FY 2004
PERFORMANCE AND ACCOUNTABILITY REPORT

FEDERAL ENERGY REGULATORY COMMISSION
MARCH 2005

Pat Wood, III
Chairman

CONTENTS

This page intentionally left blank.

Management's Discussion and Analysis

This page intentionally left blank.

Introduction

In accordance with the guidelines set forth in Office of Management and Budget (OMB) Bulletin No. 01-09 and Section 230 of OMB Circular A-11, this report presents the Federal Energy Regulatory Commission's (the Commission's, FERC's) FY 2004 audited annual financial statements and program performance report. The audited financial statements section includes the Commission's balance sheet; statements of net cost, changes in net financial position, budgetary resources, financing, and custodial activity; and notes to the financial statements. The program performance section includes performance measurement data for fiscal years FY 2001 through FY 2005. Additionally, this report includes an overview of the Commission, including its mission and organizational structure.

This Performance and Accountability Report serves as a guide to the Commission's key initiatives and activities, both during FY 2004 and beyond.

Overview of the Commission

The Commission is an independent regulatory agency within the Department of Energy whose function is to oversee America's electric utilities, natural gas industry, hydroelectric projects and oil pipeline transportation system.

Vision

Dependable, affordable energy through sustained competitive markets.

Mission

The Federal Energy Regulatory Commission regulates and oversees energy industries in the economic and environmental interest of the American public.

The Commission was created through the Department of Energy Organization Act on October 1, 1977. At that time, the Federal Power Commission (FPC), the Commission's predecessor which was established in 1920, was abolished and the Commission inherited most of the FPC's regulatory mission.

The Commission has five members (Commissioners) who are appointed to five-year staggered terms by the President with the advice and consent of the Senate. Each Commissioner has an equal vote on regulatory matters and no more than three Commissioners may belong to the same political party. One member is designated by the President to serve as Chair and is the Commission's administrative head.

Hydropower regulation, the oldest area of the Commission's jurisdiction, began with the FPC's regulation of non-federal hydroelectric generation in 1920 and includes authorizing the construction of projects in interstate commerce and overseeing their operation and safety.

Since 1935, the Commission has regulated certain electric utility activities under the Federal Power Act (FPA). Under FPA Sections 205 and 206, the Commission oversees the rates, terms and conditions of sales for resale of electric energy and transmission service in interstate commerce by public utilities. The Commission must ensure that those rates, terms and conditions are just and reasonable, and not unduly discriminatory or preferential. Under FPA Section 203, the Commission reviews mergers and other asset transfers involving public utilities. While the utilities regulated under FPA sections 203, 205 and 206 are primarily investor-owned utilities, government-owned utilities (e.g., Tennessee Valley Authority, federal power marketing agencies, and municipal utilities) and most cooperatively-owned utilities are not subject to the Commission's regulation (with certain exceptions).

The Commission may not regulate retail sales or local distribution of electricity, as the FPA leaves these matters to the states. In addition, the Commission does not have a role in authorizing the construction of new generation facilities (other than non-federal hydroelectric facilities) or transmission facilities as these activities are also state or local responsibilities.

The Commission's role in the natural gas industry is largely defined by the Natural Gas Act of 1938 (NGA). Under NGA, the Commission regulates the construction of new natural gas pipelines and related facilities and oversees the rates, terms and conditions of sales for resale and transportation of natural gas in interstate commerce. Pipeline siting and construction is authorized by the Commission if found to be required by the public convenience and necessity. As with hydropower licensing, the Commission's actions on pipeline projects typically require consideration of factors under the National Environmental Policy Act (NEPA), the Endangered Species Act, the Fish and Wildlife Coordination Act, the Coastal Zone Management Act and other such statutes. Regulation of retail sales and local distribution of natural gas are matters left to the states.

Finally, the Interstate Commerce Act (ICA) gives the Commission jurisdiction over the rates, terms and conditions of transportation services provided by interstate oil pipelines. The Commission has no authority over the construction of new oil pipelines, or over other aspects of the industry such as production, refining or wholesale or retail sales of oil.

Full Cost Recovery

The Commission recovers the full cost of its operations through annual charges and filing fees assessed on the industries it regulates as authorized by the FPA and the Omnibus Budget Reconciliation Act of 1986. The Commission deposits this revenue into the Treasury as a direct offset to its appropriation, resulting in a net appropriation of $0.

Organizational Structure

Approximately 1,230 full time equivalents carried out the Commission's mission in FY 2004 using a budget of $205 million.

The following is a list of the offices within the Commission and a short description of their operational role. An organizational chart, as of September 30, 2004, is included in Appendix A.

Office of Energy Projects (OEP) – Fosters economic and environmental benefits for the nation through the approval and oversight of hydroelectric and natural gas pipeline energy projects that are in the public interest. Included in OEP are the Commission's five regional offices located in Atlanta, Georgia; Chicago, Illinois; New York, New York; Portland, Oregon and San Francisco, California.

Office of Markets, Tariffs and Rates (OMTR) – Deals with matters involving markets, tariffs and rates relating to electric, natural gas and oil pipeline facilities and services. Included in OMTR is the Commission's Reliability Division.

Office of Market Oversight and Investigation (OMOI) – Oversees and assesses the operations of the nation's gas, oil pipeline and electricity markets.

Office of Administrative Law Judges (OALJ) – Resolves contested cases effectively, efficiently and expeditiously, while ensuring that the rights of all parties are preserved. This is accomplished through either an impartial hearing and decision or through a negotiated settlement, as directed by the Commission.

Office of the General Counsel (OGC) – Provides legal services to the Commission. OGC represents the Commission before the courts and Congress and is responsible for the legal phases of the Commission's activities. Included in OGC is the Commission's Dispute Resolution Service (DRS), which assists participants to achieve resolution of disputes through consensual decision making.

Office of Administrative Litigation (OAL) – Represents the public interest in administrative proceedings at the Commission. OAL provides testimony, exhibits and studies on electric rate, transmission, open access and restructuring cases and in natural gas rate-design cases.

Office of External Affairs (OEA) – Responsible for all external communications with the public and media for the Commission.

Office of the Secretary (OSEC) – Serves as the official focal point through which all filings are made for proceedings before the Commission.

Office of the Executive Director (OED) – Provides administrative support services to the Commission including human capital, organizational management, budget, procurement, financial policy and services, logistics, and information technology.

Strategic Plan Overview

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

- *Adequate infrastructure*. Promote a secure, high-quality, environmentally responsible infrastructure through consistent policies.
- *Competitive energy markets*. Foster nationwide 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, high prices for natural gas and the August 2003 blackout in parts of the Midwest, Northeast, and Canada. The Commission has made progress in resolving the Western energy markets issues and has begun addressing the natural gas markets issues that are within its authority. Since the August 2003 blackout, electric reliability has been at the top of the Commission's agenda and shall continue to be for the foreseeable future. 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.

The Commission's primary emphasis must be to facilitate a full transition to competitive wholesale energy markets as soon as possible, while also addressing crucial issues that arise during the transition. The Commission's Strategic Plan describes the goals of the Commission as follows:

1. *Energy Infrastructure*. Goal: Promote a Secure, High-quality, Environmentally Responsible Infrastructure Through Consistent Policies. This goal encourages investment in the infrastructure needed to sustain energy markets by removing roadblocks, providing cost recovery clarity and welcoming innovative thinking about rates and use of new technology. By focusing on infrastructure, this goal covers many of the Commission's important traditional responsibilities, for example, pipeline certificates, hydropower licenses and preliminary permits, compliance activities, environmental and other licensing conditions, dam safety inspections and most rate determinations. This goal also covers the establishment of the Commission's new Reliability Division.

2. *Competitive Markets*. Goal: Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation. This goal focuses on the Commission's need to complete the transition to competitive energy markets as quickly and comprehensively as possible. This will require the growth of many new institutions, particularly clearly defined and independent regional transmission organizations (RTOs), to make electric markets work. The Commission also needs to establish balanced, self-enforcing market rules in wholesale electric markets, and encourage continued efforts by industry groups to standardize business practices, promote the use of demand-side participation in energy markets, and establish regional transmission planning. Along with some traditional work in the area of rate determinations, this goal furthers work on initiatives begun in the last couple of years such as RTOs and new policies for natural gas.

3. *Market Oversight*. Goal: Protect Customers and Market Participants Through Vigilant and Fair Oversight of the Transitioning Energy Markets. This goal ensures that competitive energy markets benefit the Nation over the long run. The Commission must offer the public and market participants credible assurance that it will identify and remedy energy market problems to maintain just and reasonable rates. At the systemic level, the Commission needs to recognize problems when - or before - they develop and craft solutions quickly to police individual behavior in markets much more effectively than in the past. This goal also includes more traditional work, such as some aspects of litigation, dispute resolution, complaints, mergers and auditing.

The Commission's Strategic Plan also includes several management initiatives that support each of the above goals and objectives. These initiatives include functions such as enhancing the talents and skills of the staff through recruitment and training; building effective, customer-friendly information technology (IT) services; supporting the Commission with logistics and financial services; and strengthening strategic management processes. Finally, the management initiatives also include the Commission's communication, outreach and collaboration efforts.

Business Plan

The Commission's annual Business Plan details the activities and resource allocations used to meet the Strategic Plan's goals and objectives. This increases internal accountability by enabling management to link individual office responsibility, due dates, priorities, and budget resources to Commission activities. Although developing the Business Plan is an iterative process, it is helping to identify which activities help the Commission achieve particular goals and objectives. Future iterations will improve priority determinations, identify implementation gaps, and improve resource organization and allocation by allowing the Commission to compare estimated and actual resource uses at a detailed activity level.

Making Markets Work

Immediate Responses

Reliability Issues. Immediately after the August 2003 blackout, the Commission participated in the joint U.S.-Canadian investigation. Commission staff actively participated in drafting portions of the November 2003 interim and April 2004 final reports on the causes of the blackout and possible solutions to avoid such future blackouts. The Commission also re-examined its role, under its existing authority, to assure the reliable operation of the Nation's electric grid. The Commission has held and plans to hold conferences and workshops to discuss the conclusions and recommendations in the interim and final reports, including prompt response to the dangers of future blackouts and the improvement of electric reliability standards in North America.

Recognizing that inadequate vegetation management was a major contributor to the blackout, the Commission released a report in March 2004 outlining steps that utilities can implement to improve their vegetation management practices. Shortly thereafter, the Commission issued an order pursuant to section 311 of the Federal Power Act that directed all entities that own, control or operate designated transmission facilities in the lower 48 states to report on the vegetation management practices they now use for those transmission lines and rights-of-way. On September 7, 2004, the Commission submitted a report on utility vegetation management report to Congress with recommendations for needed practices and guidance.

