Even in regions that do not yet have functioning independent system operators or RTOs, RTO proposals have incorporated most of the major principles in the proposed rule, particularly in the Northwest (RTO West).

Most regions have implemented or have committed to implement key elements of wholesale market design, including independent operation of the transmission grid, regional transmission planning, common energy and ancillary service markets and a single transmission tariff for the region, market monitoring and market power mitigation, locational pricing and congestion management. We anticipate that RTOs will continue to develop over the next several years incorporating the key features of FERC's wholesale market platform, producing better wholesale electric markets and better protection against failure.

As competitive wholesale electricity markets grow, we need to ensure that business is being conducted consistently and that reliability concerns, including both the physical infrastructure and functioning of the market, are addressed. If standards are not developed fairly, they could benefit some market players at the expense of others.

Based on our experience in the natural gas industry with the North American Energy Standards Board (NAESB), the best way to develop reliability and business practice standards is for them to be developed by industry experts, with the Commission resolving issues those experts cannot agree on. The Commission was instrumental in the formation of the Wholesale Electric Quadrant (WEQ) of NAESB as the group responsible for addressing business practices in this area. We are also working closely with the North American Electric Reliability Council (NERC) on reliability standards. At the urging of the Commission, NAESB and NERC have developed procedures to coordinate business practice and reliability standards development, and to coordinate their efforts closely with the RTOs and ISOs that manage and operate the grid day-to-day. The Commission periodically issues orders incorporating by reference business practice standards developed by NAESB. We will continue to strengthen our relationship with these organizations and rely on their expertise, where possible, to address emerging business practice standards and reliability issues critical to the efficient operation of markets.

In addition to the WEQ, we are working with NAESB's Wholesale Gas Quadrant (WGQ) to develop creditworthiness standards for shippers on natural gas pipelines which will lower information costs to shippers and increase market efficiency. Input from both shippers and the pipelines has proven crucial to our understanding of the credit issues faced by industry participants, as evidenced by the June 16, 2003 NAESB report to the Commission detailing the progress the WGQ has made in considering 24 proposed standards.

Objective 2.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Wholesale prices in regions with functioning RTO markets are lower than they would have been otherwise	Over the first five years of wholesale market platform operation, wholesale prices will average 2% lower than our estimate of what they would have been without good wholesale markets, controlling for factors not related to the electric markets themselves, such as inflation, fuel costs and weather.	Office of Market Oversight and Investigations
Advance well-functioning markets that deliver the benefits of competition	Process market-based ratemaking filings within statutory deadline	Office of Markets, Tariffs and Rates
All markets have in place rules that permit and encourage qualified demand response participation on an equal basis with supply	All RTOs and ISOs have rules, permitting demand response participation in RTO/ISO-controlled markets, in place and approved by the Commission within 1 year of commencing day-ahead markets	Office of Markets, Tariffs and Rates

CHAPTER 3: MARKET OVERSIGHT

Protect Customers and Market Participants through Vigilant and Fair Oversight of the Transitioning Energy Markets

Market Oversight Resources

(Dollars in Thousands)

	FY 2003 Actual	FY 2004 Estimate	FY 2005 Request
Total FTEs	**219**	**220**	**220**
Program	175	175	175
Support	44	45	45
Total Funding	**$34,768**	**$35,982**	**$36,907**
Program	28,490	29,486	30,237
Support	6,278	6,496	6,670

Introduction

The need for market oversight and investigations is crucial. We must offer the public and market participants credible assurance that we will identify and remedy energy market problems to maintain just and reasonable rates. Such actions will contribute to stable, competitive energy markets over the long run.

"OMOI serves as an early warning system to alert the Commission when market problems develop, and allows the Commission to analyze and address any problems more quickly."

Pat Wood, III
Chairman, FERC
Testimony before the Subcommittee on Energy and Air Quality of the Committee on Energy and Commerce, U.S. House of Representatives
March 5, 2003

At the center of the Commission's oversight effort is the Office of Market Oversight and Investigations (OMOI). Organized in August 2002, OMOI provides an authoritative understanding of energy markets to the Commission and the public. The office assesses market performance, ensures conformance with Commission rules, and reports on its findings to the Commission and the public. OMOI also analyzes overall energy markets to identify and remedy key issues before they become major problems, and serves as "cops on the beat" to ensure that individual market players play by the rules.

The Commission has two main objectives in meeting this goal:

- Assure pro-competitive market structures and operations; and
- Remedy individual market participant behavior as needed to ensure just and reasonable market outcomes.

Objective 3.1: Assure Pro-competitive Market Structures and Operations

Market structures and rules we put in place are intended to provide a framework for evolving markets. To ensure that they do, our market tracking and evaluations aim to discern:

- When high prices or limited supplies reflect scarcity, market problems, or market manipulation;
- The difference between superficial and significant market problems;
- Which market problems are due to market rules or structural flaws and which are due to misbehavior;
- Which market problems require regulatory intervention and which require only patience and oversight; and
- When mitigation is helping or harming markets.

Objective 3.1 Strategies

Promote Understanding of Energy Market Operations and Technologies through Maintaining Expert Skills, Keeping Abreast of Trends and Innovations, and Reporting Findings as Appropriate.
Market oversight and investigation must provide trustworthy analyses based on strong empirical evidence so that the Commission can make fair and farsighted decisions and the public can have confidence in American energy markets. This will require having relevant and timely information about electric and natural gas markets.

To do this we will maintain our current data systems, largely consisting of the resources in our state-of-the-art Market Monitoring Center (MMC). We will supplement those resources by continuing to develop the Electric Quarterly Report. This report provides a more comprehensive view of physical electric markets than we have ever had before. It equalizes reporting requirements for traditional utilities and power marketers, and makes information more easily available to the public. It will provide greater price transparency and enhance confidence in the fairness of the markets. Going forward, we will continue to identify further information requirements and develop new information systems as needed.

Assess and Report on Market and Infrastructure Conditions Using Objective Benchmarks.
Through weekly Oversight Meetings and regular reports to the Commissioners, we are developing benchmarks to monitor market conditions and developments, to show systematically how well markets are operating and whether there are potential infrastructure shortcomings that could hurt market operations or potential anomalous behavior or patterns that reflect potential market manipulation.

The annual *State of the Markets Report* gives a comprehensive review of the year and provides measures for energy market performance. It makes use of, and explains the need for, common metrics. This publication underscores the differences between reporting for well-organized markets and the less transparent bilateral markets. It will use the initial set of common metrics developed in conjunction with the Market Monitoring Units (MMUs) discussed below.

Maintain Close Working Relationships with RTO and ISO Market Monitoring Units.
As RTOs/ISOs are established, each will have a Market Monitoring Unit (MMU). Five MMUs are in place today. MMUs have detailed knowledge of the markets they monitor and tailor their monitoring programs to deal with specific characteristics of their own markets as well as generic issues. Thus they can identify developing problems rapidly and be the first line of defense against market problems. However, the MMUs may have limited understanding of markets outside their area of operations, and may know relatively little about other markets (including financial and gas) that affect their market areas. Our market oversight function should provide the broader view of how markets interact, inform MMUs and be informed by them.

We are developing close partnerships with the MMUs in all RTO/ISO markets. During FY 2003, the Commission established a permanent presence in the Western energy markets by assigning two market monitoring staff to California. Working directly with the California ISO's market monitors, these staff members are providing direct insight to the Commission about the process of monitoring regional energy markets.

Identify and Remedy Problems with Market Structure and Operations, and Periodically Review Market Rules for Consistency with Long-term Market Development.
Identifying relevant market metrics, and gathering and analyzing the necessary data on a timely basis, will provide a key tool in identifying and addressing market problems of either a structural or operational nature. Progress in these metrics toward long-term, fully developed targets will provide insight into the functional levels of the observed markets.

The key function of our overall market oversight program is to identify potential market problems as they develop so that the Commission can rectify them quickly. The market benchmarks and the State of the Markets Report provide a yearly overview of the markets. However, our oversight program continually observes market developments, both small and large, and reports to the Commission as new issues develop.

During the year, the market oversight program reports market developments, including problems, in three major ways:

- During periods of acute market stress, we follow the markets in real-time, giving bulletins to the Commission as needed and flagging items that need rapid attention.

- Approximately every three weeks, our market oversight function briefs the Commission through Market Surveillance Reports. These include both background information and new developments in energy markets. The Surveillance Report may indicate options for addressing identified problems.

- Some issues identified in the Surveillance Reports (or the State of the Markets Report) require in-depth work. We prepare ad hoc reports to explain these problems more fully, often noting possible ways to address them. We often hold technical conferences of knowledgeable experts to assist us in developing these detailed reports.

One of the most important aspects of market oversight is to analyze apparent market anomalies such as high prices or abnormal volumes in unexpected places. Such anomalies can indicate problems with data, new patterns of market trading, or gaming. Information for these reports comes largely from our Market Monitoring Center, which lets us follow market activities as they happen. We supplement these data with information from industry contacts, including close coordination with RTO and other market monitors.

The reports and insights arising from market oversight will identify key problems for the Commission to consider, inform the Commission's decision-making process about how to respond, and, in the case of apparent behavioral problems, lead to further investigations and audits.

Other activities during FY 2003 included:

- Analyzing the February gas price spike, and issuing a report to FERC Commissioners and Congressional committees.
- Co-sponsoring four Technical Conferences with the Commodity Futures Trading Commission to encourage public discussion and resolution of energy industry problems. Topics involved capital availability for energy markets, credit issues, natural gas price formation, and price discovery and indices.
- Calling Commission and industry attention to the illiquidity of gas price indices and promoting discussion or remedies.

Spurred in part by these FERC activities, the industry developed a consensus proposal for gas price reporting and index compilation. FERC incorporated most of the industry recommendations in the July 2003 issuance of the Natural Gas and Electric Price Indices Policy Statement.

To improve the transparency of financial information maintained and made public by these entities, the Commission in 2003 revised its Uniform System of Accounts and Annual Report filings to address the proper accounting for derivative and financial instruments, hedging activities, other comprehensive income and asset retirement obligations. These efforts are part of the Commission's ongoing efforts to address emerging accounting and financial reporting issues within the context of the Uniform System of Accounts and the Commission financial reporting program.

The Commission also issued a final rule on regulated company participation in corporate cash management programs and a proposed rule on quarterly financial reporting, both designed to broaden disclosure of financial information (in keeping with the goals of the Sarbanes-Oxley Act).

Ensure that Mergers and Consolidations Are Not Inconsistent with Pro-competitive Goals.

Most industries that move toward lighter forms of regulation witness considerable restructuring, including consolidations of companies within individual segments of the industry. Mergers can bring efficiencies from economies of scale and can also represent the result of successful competition when more effective business models grow. However, mergers also eliminate competitors and can lead to markets that are too concentrated to be fully competitive. In light of emerging market realities, we will examine mergers under our jurisdiction to ensure that they do not harm the overall competitive balance of the energy markets, i.e., are consistent with the public interest. This issue takes on additional importance today, when many energy companies are financially weak.

Objective 3.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Enhance institutional capability for overseeing energy markets	The Electronic Quarterly Report of electric transactions will be fully functional.	Office of Market Oversight and Investigations
	The Commission will identify further key data requirements needed to analyze energy markets.	
Development of market expertise	MMUs will produce standardized market metrics.	Office of Market Oversight and Investigations
	The Commission will use standard metrics developed by the MMUs to develop a balanced scorecard to determine how well energy markets are working	
Enhance the Commission's and public's understanding of energy markets	Issue Market Surveillance Reports to the Commission in conjunction with the Commission's public meeting schedule.	Office of Market Oversight and Investigations

Performance Measures	Performance Targets	Data Source
	Publish Market Assessments, State of the Market Reports, and other reports as conditions warrant.	
Identify and remedy market problems	Provide analysis and recommendations on major market problems.	Office of Market Oversight and Investigations
Timeliness of corporate application orders	Process all section 203 applications within 90 days of the date comments are filed.	Office of Markets, Tariffs and Rates
Timeliness of industry wide financial audits	Complete 90% of audits within 120 days	Office of Executive Director

Objective 3.2: Remedy Individual Market Participant Behavior as Needed to Ensure Just and Reasonable Market Outcomes

The Commission's investigation and audit functions examine companies' compliance with the Commission's regulatory requirements and seek to remedy violations. We have made significant progress in developing a program to protect customers from market power and other abuses and to ensure that energy markets within the Commission's jurisdiction are competitive and fair to all customers. Customers must have confidence in competitive markets and know that we will rigorously investigate suspected instances of unfair competition.

Objective 3.2 Strategies

Investigate Statutory and Rule Violations, and Provide Appropriate Remedies.
In highly dynamic industries, market participants constantly seek new profit opportunities, including new ways to use market power or to manipulate markets. To protect customers, we seek to detect abuses of market power by thoroughly investigating observed market anomalies and valid complaints, and by conducting random audits. Once we identify violations, we apply remedies to mitigate the effects of market power, require disgorgement of unjust profits where called for and impose civil penalties or other sanctions when available under existing laws. Findings in particular cases can also serve as the basis for the Commission to change its existing regulations to address market power or manipulations issues.

The success of our investigation and audit activities depends on the timeliness and quality of our work. Issues having the most significant impact on the market are addressed with the highest priority. We establish targets and hold ourselves accountable for the length of our investigations and audits given their various types and levels of complexity.