In addition to the vegetation management guidance, the Commission issued a policy statement in April 2004 addressing the need to expeditiously modify the North American Electric Reliability Council's (NERC) reliability standards in order to make these standards clear and enforceable. The Commission emphasized public utility compliance with reliability standards, stating that Good Utility Practice includes compliance with these standards. The Commission also intends, consistent with its statutory authority, to consider taking utility-specific action on a case-by-case basis to address significant reliability problems or compliance with Good Utility Practice. The policy statement also addressed recovery of prudent reliability costs, and the need for communication and cooperation between the Commission and the states, as well as with Canada and Mexico.

The Commission, along with industry volunteers and NERC staff, participated in NERC reliability readiness reviews of the 20 largest control areas before the summer 2004 peak-demand season began. (A control area is a region, ranging in size from a multi-state area to a single city, in which the electrical supply is operated or overseen by a single entity.) These reviews, intended to give the Nation's electricity customers the assurance that the grid is managed reliably and responsibly, examined the activities of grid operators that manage 80% of the Nation's electricity users. An additional 25 reviews were completed in the Fall of 2004, and reviews for the remainder of the country are scheduled to be completed as soon as possible. In addition to participating in such periodic reviews for the foreseeable future, the Commission also signed a formal Memorandum of Understanding with the Nuclear Regulatory Commission committing the agencies to work together on issues related to transmission grid reliability and nuclear power plant safety.

While the Commission hopes Congress will pass reliability legislation in the near future, it cannot wait to move forward on reliability issues, consistent with its current authority. The Commission's goal is to establish a viable mechanism for strong, enforceable reliability standards as soon as possible by working with industry and market participants on such issues as appropriate reliability standards, reliability review measures, improved training for control room operators, and better reliability enforcement. In a December 27, 2004 order, the Commission began an effort to survey the breadth of operator training practices across the electric industry, identify best practices, and evaluate minimum requirements for an effective operator training program. The Commission will analyze the survey data and develop a report to Congress based on the results.

The Commission received an additional $5 million in FY 2004 that was earmarked for reliability. In addition to funding many of the reliability initiatives described above, the Chairman used the new funds to establish a new reliability division staffed with 30 engineers and supporting staff.

Western Energy Markets. The Commission responded to the crisis in Western energy markets by mitigating unjustifiably high wholesale electric prices and ensuring that power sellers did not withhold supplies to drive prices up. While these customer protection measures are still in place, the long-term viability of an economically healthy and reliable electricity system in California is dependent on fixing the flaws which plague the current energy markets. These goals are best achieved through comprehensive market rules that provide proper incentives for investment in transmission, generation and demand response. The Commission has approved components of the California Independent System Operator's (California ISO or CAISO) market design, and continues to address other conceptual aspects of the proposed market rules.

The Commission continues to wrap up market manipulation issues stemming from the Western energy crisis of 2000 and 2001, and the investigations and litigation that were ordered in response to the March 2003 Commission Staff Final Report on Price Manipulation in Western Markets. At the direction of the Commission, the CAISO is calculating final refund amounts that we estimate may be up to $3 billion for California customers. In addition, four large suppliers have entered into global settlements under which they will refund or disgorge profits in excess of $628 million. From the energy market gaming litigation proceedings, the Commission has recovered $26 million.

Rulemakings. The Commission has adopted, through rulemaking proceedings, additional financial reporting requirements and behavioral rules which will further ensure development of competitive markets and protection of customers.

The Commission issued a Final Rule in October 2003 that requires Commission-regulated companies to maintain documentation and file their cash management agreements when they share their cash with affiliates. The Commission implemented quarterly financial reporting rules on a final basis in February 2004, 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. These rulemakings will aid the Commission in its oversight and market monitoring responsibilities.

Other Investigations. The Commission also recently conducted an internal, preliminary analysis of interstate natural gas pipeline equity earnings. Based on the results of that analysis, the Commission has initiated audits of selected pipelines to determine their actual costs and revenues, as well as how their earnings are being used, *e.g.,* pipeline maintenance, investment in new pipeline facilities. If it appears that some pipelines have been earning excessive returns or not using earnings to maintain and expand pipeline capacity and services, the Commission has the option to exercise its authority under Section 5 of the Natural Gas Act to reduce the earnings.

The Commission also has investigated several long-term power purchase agreements between affiliates to examine the propriety of such arrangements, to ensure the integrity of the competitive market for power.

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 2004, the Commission issued certificates authorizing Colorado Interstate Gas Company's Cheyenne Plains Pipeline Project and Northwest Pipeline Corporation's Rocky Mountain Expansion Project, and began the environmental review of the Entrega Gas Pipeline Project 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 authorized several new LNG related projects in 2004, including:

- AES Ocean Express, LLC (January);
- Tractebel Calypso Pipeline, LLC (March);
- Freeport LNG (June);
- Sabine Pass LNG, L.P. (December); and
- Cheniere Sabine Pass Pipeline Company (December).

The Commission currently has twelve LNG projects pending before it, with more expected based on current and projected market conditions. In addition to these new projects, in September 2004, the Commission authorized a major capacity expansion of an existing LNG terminal owned by Trunkline LNG Company, LLC.

Credit Policies. 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 require prompt action to ensure that financial risks are allocated fairly among market participants. On February 11, 2004, the Commission proposed generic standards for natural gas pipeline companies intended to benefit customers by promoting consistent practices among interstate pipelines and to provide shippers with an objective and transparent creditworthiness evaluation.

In another series of orders, the Commission clarified credit review and creditworthiness and collateral requirements that individual electric utilities and regional transmission organizations (RTOs) or independent system operators (ISOs) may impose on their customers. This clarification will help decrease the potential financial risk to the utilities and their customers, while protecting the customers from unduly burdensome creditworthiness standards.
As for credit-related policy issues in the context of ISOs/RTOs, the Commission sought comment and convened a technical conference in July 2004 on credit-

related issues for service provided by jurisdictional transmission providers, ISOs, and RTOs. In November 2004, the Commission issued a policy statement to clarify its credit policy for transmission providers with electric open access tariffs (OATTs), ISOs and RTOs. The order encourages OATT transmission providers, ISOs and RTOs to:

- make their credit-related procedures and standards more transparent;
- post on their websites the procedures they use to perform their credit analysis; and
- provide customers with a written analysis describing how the credit procedures and standards are applied to them.

In addition, OATT transmission providers, ISOs and RTOs must consider both qualitative and quantitative measures in assessing credit risk.

Transmission Pricing Policy. In 2003, the Commission proposed a pricing policy that would incite transmission owners to transfer operational control of their transmission facilities to independent companies, or pursue additional measures that promote efficient operation and expansion of the transmission grid. Transmission owners would be allowed to earn higher rates of return on transmission assets turned over for such operation. This policy would foster independent regional grid operation and coordination to improve grid performance, reduce wholesale transmission and transactions costs, improve electric reliability, and make electric wholesale competition more effective in ways that benefit all customers. The Commission is reviewing the numerous comments received before finalizing its policy, including considering whether the use of performance based rates and/or other mechanisms would provide appropriate incentives for expanding transmission infrastructure.

Energy Markets

Crises can erupt quickly in energy markets, especially in electricity markets, and the Commission is acting to provide a much more stable long-term platform for these markets. Two important components of electric market regulation are market design, and a strong market oversight and investigations program.

Market Design. After unprecedented outreach and dialogue with state commissions, the public, and customer groups, the Commission concluded that an ideal market design should meet certain customer-focused objectives, such as:

- 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;
- innovative technology – future technological advances will be accommodated;
- mitigation of market power – ensuring that customers are protected from market power abuses; and
- predictability – good price signals to encourage investment in needed generation and transmission infrastructure.

Industry participants are implementing many similar elements through voluntary filings. These filings involve ISOs and RTOs that establish single-state or multi-state regional power markets and market power mitigation within those markets.

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 participants play by the rules. The Commission has two main objectives in meeting this goal:

- Provide vigilant and effective oversight of market operations; and
- Prevent market manipulation and enforce Commission rules.

OMOI has given the Commission 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.

Program Performance Overview

The performance measurement data samples and other achievements included below constitute a few of the Commission's more significant achievements during FY 2004. The performance measures and targets were selected from the Commission's FY 2005 Performance Budget Request, submitted to Congress in February 2004. A complete list of the Commission's performance measurement data for fiscal years 2001, 2002, 2003, 2004, and 2005, is included in the Performance Report section of this report.

Performance Measurement Data for Energy Infrastructure

Goal: Promote a Secure, High-Quality, Environmentally Responsible Infrastructure through Consistent Policies.

Performance Measurement	Performance Target	Result
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	‣ 100% completed ‣ 100% completed ‣ Disseminated two reports

To balance and protect competing project interests, the Commission evaluated the effectiveness of fish passage and recreation requirements at certain hydropower projects and disseminated two reports.

The final report on fish passage concluded that the technology for upstream passage is better developed than the technology for downstream passage. In addition, the report found that downstream passage effectiveness was more variable than for upstream passage largely due to environmental factors and the method of passage. The final report emphasized the importance of effectiveness monitoring and the selection of suitable methods and criteria for evaluating the effectiveness of fish passage facilities.

The draft report on recreation facilities used the Licensed Hydropower Development Recreation Reports (FERC Form 80's) and the recreation monitoring reports filed by licensees, to evaluate the recreational mitigation measures. The report concluded that the recreational measures at the licensed projects are effective in meeting users' needs.

Performance Measurement	Performance Target	Result
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: ➢ unprotected 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	85% of the cases were completed in: ➢ 111 days for unprotested cases that involve no precedential issues; ➢ 190 days for protested cases that involve no precedential issues; ➢ 217 days for cases of first impression or containing larger policy implications; ➢ 448 days for cases requiring a major environmental assessment or environmental impact statement.

The Commission was well within the case processing time goals for all categories of pipeline certificate cases. Although the numbers reflected above are based on completing 85% of the cases within the respective category goals, the Commission actually exceeded the goals by completing:

- 97% of Category 1 cases in 159 days or less;
- 100% of Category 2 cases in 304 days or less;
- 100% of Category 3 cases in 365 days or less; and
- 92% of Category 4 cases in 480 days or less.

Other Accomplishments

In FY 2004, the Commission certificated 20 major pipeline projects, 3 storage projects and 2 LNG projects. The following table summarizes these facilities:

Project Type	Facilities / Added Capacity (approx.)
Pipelines	611 miles, 91,000 hp of compression and 5,754 MMcf/d of additional capacity
Storage	990 MMcf/d of peak-day deliverability
LNG	7 Bcf of storage capacity and 2,100 MMcf/d of deliverability

At the same time the Commission was encouraging applicants to inform and engage the public and elected officials at the early stages of a project, it also made similar efforts through the NEPA Pre-Filing Process and other ongoing Outreach efforts. Under the NEPA Pre-Filing Process, the Commission can start its environmental review before the application is filed, and opportunities exist for maximum public involvement. The Commission continues to build on the success of the NEPA Pre-Filing Process, as nearly 60 percent of the major projects under review at the end of FY 2004 were using, or had completed the NEPA Pre-Filing Process.