As of December 2003, we were conducting 107 investigations and audits of energy companies, including natural gas pipelines and electric utilities. These investigations were undertaken specifically to gather facts relating to possible instances of the exercise of market power and manipulation, undue discrimination or affiliate abuses. The audits were undertaken to verify compliance with the Commission's tariff requirements and regulations. We also investigate whether hydroelectric projects have violated terms of their authorization or relevant Commission regulations. During Commission-wide Calendar 2003, we brought enforcement actions that resulted in the assessment of $92 million in monetary penalties and other recoveries. We also required the companies to adhere to rigorous compliance plans consisting of many corrective actions.

In response to the problems affecting western energy markets in 2000 and 2001, FERC began an investigation in 2002 to determine what happened in both gas and electric markets in the west. This fact-finding investigation looked at whether any entity, including the Enron Corporation, manipulated short-term prices in the electric or natural gas markets, or otherwise exercised undue influence over wholesale prices in the west during 2000 and 2001. An interim staff report on this investigation was issued in August 2002 and the Final Report was issued in March 2003. This investigation, which was handled by Commission staff and outside experts, has helped us identify the specific areas of expertise needed to conduct similar investigations in the future. The findings of the report significantly improved our understanding of markets and specific market problems.

Building on the findings in those investigative reports, the Commission issued a number of important orders in June 2003. One of these orders required over 40 power trading companies to show cause why they should not be required to return the profits they made using the Enron gaming strategies. Another order required over 20 power trading companies to show cause why they should not have to return profits they made by manipulating the market through partnerships and alliances. Some of these cases are in litigation at this time, although many have been settled or otherwise resolved. Other orders directed staff to conduct non-public investigations into whether physical withholding of electricity, or anomalous bidding to manipulate market prices, occurred.

We plan increased cooperation and sharing of information with Federal agencies having responsibility for regulation of energy companies, such as the Commodity Futures Trading Commission. This cooperation will assist us in investigating volatility and spikes in commodity prices for natural gas and electricity.

Finally, measuring the effectiveness of our enforcement programs is very important. The goal of the program is to discourage companies from violating Commission rules. Clearly, simply measuring the number of investigations undertaken says little about the effectiveness of enforcement or the behavior of the many companies not investigated. To help assess the level of compliance, we focused our audit program on systematically assessing the degree to which companies are complying with Commission regulation. Each year, we will choose one or more key aspects of the Commission's regulations - for example, affiliate abuse in the natural gas industry. Focusing on one or more major areas each year will let us complete a full, in-depth review of those parts of the rules. We will audit a representative sample of companies to whom these rules apply and assess compliance with our regulations. We will report the results of our audits as part of our performance measures. We will also develop direct performance measures of our investigations.

Use Expedited Dispute Resolution to Accelerate Solutions and Minimize Customer Expense.
The Commission encourages parties to use alternative dispute resolution (ADR) whenever appropriate, to resolve conflicts quickly, satisfactorily, less expensively, and with the use of fewer resources. The Commission's Dispute Resolution Service is becoming a greater resource for facilitation and mediation, and also offers consultation and training in effective negotiation skills to individuals and organizations that do business with the Commission.

The Enforcement Hotline continues to be a quick, effective, and increasingly popular resource for addressing informal market-related disputes and questions. Between the months of August 2002 through July 2003, the Enforcement Hotline fielded 197 market-related calls, as compared to 141 market-related calls during the same months of the previous year. The Enforcement Hotline also continues to be a mechanism whereby industry participants provide information to the Commission staff that develops into investigations.

In addition, the Commission's administrative law judges may serve as settlement judges or mediators, thereby offering another alternative to litigation that allows the parties to exercise greater control over the outcomes.

Act Swiftly on Third-party Complaints, Using Litigation before Administrative Law Judges as Needed to Determine Factual Issues.
In some cases, the best approach to a possible abuse of market power will be through our formal litigation process. This is especially true when it is important to establish the exact facts of a case in open proceedings. The openness of the process can also promote credibility in important cases.

Since litigation can be costly and time-consuming, we are always seeking to streamline the process as much as possible. We have a centralized litigation staff to guide the efficient handling of the unique, complex issues that arise in a pro-competitive environment, and speed their resolution.

Objective 3.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Timeliness of Hotline call resolutions	Close 60% within 2 weeks of initial contact	Office of Market Oversight and Investigations
Timeliness of formal complaint resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	Office of General Counsel / Office of Administrative Law Judges / Office of Administrative Litigation/ Office of Market Oversight and Investigations
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service / Office of General Counsel / Office of Administrative Law Judges/ Office of Administrative Litigation
Number of major rule violations for a particular set of business practices	None or Few	Office of Market Oversight and Investigations
Timely resolution of allegations of market misconduct	Resolution within established timeframes for FERC investigations and litigation, as posted on the Commission internet site	Office of Administrative Litigation

CHAPTER 4: MANAGEMENT INITIATIVES SUPPORTING THE PRESIDENT'S MANAGEMENT AGENDA

Strategic Management of Human Capital

We are focusing our human capital activities on targeted recruiting, retraining, and the right-sizing and reallocation of staff based upon our Human Capital Plan. These critical areas will determine how efficiently and effectively we meet current objectives and prepare for future ones.

As part of the workforce planning process, the Commission has developed a Human Capital Plan. In that plan, each office identified current and desired skills requirements necessary to achieve the strategic goals of the Commission. The plan identifies gaps in human resources by outlining the potential retirement wave facing the Commission, as well as workforce profiles for FERC and each program office. The plan provides data on the age and service of the Commission's leaders and also gender and diversity composition of the workforce. Based on statistical data on FERC's workforce, action plans have been established and provide the foundation for recruitment, succession planning and employee development.

We face significant challenges in adapting our workforce's skills to meet two major changes. First, as our regulatory approach shifts to making markets work, we must develop a new and different mix of talent and skills. Second, over 25 percent of our workforce, made up mostly of experienced and highly trained employees, is eligible for retirement by 2005. By 2007, over half of our workforce will be eligible for retirement through either voluntary or "early out" retirement. We will need to ensure that this potential rapid turnover of experienced employees does not compromise our skill and knowledge base.

Staffing and building capabilities in the Office of Market Oversight and Investigations and in OMTR's new Reliability Division will be the prime focus of our efforts. Our market oversight and investigative function requires increased skills in, and more understanding of, market investigations, market operations, risk management and derivatives, investment in unregulated industries, analysis of overall market information, and the effect of energy transportation systems on commodity pricing. Similarly, in the wake of the August 14, 2003 blackout, the Commission must recruit talented electric engineers to ensure adequate reliability rules are in place and enforced.

A major part of acquiring these skills has involved hiring market experts, partnering with other agencies, and working with others on contract. We have worked with the Office of Personnel Management to add Senior Level positions in the area of market oversight and investigations to bolster our high-level markets expertise. Aggressive recruitment efforts have brought the Office's staffing almost to its targeted ceiling level. Other skills can be increased through on-the-job experience and knowledge sharing among staff, including staff-led training.

As we develop our market oversight capability, we also perform such traditional functions as ratemaking and licensing. Ensuring the continuance of high-quality regulatory work will be a priority as we face the rapid turnover of skilled employees due to pending retirements.

Additionally, to meet our staffing requirements, we are enhancing our recruiting and training processes, finding new ways to retain needed talent, and aligning staff assignments with our most important strategic goals. We have initiated an aggressive entry-level recruitment effort to bring new talent into the Commission. Since its inception at the end of FY 2001, this program has brought 87 new employees into the Commission with a variety of skills including accounting, auditing, engineering, economics, and law. We have supplemented this effort with a reinvigorated summer intern program, designed to create a pool of future employees who can learn how the Commission works while demonstrating their skills and potential. In 2003, 42 summer interns worked at the Commission; 40 worked with us in summer 2002.

Expanded Electronic Government

"Our goal is to end paper filings and we are well on our way. The day is approaching when our many initiatives in this area will make us an all-electronic operation."

Pat Wood, III
Chairman, FERC

We are coordinating Information Technology (IT) development to enhance our efforts to make markets work. A primary objective of the Commission is to increase shared agency information to provide better services to internal and external customers.

A competitive energy industry requires reliable and timely information in useful electronic formats. We are constantly improving the stability, reliability, and security of our IT infrastructure and data repositories.

In April 2002, the Commission initiated the FERC Online project to support the President's Management Agenda initiatives of expanding electronic government (e-government). Citizens and businesses can make electronic submissions of comments, motions, briefs, and other documents related to proceedings before the Commission. E-Filing will be extended to all documents submitted in Commission proceedings, reducing the cost and time for making a filing for our customers while reducing the cost and handling time for FERC to receive and process the document. Since November 2000, the Commission has received 22,000 documents electronically. Companies regulated by the Commission have also filed 15,000 forms and reports electronically. More than half of the documents received annually can be filed electronically.

E-Registration will serve as the gateway to a number of systems designed to transmit documents electronically between the Commission and its customers. These systems include:

- E-Forms, e-Reports, and e-Tariffs, which will provide for faster and improved receipt and publication of data; and
- E-Distribution, including e-List (a formal legal service list of participants in each Commission proceeding), e-Service (electronic document delivery by the Commission to participants), e-Notification of Commission issuances for interested parties, and e-Subscription that will allow interested parties to receive information about specific Commission proceedings and topics.

We are coordinating with the federal e-government initiatives to ensure consistency of our electronic initiatives and prevent duplication. In the area of Government to Business initiative, FERC will continue to work with partnering agencies to implement an effective central e-Rulemaking capability for the public. The public can use the central site to review and submit comments on FERC regulations published in the Federal Register.

FERC is leveraging results from the Internal Efficiency & Effectiveness e-Government initiatives. FERC plans to leverage the resources provided by e-Training, the Government-wide learning resources center that supports the development of the Federal workforce, using courses such as IT security awareness training, project management, and IT office automation products. FERC is also actively involved in the e-Payroll initiative and will promote and take full advantage of e-Travel and e-Records management initiatives.

The Commission has completed a comprehensive redesign of its internet web site, www.ferc.gov, to make it more useable for: energy practitioners; landowners and citizens affected by natural gas and hydroelectric projects; and the press, financial community, and Commission staff. We have improved server reliability, provided a powerful search engine, made it easier to navigate our Internet site, made notices available to the public within minutes of issuance, and ensured the quality and usefulness of the information disseminated through our website. The new website was posted on August 11, 2003. We will be proactively promoting and implementing good web usability practices across FERC's Online efforts.

Other enhancements focus on information security to meet all requirements of the Federal Information Security Management Act. We assess risk to IT systems and processes and maintain adequate security commensurate with those risks; conduct vulnerability assessments, audits, testing, and evaluation of security best practices to mitigate the risk to agency systems; and conduct regular security awareness training programs.

An additional component of the FERC Online initiative is the development of an agency-wide Activity Tracking Management System (ATMS). This system will allow us to track workload assignments and docketed (Commission cases, rulemakings, and other regulatory proceedings) and non-docketed activities and filings. ATMS will indicate milestones, statutory and other external deadlines, issues, and efforts, as well as support the Commission's business plan by tracking, aggregating and reporting docketed and non-docketed workload and staff time expenditures by work categories. ATMS will meet the fundamental requirement of providing effective workload tracking for first level managers so they can provide valid budget and business plan data, allowing senior management to better understand and utilize the agency's resources.

We are also leveraging technology to streamline the work processes that support the Commission's deliberations. Specifically, we are developing a secure computer application that will provide electronic draft orders to Commissioners and staff working on these decisional documents, electronic voting for the Commissioners, and broad management reporting capabilities that will enhance the Commission's ability to monitor different aspects of the Commission's agenda process.

FERC refocused its IT organization, budget and staffing to accomplish its priorities more effectively. After commissioning a management audit of the agency's IT functions in 2002, we used the report's recommendations to reprioritize tasks to better serve our agency business plan, refocus our IT budget, and rationalize IT staffing (both agency and contract staff). We estimate that these changes have improved IT functioning and employee productivity agency wide, while saving about $5 million per year that we can redeploy for other agency tasks.

Our ability to oversee the operation of energy markets, particularly with the widespread use of electronic trading, depends in part on being able to identify and access relevant real time data, nationwide. We continue to improve our Market Monitoring Center to facilitate real-time monitoring.

APPENDIX A

PROPOSED APPROPRIATION LANGUAGE

Proposed Appropriation Language

For necessary expenses of the Federal Energy Regulatory Commission to carry out the provisions of the Department of Energy Organization Act (42 U.S.C. 7101, et seq.), including services as authorized by 5 U.S.C. 3109, the hire of passenger motor vehicles and official reception and representation expenses (not to exceed $3,000); [$204,400,000] *$210,000,000* to remain available until expended: *Provided*, That notwithstanding any other provision of law, not to exceed [$204,400,000] *$210,000,000* of revenues from fees and annual charges, and other services and collections in fiscal year [2004] *2005* shall be retained and used for necessary expenses in this account, and shall remain available until expended: *Provided further*, That the sum herein appropriated from the General Fund shall be reduced as revenues are received during fiscal year [2004] *2005* so as to result in a final fiscal year [2004] *2005* appropriation from the General Fund estimated at not more than $0.

APPENDIX B

WORKLOAD TABLES

This appendix shows the portion of the Commission's work that can be objectively counted by workload category in energy markets and energy projects.