Also during FY 2004, the Commission strengthened its working relationships with key Federal agencies that are part of the NEPA review process. The Commission made specific efforts to engage other relevant federal agencies in the NEPA process regarding the development of a single document and record that could serve as the basis for each agency's decision in the review of pipeline and onshore LNG projects. The Commission also cooperated with the U.S. Coast Guard (USCG) on the NEPA review of LNG facilities subject to the Deepwater Port Act. Finally, the Commission signed an Interagency Agreement with the USCG and the U.S. Department of Transportation to clarify each agency's roles and responsibilities regarding safety and security at LNG import terminals. This agreement also established clear paths for coordination and communication.

Performance Measurement	Performance Target	Result
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 three major onshore projects were inspected at least once every four weeks.

In FY 2004, the Commission conducted 203 inspections to ensure compliance with environmental regulations and certificate conditions. Of those 203, seventy-nine onshore construction projects measuring more than 2 miles long were inspected at least once. Of those 79, three involved additional environmental issues that affected a significant population in multiple states. Each of these three major projects involved the construction of at least 200 miles of pipeline and new compression facilities. Recognizing the significance of these projects, the Commission inspected them at least once every 4 weeks during construction, and at least once following completion.

Performance Measurement	Performance Target	Result
Percentage of relicense filings based upon ALP's	25% of all relicense cases using ALP	45% of the relicense applications filed during FY2004 used ALP.
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 ▸ TLP case, less than 24 months	▸ 83% of final NEPA documents were issued within 16 months of the date ALP license applications were deemed complete. ▸ 100% of final NEPA documents were issued within 24 months of the date TLP license applications were deemed complete.
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	100% of final NEPA documents were issued within 12 months of the date final settlement agreements were filed with the Commission.

Realizing that the faster applications are processed, the sooner on-the-ground environmental enhancements can be implemented, the Commission made it a priority in FY 2004 to reduce the time required to process license applications. To this end, the Commission invested significant resources during FY 2004 encouraging licensees to utilize the Alternative Licensing Process (ALP), a collaborative process designed to expedite the review process by ensuring applications are fully developed when they are filed. Almost half of the applications filed during FY 2004 were prepared using this process. To ensure that the license record is completed as expeditiously as possible, the Commission:

- issued environmental assessments in lieu of issuing draft and final documents;
- published licensing schedules to ensure stakeholder groups participate in the process in a more timely manner; and
- undertook outreach efforts with other agencies to enhance their participation in the process.

Other Accomplishments

While the Commission strives to reduce the time it takes to process license applications, the process is dependent upon a multitude of other State and Federal processes outside the Commission's jurisdiction. To minimize delays in this area, the Commission developed the Integrated Licensing Process (ILP) to ensure, in part, that a sufficient record is developed during the pre-filing process. During FY 2004, the challenging, yet successful, implementation of the Commission's new ILP took place with a total of seven licensees (almost a third of the eligible projects) utilizing the ILP.

Performance Measurement	Performance Target	Result
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	The Commission approved over 100 applications, including 42 in the Western U.S. alone, that ensured rate recovery for utilities and provided additional rate certainty to customers. The Commission also approved 11 applications filed under NGA section 311 to establish rates for interstate gas transportation services provided over intrastate and Hinshaw pipeline systems and another 11 applications by Western U.S. interstate pipelines to establish rate recovery for additional gas infrastructure investment. In the liquefied natural gas (LNG) industry, the Commission provided significant investment recovery certainty by issuing orders establishing initial rates for three proposed LNG import terminal facility projects: ‣ Tractebel Calypso; ‣ AES Ocean Express; and ‣ Trunkline LNG.

Below are examples of how the Commission provided both rate certainty to customers and rate recovery certainty to the pipelines for providing jurisdictional service and infrastructure investment.

In the Northeast, the Commission accepted a Northeast Utilities Services Company proposal to establish a rate design formula to provide greater certainty of cost recovery of transmission infrastructure capital expenditures. The Commission also accepted comprehensive revisions to transmission cost allocation rules applicable to the New England region under the New England Power Pool Tariff that more accurately delineated cost responsibility for regional transmission investment.

In the Midwest, the Commission approved a revision to the Midwest ISO's Large Generator Interconnection Agreement to permit the deferral of transmission credit payments to the interconnection customer until the network upgrades built for the customer are actually needed or used to accommodate the demonstrated capacity of the generating facility. The flexibility of this approach permits a timelier match between transmission facility costs and facility utilization than previously provided for by the Midwest ISO's tariff.

Other Accomplishments

Although the Commission does not have any FY 2004 performance measures associated with the August 2003 Northeast electricity blackout, the investigation and subsequent studies and reports constituted a significant effort by the Commission. The accomplishments listed below display, in part, how the

Commission utilized the additional $5.0 million Congress added to the Commission's FY 2004 appropriation.

Immediately after the blackout, the Commission participated in the Joint U.S.-Canada Power System Outage Task Force. The U.S. Department of Energy and Natural Resources Canada co-chaired the investigation which was a collaborative endeavor with industry and coordinated through the NERC. The following timeline lists the Commission's actions since the blackout:

- On September 12, 2003, the Task Force released a chronology of the events relating to the blackout.
- On November 19, 2003, the Task Force released an interim report on the blackout.
- On December 18, 2003, the Task Force released an interim report on Utility Vegetation Management and its role in causing the blackout.
- On March 2, 2004, the Commission issued the Utility Vegetation Management Final Report.
- On April 5, 2004, the Task Force issued, "Final Report on the August 2003 Blackout in the United States and Canada: Causes and Recommendations."
- On September 7, 2004, the Commission submitted a report on utility vegetation management practices to Congress with recommendations for needed practices and guidance.

In accordance with the recommendations made in the April 5, 2004 Blackout Final Report, the Commission:

- Issued a policy statement related to bulk power system reliability, in which the Commission recognized that many aspects of system reliability are within the purview of the states and stated the necessity for all those with responsibility for the bulk electric system to work together to achieve the common goal of a reliable electric system. The Commission announced its intent to work closely with the states to address various reliability-related issues of mutual concern.
- Directed all designated transmission owners to file reports with the Commission – since inadequate vegetation management was a major contributor to the blackout – explaining their vegetation management practices for designated transmission facilities and rights-of-way. Commission staff worked with the leadership of the National Association of Regulatory Utility Commissioners to analyze these reports to look for significant patterns and potential problems in the vegetation management practices of the electric industry.
- Held a joint workshop with the U.S.-Canada Power System Outage Task Force, on May 14, 2004, focusing on steps needed to get enforceable reliability standards.

- Recommended the development of a regulator-approved mechanism for funding NERC and the regional reliability councils to ensure their independence from the parties they oversee.

Building on its blackout investigation work and prior work on infrastructure security, cyber-security, infrastructure evaluation and market design, the Commission began a number of projects designed to better understand and improve grid reliability and security, including:

- Establishing a Reliability Group staffed with experienced in-house engineers and high-level consultants with extensive expertise in grid operations, reliability and regulatory issues.
- Participating in NERC's reliability and readiness audits of the transmission operations and reliability coordinators in the U.S. and Canada covering the grid operators for 80% of the Nation's electricity users.
- Supporting the re-issuance of NERC standards to specific, definable terms used to judge the performance of the participating utilities.
- Identifying best practices tools available to industry to ensure the reliability of the interconnected power system along with the identification of "gaps" within the industry.
- Initiating development and implementation of cyber security tools and practices to prevent the disruption of the bulk power supply by outside attacks.
- Holding a technical conference on July 15, 2004, to address the steps taken to prevent a blackout recurrence and discuss related reliability issues in the Midwest for the summer 2004.

Performance Measurement Data for Competitive Markets

Goal: Foster Nationwide Competitive Energy Markets
as a Substitute for Traditional Regulation.

Performance Measurement	Performance Target	Result
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)	All three proposals to establish or expand an RTO that were filed in FY 2004 were processed within six months. In addition, three more electric utilities (First Energy, Ameren, and Northern Indiana Public Service) were added to the Midwest ISO in advance of the requested action dates.

- The Southwest Power Pool (SPP) was granted RTO status – conditioned upon fulfillment of certain requirements – on February 10, 2004, less than 4 months after its filing with the Commission.
- ISO New England was granted RTO status – subject to the fulfillment of certain requirements and the outcome of a hearing on limited issues – on March 24, 2004, less than 5 months after its filing with the Commission.

- Pennsylvania-New Jersey-Maryland (PJM) RTO filed to establish "PJM South" within its RTO by adding Dominion Virginia Power as a member. The Commission granted the application on October 5, 2004, less than 5 months after the filing.

Performance Measurement	Performance Target	Result
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; and ▸ Resource adequacy approaches	The Commission approved new, or redesigned, cost-effective market elements for each of the six approved RTOs or ISOs, enhancing market operations efficiency.

In ISO NE, the Commission:

- Issued an order on the establishment of a forward reserve market.
- Directed an implementation date of January 1, 2006, on a proposal for the creation of a locational installed capacity (LICAP) market after certain market structure issues – including the merits of establishing additional capacity zones – are decided.
- Accepted a proposal to implement a weekly billing and payment system – rather than a monthly billing and payment cycle – as a means to improve liquidity and reduce the amount of market participants required collateral and exposure to a default.

In NY ISO, the Commission:

- Accepted a proposal to add a component concerning the authority to terminate customers in default of transmission services payments to the Operating Requirement of NY ISO's financial assurance policy.

In PJM RTO, the Commission:

- Accepted both initial and annual financial transmission right (FTR) allocations for the newly added Commonwealth Edison zone.
- Addressed concerns regarding the underlying mitigation measures related to the inclusion of congestion charges in uplift payments in the Commonwealth Edison zone.
- Accepted interim FTR allocations for the AEP and Dayton Power Light zones.
- Acted on a proposal to establish a rate recovery mechanism for the cost of transmission enhancements and expansions under PJM regional transmission expansion plan.

- Issued an order regarding revisions to local market power mitigation provisions in response to issues concerning generating units within PJM that are required to run for reliability.

In Midwest ISO, the Commission:

- Accepted the ISO's Transmission and Energy Markets Tariff (TEMT) which contained the terms and conditions necessary to implement a market-based congestion management program and energy spot markets. The TEMT also allowed the Midwest ISO to add four primary wholesale electric market platform elements to its operations: (1) locational marginal pricing (LMP) for congestion management purposes; (2) Day-Ahead and Real-Time energy spot markets; (3) FTR allocations as a hedge against congestion costs; and (4) a transitional resource adequacy plan which can help to ensure new resource development, market efficiency, and reliable operation of the transmission network.

In CA ISO, the Commission:

- Issued an order approving, in principle, additional wholesale platform elements, including: Real-Time energy spot markets, FTRs, and congestion management transparency and efficiency.
- Issued orders containing guidance on replacing the ISOs incremental and decremental bid process with a single price curve.

In SPP RTO, the Commission:

- Issued several orders concerning compliance issues with its earlier order that will allow SPP RTO to begin its independent transmission system operation as an RTO in early FY 2005.

Performance Measurement	Performance Target	Result
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"	As the Commission considers whether additional incentives may induce a more effective infrastructure response, a final policy statement has not been issued. However, the Commission in effect accomplished this measure by approving incentives – similar to those suggested in the proposed policy statement – in individual cases where companies have formed RTOs.

For example:

- The inclusion of adders to the equity allowance was approved for new transmission facilities rates built in the PJM RTO as well as for ISO NE.
- A settlement agreement was approved that allows American Transmission Company to reflect its investment in transmission projects under construction – construction work in progress – in its rate base, which provided additional financial certainty to support the commencement of a significant transmission system expansion in the upper Midwest.

Performance Measurement	Performance Target	Result
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	The Commission hosted and/or participated in numerous meetings with state representatives from each region with existing RTOs or ISOs.

In the East, the Commission:

- Hosted a state regional panel for New England on January 8, 2004, to discuss various topical issues, including governance and independence, markets, filing rights, and rate design.
- Hosted a regional infrastructure conference in New York on June 3, 2004, in which participants in the New York and New England markets discussed issues relating to the need for, and investment in, gas and electric infrastructure to meet future demand.
- Participated in the Mid-Atlantic Distributed Resources Initiative on September 27, 2004, which is a PJM/DOE joint effort with Mid-Atlantic states to develop distributed resources.

In the Mid-West, the Commission:

- Met regularly with the Organization of MISO States (OMS) to discuss progress on various fronts including rates, transmission access and market implementation, as well as Commission and state activities.
- Attended the annual meeting of OMS.
- Met separately with representatives of the Missouri, Ohio, Michigan, Illinois, Minnesota, and Indiana state regulatory organizations to exchange regulatory ideas and discuss pending issues regarding operational and procedural activities of the Midwest ISO.
- Attended Regional State Committee (RSC) Board meetings of the SPP.
- Established a field office in Little Rock, Arkansas, to create a daily interface between the Commission and SPP market participants and regulators similar to the MISO field office in Carmel, Indiana.

In the West, the Commission:

- Held a meeting with Southwestern state regulatory commissions and market participants regarding development of the WestConnect RTO.
- Held a technical conference on November 6, 2003 with the California Public Utilities Commission (CPUC), the California Energy Commission, the California Independent System Operator and interested parties to discuss the reformation of wholesale power markets in California, explore ways to flexibly meet regional electricity needs, and discuss issues related to a single state Regional State Committee.

Performance Measurement Data for Market Oversight

Goal: Protect Customers and Market Participants through Vigilant And Fair Oversight of Both Traditionally Regulated and Transitioning Energy Markets.

Performance Measurement	Performance Target	Result
Enhance institutional capability for overseeing energy markets	Improve metrics/indicators of gas and electric market performance measures	Staff developed standard performance metrics for all RTO/ISO markets that, beginning in calendar year 2004, became a part of the annual reporting done by the market monitoring units of each RTO/ISO. Additionally, a Daily Scorecard of metrics is posted on the Commission's intranet indicating daily gas and electric prices, weather, and gas futures.

In April 2004, the market monitoring units of each RTO/ISO presented five of the first common metrics to the Commission. These metrics provided for a region-by-region comparison of organized electricity markets and enhanced the Commission's understanding of the overall markets. This information can, and will, be used in the Commission's annual State of the Markets Report.

Performance Measurement	Performance Target	Result
Development of market expertise	30% of OMOI staff have energy market experience gained through direct activity in those markets	30% of OMOI staff have gained energy market expertise by engaging in energy market activities such as: ‣ attending RTO/ISO conferences and workshops; ‣ participating in monthly conference calls with MMUs; ‣ attending weekly OMOI oversight meetings on energy markets; and ‣ attending training sessions.

In addition to attending the training above, OMOI coordinated several formal, technical training courses for Commission staff working in market related activities. This included courses on:

- Locational Marginal Pricing (LMP);
- Optimizing GENCO Assets for New LMP Markets;
- Energy Markets Trading;
- Risk Management;
- Market Intelligence;
- Negotiations; and
- Derivatives.

Other Accomplishments

Investigations. The Commission opened over 300 investigations in FY2004 and was successful in reaching settlements that led to significant financial remedies and stringent compliance programs in many of those cases. Some of the more notable settlements involved the following issues:

- *Anomalous Bidding in the California Markets*. The Commission investigated inconsistent bidding behavior and practices in the California markets settling with four companies for a total of $77.5 million in disgorged profits.
- *California Refund Proceeding Settlements*. The Commission was instrumental in achieving refund proceeding settlements that arose from the 2000 and 2001 California energy crisis. Pending approval, these settlements will result in $628 million in refunds to consumers.
- *Gas Storage Information Investigation*. The Commission investigated companies sharing non-public natural gas storage information data with affiliates and favored customers. A settlement was reached with three companies imposing $8.1 million in refunds and civil penalties and strict compliance stipulations to thwart future violations.

Standards of Conduct. During 2004, the Commission adopted the new Standards of Conduct Order No. 2004. This order guides the behavior of Transmission Providers towards their affiliates who compete with non-affiliates for access to transmission capacity and compete in wholesale commodity markets. On September 22, 2004, the Commission began looking at the Internet and OASIS websites of 216 Transmission Providers to determine whether each of the providers posted their written procedures on how they are complying with the Standards of Conduct. Following this effort, the Commission will commence targeted on-site operational audits to determine if specific providers are complying with the remainder of the Standards of Conduct requirements.

Price Transparency. In May 2004, the Commission finalized its Report on Natural Gas and Electricity Price Indices. This report was a study analyzing the effects of the Commission's July 2003 Policy Statement on Natural Gas and Electric Price Indices. The Policy Statement set out standards for natural gas and electricity price index developers and the companies that report transaction data to index developers. The Commission found significant progress had been made in improving the index development process and required eleven energy companies identified in the report to reform their trade reporting processes or cease reporting.

Performance Measurement Data for Management Initiatives

Performance Measurement	Performance Target	Result
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	66% of all hires were at entry-levels
New staff from summer intern program	Hire 30% of participants into permanent positions	25% of summer interns were hired into permanent positions This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.

The Commission's FY 2005 Human Capital Plan update focuses on one of the Plan's primary targets, recruitment for entry level positions, which will address the Commission's aging population problem (particularly in mainstream occupations) and will become an integral part of the Commission's succession planning strategy.

Since this focus on entry level hiring began, the Commission has met or exceeded its goals by utilizing both its college recruitment and summer intern programs as sources for entry level hires. This strategy has been highly effective in providing an influx of new, young talent into mainstream occupations like engineering, auditing, energy analysis, environmental science, and law. These occupations are critical in supporting the Commission's goals in its dam safety inspection, market monitoring, electric reliability, LNG, and infrastructure initiatives.

To supplement this effort, the Commission is currently developing a Commission-wide employee retention program which will focus on entry level staff. This program will include a Commission-wide mentoring program, a structured "markets curriculum" training program that encompasses all aspects of the Commission's energy industry work, and other staff retention components. This focus on succession planning through aggressive entry level recruitment and retention is reflected in the Commission's FY 2005 performance measures.

Performance Measurement	Performance Target	Result
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	The net increase of 21 staff into high grade positions included 3 minorities (14%) and 7 women (33%).

The Commission continues to address the diversity of its high graded staff through direct recruitment efforts. Additionally, in an attempt to change the Commission's overall population demographics relative to diversity, the Commission will ensure that our entry level recruitment efforts focus on diversity candidates as well. Over time, this effort will increase the diversity of the Commission's in-house candidate pool from which to draw for our high grade selections.

Performance Measurement	Performance Target	Result
Improved executive performance	‣ Implement 360 degree assessment of senior staff ‣ Expand training in leadership and management skills	‣ Completed 360 degree assessments & feedback; ‣ Implemented and completed FERC-wide training for all new supervisors; ‣ Developed a Leadership & Management Development Program; and ‣ Initiated an Executive coaching pilot program.

Although the accomplishments described above focus strictly on the Commission's formally established or pilot programs, other initiatives are being developed to supplement these programs. For example, Commission-wide "business requirements" in the areas of both technical and supervisory/managerial (including executive) positions are being developed Commission-wide. Collectively, these requirements will form the basis for a Commission-wide identification of managerial skills areas and will lead to a more focused and consistent training and development program for both general and executive/managerial positions. On September 30, 2004, the Commission received provisional certification for its SES performance appraisal system. The Commission was one of the first government agencies to be certified by the Office of Personnel Management (OPM).

Performance Measurement	Performance Target	Result
Accuracy and completeness of annual financial statements	Unqualified opinion	Performance target achieved

In accordance with the President's Management Agenda, accurate financial reporting has become a critical element in depicting the Government's financial position. The Commission has received an unqualified opinion for ten consecutive years and has received no material weaknesses during the FY 2004 financial statement audit. This accomplishment validates the assertion that the Commission's internal controls and financial reporting are effective and accurate.

Performance Measurement	Performance Target	Result
Network availability	99%	Performance target achieved

In order to achieve the highest network availability rate, the Commission has historically taken a comprehensive network management approach by:

- utilizing best rated hardware;
- using alert notification software to monitor the network;
- requiring system change notice policy and procedures;
- utilizing testing procedures prior to any patch deployment;
- providing risk analysis to any proposed changes; and
- incorporating a contractor/government team approach.

In addition to the standard approach described above, the Commission made the following improvements during FY 2004:

- upgraded the interoffice routers;
- upgraded the infrastructure device operating system (IOS);
- upgraded the backup server and server controllers; and
- implemented enhancements to the network monitoring application.

Performance Measurement	Performance Target	Result
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	Overall, the Commission had a 93% performance rating according to the FISMA OMB metric. According to the Putman scorecard, the Commission had an 84% performance rating and moved from an F to a solid B. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.

While the Commission's actual FISMA compliance rate of 84% did not meet the 95% goal, it did mark a dramatic increase from last year's rate of 3%.

Additionally, the increase from an "F" to a "B" on the Putman scorecard, an extraordinary accomplishment particularly for a small agency, comes with no reportable problems or recommendations from the Department of Energy's Inspector General 2 month review.

Other Accomplishments

During FY 2004, the Commission continued to make progress on the implementation of FERC Online, the Commission's system for:

- integrated receipt, storage, disposition (through Commission voting or delegated program support), publication, and dissemination of documents and other related information to the public and regulated industries; and
- workload tracking and business planning support for regulatory activities.

Some of the FY 2004 FERC Online implementation milestones included:

- Completing development and beginning system testing of an eFiling system release that supports electronic service of documents and the electronic filing of tariffs;
- Completing development and beginning system testing of the first release of eService which will provide electronic distribution of documents to parties in Commission proceedings, as required by 18 CFR 385.2010(b);

- Deploying eLibrary releases to improve performance, reliability, and usability and beginning to digitize legacy microfilmed documents in order to reduce cost of operations;
- Deploying eForms updates to allow the quarterly filing of financial data previously filed only annually with FERC Forms 1, 2, and 6;
- Deploying an eTariff prototype application to provide a means for utilities to file tariffs with the Commission electronically and improve the ability of the public to retrieve those tariffs;
- Completing development and beginning system testing of the first phase of the Activity Tracking Management System (ATMS), an integrated, Commission-wide workload tracking system; and
- Deploying the Virtual Agenda system which provides Commission orders electronically to staff at different stages of the decision-making process, enables electronic notational voting, and provides orders to the public as they are finalized.