COMMISSION WORKLOAD[1]	FY 2002 Actual	FY 2003 Actual			FY 2004 Estimate			FY 2005 Estimate		
Pipeline Certificates	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Construction Activity	52	100	110	42	135	135	42	135	135	42
Prior Notice & Abandonments	23	40	43	20	45	47	18	45	47	16
Meetings & Conferences	0	151	151	0	151	151	0	151	151	0
Compliance Filings & Reports	92	237	248	81	245	255	71	245	250	66
Environmental Analysis	25	79	80	24	90	89	25	90	90	25
Environmental Compliance & Safety Inspections	100	1,127	1,127	100	1,000	1,000	100	1,000	1,000	100
Rehearings, Complaints & Declaratory Orders	23	66	73	16	69	64	21	69	68	21

Hydropower Licensing	P	R	C	P	R	C	P	R	C	P
Original Licenses	19	4	10	13	5	3	15	5	4	16
Relicenses	105	29	34	100	20	35	85	19	35	69
5 MW Exemptions	0	2	1	1	1	1	1	1	1	1
Declaratory Orders	3	2	3	2	3	3	2	3	3	1
Rehearings and Remands	36	57	30	63	76	76	63	81	81	63
Cases Set for Hearing	1	1	0	2	0	1	1	0	0	1
ADR Third Party Neutral	5	8	6	7	15	13	9	18	15	12

Project Compliance and Administration	P	R	C	P	R	C	P	R	C	P
Amendments	512	1,589	1,499	602	1,550	1,450	702	1,600	1,450	852
Jurisdiction	8	10	12	6	10	10	6	10	10	6
Federal Lands	0	62	62	0	75	75	0	75	75	0
Headwater Benefits	7	112	111	8	120	120	8	120	120	8
Compliance	117	392	395	114	325	325	114	325	325	114
Surrenders, Transfers	65	80	43	102	45	80	67	45	45	67
Conduit Exemptions	1	3	4	0	7	5	2	7	5	4
Environmental Inspections and Assistance	22	170	170	22	170	170	22	170	170	22
Preliminary Permits	225	84	234	75	50	75	50	50	50	50
Complaints	1	2	2	1	3	3	1	3	3	1
Rehearings	0	1	1	0	20	20	0	20	20	0

1 Key: R = Receipts; C = Completed; P = Year-end Pending.

COMMISSION WORKLOAD	FY 2002 Actual	FY 2003 Actual			FY 2004 Estimate			FY 2005 Estimate		
Dam Safety and Inspections	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Operations Inspections[2]	733	1,488	1,439	782	1,357	1,509	630	1,402	1,452	580
Prelicense Inspections	13	9	19	3	16	16	3	14	14	3
Construction Inspections	38	178	178	38	161	165	34	174	174	34
Exemption Inspections	152	276	325	103	272	287	88	274	268	94
Special Inspections	20	103	99	24	96	91	29	94	99	24
Engineering Evaluation & Studies	489	6,155	5.756	888	5,226	5,236	878	5,775	5,965	688
Part 12 Reviews	131	174	204	101	223	255	69	246	257	58
Dam Safety Reviews	0	4	4	0	6	6	0	5	5	0
EAP Tests	25	61	59	27	41	39	29	40	39	30

Rates and Tariffs	P	R	C	P	R[3]	C	P	R	C	P
Gas Certificates & Rate Evaluations	24	25	39	10	25	35	0	25	25	0
Market-Based Rates	81	441	423	99	440	435	104	440	440	104
Negotiated Rates	18	293	295	16	295	295	16	295	295	16
Cost-Based Rates	378	1,936	2,051	263	1,940	2,000	203	1,940	2,000	143
Service Terms and Conditions & Order 637	81	430	465	46	375	400	21	375	375	21
RTO, ISO, Transco & Power Exchange Filings	97	107	109	95	110	110	95	110	115	90
Compliance Certificate & Rate Filings	800	1,370	1,323	847	1,465	1,400	912	1,300	1,350	862
Compliance Refund Reports	58	124	111	71	125	115	81	125	120	86

Corporate Applications	P	R	C	P	R	C	P	R	C	P
Interlocking Positions	8	210	207	11	210	210	11	210	210	11
Mergers	0	0	0	0	0	0	0	5	4	1
Asset Acquisition or Disposition	18	149	139	28	145	145	28	145	145	28
Cogen, Small Power Producer & QF	20	323	202	141	250	300	91	250	300	41
Compliance & Other Corporate Filings	18	80	66	32	80	90	22	80	90	12
RTO, ISO, Transco & Power Corporate Filings	1	10	11	0	0	0	0	0	0	0

2 Includes about 50 inspections per fiscal year for DOE and NRC.
3 Order No. 2001 eliminates approximately 1,300 service agreement filings per fiscal year.

COMMISSION WORKLOAD	FY 2002 Actual	FY 2003 Actual			FY 2004 Estimate			FY 2005 Estimate		
Legal Matters and Investigations	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Cases Set for Hearing	78	110	113	75	115	108	82	115	115	82
ADR Third Party Neutral	83	95	99	79	97	90	86	105	99	92
Complaints and Declaratory Orders	100	121	130	91	118	124	85	113	120	78
Rehearings and Remands	373	749	560	562	582	603	541	581	596	526
Appellate Review	130	95	90	135	100	95	140	105	100	145
Audits	2	49	42	9	55	55	9	55	55	9
Accounting	8	82	50	40	60	90	10	60	60	10

APPENDIX C

RESOURCE REQUEST BY INDUSTRY

RESOURCE REQUEST BY INDUSTRY

Funding
(Dollars in Thousands)

Industry	FY 2003 Actual	FY 2004 Estimate	FY 2005 Request	% (+/-) FY 2004 to FY 2005
Electric Power	$75,052	$85,537	$87,703	2.5%
Natural Gas & Oil Pipelines	59,284	63,420	65,259	3.2%
Hydropower	55,895	55,443	57,038	2.9%
TOTAL	**$190,231**	**$204,400**	**$210,000**	**2.7%**

FTEs

Industry	FY 2003 Actual	FY 2004 Estimate	FY 2005 Request	% (+/-) FY 2004 to FY 2005
Electric Power	491	516	546	5.8%
Natural Gas & Oil Pipelines	385	398	398	-
Hydropower	338	336	336	-
TOTAL	**1,214**	**1,250**	**1,280**	**2.4%**

APPENDIX D

OBJECT CLASS TABLE

Object Class Summary
(Dollars in Thousands)

Obligations		FY 2003 Actual	FY 2004 Estimate	FY 2005 Request
11.9	Personnel Compensation	$106,372	$116,289	$118,698
12.1	Benefits	22,234	25,223	25,722
13.0	Benefits for Former Personnel	881	25	25
	Total, Personnel Compensation & Benefits	129,487	141,537	144,445
21.0	Travel and Transportation of Persons	2,557	2,795	3,045
22.0	Transportation of Things	29	5	5
23.1	Rental Payments to GSA	18,180	19,400	20,133
23.2	Rental Payments to Others	425	438	487
23.3	Communications, Utilities & Misc. Charges	2,436	2,161	2,546
24.0	Printing and Reproduction	2,831	2,882	2,882
25.0	Other Services	29,970	30,154	31,262
25.1	Advisory and Assistance	5,536	5,946	6,100
25.2	Non-Federal	3,503	4,227	5,035
25.3	Federal	1,283	1,260	699
25.4	Operation & Maintenance of Facilities	1,512	1,475	1,700
25.7	Operation & Maintenance of Equipment	18,136	17,246	17,728
26.0	Supplies and Materials	765	916	926
31.0	Equipment	3,482	4,060	4,217
41.0	Grants, Subsidies & Contributions	51	45	45
42.0	Insurance Claims and Indemnities	18	7	7
	TOTAL, OBLIGATIONS	**$190,231**	**$204,400**	**$210,000**
	Application of Prior Years' Budget Authority	1,769	0	0
	GROSS BUDGET AUTHORITY	$192,000	$204,400	$210,000
	Offsetting Receipts	(192,000)	(204,400)	(210,000)
	NET BUDGET AUTHORITY	**$0**	**$0**	**$0**

APPENDIX E

COMPARATIVE PERFORMANCE MEASUREMENT DATA

Performance Measurements for Energy Infrastructure, FY 1999 B FY 2005

FY 1999		
Performance Measurement	**Performance Target**	**Result**
< The Commission s certification program will allow the appropriate amount of new pipeline capacity to be available to serve the market when needed < Certification of new pipelines will be timely, while fairly balancing the interests of the gas market, project sponsor, landowners, and the environment	Number of days to complete 82% of filings by case type: < prior notice filings within 56 days [4] < unprotested filings within 159 days < protested filings within 304 days < cases of first impression within 365 days	82% of filings completed in: < 57 days < 152 days < 304 days < 365 days
Inspect all onshore construction projects over 2 miles in length at least once	90% of projects inspected at least once	97% of projects inspected at least once
Inspect each major onshore construction project at least once every four weeks during ongoing construction activity	100% of projects inspected at least once	100% of projects inspected at least once
The Commission will reduce processing time under its control, particularly through the use of collaborative procedures and early involvement of staff	Establish a baseline	License filings using some form of collaborative process were completed in 0.99 years on average. Others averaged 2.77 years to complete.
Licensing conditions will protect and enhance beneficial public uses, both developmental and nondevelopmental	Establish a baseline	The Commission is in the process of developing automated systems to track both the conditions built into licenses and the monitored results
Administration of hydropower developments will accommodate increasing public use without diminishing key water resource values	Establish baseline	During FY 1999, the Commission issued licenses for 19 hydroelectric projects. Of these, 14 were required to install new or up-graded recreational facilities. The remaining 5 were deemed adequate.
The percentage of high- and significant-hazard dams meeting all current structural safety standards will remain uniformly high	Establish baseline	94.3% of qualifying dams met current structural safety standards
One hundred percent of high- and significant-hazard dams will be inspected annually	100% of qualifying dams inspected annually	100% of qualifying dams were inspected
One hundred percent of high- and significant-hazard dams will comply with emergency action plan (EAP) requirements	100% of qualifying dams in compliance	99.8% of qualifying dams were in compliance

FY 2000		
Performance Measurement	**Performance Target**	**Result**
< The Commission s certification program will allow the appropriate amount of new pipeline capacity to be available to serve the market when needed < Certification of new pipelines will be timely, while fairly balancing the interests of the gas market, project sponsor, landowners, and the environment	Number of days to complete 82% of filings by case type: < prior notice filings within 56 days < unprotested filings within 159 days < protested filings within 304 days < cases of first impression within 365 days	82% of filings completed in: < 55 days < 127 days < 218 days < 272 days
Inspect all onshore construction projects over 2 miles in length at least once	90% of projects inspected at least once	99% of projects inspected at least once

(Continued on next page)

[4] Since the Commission changed its regulations to require few prior notice filings, it no longer reports processing times for this type of filing.

FY 2000		
Performance Measurement	**Performance Target**	**Result**
Inspect each major onshore construction projects at least once every four weeks during ongoing construction activity	100% of projects inspected at least once	100% of projects inspected at least once
The Commission will reduce processing time under its control, particularly through the use of collaborative procedures and early involvement of staff	Increased use of collaborative processes	License filings using some form of collaborative process were completed in 0.99 years on average. Others averaged 2.77 years to complete. In FY 2000, 40% of licenses issued involved settlements, up from 17% in FY 1999.
Licensing conditions will protect and enhance beneficial public uses, both developmental and nondevelopmental	Continue systems development	The Commission upgraded its automated system to track both the conditions built into licenses and the monitored results
Administration of hydropower developments will accommodate increasing public use without diminishing key water resource values	Monitor baseline data	During FY 2000, the Commission issued licenses for 10 hydroelectric projects. Of these, 5 were required to install new or up-graded recreational facilities. The remaining 5 were deemed adequate.
The percentage of high- and significant-hazard dams meeting all current structural safety standards will remain uniformly high	Maintain current high standards	92.8 % of high- and significant-hazard dams meeting all current structural safety standards
One hundred percent of high- and significant-hazard dams will be inspected annually	100% of qualifying dams inspected annually	100% of qualifying dams were inspected
One hundred percent of high- and significant-hazard dams will comply with emergency action plan requirements	100% of qualifying dams in compliance	99.7% of qualifying dams were in compliance

FY 2001		
Performance Measurement	**Performance Target**	**Result**
Percentage of cases completed in specified time	82% of cases completed within specified time frames: < Category 1 - Cases that involve no precedential issues and are unprotested, 159 days; < Category 2 - Cases that involve no precedential issues and are protested, 304 days; and < Category 3 - Cases of first impression or containing larger policy implications, 365 days	Number of days to complete 82% of the cases: < Category 1 - 136 days; < Category 2 - 200 days; and < Category 3 - 277 days.
Number of major onshore projects inspected at least every four weeks	Inspect each major onshore project at least once every four weeks	All six major onshore projects were inspected at least once every four weeks
Percentage of hydropower licenses issued that contain adaptive management provisions	5% increase over baseline	18% increase over baseline
Percentage of filings containing some form of collaboration	5% increase over baseline	33% increase over baseline
License processing time when prefiling collaboration occurred compared to license processing time when prefiling collaboration did not occur	10% less processing time	63% less processing time
Percentage of high- and significant-hazard potential dams meeting all current structural safety standards	90% of qualifying dams	94% of high- and significant-hazard potential dams met all current structural safety standards
Percentage of dams requiring EAPs that have tested, evaluated plans	99% of qualifying dams	99.9% of dams requiring EAPs had tested, evaluated plans
Percentage of dams with EAPs that have acceptance and certification from licensees and emergency response agencies	90% of qualifying dams	100% of dams with EAPs had acceptance and certification from licensees and emergency response agencies

FY 2002		
Performance Measurement	**Performance Target**	**Result**
Percentage of cases completed in specified time	85% of cases completed within specified time frames: ➢ cases that involve no precedential issues and are unprotected, 159 days; ➢ cases that involve no precedential issues and are protested, 304 days; and ➢ cases of first impression or containing larger policy implications, 365 days ➢ cases requiring a major environmental assessment or environmental impact statement, 480 days	Number of days to complete 85% of the cases: ➢ 119 days for Category 1 ➢ 188 days for Category 2 ➢ 293 days for Category 3 ➢ 475 days for Category 4
Inspect each major onshore construction projects at least once every four weeks during construction and at least once after construction completion	100% of qualifying projects inspected per established schedule	All six major onshore projects were inspected at least once every four weeks
Increase the percentage of licenses issued for applications using alternative licensing process (ALP)	2% increase over FY 2001	9.4% increase over FY 2001
Evaluate and improve effectiveness of required environmental enhancement and mitigation measures	Conduct 5 site visits to evaluate effectiveness	Conducted 5 site visits and evaluated the effectiveness of the targeted environmental mitigation measures
	Hold 2 regional meetings with stakeholders	Held 3 outreach meetings, i.e., shoreline management workshop in August 2002, American Fisheries Society meeting in August 2002, and water quality workshop in September 2002
	Initiate annual reports to evaluate the effectiveness of this effort	Issued 2 reports titled “Mitigation Effectiveness Studies at the FERC; An Overview"; and “Mitigation Effectiveness Studies at the FERC: Draft Water Quality Report.”
Percentage of filings addressing the development of increased capacity	25% of all relicense cases using ALP or other collaborative process	26% of licenses issued resulted in an increase in capacity; 27% of licenses issued based upon collaborative process (ALP) resulted in an increase in capacity
Percentage of high- and significant-hazard potential dams meeting all current structural safety standards	Percentage remains uniformly high	94% of high- and significant-hazard potential dams met all current structural safety standards
Percentage of high- and significant-hazard potential dams inspected annually	100% of qualifying dams inspected annually	100% of high- and significant-hazard potential dams inspected in FY 2002
Percentage of high- and significant-hazard potential dams in compliance with emergency action plan requirements	100% of qualifying dams in compliance	100% of high- and significant hazard potential dams in compliance with emergency action plan requirements
Update and add new chapters to the Engineering Guidelines, as appropriate	Complete revisions to Chapter 3 Gravity Dams	Chapter 3 – Gravity Dams and Chapter 8 – Hydrology were completed
Complete development of the dam performance monitoring program	Performance monitoring program established	Performance monitoring program was established and a pilot program was implemented

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Percentage of natural gas pipelines with approved Order No. 637 compliance filings	100% of pipelines subject to Order No. 637	By the end of FY 2003, the Commission issued orders approving and establishing effective dates for 92 out of a total 94 (98%) pending Order No. 637 compliance filings. The two pipeline filings that were not completed were Northern Natural Gas Pipeline Company, Docket No. RP00-404, and El Paso Natural Gas Co., Docket No. RP00-336. The Northern Natural Order is scheduled for the October 22, 2003 Commission agenda. Action on the Order No. 637 compiance issues in El Paso are delayed pending resolution of pre-existing capacity allocation issues. Those allocation issues need to be resolved before the Commission can move forward on the Order No. 637 compliance issues.
Statutory cases by workload category	All cases competed by statutory action date	Of the nearly 3,000 statutory items whose due date fell in FY 2003, 99.7% were completed by the statutory action date.
Merger and qualifying facilities workload (regulatory cases)	80% of cases completed by regulatory deadline	Approximately 325 QF filings were received in FY 2003. Of these 325, 9 filings were applications for Commission QF certification or re-certification. The Commission completed 100% of the applications for certification or re-certification within 90 days specified in the Commission's regulations (18 C.F.R. § 202.207(b)(3)(2003)). Orders were issued in response to all 9 applications, 3 of which were issued pursuant to delegated authority and 6 of which were Commission issued orders. No merger applications were received in FY 2003.
Number of cases requiring additional remedial action	Less than 20% of all cases processed in FY 2003 require additional remedial action	The Commission received no merger applications in FY 2003; therefore, we have no results to report for this performance measure.

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FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timely processing of filings seeking recovery of security and safety expenses in jurisdictional rates	Process filings: -- within 30 days for gas and oil rate filings -- within 60 days for electric filings	The following filings were acted on in FY 2003: RP02-129-000, Southern LNG ***Filed:*** December 21, 2001 ***Order Issued:*** January 31, 2002 (Suspension order setting case for hearing) ***Case settled:*** Letter order issued October 10, 2002, accepting a settlement and closing out the case. ***Target:*** While this case was not acted on within 30 days, action did meet our statutory guidelines as we acted prior to the proposed effective date of February 1, 2002. The suspension order was dated January 31, 2002; the case was settled in early FY 2003. IS03-457, Plantation Pipe Line Co. ***Filed:*** July 31, 2003 ***Order Issued:*** August 29, 2003 ***Target:*** Met IS03-475, West Shore Pipe Line Co. ***Filed:*** August 12, 2003 ***Order Issued:*** September 30, 2003 ***Target:*** While this case was not acted on within the 30-day target, it met our statutory guidelines as we acted prior to the proposed effective date of October 1, 2003.
Implement generic policy on Large Generator Interconnections and Small Generator Interconnections	- Issue final rules on both policies in FY 2003	The Large Generator Interconnection final rule was issued on July 24, 2003, and became effective on October 20, 2003. The Small Generator Notice of Proposed Rulemaking was also issued on July 245, 2003. The final rule will be issued in FY 2004.
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: < unprotested cases that involve no precedential issues, 159 days < protested cases that involve no precedential issues, 304 days < cases of first impression or containing larger policy implications, 365 days < cases requiring a major environmental assessment or environmental impact statement, 480 days	< 148 days for Category 1 < 193 days for Category 2 < 272 days for Category 3 < 469 days for Category 4
Percentage of filings addressing the development of increased hydropower capacity	25% of all relicense cases using ALP	29% of licenses issued based on the collaborative process resulted in an increase in capacity.
Increase non-federal hydropower capacity	Complete license amendments proposing increased capacity/generation in less than 12 months	5 amendments authorizing an increase in capacity were processed in less than 8 months.

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FY 2003		
Performance Measurement	**Performance Target**	**Result**
Percentage of hydropower licenses approved within specified time frames	75% of licenses approved within the following time frames: < ALP median case, less than 16 months < Traditional median case, less than 43 months	< 100% of the ALP, or collaboratively prepared license applications, were completed within 15 months when external factors (i.e., water quality certificate, Coastal Zone Management reviews) did not delay processing. Of the pending cases in which collaboratively prepared amendments to license applications were filed and were not delayed by external factors, 80% were completed within 16 months after receipt of the settlement. < For traditionally prepared license applications for which no external factors contributed to the delay, 77% of the cases were processed in less than 43 months.
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	All 7 major onshore pipeline projects were inspected at least once every 4 weeks during ongoing construction activity.
Increase the percentage of hydropower licenses issued using ALP	2% increase over FY 2002	13% increase over FY 2002
Evaluate and improve the effectiveness of required environmental enhancement and mitigation measures in hydropower licenses	Conduct 5 site visits	Conducted 5 site visits and evaluated the effectiveness of the targeted environmental mitigation measures.
	Hold 2 regional meetings with stakeholders	Held 3 regional outreach meetings with stakeholders, i.e., 2 shoreline management outreach meetings in Wisconsin and South Carolina, and a water quality mitigation effectiveness outreach meeting in New York.
	Disseminate 2 environmental effectiveness reports	Disseminated 2 environmental effectiveness reports: “Mitigation Effectiveness Studies at the Federal Energy Regulatory Commission: Final Water Quality Report”; and “Mitigation Effectiveness Studies at the Federal Energy Regulatory Commission: Draft Fish Passage Report”.
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams were inspected.
Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	95% of high- and significant-hazard-potential dams met all current structural safety standards
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	100% of qualifying dams were in compliance with EAP requirements
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	Developed and issued a new Engineering Guidelines chapter on the Dam Safety Performance Monitoring Program.

FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Complete implementation process of Large Generator Interconnection Policies	By year end, process 90% of all compliance tariff filings submitted by July 31	Office of Markets, Tariffs and Rates
Implement generic policy on Small Generator Interconnection	Issue final rule	Office of Markets, Tariffs and Rates

(Continued on next page)

FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of relicense filings based upon ALP's	25% of all relicense cases using ALP	Office of Energy Projects
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: < unprotested cases that involve no precedential issues, 159 days < protested cases that involve no precedential issues, 304 days < cases of first impression or containing larger policy implications, 365 days < cases requiring a major environmental assessment or environmental impact statement, 480 days	Office of Energy Projects
Percentage of final NEPA documents, required for hydropower license applications filed after FY 2002, completed within specified time frames	75% of final NEPA documents prepared for licenses approved within the following time frames: < ALP case, less than 16 months < Traditional case, less than 24 months	Office of Energy Projects
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	Office of Energy Projects
Percent of final NEPA documents based upon comprehensive settlement agreements completed within specified time frames	75% of final NEPA documents prepared for final comprehensive license settlement agreements are completed within 12 months	Office of Energy Projects
Establish clear cost recovery process for transmission investment in each region	Allow flexibility to ensure utilities or pipelines have sufficient revenue stream to recover investment costs and provide rate certainty for customers	Office of Markets, Tariffs and Rates
Statutory cases by workload category	All cases competed by statutory action date	Office of Markets, Tariffs and Rates
Process qualifying facilities workload (regulatory cases)	100% of cases processed by regulatory deadline	Office of Markets, Tariffs and Rates
Evaluate and improve the effectiveness of required environmental enhancement and mitigation measures in hydropower licenses	< Conduct 5 site visits < Hold 2 outreach meetings with stakeholders < Disseminate 2 environmental effectiveness reports	Office of Energy Projects
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	Office of Energy Projects
Update the FERC Security Program for Hydropower projects as appropriate	Make program changes as appropriate	Office of Energy Projects
Recovery of companies' prudently incurred costs to safeguard the reliability and security of energy transportation and supply infrastructure	Timely processing of filings seeking recovery of security and safety costs in jurisdictional rates by statutory action date	Office of Markets, Tariffs and Rates
	Encourage innovative proposals to recover prudently incurred security costs	
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	Office of Energy Projects

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: < unprotested cases that involve no precedential issues, 159 days < protested cases that involve no precedential issues, 304 days < cases of first impression or containing larger policy implications, 365 days < cases requiring a major environmental assessment or environmental impact statement, 480 days	Office of Energy Projects
Percentage of relicense filings based upon alternative licensing process (ALP)	25% of all relicense cases using ALP	Office of Energy Projects
Percentage of final NEPA documents, required for hydropower license applications filed after FY 2002, completed within specified time frames	75% of final NEPA documents prepared for licenses approved within the following time frames: < ALP case, less than 16 months < Traditional case, less than 24 months	Office of Energy Projects
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	Office of Energy Projects
Percent of final NEPA documents based upon comprehensive settlement agreements completed within specified time frames	75% of final NEPA documents prepared for final comprehensive license settlement agreements are completed within 12 months	Office of Energy Projects
Average processing times for hydropower relicensing	Additional 5% reduction each year	Office of Energy Projects
Complete implementation process of Large Generator Interconnection Policies	Process 100% of remaining compliance tariff filings	Office of Markets, Tariffs and Rates
Complete Implementation process of Small Generator Interconnection Policies	By end of fiscal year, process 90% of all compliance tariff filings submitted by July 31	Office of Markets, Tariffs and Rates
Establish clear cost recovery process for transmission investment in each region	Allow flexibility to ensure utilities or pipelines have sufficient revenue stream to recover investment costs and provide rate certainty for customers	Office of Markets, Tariffs and Rates
Process statutory workload	All cases processed by statutory action date	Office of Markets, Tariffs and Rates
Evaluate the effectiveness of Commission required resources protection measures, and disseminate information on the results.	Conduct a workshop and disseminate one report on the results of the evaluation.	Office of Energy Projects
Maintain environmental quality at hydropower projects.	Resource protection measures constructed and implemented according to license requirements.	Office of Energy Projects
Time to complete NEPA Prefiling Process	8 months after a complete application is filed	Office of Energy Projects
Yearly increase in the percentage of hydropower projects using the ILP pre-filing process	25%	Office of Energy Projects
Recovery of companies' prudently incurred costs to safeguard the reliability and security of energy transportation and supply infrastructure	Timely processing of filings seeking recovery of security and safety costs in jurisdictional rates by statutory action date	Office of Markets, Tariffs and Rates
	Encourage innovative proposals to recover prudently incurred security costs	

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FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Enhance dam safety	100% of high- and significant-hazard-potential dams inspected annually	Office of Energy Projects
	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	
	100% of qualifying dams in compliance with EAP requirements	
Timely handling of CEII without disrupting requesters' participation rights in other proceedings	No requester's failure to obtain CEII in a timely manner will affect requester's ability to participate effectively in a proceeding	Office of General Counsel
Prevent unauthorized access to security-related documents	No instances of unauthorized access to security-related documents	Office of General Counsel
Number of instances of improved regulation to facilitate security and emergency response	Number of specific measures (e.g., number of security surcharge requests approved, gas allocation principles set)	Office of General Counsel

Performance Measurements for Competitive Markets, FY 1999 B FY 2005

FY 1999		
Performance Measurement	**Performance Target**	**Result**
Customers will have more new products and a reasonable range of suppliers from which to choose in both the electric and natural gas industries. This will indicate that commodity markets are reasonably competitive as well as responsive to customer needs	Establish baseline	< The Commission demonstrated that the number of power suppliers using market-based rates has grown dramatically since 1994 < Using service availability as a substitute for new products, the Commission identified 5 electric transmission indicators and 15 new gas transportation services
Natural gas and electric power prices will become more responsive to market conditions that is, prices will reflect changing supply and demand conditions more clearly and more quickly	Establish baseline	Developed examples relating prices to underlying conditions, such as the weather
Natural gas prices within each trading region will tend to converge, except to the extent there are demonstrable transportation constraints or costs. Wholesale electricity price differences will also tend to narrow.	Establish baseline	As an example, the Commission demonstrated the convergence of prices in Texas and Louisiana from the spring of 1996 forward
It will be less costly, administratively, to transact business on the interstate natural gas transportation grid	Establish baseline	As a result of developments in electronic information exchange, large consumers of energy have unprecedented access to information