In addition to these accomplishments, the Commission also implemented several Information Technology (IT) process improvements that will allow us to continue to achieve positive results in the future. For example, the Commission:

- Formalized and applied its Capital Planning and Investment Control (CPIC) process prior to developing the FY 2006 OMB Performance Budget Request;
- Developed an Enterprise Architecture (EA) appropriate for a small agency and began using it as part of the CPIC process;
- Improved its IT contingency planning and prepared to begin testing the plans;
- Improved its process for Certification and Accreditation (C&A) of IT systems; and
- Documented IT systems development processes to compliment the Systems Development Life Cycle (SDLC) guidelines and Configuration Management (CM) plans. The Commission then began training and implementing the processes to achieve Capability Maturity Model Index (CMMI) level two and, subsequently, level three certification of its systems development activities.

Performance Measurement	Performance Target	Result
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	The Commission made a total of 94 presentations – in a variety of forums – to numerous stakeholders throughout FY 2004.

The Commission's presentations during FY 2004 included:

- the 19th World Energy Congress;
- the EarthSat/PIRA 2004 Energy Conference;
- the Risk Management for Energy Conference;
- the Committee of Chief Risk Officers Meeting;

- the 5th Annual Financing U.S. Power Conference;
- the Energy Finance Options for the State of California Conference; and
- the Annual Meeting of the North American Energy Standards Board (NAESB).

Performance Measurement	Performance Target	Result
Expand discussions with Canada and Mexico	Formal interaction with Canadian and Mexican regulators on policy issues	The Commission held or participated in 10 different meetings with Canadian and/or Mexican officials on issues related to infrastructure, reliability, and other policy initiatives.

The Commission signed a Memorandum of Understanding with the National Energy Board of Canada in which they expressed the intent to coordinate their efforts on significant energy infrastructure projects where related matters are pending before both agencies and, where practicable, coordinate the timing of the agencies' respective decision making. The Commission also signed a similar agreement with the Mexican regulatory authorities in early FY 2005.

The Commission also supports DOE and State Department energy related initiatives through its participation in:

- the North American Energy Working Group (NAEWG), which fosters improved trilateral collaboration on energy issues that have cross-border implications;
- the U.S.-Mexico Working Group on Electricity and Natural Gas Interconnections and Trade, which seeks ways to bolster bilateral energy trade;
- the U.S.-Mexico Binational Commission Energy Working Group's annual meeting on energy trade matters; and
- the U.S.-Canada Energy Consultative Mechanism's annual meeting on energy policy matters of mutual concern.

In its April 19, 2004, Policy Statement on Reliability, the Commission stated that it would work closely with Mexican and Canadian officials toward maintaining a safe and reliable interconnected North American bulk electric system through consistent cross-border treatment of reliability standards and regulation. Accordingly, the Commission and DOE and the Canadian Federal, Provincial and Territorial Working Group organized the Bilateral Electricity Reliability Organization Oversight Group to develop recommendations on how the U.S. and Canada might coordinate their regulatory approaches to the funding and governance of NERC and their approval of NERC's reliability standards.

Financial Performance Overview

As of September 30, 2004, the financial condition of the Commission was sound with sufficient funds to meet program needs and adequate control of these funds in place to ensure FERC obligations do not exceed budget authority. The Commission prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and with Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.

Sources of Funds. The FERC receives an appropriation from Congress that is available until expended. The Commission's FY 2004 new budget authority was $204.4 million. This represents an increase in new budget authority of approximately about $12.4 million over FY 2003. Additional funds available to obligate in FY 2004 were $3.6 million from prior-year appropriations. The sum of all funds available to obligate in FY 2004 was $208.5 million. The Commission also receives an appropriation from Congress to pay states the fees it collected for the occupancy and use of public lands. The appropriation related to payments to states in FY 2004 and 2003 was $2.9M.

Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1986, as amended, the Commission collected fees to offset 100% of its budget authority in FY 2004.

Uses of Funds by Function. The Commission incurred expenditures of $213.2 million in FY 2004, which was an increase of $10.5 million over FY 2003. Approximately 65 percent of obligations were used for salaries and benefits. The remaining 35 percent was used to obtain technical assistance for the Commission's principal regulatory programs, to cover operating expenses, (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. The unobligated budget authority available at the end of FY 2004 was $6.2 million, which is an increase of $2.7 million over the FY 2003 amount of $3.5 million.

Uses Of Funds By Function (millions)

Uses	**FY 2004**	**FY 2003**
Salaries and Benefits	$138.5	128.1
Travel/Transportation	2.8	2.5
Rent/Comm/ Utilities	21.7	20.5
Contract Support	32.1	29.9
Printing/Supplies/Other	17.9	21.4
Reimbursable Work	.2	.3

Audit Results. The Commission received an unqualified audit opinion on its FY 2004 financial statements. This was the tenth consecutive year the Commission has received an unqualified opinion. For FY 2004, no material weaknesses were identified by the audit.

Financial Statement Highlights. The Commission's financial statements summarize the financial activity and financial position of the agency. The financial statements, footnotes, and the balance of the required supplementary information appear in Chapter 3 of this report. Analysis of the principal statements follows.

Analysis of the Balance Sheet

The Commission's assets were approximately $140.3 million as of September 30, 2004. This is an increase of $1.7 million from the end of FY 2003. The assets reported in the Commission's Balance Sheet are summarized in the Asset Summary table.

Asset Summary (millions)

Asset	FY 2004	FY 2003
Fund Balance with Treasury	$104.7	87.7
Accounts Receivables, Net	23.1	25.3
Property, Plant, & Equipment, Net	8.3	10.5
Due from Regulated Entities	4.2	15.1
Total Assets	$140.3	138.6

The Fund Balance with Treasury represents the Commission's largest asset of $104.7 million as of September 30, 2004, an increase of $17 million from the FY 2003 year-end balance. This balance represents appropriated funds, collected license fees, and other funds maintained at the U.S. Treasury until final disposition is determined. The increase in the fund balance is primarily the result of $18.4 million collected for from companies that were in violation of the Federal Power Act.

Accounts Receivable, Net, as of September 30, 2004, were $64 million net of an offsetting allowance for doubtful accounts of $40.9 million.

The net book value of Property, Plant, and Equipment, Net, was $8.3 million. The balance is comprised of equipment, furniture, leasehold improvements, and computer hardware and software.

The Due from Regulated Entities in the amount of $4.2 million represents the adjustment made to reconcile revenue with costs since FERC is a full cost recovery agency.

The Commission's liabilities were $118.3 million as of September 30, 2004. The Liabilities Summary table shows an increase in total liabilities of $2 million from the FY 2003 year-end balance of $116.3 million.

Liabilities Summary (millions)

Liabilities	**FY 2004**	**FY 2003**
Accounts Payable	$9.1	7.9
Federal Employee Benefits	4.8	5.5
Other Liabilities	104.4	102.9
Total Liabilities	$118.3	116.3

The difference between total assets and total liabilities, net position, was $22.0 million as of September 30, 2004. The Net Position Summary table shows a decrease of $.3 million from the FY 2003 year-end balance. The decrease is net result of an increase in Unexpended Appropriations, which is the amount of authority granted by Congress that has not been expended, and a decrease in Cumulative Results of Operations, which represents the net results of operations since the Commission's inception.

Net Position Summary (millions)

Position	**FY 2004**	**FY 2003**
Unexpended Appropriations	$17.5	14.8
Cumulative Results of Operations	4.5	7.5
Total Net Position	$22.0	22.3

Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of the Commission's three strategic goals as identified in the Commission’s Strategic Plan. The purpose of this statement is to show separately the components of the net cost of operations that will provide information that can be linked to program performance under GPRA reporting to the cost of programs. The Commission's net cost of operations for the year ended September 30, 2004, was $.07 million, which is a decrease of $.11 million over the FY 2003 net cost of $.18 million. In FY 2004, the Commission was more effective in reporting on the recovery of its costs. Net costs by strategic goal are shown in the Net Cost of Operations table.

Net Cost Of Operations (millions)

Operation	FY 2004	FY 2003
Goal 1	$.05	.11
Goal 2	$.01	.04
Goal 3	$.01	.03

Analysis of Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components: Cumulative Results of Operations and Unexpended Appropriations. The decrease in Net Position of $.3 million from FY 2003 to FY 2004 represents the net change in Cumulative Results and Unexpended Appropriations.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources shows the sources of budgetary resources available and the status at the end of the period. It presents the relationship between budget authority and budget outlays, and reconciles obligations to total outlays. For FY 2004, the Commission had budgetary resources available of $211 million, the majority of which was derived from new spending authority. This represents an increase of $14 million over FY 2003 budgetary resources available of $197 million.

The status of budgetary resources includes obligations incurred of $204.7 million, or 97 percent of funds available. Similarly, FY 2003 obligations incurred were $193.4 million, or 98 percent of funds available. Total net inflows for FY 2004 were $15.4 million, which represents a $7.4 million decrease from FY 2003 total net inflows of $8 million.

Analysis of the Statement of Financing

The Statement of Financing is designed to provide the bridge between financial (proprietary) accounting in the Statement of Net Cost and budgetary accounting information in the Statement of Budgetary Resources by reporting the differences and reconciling the two statements. This reconciliation ensures that the proprietary and budgetary accounts in the financial management system are in balance. The Statement of Financing reconciles budgetary obligations incurred of $205 million to the net cost of operations of $ .07 million by adding nonbudgetary resources, and deducting costs not requiring resources and financing sources yet to be provided.

Analysis of the Statement of Custodial Activity

The Statement of Custodial Activity displays the total Custodial Revenue Activity of another entity and the Disposition of Collections related to that revenue activity. This statement ensures the proper revenue of another agency is not reported on the Commission's Statement of Net Cost so the revenue will not be reported twice. In FY 2004, the Commission reported $ 23.9 in custodial activity compared to $ 36.6 in FY 2003. This decrease is primarily a result of a $20 million dollar civil penalty issued in FY 2003.

Controls, Systems, and Legal Compliance

This section provides information on the Commission's compliance with the:

- Federal Managers' Financial Integrity Act of 1982;
- Federal Financial Management Improvement Act of 1996;
- Prompt Payment Act; and
- Debt Collection Improvement Act of 1996

Federal Managers' Financial Integrity Act. The Federal Managers' Financial Integrity Act of 1982 (Integrity Act) mandates that agencies establish controls that reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. This act encompasses program, operational, and administrative areas as well as accounting and financial management. The act requires the Chairman to provide an assurance statement on the adequacy of management controls and conformance of financial systems with Government wide standards.