FY 2000		
Performance Measurement	**Performance Target**	**Result**
Customers will have more new products and a reasonable range of suppliers from which to choose in both the electric and natural gas industries. This will indicate that commodity markets are reasonably competitive as well as responsive to customer needs	Monitor the state of the markets	< **Gas**: many new services offered over last few years; Order No. 637 encourages innovative transportation services < **Electric**: greater availability of spot markets, derivatives and other risk management instruments, and national online trading; Order No. 2000 encourages innovative transmission tariffs and services; many power suppliers using market-based rates
Natural gas and electric power prices will become more responsive to market conditions that is, prices will reflect changing supply and demand conditions more clearly and more quickly	Monitor the state of the markets	Prices for both gas and electricity very responsive to even small changes in supply and demand. Electric price volatility signals flawed market rules and need to increase supply, demand response and ability to manage risk
Natural gas prices within each trading region will tend to converge, except to the extent there are demonstrable transportation constraints or costs. Wholesale electricity price differences will also tend to narrow	Monitor the state of the markets	Persistent price differentials developed between West Coast (especially California) and supply regions, possibly signaling need for new transportation capacity
It will be less costly, administratively, to transact business on the interstate natural gas transportation grid	Monitor the state of the markets	Strong growth of online trading for both gas and electricity indicates greater availability of market-related services and probably declining transactions costs

<table>
<tr><th colspan="3">FY 2001</th></tr>
<tr><th>Performance Measurement</th><th>Performance Target</th><th>Result</th></tr>
<tr><td>< Number and size of capacity holders by system
< Number and size of natural gas and electric secondary market participants
< Number and size of pipeline suppliers by region and major customer
< Number and size of electric power marketers</td><td>Analyze the number and sizes, in conjunction with the measures for all indicators</td><td rowspan="12">The Commission created a suite of performance indicators designed to track our success at developing energy markets. The indicators chosen were based on attributes we perceived to be necessary for markets to function. As noted previously, the events of the last year in the Western energy markets demonstrated that, while many of our perceptions were correct (i.e., prices certainly responded to external conditions), the dynamics of the markets exceeded our understanding. For this reason, we view this suite of indicators as a valid, but ultimately unsuccessful experiment, one which we are seeking to revise in concert with our new strategic direction.</td></tr>
<tr><td>Increase in types of tariffed services offered (e.g., parking and lending in natural gas)</td><td rowspan="2">By their very nature, innovations cannot be specified. The Commission will look for patterns of innovation, track and report on them.</td></tr>
<tr><td>Increased services in the market (develop a time line for different services, e.g., new futures exchanges), new types of products (e.g., weather derivatives) and independent exchanges</td></tr>
<tr><td>Response of prices to external conditions in natural gas and electricity (e.g., events, weather, plant outages)</td><td>Large price changes should normally be associated with some clear external event</td></tr>
<tr><td>Incidence of pricing anomalies for natural gas (where price and quantity appear to move in opposite directions)</td><td>Anomalies may indicate real market problems, problems in data, or unanticipated changes in how the market is working</td></tr>
<tr><td>Level of price volatility and changes in price volatility in electricity and gas</td><td>Very high or very low prices can give an early warning for investigation</td></tr>
<tr><td>Correlation of commodity prices across regions</td><td rowspan="3">Correlations should be near 1.0, except when transmission constraints bind and prevent free flow of commodities</td></tr>
<tr><td>Narrowing of commodity price differences in the absence of transmission constraints</td></tr>
<tr><td>Increased market integration (price changes appear to reflect inter-regional trading)</td></tr>
<tr><td>Increased use of market hub services in natural gas and electricity</td><td rowspan="3">Establish a baseline</td></tr>
<tr><td>Growth of electronic services for the commodity and/or transportation</td></tr>
<tr><td>Increased economic transmission distance</td></tr>
</table>

FY 2002		
Performance Measurement	**Performance Target**	**Result**
< Number and size of capacity holders by market < Number and size of natural gas and electric secondary market participants < Number and size of pipeline suppliers by region and major customer < Number and size of electric power marketers	< Reasonable range of suppliers should lead to competitive pricing < Participation indicates confidence in market rules and oversight	Several significant energy marketers have announced either plans to exit the energy trading business, or consideration of exit. Generally sited reasons include financial underperformance and credit concerns. The resulting contraction can have negative effects on liquidity in energy markets. Companies that have announced complete or partial exits from energy trading in recent months include large players like: • American Electric Power • Aquila • Dynegy • El Paso Companies considering exit include • Allegheny • CMS Some players have announced interest in entering as well, including the Bank of America.
Increase in types of tariffed services offered (e.g., parking and lending in natural gas)	Innovation indicates markets are working and market participants are creating their own solutions	In its Annual Performance Report for Fiscal Year 2001, the Commission acknowledged the ineffectiveness of this performance measurement to evaluate the agency's success at developing energy markets. New measurements will be in effect for FY 2003 with attributes the Commission perceives to be necessary for markets to function

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FY 2002		
Performance Measurement	**Performance Target**	**Result**
Increased services in the market (develop a time line for different services, e.g., new futures exchanges, new types of products (e.g., weather derivatives) and independent exchanges	New service offerings show adaptation to price volatility and help to stabilize markets through hedging of risks	With the end of Enron Online and Dynegy Direct, wholesale energy services largely shifted toward stronger, higher-quality services, including the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE). Enron Online and Dynegy Direct were not exchanges, but extensions of Enron's and Dynegy's marketing efforts. Consequently, they were susceptible to the credit weaknesses of their owners. Exchanges like NYMEX and ICE have better approaches to managing credit risk, and consequently are better for the industry. For example, NYMEX extended its credit clearing ability to certain over-the-counter natural gas and electricity trades. On October 22, 2002, NYMEX announced that it had cleared more than $1.1 billion of these deals since inception of the service on May 31, 2002. In addition, on June 17, 2002, NYMEX and the Chicago Mercantile Exchange (CME) introduced their e-miNY natural gas contracts that handle smaller volumes than standard NYMEX natural gas contracts, extending the reach of exchange-traded futures contracts to smaller energy companies. E-miNY contracts are traded on CME's GLOBEX electronic trading platform. ICE began over-the counter clearing as well, in March 2002. On November 7, 2002, ICE announced that total cleared notional value of natural gas contracts in the United States had surpassed $10 billion. Success of these higher-quality products is a positive sign for energy markets.
Volume of financial risk-hedging transactions, e. g. futures contracts	Viable financial markets provide critical support for physical markets	Futures contracts for natural gas have shown promise in 2002, strengthening to what appears to be record levels. To date, however, there has been no attempt to revive electric futures markets in the U.S.

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FY 2002		
Performance Measurement	**Performance Target**	**Result**
Response of prices to external conditions in natural gas and electricity (e.g., events, weather, plant outages)	Large price changes should normally be associated with some clear external event	Price differences that have been associated with external events in 2002 included: • The Leona fire in California in September 2002 caused a key transmission path to be taken out of service, and caused price differences between Northern and Southern California. • Hurricanes in the Gulf (Isidore and Lilli) caused temporary price increases in natural gas prices in September, but prices returned to normal levels after the storms. • Natural gas pipeline capacity into New York City is sometimes constrained, causing significant price increases. Price increases occurred at the end of July 2002 and early in August, with prices rising to a daily midpoint price $7.65. Although these price increases were related to capacity constraints on the pipeline system, they were nevertheless unusual for the season and are still being investigated to assess their cause. • Natural gas prices in Florida have spiked due to capacity problems that are exacerbated by lack of storage capacity. These price increases have occurred under higher load conditions or when Operational Flow Orders have limited pipeline capacity.
Level of price volatility and changes in price volatility in electricity and gas	Changes in price patterns over time can reveal underlying market conditions	Futures price information indicates a slight lowering of price volatility for natural gas since June 2002, in comparison to 2001. From June to September, 30-day volatilities for the near-month contract have ranged from 40 to 70, compared with 80 to 100 during the last quarter of 2001. Without futures prices, similar calculations cannot be made for electricity; however, volatility has clearly dropped from pre 2002 levels.
Correlation of commodity prices across regions; narrowing of commodity price differences in the absence of transmission constraints	Correlations should be near 1.0, except when transmission constraints bind and prevent free flow of commodities	This performance measure is intended to gauge the extent to which arbitrage is causing prices to clear across regions – if arbitrage is effective, price difference should narrow. For 2002, this measure was studied by examining price difference identifying causes that were preventing arbitrage from being effective, or conducting further study to identify causes. These analyses of external conditions are described above under the performance measure for the responsiveness of prices to external conditions.

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FY 2002		
Performance Measurement	**Performance Target**	**Result**
Increased use of market hub services in natural gas and electricity	< Increased usage of market infrastructure indicates market depth and liquidity < Increased electronic commerce reduces transactions costs and allows broader market participation	Use has been affected negatively by contraction in the industry (see performance measure 1 of this section).
Growth of electronic services for the commodity and/or transportation		Higher quality options have replaced lower quality options and are showing some strength (see performance measure 3 of this section).
Increased economic transmission distance		Growth in RTOs and the associated development of regional markets in the Midwest (MISO) and through additions to Pennsylvania-New Jersey-Maryland (PJM) have begun to provide the basis for the needed market infrastructure. PJM has added one additional utility as part of PJM west and is beginning the process of adding AEP and other utilities. MISO has begun operation and is planning the development of markets along the lines of the Commission's Standard Market Design (SMD.) In addition, there are designs being discussed among MISO and PJM for the operation of a joint market. These developments will begin to reduce the transactions costs of participation in a broader power market.
Investment in generation and transmission	Investment should be adequate to meet market needs	There has been substantial growth of generation capacity in 2002. Nationwide, approximately 71,000 megawatts of electricity capacity is expected to be added in 2002, on top of around 42,000 megawatts added in 2001. The total capacity added in these two years (113,000 MW) is greater than the total capacity added from 1990 to 1999 (87,000 MW.) At the same time, many future projects have been cancelled or tabled as a result of lower prices in forward markets and the financial problems of many companies. The current outlook is for adequate generation supplies in the near term, but an uncertain outlook in the longer term that will require continued assessment. Transmission investment increased in 2002 compared with previous years, roughly in proportion to the growth in generation. Thus, transmission capacity remains adequate for basic reliability and to accommodate the basic needs of interconnecting new generation capacity. However, there has been no evidence that transmission capacity has been expanded to address the needs of a changing market structure.
Number and type of reliability-related incidents (emergencies, involuntary load reductions, TLRs)	Emergencies should be infrequent; routine market rules should be able to handle most situations	TLR events have not decreased in 2002. This is one of the issues that the Commission is addressing in the Standard Market Design rulemaking.
Amount of load covered by regional institutions	20% increase over FY 2001	Performance target achieved.
Amount of load with congestion management systems	20% increase over FY 2001	Performance target achieved.

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FY 2002		
Performance Measurement	**Performance Target**	**Result**
Number of wholesale service options available	Increase	Prior to FY 2002, the Commission believed tracking the number of wholesale service options available would provide a measure for increased pricing efficiency. This indicator became invalid once the Commission began advancing competitive markets through development of a standard market design. When a standard market design (SMD) is implemented, electric markets will have a strong long-term basis for providing customers with the very real and significant benefits that come from competition. After the country is required to adopt some form of SMD, new measurements will be developed to track its success (e.g., lowering costs through standardized features, etc.).

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timely processing of RTO filings	Benchmarks to be established in FY 2003	Upon review, we have concluded that it is impractical to put to put into effect an average processing time for filings as dissimilar in scope, complexity, and number of issues needing resolution as are RTO filings. For example, it took 26 months to grant RTO status to PJM (Pennsylvania-New Jersey-Maryland); 11 months for Midwest ISO. A sampling of other RTO filings or petitions for declaratory orders also revealed significant variances in processing times, as shown below: < SeTrans – Filed on 6/27/02; Commission issued initial order on 10/9/02 (less than 4 months). (SeTrans has not yet formally requested authority to form, or to operate an RTO.) < RTO West – filed on 10/16/00; first order was issued on 4/26/01 (over 6 months); order on Stage 2 issued on 9/18/02 (23 months). < WestConnect – filed on 10/16/01; order issued on 10/10/02 (12 months) (Neither RTO West nor WestConnect has filed a Section 205 requesting RTO status). Cal ISO – filed on 6/1/01; no order has been issued in this proceeding.
Percentage of country covered by approved RTOs or ISOs (percentage of electricity load)	70% of electricity load in regions where we have jurisdiction	59% of load in jurisdictional areas under an RTO/ISO.

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FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Benchmarks to be established in FY 2003	Target is established for FY 2004 as follows: Non-controversial rulemakings completed within 9 months/controversial rulemakings completed within 12 months of external party action. < During October 2002, NAESB filed natural gas industry standards with the Commission. The Commission codified the standards, on which all segments of the natural gas industry had reached consensus, in its Regulations in a Final Rule issued in March 2003, five months after submission. < In June 2003, NAESB filed creditworthiness standards on which all segments of the natural gas industry participants were able to reach consensus; NAESB also reported additional proposed creditworthiness standards on which consensus was not reached. Action is pending on the creditworthiness standards.
Establish RTOs/ISOs with sufficient market monitoring and mitigation measures in place	Fewer complaints about rates in RTOs filed with the Commission	In FY 2002, 19 complaints were filed against ISO/RTOs (ISO-NE 10, NYISO 5, and CAISO 4). In FY 2003, 6 complaints were filed against ISO/RTOs (ISO-NE/NEPOOL 3, NYISO 1, CAISO 1, and PJM 1). While complaints are fewer when comparing FY 2002 and 2003, we do not expect this to be the case in the future; rather, we anticipate more complaints as numbers of participants increase, and as RTOs mature beyond current stages. We will review this performance target for appropriateness. Focusing on the number of complaints about rates in RTOs does not highlight the fact that market monitoring units exist in all RTOs/ISOs and that they work together with the Commission to evaluate market performance and identify problems with proposed and existing market rules, market operations, and individual participant behavior.

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FY 2003		
Performance Measurement	**Performance Target**	**Result**
RTO/ISO wholesale market design includes demand-response features	Measure increasing percentage of operating RTOs and ISOs with demand response programs	During FY 2003, four ISOs/RTOs (Cal ISO, NYISO, PJM, and ISO New England) operated demand response programs, and one RTO which does not yet run any energy market (Midwest ISO) did not. Since these four RTOs/ISOs operated demand response programs in FY 2002, there was no increase in the percentage of operating RTOs and ISOs during FY 2003. Nevertheless, throughout the year, FERC has encouraged and approved improvements in both the number and design of demand response in PJM, NYISO and ISO-NE. For example, FERC supported the New England Demand Response Initiative, a broad stakeholder process in New England, to provide a detailed assessment of ISO demand response programs and to develop recommended improvements.
Adopt market design standards for wholesale electric markets	Issue final Standard Market Design rule	In April 2003, the Commission issued a White Paper in the Standard Market Design proceeding that emphasized its strong commitment to customer-based, competitive wholesale power markets, while underscoring an increasingly flexible approach to regional needs and outlining step-by-step elaborations of its key market design proposal. The Commission intends to focus on the formation of RTOs and on ensuring that all independent transmission organizations have sound wholesale market rules. The final rule will allow implementation schedules to vary depending on local needs and will allow for regional differences. During the remainder of FY 2003, the Commission continued its dialogue on market design by holding a number of regional conferences to exchange ideas with stakeholders.
Enhanced regulatory support for market institutions	Creation of OMOI	OMOI established
	Creation of market performance indicators	Market performance indicators created with an ongoing process to add or delete metrics as appropriate.

FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Timely processing of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs)	All filings processed within 6 months of filing, or before applicant's proposed effective date (whichever is later)	Office of Markets, Tariffs and Rates
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Non-controversial rulemakings completed within 9 months and controversial rulemakings completed within 12 months	Office of Markets, Tariffs and Rates

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FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Establish cost-effective elements of the wholesale electric market platform within 3 years of RTO/ISO approval	For each approved RTO or ISO, additional wholesale market platform elements will be added: ▪ Regional independent grid operation ▪ Regional transmission planning process ▪ Fair cost allocation for existing and new transmission ▪ Market monitoring and market power mitigation ▪ Spot markets to meet customers' real-time energy needs ▪ Transparency and efficiency in congestion management ▪ Firm transmission rights ▪ Resource adequacy approaches	Office of Markets, Tariffs and Rates
Facilitate construction of electric infrastructure by providing investor confidence of probable cost recovery	Issue Final Policy Statement, "Pricing Policy for Efficient Operation and Expansion of Transmission Grid"	Office of Markets, Tariffs and Rates
Encourage State representatives to establish multi-state regional organizations (e.g., Regional State Committees (RSCs))	Meet at least annually with state representatives in each region	Office of Markets, Tariffs and Rates
Advance well-functioning markets that deliver the benefits of competition	Complete revisions to interim market-based ratemaking policy	Office of Markets, Tariffs and Rates
All markets have in place rules that permit and encourage qualified demand response participation on an equal basis with supply	All RTOs and ISOs have rules, permitting demand response participation in RTO/ISO-controlled markets, in place and approved by the Commission within 1 year of commencing day-ahead markets	Office of Markets, Tariffs and Rates

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Timely processing of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs)	All filings processed within 6 months of filing, or before applicant's proposed effective date (whichever is later)	Office of Markets, Tariffs and Rates
Timely processing of proposed rulemakings adopting industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Non-controversial rulemakings completed within 9 months and controversial rulemakings completed within 12 months	Office of Markets, Tariffs and Rates
Establish cost-effective elements of the wholesale electric market platform within 3 years of RTO/ISO approval	For each approved RTO or ISO, additional wholesale market platform elements will be added: ▪ Regional independent grid operation ▪ Regional transmission planning process ▪ Fair cost allocation for existing and new transmission ▪ Market monitoring and market power mitigation ▪ Spot markets to meet customers' real-time energy needs ▪ Transparency and efficiency in congestion management ▪ Firm transmission rights ▪ Resource adequacy approaches	Office of Markets, Tariffs and Rates

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FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Assist multi-state regional organizations (Regional State Committees (RSCs)) in resolving regional policy and planning issues	Meet at least annually with multi-state organizations established for each approved RTO/ISO	Office of Markets, Tariffs and Rates
Monitor electric transmission system reliability thru joint NERC-FERC reliability audits	Participate in NERC-FERC reliability audits of entities serving greater than 50% of the nation's electric customers served by public utilities	Office of Markets, Tariffs and Rates
Wholesale prices in regions with functioning RTO markets are lower than they would have been otherwise	Over the first five years of wholesale market platform operation, wholesale prices will average 2% lower than our estimate of what they would have been without good wholesale markets, controlling for factors not related to the electric markets themselves, such as inflation, fuel costs and weather.	Office of Market Oversight and Investigations
Advance well-functioning markets that deliver the benefits of competition	Process market-based ratemaking filings within statutory deadline	Office of Markets, Tariffs and Rates
All markets have in place rules that permit and encourage qualified demand response participation on an equal basis with supply	All RTOs and ISOs have rules, permitting demand response participation in RTO/ISO-controlled markets, in place and approved by the Commission within 1 year of commencing day-ahead markets	Office of Markets, Tariffs and Rates

Performance Measurements for Market Oversight, FY 1999 B FY 2005

FY 1999		
Performance Measurement	**Performance Target**	**Result**
Market participants will have confidence that natural gas markets, electric markets, and oil transportation services are working fairly and that they are not subject to abuses of market power. That is: < Broad customer classes (not necessarily every customer) will agree that buyers and sellers have access to competitively priced commodity markets in the national gas transportation and electric trans-mission grids < Customers will generally agree that gas pipe-line, electric transmission and oil transportation rates and services are just and reasonable, fairly balancing the competing interests of the transporting or transmitting companies and their customers	Establish baseline	The Commission was unable to survey market participants to develop a baseline

FY 2000		
Performance Measurement	**Performance Target**	**Result**
Market participants will have confidence that natural gas markets, electric markets, and oil transportation services are working fairly and that they are not subject to abuses of market power. That is: < Broad customer classes (not necessarily every customer) will agree that buyers and sellers have access to competitively priced commodity markets in the national gas transportation and electric trans-mission grids < Customers will generally agree that gas pipe-line, electric transmission and oil transportation rates and services are just and reasonable, fairly balancing the competing interests of the transporting or transmitting companies and their customers	Monitor the state of the markets	In response to electric power volatility, the Commission issued detailed studies of each regional bulk power market, which included consideration of a variety of market power issues

FY 2001		
Performance Measurement	**Performance Target**	**Result**
Percentage of respondents perceiving a lack of market power	Establish baseline	The Commission created a suite of performance indicators designed to track our success at developing energy markets. The indicators chosen were based on attributes we perceived to be necessary for markets to function. As noted previously, the events of the last year in the Western energy markets demonstrated that, while many of our perceptions were correct (i.e., prices certainly responded to external conditions), the dynamics of the markets exceeded our understanding. For this reason, we view this suite of indicators as a valid, but ultimately unsuccessful experiment, one which we are seeking to revise in concert with our new strategic direction.
Percentage of customers satisfied with ADR procedures at the Commission	75% satisfaction rate	**OALJ**: Participants report near 100% satisfaction with ADR[5] procedures. Satisfaction is indicated by calls from participants and by continuing and increasing requests for the appointment of settlement judges and mediators. **DRS**: 90% (20 out of 22 completed cases).[6]
Percentage of contested proceedings that achieve consensual agreements	25% increase over FY 2000	**OALJ**: During FY2001 80% of cases set for hearing were resolved through some form of ADR vs. 76.7% during FY2000. **DRS**: 90% vs. 89% during FY 2000.5
Number of requests and referrals for ADR services	Increase by 50% over FY 2000	**OALJ**: During FY2001 60 out of 77 cases (77.9%) terminated by OALJ were resolved through some means of ADR vs. 60 out of 83 cases (72.3%) during FY2000 **DRS**: 52 requests vs. 40 requests in FY 2000, a 30% increase. This includes simple inquiries about ADR, cases referred to DRS in which the parties indicated no interest in pursuing ADR, cases referred to Enforcement, and ongoing cases.

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[5] ADR is considered the Aumbrella@ of dispute resolution. Many forms of dispute resolution are encompassed within ADR, such as mediation, settlement judge procedures, mini-trials, arbitration, and combinations of these methods. Cases referred to OALJ for ADR involve disputes of hotly contested issues and millions of dollars. Due to the size and complexity of cases referred to OALJ for ADR, the process of achieving consensual resolution often involves considerable time and effort.

[6] This includes 5 cases begun in FY 2000 and completed in FY 2001. It does not include simple inquiries about ADR or cases in which parties expressed no interest in using ADR (11 cases), cases that were referred to Enforcement (2 cases), cases in which the DRS only coached parties, or cases that were ongoing into FY 2002 (17 cases).

FY 2001		
Performance Measurement	**Performance Target**	**Result**
Percentage of ADR cases resolved or terminated within established time frames	< 50% within 100 days < 75% within 150 days < 100% within 200 days	**OALJ**: Of 60 cases: < 10 cases settled within 100 days (17%) < 10 cases settled within 150 days (17%) < 11 cases settled within 200 days (18%) < 29 cases settled after 200 days (48.3%) **DRS**: Of 22 completed cases: < 8 cases completed within 100 days (36%) < 4 cases completed within 150 days (54%) < 5 cases completed within 200 days (77%) < 5 cases completed in over 200 days

FY 2002		
Performance Measurement	**Performance Target**	**Result**
Number of market monitoring institutions and systems	Increase over FY 2001	Performance target achieved.
Number of public utilities separating ownership or operation of transmission facilities from generation	Increase over FY 2001	Performance target achieved.
Number of requests and referrals for ADR services	25% increase over FY 2001	**DRS:** There were 52 requests in FY 2001, and 51 requests in FY 2002. This represents a slight decrease. However, this amount also reflects an increase in the DRS non-case projects and development of stakeholder programs. The 51 request or active cases includes simple inquiries about ADR, cases in which persons eventually indicated that they were not interested in using ADR, cases referred to Enforcement Hotline, and ongoing cases.
Percentage of customers satisfied with ADR processes	85%	**OALJ/OAL:** Participants report near 100% satisfaction with ADR procedures. Satisfaction is indicated by calls from participants and by the increase in ADR procedures. **DRS:** 90% (21 out of 23 completed cases). Note: This includes 10 cases that were begun prior to FY 2002 but completed in FY 2002. It does not include simple inquiries about ADR (6), cases in which persons eventually said they were not interested in using ADR (7), cases referred to Enforcement Hotline (1), or cases that were ongoing into FY 2003 (14).