Integrity Act Statement

During fiscal year 2004, the Commission responded to the challenge of a changing energy industry as it becomes more competitive. Our strategic plan contains four primary Commission goals which reflect the Commission's vision of "dependable, affordable energy through sustained competitive markets." We are progressing on each goal and are tracking our achievements so that the real benefits of competition to consumers and the industry are not delayed. Our goals are: (1) Promote a secure, high quality, environmentally responsible infrastructure through consistent policies; (2) Foster nationwide competitive energy markets as a substitute for traditional regulation; (3) Protect customers and market participants through vigilant and fair oversight of the transitioning energy markets; and (4) Strategically manage agency resources.

To accomplish our goals, we must manage our resources efficiently and integrate our budget, business plan, performance measures, and management controls to improve performance and accountability. We have developed a business plan that outlines detailed objectives and resources for each goal and through this plan we track our progress. Problems that impede our progress continue to be brought to the attention of management and resolved within the Commission at the appropriate level. The auditors' FY 2003 report on the Commission's internal control structure disclosed no material weaknesses or reportable conditions and no instances of noncompliance with laws and regulations. We will continue to maintain a strong management control system.

Pat Wood, III
Chairman
Federal Energy Regulatory Commission
September 10, 2004

Management Control Review Program

Managers throughout the Commission are responsible for ensuring that effective controls are implemented in their areas of responsibilities. Each office director and regional administrator prepared an annual assurance statement that identified any control weaknesses that required the attention of the Chairman. These statements were based on various sources and included:

- Management knowledge gained from the daily operation of agency programs and reviews;
- Management reviews;
- Annual performance plans; and,
- Inspector General and Government Accountability Office reports.

The Commission's ongoing management control program requires, among other things, that management control deficiencies be integrated into office action plans. The action plan process has provisions for periodic updates and for attention from senior managers. The management control information in these plans, combined with the individual assurance statements discussed previously, provides the framework for monitoring and improving the agency's management controls on an ongoing basis.

FY 2004 Integrity Act Results

The Commission evaluated its management control systems for the fiscal year ending September 30, 2004. This evaluation provided reasonable assurance that the Commission's management controls achieved their intended objectives. As a result, management concluded that the Commission did not have any material weaknesses in its programmatic or administrative activities.

Federal Financial Management Improvement Act. The Federal Financial Management Improvement Act of 1996 (Improvement Act) requires each agency to implement and maintain systems that comply substantially with: (i) Federal financial management system requirements, (ii) applicable Federal accounting standards, and (iii) the U.S. Government standard general ledger at the transaction level. The act requires the Chairman to determine whether the agency's financial management systems comply with the Improvement Act and to develop remediation plans for systems that do not comply.

FY 2004 Improvement Act Results

As of September 30, 2004, the Commission evaluated its financial management system to determine if it complied with applicable federal requirements and accounting standards required by the Improvement Act. We found that the Commission's financial management system was in substantial compliance with the Federal financial management system requirements. In making this determination we undertook financial reporting tests of the system and reviewed entries at the transaction level, determined compliance with Federal requirements and accounting standards required by the Improvement Act.

Prompt Payment. The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. For FY 2004, the Commission made 98% of its payments that were subject to the Prompt Payment Act on-time. In FY 2003, the Commission made over 99% of its payments that were subject to the Prompt Payment Act on-time. The Commission incurred $1,183 in interest penalties in FY 2004, which was an increase over the FY 2003 amount of $ 45. The agency made 99.9% of its vendor payments electronically.

Debt Collection. The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the Federal Government to service and collect debts. The agency goal is to maintain the delinquent debt owed to the Commission at year-end at less than two percent of its current annual billings. Delinquent debt at the end of FY 2004 was $3.1 million and less than two percent of its current annual billings. The Commission continues to aggressively pursue the collection of delinquent debt and continues to meet the requirement that all eligible delinquent debt over 180 days is referred to the U.S. Treasury for collection.

Possible Future Effects of Existing Events and Conditions

Certain hydroelectric licensees have filed appeals on two basic grounds. First, some licensees contend that the Commission uses flawed methodology to calculate the "other agency costs" (costs incurred by other federal agencies in administering Part I of the Federal Power Act) component of the licensees' annual charges. Second, some licensees dispute the dollar amount of the annual charges assessed by the Commission. The combined liability of these appeals total $47.5 million as of September 30, 2004; this amount is included herein as revenue collected under protest. If the licensees ultimately prevail in their claims against the Commission, then the Commission might be obligated to grant legal or equitable relief not only to all appellants, but also to all other similarly situated licensees. If the Commission loses any of these cases, it would be liable for the amount(s) of the judgment(s) rendered against it. However, this contingent liability is fully funded and therefore poses no adverse or material future effect on the Commission's financial position.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the FERC, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the FERC in accordance with accounting principles generally accepted in the United States of America for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

This page intentionally left blank.

Financial Statements

This page intentionally left blank.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Federal Energy Regulatory Commission and the
Inspector General, United States Department of Energy:

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission (the Commission) as of September 30, 2004 and 2003, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activities for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the Commission's internal control over financial reporting and tested the Commission's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the Commission's financial statements as of and for the years ended September 30, 2004 and 2003 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the Commission restated the fiscal year 2003 statements of budgetary resources and financing.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Commission's financial statements, our consideration of the Commission's internal control over financial reporting, our tests of the Commission's compliance with certain provisions of applicable laws, regulations, and contracts, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission as of September 30, 2004 and 2003, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the Commission restated the fiscal year 2003 statements of budgetary resources and financing.

The information in the Management's Discussion and Analysis and Note 15 to the financial statements is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Performance Report section and the Appendices is an integral part of the Commission's Fiscal Year 2004 Performance and Accountability Report. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. This information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

We did, however, note other matters involving internal control over financial reporting and its operation that we have reported to the management of the Commission in a separate letter dated February 4, 2005.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance with certain provisions of laws, regulations, and contracts described in the Responsibilities section of this report, exclusive of those referred to in *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed no instances in which the Commission's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

RESPONSIBILITIES

Management's Responsibilities

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;

- Establishing and maintaining internal controls over financial reporting, and preparing the Management's Discussion and Analysis (including the performance measures) and Required Supplementary Information, and

- Complying with laws, regulations, and contracts, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2004 and 2003 financial statements of the Commission based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2004 audit, we considered the Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Commission's fiscal year 2004 financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Commission. Providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Commission's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of the Commission's management, the Department of Energy's Office of the Inspector General, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 4, 2005

FEDERAL ENERGY REGULATORY COMMISSION

Balance Sheets

September 30, 2004 and 2003

	2004	2003
Assets		
Intragovernmental assets:		
Fund balances with Treasury (note 4)	$ 104,689,587	$ 87,704,134
Intragovernmental receivables (note 5)	-	249,664
Total intragovernmental assets	104,689,587	87,953,798
Accounts receivable, net (note 5)	23,086,707	25,022,971
Due from regulated entities (note 6)	4,155,134	15,094,967
Property and equipment, net (note 7)	8,292,117	10,531,658
Other assets	28,425	2,048
Total assets	$ 140,251,970	$ 138,605,442
Liabilities and net position		
Intragovernmental liabilities:		
Accounts payable	$ 2,709,493	$ 1,489,726
Accrued payroll benefits	744,160	527,391
Resources transferable to Treasury and other Federal entities (note 6)	17,320,540	40,238,611
Miscellaneous receipts transferable to Treasury	15,783	25,700
Workers' compensation payable (note 9)	568,456	521,508
Total intragovernmental liabilities	21,358,432	42,802,936
Accounts payable	6,411,849	6,408,615
Accrued payroll and benefits	4,102,110	4,406,338
Collections due to states	1,257	267,468
Revenue collected under protest (note 12)	45,034,808	48,477,802
Resources transferable to other entities from disgorged funds	28,416,937	-
Refunds and other amounts due	2,497,804	4,177,329
Accrued leave (note 9)	10,450,527	9,760,361
Advances from others	-	29,855
Total liabilities	118,273,724	116,330,704
Commitments and contingencies (notes 8 and 12)		
Net position:		
Unexpended appropriations	17,482,193	14,802,030
Cumulative results of operations	4,496,053	7,472,708
Total net position	21,978,246	22,274,738
Total liabilities and net position	$ 140,251,970	$ 138,605,442

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Net Cost

Years ended September 30, 2004 and 2003

	2004				2003			
	Energy infrastructure	Competitive markets	Market oversight	Total	Energy infrastructure	Competitive markets	Market oversight	Total
Costs:								
Regulation:								
Intragovernmental	$ 35,522,400	$ 9,013,146	$ 8,482,961	$ 53,018,507	$ 32,837,214	$ 11,122,282	$ 9,003,753	$ 52,963,249
Public	107,217,145	27,204,350	25,604,094	160,025,589	92,637,712	31,377,290	25,400,663	149,415,665
Total	142,739,545	36,217,496	34,087,055	213,044,096	125,474,926	42,499,572	34,404,416	202,378,914
Less earned revenue – with the public	142,739,303	36,217,435	34,086,997	213,043,735	125,363,750	42,461,916	34,373,932	202,199,598
Net program costs	242	61	58	361	111,176	37,656	30,484	179,316
Other programs:								
Intragovernmental	5,377	1,364	1,284	8,025	1,978	670	542	3,190
Public	121,721	30,884	29,068	181,673	181,598	61,509	49,793	292,900
Total	127,098	32,248	30,352	189,698	183,576	62,179	50,335	296,090
Less earned revenue – intragovernmental	79,332	20,129	18,945	118,406	183,576	62,179	50,335	296,090
Net other program costs	47,766	12,119	11,407	71,292	-	-	-	-
Total net cost of operations	$ 48,008	$ 12,180	$ 11,465	$ 71,653	$ 111,176	$ 37,656	$ 30,484	$ 179,316

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Changes in Net Position

Years Ended September 30, 2004 and 2003

	2004		2003	
	Cumulative results of operation	Unexpended appropriations	Cumulative results of operation	Unexpended appropriations
Beginning balances	$ 7,472,708	$ 14,802,030	$ 11,466,528	$ 11,652,047
Budgetary financing sources:				
Appropriations received	-	204,400,000	-	192,000,000
Appropriations used	201,656,613	(201,656,613)	188,825,215	(188,825,215)
Unexpended appropriation – adjustment	-	(63,224)	-	(24,802)
Other financing sources:				
Transfers – out to Treasury without reimbursement	(211,585,030)	-	(202,772,655)	-
Imputed financing from costs absorbed by others	7,023,415	-	10,132,936	-
Total financing sources	(2,905,002)	2,680,163	(3,814,504)	3,149,983
Net cost of operations	(71,653)	-	(179,316)	-
Ending balances	$ 4,496,053	$ 17,482,193	$ 7,472,708	$ 14,802,030