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FY 2002		
Performance Measurement	**Performance Target**	**Result**
Percentage of processes that achieve consensual agreements < ADR processes < Cases set for litigation resolved, at least in part, through consensual agreement	< 25% increase over FY 2001 < 5% increase over FY 2001	**OALJ/OAL**: Settlements were achieved in 69 out of 79 cases through ADR procedures. **During FY-2002:** 69 out of 79 cases (86.3%) were completed through ADR. **In FY-2001:** 62 out of 77 cases were completed through ADR (80.5%) **DRS:** 20 of 23 cases (87%) that were completed in FY 2002 achieved settlement. Note: This includes 10 cases that were begun prior to FY 2002 but completed in FY 2002. It does not include simple inquiries about ADR (6), cases in which persons eventually said they were not interested in using ADR (7), cases referred to Enforcement Hotline (1), or cases that were ongoing into FY 2003 (14).
Percentage of cases in time frames < ADR processes completed < litigated cases reaching initial decision	< 20% of ADR cases within 60 days < 30% of ADR cases within 100 days < 75% of ADR cases within 150 days < 100% of ADR cases within 200 days < 95% of simple litigated cases within 206 days (29.5 weeks) < 95% of complex litigated cases within 329 days (47 weeks) < 95% of exceptionally complex cases, 441 (63 weeks) < 95% of regular complaints, 60 days < 95% of fast track complaints, 8 days	**ADR Cases – OALJ/OAL**: 69 cases were completed by settlement: 4 out of 69 cases were settled within 60 days (5.8%). 11 out of 69 cases sere settled within 100 days (15.9%). 18 out of 69 cases were settled within 150 days (26%). 11 out of 69 cases were settled within 200 days (16%). 25 out of 69 cases were settled after 200 days (36%). **ADR Cases - DRS :** Of 23 completed cases: 5 were completed within 60 days (21% total). 7 more were completed within 100 days (52% total). 1 more was completed within 150 days (57% total). 2 more were completed within 200 days (60% total). The remaining 8 were completed in over 200 days. **Litigated Cases – OALJ/OAL:** **Track I Cases** – Standard processing Time = 29.5 weeks – None during FY-2002. **Track II Cases** – Standard Processing time = 47 weeks – FY-2002 average Processing Time 32.5 weeks **Track III Cases** – Standard Processing Time = 63 weeks – FY-2002 Average 39.42 weeks **Complaint Cases** – FY-2002 Complaints All took > 60 days to resolve.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Enhance institutional capability for overseeing energy markets	Establish the Office of Market Oversight and Investigations	Complete
	Publish regular summer and winter Seasonal Market Assessments	Reported winter 2002-2003 and summer 2003 assessments in formal presentations to the Commission and published on Commission's website.
	Develop metrics/indicators of gas and electric market performance measures	Developed 5 standard metrics for electric markets that agreed with market monitoring units.
Top to bottom review of all existing information systems to monitor markets	Complete entire review	The complete review has been delayed until FY 2004.
Development or acquisition of usable electronic baselines and databases to support market oversight objectives	Complete development of all baselines and databases by end of FY 2003	Complete
Development of market expertise	Training on market issues for 40% of OMOI and 20% of OMTR, OGC, and other staff	OMOI: 50% of OMOI staff received training explicitly related to markets. OMTR: Target met through a combination of formal and informal training opportunities available to or required of OMTR staff. Examples of informal training: attendance at events sponsored by OMOI such as presentations by guest speakers with market expertise and courses on the operations of ISOs in New York and New England; market development discussions at selected Commission meetings which are aired live as well as videotaped for later viewing; access to material relevant to Commission conferences posted on the web site; speakers brought in by group managers to discuss various topics—including market-related issues—at their group meetings; and hands-on training conducted in our divisions.
	Hiring of staff with market expertise	Hiring target achieved
	Issuance of market assessment products and data analysis demonstrating market understanding	Produced comprehensive market surveillance report for each closed Commission meeting (every two to three weeks); seasonal assessments; and daily market reports for Commission staff. Also analyzed key issued in detail, for example, natural gas spike and energy price index reaction.
Establishment of protocols between the Commission and independent market monitoring units of RTOs	All approved RTOs	Target achieved
Timeliness of corporate application orders	Less than 20% of merger applications will require examination or the imposition of mitigation measures beyond the initial review period, with such percentage targeted to decrease as further policy guidance is issued in cases requiring more time to address market power	Since the Commission received no merger requests in FY 2003, we have no results to report for this performance measure.
Timeliness of audits	Complete 90% of audits on time	Target achieved
Timeliness of Hotline calls resolutions	Resolve 80% within 1 week of initial contact	74% of Hotline calls were closed by the end of the two-week period in which they were received during FY 2003.

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FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timeliness of formal complaints resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	**OALJ/OAL:** Issued six initial decisions on complaints set for hearing. 84% were completed within expected targets (4 out of 6). OALJ also handled 17 additional complaints; 12 settled; 5 were either returned to the Commission for further action or set for hearing before a judge (no targets were set for those cases while in settlement mode).
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	**DRS:** 38 requests or active cases were initiated in FY 2003. This number includes simple inquiries about ADR, cases in which persons eventually indicated that they were not interested in using ADR, cases referred to Enforcement Hotline, and cases that are ongoing into FY 2004. Note: There were 51 requests in FY 2002, and 38 requests in FY 2003. While this represents a decrease in cases, the DRS efforts devoted to outreach projects have increased dramatically by comparison.
Percentage of customers satisfied with ADR processes	85%	**DRS:** 14 of 20 cases (70%) that were completed in FY 2003 achieved settlement.
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	**OALJ/OAL:** 112 cases were closed in OALJ. Out of the 112 cases, 16 cases were terminated by initial decision, leaving 94 cases where ADR was used. Of the 94 cases, settlement was achieved in 76 cases (81% success). Settlement was not successful in 18 of the 94 cases. **DRS:** 14 of 20 cases (70%) that were completed in FY 2003 achieved settlement. Note: This includes 7 cases that were begun prior to FY 2003 but completed in FY 2003. It does not include simple inquires about ADR (1), cases in which persons eventually said they were not interested in trying ADR or ADR was determined to be inappropriate (11), cases referred to Enforcement Hotline (3), or cases that were ongoing into FY 2004 (14).

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FY 2003		
Performance Measurement	**Performance Target**	**Result**
Percentage of cases in time frames < ADR processes completed < litigated cases reaching initial decision	< 20% of ADR cases within 60 days < 30% of ADR cases within 100 days < 75% of ADR cases within 150 days < 100% of ADR cases within 200 days < 95% of simple litigated cases within 206 days (29.5 weeks) < 95% of complex litigated cases within 329 days (47 weeks) < 95% of exceptionally complex cases, 441 (63 weeks) < 95% of regular complaints, 60 days	**ADR Cases – OALJ/OAL:** 76 cases were successfully completed through the use of ADR: < 2 cases completed in < 60 days (2.6%) < 10 cases completed in < 100 days (13%) < 15 cases completed in <150 days (20%) < 14 cases completed in < 200 days (18%) < 35 cases completed in >200 days **ADR Cases – DRS:** 20 cases completed through the use of ADR: < 8 cases completed in < 60 days (40%) < 2 cases completed in < 100 days (10%) < 5 cases completed in < 150 days (25%) < 3 cases completed in < 200 days (15%) < 2 cases completed in > 200 days (10%) **Litigated Cases – OALJ/OAL:** < Track I Cases: Standard processing time = 29.5 weeks. FY 2003 Average processing time = 24.3 weeks < Track II Cases: Standard processing time = 47 weeks. FY 2003 Average processing time = 38.4 weeks < Track III Cases: Standard processing time = 63 weeks. FY 2003 Average processing time = 46.2 weeks **Regular Complaints – OGC:** 97%

FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Enhance institutional capability for overseeing energy markets	Improve metrics/indicators of gas and electric market performance measures	Office of Market Oversight and Investigations
Development of market expertise	30% of OMOI staff have energy market experience gained through direct activity in those markets.	Office of Market Oversight and Investigations
Track Performance of Natural Gas and Electric Markets	Issue Market Surveillance Reports to the Commission twice each month	Office of Market Oversight and Investigations
Assess Performance of Natural Gas and Electric Markets	Publish regular summer and winter Seasonal Market Assessments, State of the Market Reports, and other reports as conditions warrant.	Office of Market Oversight and Investigations
Timeliness of corporate application orders	Process all section 203 applications within 90 days of the date comments are filed	Office of Markets, Tariffs and Rates
Timeliness of industry wide financial audits	Complete 90% of audits within 120 days	Office of Executive Director
Timeliness of Hotline call resolutions	Resolve 80% within 1 week of initial contact	Office of Market Oversight and Investigations

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FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of formal complaint resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	Office of Market Oversight and Investigations
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service
Percentage of customers satisfied with ADR processes	85%	Dispute Resolution Service
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service / Office of General Counsel / Office of Administrative Law Judges/ Office of Administrative Litigation
Percentage of cases in time frames < ADR processes completed < litigated cases reaching initial decision	< 20% of ADR cases within 60 days < 30% of ADR cases within 100 days < 75% of ADR cases within 150 days < 100% of ADR cases within 200 days < 95% of simple litigated cases within 206 days < 95% of complex litigated cases within 329 days < 95% of exceptionally complex cases within 441 days < 95% of regular complaints within 60 days	Dispute Resolution Service / Office of General Counsel / Office of Administrative Law Judges/ Office of Administrative Litigation

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Enhance institutional capability for overseeing energy markets	The Electronic Quarterly Report of electric transactions will be fully functional.	Office of Market Oversight and Investigations
	The Commission will identify further key data requirements needed to analyze energy markets.	
Development of market expertise	MMUs will produce standardized market metrics.	Office of Market Oversight and Investigations
	The Commission will use standard metrics developed by the MMUs to develop a balanced scorecard to determine how well energy markets are working	
Enhance the Commission's and public's understanding of energy markets	Issue Market Surveillance Reports to the Commission in conjunction with the Commission's public meeting schedule.	Office of Market Oversight and Investigations
	Publish Market Assessments, State of the Market Reports, and other reports as conditions warrant.	
Identify and remedy market problems	Provide analysis and recommendations on major market problems.	Office of Market Oversight and Investigations
Timeliness of corporate application orders	Process all section 203 applications within 90 days of the date comments are filed.	Office of Markets, Tariffs and Rates
Timeliness of industry wide financial audits	Complete 90% of audits within 120 days	Office of Executive Director
Timeliness of Hotline call resolutions	Close 60% within 2 weeks of initial contact	Office of Market Oversight and Investigations

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FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of formal complaint resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	Office of General Counsel / Office of Administrative Law Judges / Office of Administrative Litigation/ Office of Market Oversight and Investigations
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service / Office of General Counsel / Office of Administrative Law Judges/ Office of Administrative Litigation
Number of major rule violations for a particular set of business practices	None or Few	Office of Market Oversight and Investigations
Timely resolution of allegations of market misconduct	Resolution within established timeframes for FERC investigations and litigation, as posted on the Commission internet site	Office of Administrative Litigation

Performance Measurements for Resource Management, FY 1999 B FY 2005

FY 1999		
Performance Measurement	**Performance Target**	**Result**
Reduce the processing time for docketed workload and for resolving disputes	None established	< Met or exceeded processing targets for natural gas pipeline certificates < Demonstrated that collaborative process could reduce processing of hydropower license applications to 0.99 years from 2.77 years < 80% of cases set for litigation reached full or partial settlement
Minimize filing burden	None established	< Issued two orders projected to save industry more than 230,000 hours in reporting time < Upgraded software on several automated forms
Generate better information for use by the industries	None established	< Added new features to automated systems < Began process of Internet site redesign
Continue to receive an unqualified audit opinion on the Annual Financial Statements	Unqualified opinion	Unqualified opinion received
Formulate the budget so that current year costs are within 5% of the total budgetary resources for the fiscal year	Spending within 5% of funding	Actual spending was within 2.8% of funding
Pay 95% of all payments accurately and on time: vendors within the time required by the Prompt Payment Act; internal customers in 10 days or less	95% of payments to external vendors made timely and accurately; payments to internal customers in 10 days or less	99.57% of external payments were made within the established time frames. Internal payments averaged 3.9 days.
Meet or exceed planned due dates 90% of the time for performing and completing FMFIA requirements and internal financial and performance reviews	Meet or exceed planned due dates 90% of the time	Met 100% of planned due dates

FY 2000		
Performance Measurement	**Performance Target**	**Result**
Reduce the processing time for docketed workload and for resolving disputes	None established	< Met or exceeded processing targets for natural gas pipeline certificates < Set new time lines to reduce average litigation times by up to one quarter. Designated times were met in 80% of cases. < 52% of cases set for hearing were mediated < Average time for approval of uncontested settlements dropped from more than 100 days to 47 days
Minimize filing burden	None established	< Revised accounting and reporting requirements to reduce information reporting and maintenance burden by 25%, and updated records retention requirements < Initiated e-filing pilot for 35% of Commission s filings
Generate better information for use by the industries	None established	Extended use of Internet to disseminate dam safety information, pilot e-filings, and issue notices, orders, and major rules
Continue to receive an unqualified audit opinion on the Annual Financial Statements	Unqualified opinion	Unqualified opinion received

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FY 2000		
Performance Measurement	**Performance Target**	**Result**
Formulate the budget so that current year costs are within 5% of the total budgetary resources for the fiscal year	Spending within 5% of funding	Actual spending was within 5% of funding
Pay 95% of all payments accurately and on time: vendors within the time required by the Prompt Payment Act; internal customers in 10 days or less	95% of payments to external vendors made timely and accurately; payments to internal customers in 10 days or less	On-time invoice payments at 85%. (Early payments made to close out old system and implement new one.) Internal payments averaged 2.6 days.
Meet or exceed planned due dates 90% of the time for performing and completing FMFIA requirements and internal financial and performance reviews	Meet or exceed planned due dates 90% of the time	Met 100% of planned due dates

FY 2001		
Performance Measurement	**Performance Target**	**Result**
Percentage of filings that FERC is capable of receiving electronically	Capability to receive 50% of filings electronically	Capability to receive 38% of filings electronically by the end of FY 2001. Percentage brought to 46% by mid-November 2001.
Percentage of filings submitted electronically	50% of filings FERC is capable of receiving electronically are submitted electronically	17% of filings FERC is capable of receiving electronically are submitted electronically. 30% reached by October 31.
Timely issuance of notices/orders	95% of gas and electric notices and orders issued within 5 workdays	97% of gas and electric notices/orders issued within 5 workdays
Unqualified opinion on external audits	Unqualified opinion	Unqualified opinion received for FY 2001.
Percentage of office directors operating within designated salary budgets	80%	100% of office directors operated within designated salary budgets.
Percentage of payments made within Prompt Payment Act requirements	95%	81%
Number of days to award purchase orders	Within 5 days of receipt of notification	98% of purchase orders awarded within 5 days of receipt of requisition
Number of days to award contracts	Within 30 days of receipt of notification	95% of contracts awarded within 30 days of receipt of requisitions
Number of award fee contracts	Increase by 10% over FY 2000	Award fee contracts and firm fixed price contracts increased by 10% over FY 2000 levels.
Percentage of respondents giving positive ratings for FERC focusing on the right things	10% increase over baseline	The Commission adopted a new Strategic Plan to focus on important issues arising from the Western Market meltdown. No surveys done during these times of great pressure and uncertainty.
Percentage of employees in under-represented groups	Increase Hispanic employee population by 5%	The Commission increased its Hispanic employee population by 10 percent.
Percentage of senior executives participating in FERC s diversity initiative	100% of the office directors will have participated in the first phase	< 100 percent of office directors participated in discussions with the Diversity Council concerning the direction of diversity at FERC. < 25 percent of office directors actively participated in minority recruitment activities.
Percentage of supervisory participation in LEaD	100% of supervisors and managers will have completed training on the 5 leadership behaviors	100% of supervisors and managers (including new supervisors, managers, and team leaders) have completed training on the 5 leadership behaviors.