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Budgetary Resources

Years Ended September 30, 2004 and 2003

	2004	2003 (Restated - see note 14)
Budgetary resources:		
Budget authority	$ 2,928,592	$ 2,866,943
Unobligated balance, beginning of period	3,587,488	1,805,305
Spending authority from offsetting collections earned	204,400,000	192,000,000
Reimbursements and other collections earned	76,814	292,407
Total budgetary resources	$ 210,992,894	$ 196,964,655
Status of budgetary resources:		
Obligations incurred	$ 204,744,433	$ 193,377,167
Unobligated balances available and apportioned	6,248,461	3,524,264
Unobligated balances – not available	-	63,224
Total status of budgetary resources	$ 210,992,894	$ 196,964,655
Relationship of obligations to outlays (inflows):		
Obligated balance, net – beginning of period	$ 24,212,895	$ 34,046,107
Obligations incurred	204,744,433	193,377,167
Spending authority from offsetting collections	(204,476,814)	(192,292,407)
Obligated balance, net – end of period (note 11)	(25,161,699)	(24,212,895)
Total outlays (inflows)	$ (681,185)	$ 10,917,972
Outlays (inflows):		
Disbursements	$ 203,919,415	$ 203,133,815
Collections	(204,600,600)	(192,215,843)
Total outlays (inflows) before offsetting receipts	(681,185)	10,917,972
Less: offsetting receipts	(14,704,360)	(18,916,145)
Net inflows	$ (15,385,545)	$ (7,998,173)

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Financing

Years Ended September 30, 2004 and 2003

	2004	2003 (Restated - see note 14)
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$ 204,744,433	$ 193,377,167
Less: spending authority from offsetting collections	(204,476,814)	(192,292,407)
Obligations, net of offsetting collections	267,619	1,084,760
Less: offsetting receipts	(14,704,360)	(18,916,145)
Net obligations	(14,436,741)	(17,831,385)
Other resources:		
Transfers-out, net of appropriations received	(7,185,030)	(10,772,655)
Imputed financing from costs absorbed by others	7,023,415	10,132,936
Net other resources used to finance activities	(161,615)	(639,719)
Total resources used to finance activities	(14,598,356)	(18,471,104)
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods/services/benefits ordered but not yet provided	31,014	(1,505,058)
Resources that finance the acquisition of assets	(188,748)	(183,102)
Budgetary offsetting receipts that do not affect the net cost of operations	14,704,360	18,916,145
Payments to States	(2,991,816)	(2,891,743)
Total resources used to finance items not part of the net cost of operations	11,554,810	14,336,242
Total resources used to finance the net cost of operations	(3,043,546)	(4,134,862)
Components of the net cost of operations that will not require or generate resources in the current period:		
Components requiring or generating resources in the future periods – increase in unfunded liabilities	737,113	321,132
Components not requiring or generating resources:		
Depreciation and amortization	2,428,289	3,855,789
Other	(50,203)	137,257
Total components of net cost of operations that will not require or generate resources	2,378,086	3,993,046
Total net cost of operations that do not require or generate resources in the current period	3,115,199	4,314,178
Net cost of operations	$ 71,653	$ 179,316

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Custodial Activity

Years Ended September 30, 2004 and 2003

	2004	2003
Sources of collections:		
Cash collections – annual charges	$ 28,198,826	$ 20,645,218
Accrual adjustment	(4,256,613)	15,924,643
Total custodial revenue	23,942,213	36,569,861
Disposition of collections:		
Transferred to others:		
United States Army – Corps of Engineers	(6,627,009)	(7,164,221)
Department of Interior	(6,338,461)	(5,991,877)
United States Treasury	(12,261,615)	(4,813,878)
Various states	(2,993,073)	(2,891,743)
Decrease (increase) in amounts to be transferred	4,277,945	(15,708,142)
Net custodial activities	$ -	$ -

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION
Notes to Financial Statements
September 30, 2004 and 2003

(1) Description of Reporting Entity

The Federal Energy Regulatory Commission (the Commission) is an independent federal agency that oversees key operating functions of the United States' natural gas and oil pipeline transportation, electric utility, and hydroelectric power industries.

The Commission was created through the Department of Energy's (DOE) Organization Act on October 1, 1977. The Commission's predecessor, the Federal Power Commission (FPC), established in 1920, was abolished, and the Commission inherited a significant portion of FPC's energy agenda.

The Commission administers laws and regulations involving key energy issues. These include transportation and sale of natural gas and oil in interstate commerce; regulation of electric utility wholesale rates and transactions; licensing and inspection of private, municipal, and state hydroelectric projects; and oversight of related environmental matters.

The Commission's main legal authority is derived from the Federal Power Act of 1935 (FPA), the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978, and the Public Utility Regulatory Policies Act of 1978.

The Commission's activities are separated into the following three segments.

Energy Infrastructure

The Commission's overall objective is to encourage investment in the infrastructure needed to sustain energy markets by removing roadblocks, providing cost recovery clarity and welcoming innovative thinking about rates and use of new technology. By focusing on infrastructure, this segment covers many of the Commission's important traditional activities, for example, pipeline certificates, hydropower licenses and preliminary permits, compliance activities, environmental and other licensing conditions, dam safety inspections and most rate determinations.

Competitive Markets

Another Commission objective is to complete the transition to competitive energy markets as quickly and comprehensively as possible. This requires the growth of certain new institutions, particularly clearly defined and independent regional transmission organizations (RTOs), to make electric markets work. The Commission also needs to establish balanced, self-enforcing market rules in wholesale electric markets, and encourage continued efforts by industry groups to standardize reliability and business practice standards, promote the use of demand-side participation in energy markets, and establish regional transmission planning. Along with some traditional work in the area of rate determinations, this segment includes work on initiatives begun in the last couple of years such as RTOs and new policies for natural gas.

Market Oversight

The Commission also needs to ensure that competitive energy markets benefit the Nation over the long run. The Commission must offer the public and market participants credible assurance that the Commission will identify and remedy energy market problems to maintain just and reasonable rates. At the systemic level, the Commission needs to recognize problems when or before they develop and craft solutions quickly. The Commission must be able to police individual behavior in markets much more effectively than in the past. Work in this segment includes activities related to litigation, dispute resolution, complaints, mergers and auditing.

Cost Recovery

As described below, the Commission recovers 100% of its annual appropriation from the U.S. Treasury (the Treasury) through annual charges and filing fees authorized by the Omnibus Budget Reconciliation Act of 1986 and other laws.

Annual Charges

The Commission recovers most of its administrative program costs through allocated annual charges to the entities it regulates, regardless of the number or type of services rendered to any particular entity during the year. The annual charge assessed in a fiscal year is based on an estimate of costs to be incurred during that year. Final program costs are determined from year-end accounting reports and time distribution reports by office and program. The difference in assessments that results from estimated versus final program costs is an adjustment to the following fiscal year's assessments.
The authority and related implementation methods for the annual changes are summarized as follows:

Hydropower

Authority – Section 10(e) of FPA makes the general provision that licensees under Part I of FPA shall pay reasonable annual charges to compensate the federal government for the costs of administering Part I.

Implementation – The methods for assessing annual charges to hydropower licensees are codified at 18 Code of Federal Regulations (C.F.R.) Part 11. Costs are prorated based on capacity (municipal projects), on capacity and generation (nonmunicipal projects), or on a flat rate per horsepower under 1,000 (minor projects).

Gas, Electric, and Oil

Authority – Section 3401 of the Omnibus Budget Reconciliation Act of 1986 provides that the Commission shall "assess and collect fees and annual charges in any fiscal year in amounts equal to all of the costs incurred by the Commission in that fiscal year." It further provides that "fees or annual charges assessed shall be computed on the basis of methods that the Commission determines, by rule, to be fair and equitable."

Implementation – The methods for assessing annual charges to gas and oil pipelines and to electric utilities and power marketing administrations are codified at 18 C.F.R. Parts 382.201-203. Costs are prorated to gas pipelines based on volume transported and sold, to electric utilities and power marketing administrations based on energy sold, and to oil pipelines based on operating revenues.

Filing Fees

Filing fees are calculated annually. Regulated entities pay the current fee when filing with the Commission for a specific service. The fees are based on the average time spent to perform the particular type of service and the average cost per employee, including salary, benefits, and indirect costs. Fee structure and procedures are codified in 18 C.F.R. Part 381.

The Independent Offices Appropriations Act of 1952 (IOAA) authorizes agencies to prescribe regulations establishing charges for services, benefits, or items of value provided by an agency. In establishing a fee under the IOAA, the Commission must:

- Identify the service for which the fee is to be assessed;
- Explain why that particular service benefits an identifiable recipient more than it benefits the general public;
- Base the fee on as small a category of service as possible; and
- Demonstrate what direct and indirect costs are incurred by the Commission in rendering the service.

Section 3401 of the Omnibus Budget Reconciliation Act of 1986 also provides for fees and annual charges "computed on the basis of methods that the Commission determines, by rule, to be fair and equitable."

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared to report the financial position of the Commission and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity in accordance with accounting principles generally accepted in the United States of America applicable to federal government entities.

These financial statements have also been prepared in accordance with the form and content for financial statements specified by Office of Management and Budget (OMB) in Bulletin No. 01-09, *Form and Content of Agency Financial Statements.*

The financial statements include all activity related to the Commission's portion of appropriation (89X0212), including the budget authority allotted by DOE to other DOE agencies. In addition, the Commission receives small allotments from DOE appropriation (89X5105). Both of the Commission's appropriations relate to budget functional classification code 276, Energy Information Policy and Regulation.

Entity assets disclosed in notes 3 and 5 include those assets that the Commission has the authority to use in its operations.

Non-entity assets disclosed in notes 3 and 5 include those assets that result from the Commission's custodial billing activities for other federal agencies, including the Army Corps of Engineers, the Department of Treasury and the Department of Interior.

(b) Budgets and Budgetary Accounting

Congress annually adopts a budget appropriation that provides the Commission with authority to use funds from the Treasury to meet its operating and capital expenditure requirements. The appropriated funds are not restricted to use in a specific fiscal year. All revenue from annual charges and filing fees is remitted to the Treasury when received.

(c) Basis of Accounting

The Commission's financial statements are prepared using the accrual method of accounting. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the period(s) when those transactions, events, and circumstances occur, regardless of when cash is received or paid. The Commission also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority at the various stages of execution, including allotment, obligation, and eventual outlay.

(d) Revenue and Financing Sources

As described above, the Commission receives funds for its operating and capital expenditures through an appropriation allotment from DOE. For financial statement purposes, the appropriation allotment is recognized as a financing source when operating expenses (primarily salaries and benefits), other than depreciation, are incurred and when capital assets are purchased.

The Commission recognizes revenue for hydropower, gas, oil, and electric annual charges when earned. Annual charges are based on estimated current year program costs and adjustments from the prior year. At year-end, the Commission records a due from or to regulated entities to reflect the difference between the charges and the actual program costs for the year. The Commission adjusts the subsequent year's charge for such amount. Revenue is recognized for filing fees when received.

The Commission recognizes an imputed financing source for the estimated annual pension and life and health insurance costs in excess of contributions made by the Commission during the year. These costs will ultimately be funded by the Office of Personnel Management.

Reimbursable work agreement revenue, included in other programs' earned revenue, is recognized when the related services are rendered.