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FY 2001		
Performance Measurement	**Performance Target**	**Result**
Number of learning agreements	5% increase over FY 2000	29 employees on learning agreements in FY 2001, the first year of reporting
Number of mentor/protégé teams	10 mentor/protégé teams	At least 15 mentor/protégé teams

FY 2002		
Performance Measurement	**Performance Target**	**Result**
Number of documents and filings available and received electronically	10% increase over FY 2001	< The percent of qualified documents received electronically increased from 11.6% to 34.38% < Number of filings received in FY 2001 was 1,968; in FY 2002 we reach 8,903.
Reliability of IT infrastructure services	< 98% network availability < 33% annual PC replacement < 98% Internet site availability	< 98.5% network availability < 33% annual PC replacement < 99.5% Internet site availability
Percentage of agenda items issued within 5 working days of a Commission meeting	100%	100%
Percentage of electric notices issued within 5 working days of receipt of filing	95%	95%
Unqualified opinion on annual financial statements	Unqualified opinion	Commission received an unqualified opinion on its FY 2001 financial statements
Monitor manage-to-budget concept	Track biweekly; review quarterly	Performed bi-weekly updates to manage-to-budget spreadsheets used by managers to track spending, and reviewed status quarterly
Effective and efficient financial and administrative support	< Collect annual charges within 45 days of billing < 98% of invoices paid by electronic funds transfer < 1% increase in contract awards and purchase orders to small, minority, and women-owned businesses < All contracts advertised online < All contracts performance-based	< Collected 98% of the annual charges assessed in FY 2002 within 45 days of billing < Processed 100% of payments electronically < 92% increase < All contracts were advertised online < All contracts were performance-based
Increase diversity of staff in high grades	Increase diversity in GS-14, GS-15, and SES positions by 10% over current baseline	Increased the number of minorities in GS-14, GS-15 and SES positions by five (or 6 percent).
Number of new hires from recruitment program	Meet the Commission s need for new talent through targeted recruitment, with 50% at entry levels	Exceeded 50% target level by 2%. Of the 103 permanent hires in FY 2002, 54 were entry level recruits. Met the Commission's need for new talent through targeted recruitment.
Staff participation in learning and development programs	< Expand leadership development program < Implement development plans for 20% of staff < Initiate employee rotational development program	< Completed 360-degree feedbacks with senior staff < Developmental plans for all new Federal Career Intern Program (FCIP) interns < Draft proposal for a pilot rotational development program in OED

FY 2002		
Performance Measurement	**Performance Target**	**Result**

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Periodic manager-staff discussions about performance accomplishments and improvements	Expand to 3 major offices the program for quarterly discussions on performance objectives	Made available to major offices the program for quarterly discussions on performance objectives. Completed the program in two offices.
Percentage of awards presented for helping accomplish specific Commission goals	More than 50% of awards for quality service based on accomplishments supporting strategic objectives	The target level was met. Based on the responses regarding FY 2002 incentive awards more than 50% of awards were given for quality service based on accomplishments supporting strategic objectives.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	Exceeded target level by 2%. Of the 60 permanent hires in targeted positions in FY 2003, 31 were entry level recruits. Met the Commission's need for new talent through targeted recruitment.
New staff from summer intern program	Hire 30% of participants into permanent positions	Exceeded target level by 3%. Of the 33 summer interns eligible to be hired, 11 were hired into permanent positions.
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	Increased the number of women and minorities in GS-14, GS-15 and SES positions by 35 (18%). Of the 35, 13 (37%) were minorities.
Encourage knowledge sharing	Conduct informal training workshops	Conducted 184 informal training workshops in 5 offices.
Improved executive performance	Implement 360 degree assessment of senior staff	Completed 360 degree assessments for 129 supervisors and managers, including senior staff. Completed targeted individual executive coaching sessions.
Percentage of transactions accepted electronically	95% of transactions accepted electronically	57% of all documents received were eligible to be e-filed; 53% of the documents eligible to be e-filed were actually e-filed; 33% of all documents received (paper and electronic) were e-filed. We expect to have 95% of transactions eligible to be accepted electronically in December 2003.
Percentage of e-issuance versus paper	90% of Commission documents issued electronically	100%
Improved Web site	Redesigned Web site	The redesigned web site, sponsored by the Office of External Affairs, was deployed in August, 2003.
	99% availability	The site was 99% available in FY 2003 based on contract performance evaluation server availability reporting by FERC IT Support Services contractor.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	99% of FERC issuances are available online within 24 hours or less. 99% of electronic submissions to FERC are published within 24 hours of review by the Office of the Secretary. 99% of paper submissions to FERC are published within 48 hours.
Network availability	99%	File and Printer servers (where all Office Automation applications and network drives reside) were available for use 99.93% of the Prime Period of Maintenance (PPM). The PPM is defined as the 11 hour period from 7:00 a.m. to 6:00 p.m. on all days the FERC is open for business.
Standard office automation platform and PC rate of refresh	33%	During this performance period, in an effort to reduce costs, the replace cycle has been changed from 3 years to 3.5 years. During this period 335 CPUs were replaced that were 3.5 years or older. All primary FERC workstations are now newer than 3.5 years old. The performance measure should reflect the new 28.5% target.
Timeliness of virus definition files updates on servers and workstations	Updates within 24 hours from release by vendors	The performance target has been met. We currently have our servers set up to Auto Update each morning at 1 a.m. for any Virus Engine Updates and at 2 a.m. for any DAT (virus definition file) Updates. They are set to update daily and to scan local drives 'On Access' and boot sectors and floppy drives on shutdown. Updates are received via the internal FERC 'McAfee/NetShield' FTP server which in turn is getting the updates straight from the secure Network Associates, Inc. (NAI) site. We update to this server and use it as an internal update point for security and ease of configuration. All workstations are configured to check virus update from FTP server hourly.
IT system changes to comply with enterprise IT architecture and configuration management practices	Implement 98% reviews	Although an Enterprise IT Architecture has not been completed for FERC, 100% of configuration changes are reviewed and approved or rejected by the FERC DCIO Configuration Control Board. All change requests and approvals are documented in the FERC configuration management library.

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FY 2003		
Performance Measurement	**Performance Target**	**Result**
Improved integration of work processes and electronic filing	Refresh integrated filing, docket, and document management system	Software releases of the FERC eFiling system were deployed in FY 2003 that increased the types of documents accepted electronically, improved the interface used by stakeholders to submit documents electronically, and improved the integration with the FERC document management system, eLibrary, and the FERC Online eRegistration system. A business case for the Activity Management Tracking System (ATMS) is under review by the FERC Online Executive Steering Committee. ATMS will allow FERC to align FTE time reporting with business planning goals and objectives. Two releases of the FERC document management system, eLibrary, were deployed that improved systems availability, reliability, and usability as documented in weekly reporting by the FERC IT Support Services Contractor and reflected in comments received through customer surveys. eSubscription, a facility that allows stakeholders to receive email notifications and document links whenever a document is received or issued in a case to which they subscribe, was deployed and has improved the work processes of external and internal stakeholders.
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	The Commission met its performance target of bi-weekly tracking of the MTB process. However, the quarterly reviews between the CFO and Office Directors did not take place. This was due to the open and constant communication between the Division of Budget and the individual office MTB points-of-contact. As a result, managers were able to make quicker and more informed decisions on the resources within their particular program. No issues were raised during these discussions that necessitated involvement from the CFO or Office Directors.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timeliness of annual charges collections	Within 45 days of billing	The Commission collected 74% of the total dollar value of current year annual charge billings within the 45 day billing period; however, by the close of the fiscal year, the Commission collected 96% of the total dollar value of current year billings.
Invoices paid by electronic funds transfer	98%	The Commission processed over 99% of its disbursements via electronic funds transfer.
Accuracy and completeness of annual financial statements	Unqualified opinion	The Commission received an unqualified opinion on its FY 2002 financial statements.
Percentage of contracts performance-based	100%	100% of all contracts were performance based.
Percentage of contracts advertised online	100%	100% of all competitive contract requirements advertised in the Fed Biz Ops.

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FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	Office of Executive Director
New staff from summer intern program	Hire 30% of participants into permanent positions	Office of Executive Director
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	Office of Executive Director
Improved executive performance	<Implement 360 degree assessment of senior staff < Expand training in leadership and management skills	Office of Executive Director
Mentoring program	Implement FERC-wide mentoring program for all employees	Office of Executive Director
Average IT costs per FTE	Below industry average for Federal agencies	Office of Executive Director
Percentage of transactions accepted electronically	95% of transactions accepted electronically	Office of the Secretary
Improved Internet Website	99% availability	Office of Executive Director
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	Office of Executive Director
Improved reliability and availability of FERRIS	Increase customer satisfaction 25% over FY 2003	Office of Executive Director
Network availability	99%	Office of Executive Director
Desktop reliability	Increase reliability by 5% per year	Office of Executive Director
Standard office automation platform and PC rate of refresh	33%	Office of Executive Director
Timeliness of virus file updates on servers and workstations	Updates within 24 hours from release by vendors	Office of Executive Director
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	Office of Executive Director

FY 2004		
Performance Measurement	**Performance Target**	**Data Source**
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	Office of External Affairs
Redesign Internet Website	Make internet site more useful and user-friendly	Office of External Affairs / Office of Executive Director
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	Office of Market Oversight and Investigations / Office of Energy Projects / Office of the General Counsel
Report Market Conditions	Publish regular summer and winter Seasonal Market Assessments, and other reports as conditions warrant	Office of Market Oversight and Investigations
Discussions with State regulatory bodies on Commission policies and actions	Formal, effective interactions between FERC and state officials on policy issues	Office of External Affairs / Office of Markets, Tariffs and Rates / Office of the General Counsel
Expand discussions with Canada and Mexico	Formal interaction with Canadian and Mexican regulators on policy issues	Office of External Affairs / Office of Energy Projects / Office of Markets, Tariffs and Rates
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	Office of External Affairs / Office of Energy Projects
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	Office of Market Oversight and Investigations
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	Dispute Resolution Service
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	Office of Executive Director
Monitoring of business plan	< Clarity of fit between projects, activities, and objectives < Periodic monitoring of completions and adjustments to plan and related resources	Office of Executive Director
Timeliness of annual charges collections	Collect 98% of outstanding receivables within 45 days of billing	Office of Executive Director
Invoices paid by electronic funds transfer	98%	Office of Executive Director
Percentage of payments accomplished without error	98%	Office of Executive Director
Accuracy and completeness of annual financial statements	Unqualified opinion	Office of Executive Director
Percentage of contracts performance-based	100%	Office of Executive Director
Percentage of contracts advertised online	100%	Office of Executive Director

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FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Number of new hires from recruitment program	Attract new talent in mainstream occupations through targeted recruitment, with 50% at entry levels	Office of Executive Director
New staff from summer intern program	Hire 30% of participants into permanent positions	Office of Executive Director

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	Office of Executive Director
Improved executive/managerial development	Expand training in leadership and management skills	Office of Executive Director
Improved technical development	Implement second phase of "markets curriculum" for experiences staff	Office of Executive Director
Mentoring program	Implement office/program specific mentoring programs	Office of Executive Director
Improved human capital processes	Implement selected human resources flexibilities provided by new legislation	Office of Executive Director
Average IT costs per FTE	Below industry average for Federal agencies	Office of Executive Director
Percentage of transactions accepted electronically	95% of transactions accepted electronically	Office of the Secretary
Improved Internet Website	99% availability	Office of Executive Director
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	Office of Executive Director
Improved reliability and availability of FERRIS	Increase customer satisfaction 25% over FY 2003	Office of Executive Director
Network availability	99%	Office of Executive Director
Desktop reliability	Increase reliability by 5% per year	Office of Executive Director
Standard office automation platform and PC rate of refresh	33%	Office of Executive Director
Timeliness of virus file updates on servers and workstations	Updates within 24 hours from release by vendors	Office of Executive Director
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	Office of Executive Director
Development of initial enterprise architecture	Complete by October 30, 2004	Office of Executive Director
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	Office of External Affairs
Redesign Internet Website	Make internet site more useful and user-friendly	Office of External Affairs / Office of Executive Director
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	Office of Market Oversight and Investigations / Office of Energy Projects / Office of the General Counsel
Discussions with State regulatory bodies on Commission policies and actions	Formal, effective interactions between FERC and state officials on policy issues	Office of External Affairs / Office of Markets, Tariffs and Rates / Office of the General Counsel
Support further discussions with Canada and Mexico	Formal interaction with Canadian and Mexican regulators on policy issues	Office of External Affairs / Office of Energy Projects / Office of Markets, Tariffs and Rates
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	Office of External Affairs / Office of Energy Projects
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	Office of Market Oversight and Investigations
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	Dispute Resolution Service

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FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	Office of Executive Director
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Percentage of payments accomplished without error	98%	Office of Executive Director
Accuracy and completeness of annual financial statements	Unqualified opinion	Office of Executive Director
Percentage of contracts performance-based	100%	Office of Executive Director
Percentage of contracts advertised online	100%	Office of Executive Director

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