Transfers-out represent receipts collected and remitted to the Treasury during the year and net accounts receivable that, once collected, will be returned to the Treasury, less any amounts due to regulated entities for the excess of estimated and billed costs over actual costs incurred.

(e) Fund Balances with Treasury

The Commission does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Treasury. The balance of funds with the Treasury represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services that have not been received.

(f) Allowance for Doubtful Accounts

The Commission calculates its allowance for doubtful accounts using historical collection data and specific account analysis.

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Commission capitalizes property (other than furniture) and equipment purchases with a cost greater than $25,000 and a total useful life exceeding two years. The Commission capitalizes furniture purchases with a cost greater than $50,000, and commercially purchased or developed software with a cost greater than $25,000. Depreciation is calculated based on an estimated useful life of 20 years for leasehold improvements, 10 years for furniture, 2 to 5 years for commercially purchased or developed software, and 5 years for all remaining assets. Expenditures for repairs and maintenance are charged to program costs as incurred.

(h) Liabilities

Liabilities represent amounts owed by the Commission as the result of transactions or events that have occurred as of year-end. Liabilities for which Congress has not appropriated funds are disclosed in note 9 as liabilities not covered by budgetary resources.

(i) Revenue Collected Under Protest

Revenue collected under protest is deferred and recorded as a liability until the protest is resolved.

(j) Collections Due to States

The Commission disburses 50% of the fees it collects from licensees for the occupancy and use of public lands to affected states in the year following collection. These collections are initially deposited into the Treasury's miscellaneous receipts fund.

(k) Accrued Leave

Annual leave is accrued as a liability as it is earned. The accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates. To the extent that the current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations. Sick leave and other types of nonvested leave are charged to expense as the leave is used.

(l) Workers' Compensation Payable

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Commission's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Commission. The workers' compensation payable represents unpaid billings to DOL. An actuarial estimate of unbilled claims is recorded by DOE at the departmental level and was not separately calculated for the Commission.

(m) Disgorged Funds

The Commission seeks to detect abuses of market power or statutory or rule violations by investigating observed market anomalies, complaints, and referrals from regional transmission organizations and/or independent system operators, and by conducting both targeted and random audits. Once the Commission identifies violations, it applies remedies to mitigate the effects of market power, requires disgorgement of unjust profits where appropriate, and imposes civil penalties or other sanctions when available under existing laws.

(n) Net Position Accounts

Net position account balances consist of the following components:

Unexpended appropriations – Represents amounts of spending authority that are unobligated and available to the Commission, or obligated but not expended.

Cumulative results of operations – Represents the Commission's net results of operations since inception, including (1) the amount in the Special Receipts Fund Balance with Treasury, (2) the cost of property and equipment acquired that has been financed by appropriations, less accumulated depreciation, and (3) the amount of appropriated funding that will be needed in future periods to liquidate liabilities incurred through the current fiscal year. Funding for these items is generally received in the year that amounts become due and payable.

(o) Classification of Costs

On the Statement of Net Cost, costs classified as "Intragovernmental" represent the cost of goods or services obtained from Federal entities. Costs classified as "Public" represent the cost of goods or services obtained from non-Federal entities.

(p) Tax Status

The Commission, as a Federal agency, is not subject to Federal, state, or local income taxes, and accordingly, no provision for income tax is recorded.

(q) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(r) Comparative Data

Certain FY 2003 amounts have been reclassified to conform to the FY 2004 presentation. In addition, adjustments identified in FY 2004 resulted in the restatement of several FY 2003 reported amounts (see note 14).

(3) Non-Entity Assets

Non-entity assets at September 30, 2004 and 2003 consisted of:

	2004	2003
Fund balances with Treasury:		
Appropriated fund balance with Treasury	$ -	$ 63,223
Collections due to states	1,257	210,327
Disgorged funds	18,399,845	-
Special receipts fund	7,222,919	7,222,919
Receipts held to pay refunds and other amounts due	2,497,804	4,177,329
Other	122,793	25,700
Accounts receivable, net	22,254,689	16,559,936
Total non-entity assets	50,499,307	28,259,434
Total entity assets	89,752,663	110,346,008
Total assets	$ 140,251,970	$ 138,605,442

(4) Fund Balances with Treasury

Fund balances with Treasury at September 30, 2004 and 2003 consisted of:

		2004		2003
Fund balances:				
Appropriated funds	$	31,410,161	$	27,590,057
Revenue collected under protest		45,034,808		48,477,802
Disgorged funds		18,399,845		-
Special receipts fund		7,222,919		7,222,919
Other		2,621,854		4,413,356
Total	$	104,689,587	$	87,704,134
Unobligated balance:				
Available	$	6,248,461	$	3,524,264
Unavailable		73,279,427		59,966,975
Obligated balance not yet disbursed		25,161,699		24,212,895
Total	$	104,689,587	$	87,704,134

(5) Accounts Receivable

Entity and nonentity accounts receivable at September 30, 2004 and 2003 consisted of:

		2004				
		Annual charges (note 6)		Other		Total
Entity						
Uncollected billings	$	6,990,365	$	22,343	$	7,012,708
Allowance for doubtful accounts		(6,169,717)		(10,973)		(6,180,690)
Total entity accounts receivable, net		820,648		11,370		832,018
Nonentity						
Uncollected billings		14,389,068		42,596,266		56,985,334
Allowance for doubtful accounts		(2,169,205)		(32,561,440)		(34,730,645)
Total nonentity accounts receivable, net		12,219,863		10,034,826		22,254,689
Total accounts receivable, net	$	13,040,511	$	10,046,196	$	23,086,707

	2003		
	Annual charges (note 6)	**Other**	**Total**
Entity			
Uncollected billings	$ 13,516,825	$ 99,646	$ 13,616,471
Allowance for doubtful accounts	(4,875,976)	(27,796)	(4,903,772)
Total entity accounts receivable, net	8,640,849	71,850	8,712,699
Nonentity			
Uncollected billings	18,543,962	253,962	18,797,924
Allowance for doubtful accounts	(2,171,280)	(66,708)	(2,237,988)
Total nonentity accounts receivable, net	16,372,682	187,254	16,559,936
Total accounts receivable, net	$ 25,013,531	$ 259,104	$ 25,272,635

(6) Resources Transferable to Treasury and Other Federal Entities

Resources transferable to Treasury and other entities at September 30, 2004 and 2003 consist of:

	2004	**2003**
Net accounts receivable, related to annual charges (note 5)	$ 13,040,511	$ 25,013,531
Due from regulated entities	4,155,134	15,094,967
Accounts receivable and amounts due from regulated entities transferable to Treasury	17,195,645	40,108,498
Net accounts receivable transferable to other Federal entities	124,895	130,113
Total resources transferable to Treasury and other Federal entities	$ 17,320,540	$ 40,238,611

(7) Property and Equipment, Net

Property and equipment and related accumulated depreciation at September 30, 2004 and 2003 consisted of:

	2004		
	Acquisition amount	**Accumulated depreciation**	**Net**
Equipment	$ 5,074,381	$ 3,770,729	$ 1,303,652
Furniture	9,070,773	8,025,742	1,045,031
Leasehold improvements	9,491,415	4,231,828	5,259,587
Software	11,321,496	10,637,649	683,847
Total	$ 34,958,065	$ 26,665,948	$ 8,292,117

	2003		
	Acquisition amount	**Accumulated depreciation**	**Net**
Equipment	$ 4,885,633	$ 3,375,716	$ 1,509,917
Furniture	9,070,773	7,118,665	1,952,108
Leasehold improvements	9,491,415	3,757,257	5,734,158
Software	11,321,496	9,986,021	1,335,475
Total	$ 34,769,317	$ 24,237,659	$ 10,531,658

(8) Building Leases

The General Services Administration (GSA) enters into lease agreements for government buildings and maintains those lease agreements. The Commission pays GSA a standard level users charge for the annual rental of building space. The standard level users charge approximates the commercial rental rates for similar properties. The Commission is not legally a party to any building lease agreements; therefore, the Commission does not disclose future minimum lease payments on buildings. Expenses incurred for building leases amounted to $19.5 million and $18.5 million for fiscal years ended September 30, 2004 and 2003, respectively.

(9) Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources at September 30, 2004 and 2003 consisted of:

	2004	**2003**
Intragovernmental — workers' compensation payable	$ 568,456	$ 521,508
Accrued leave	10,450,527	9,760,361
Total	$ 11,018,983	$ 10,281,869

(10) Pension Expense

Commission employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7% of their basic pay to the plan, and the Commission makes a matching contribution. For employees participating in the FERS program, the Commission makes a contribution of 10.7% of basic pay.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect either to join FERS and Social Security or remain in CSRS. FERS offers a savings plan in which the Commission automatically contributes 1% of employees' basic pay and matches any employee contribution up to an additional 4% of basic pay. For most employees hired since December 31, 1983, the Commission also contributes the employer's matching share for Social Security.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is therefore not disclosed by the Commission. Total pension expense paid by the Commission for both plans for fiscal years 2004 and 2003 was approximately $10.0 million and $9.9 million, respectively. During fiscal years 2004 and 2003, an additional $7.0 million and $10.1 million, respectively, of pension and life and health insurance expense was recognized by the Commission for amounts that will ultimately be funded through the Office of Personnel Management. This amount is also recorded as an imputed financing source.

(11) Statement of Budgetary Resources

The obligated balance, net – end of period at September 30, 2004 and 2003 is comprised of the following components:

		2004		2003
Accounts receivable	$	-	$	(110,834)
Unfilled customer orders from Federal sources		(100,140)		(113,092)
Undelivered orders		11,294,227		11,394,424
Accounts payable		13,967,612		13,042,397
Total obligated balance, net – end of period	$	25,161,699	$	24,212,895

(12) Contingencies

Certain hydroelectric licensees have filed appeals on two basic grounds. First, some licensees contend that the Commission uses flawed methodology to calculate the "other agency costs" (costs incurred by other federal agencies in administering Part I of the FPA component of the licensees' annual charges. Second, some licensees dispute the dollar amount of the annual charges assessed by the Commission. The combined liability of these appeals total $45.035 million and $48.478 million as of September 30, 2004 and 2003, respectively; those amounts are included herein as revenue collected under protest. If the licensees ultimately prevail in their claims against the Commission, then the Commission might be obligated to grant legal or equitable relief not only to all appellants, but also to all other similarly situated licensees.

In addition, the Commission has two cases pending in the United States District Court for the District of Columbia and two cases pending at the Equal Employment Opportunity Commission. If the Commission loses any of these cases, it would be liable for the amount(s) of the judgment(s) rendered against it. Related losses cannot be estimated at this time.

(13) Custodial Activity

The Commission currently bills regulated companies annual charges as a custodian for certain Federal agencies, including the Army Corps of Engineers, the Department of Interior's Bureau of Reclamation, and the Department of Treasury. The receivables are maintained by the Commission, and the collections are processed directly to each Federal agency on a monthly basis. In addition to the annual charges billed yearly, penalty and administrative costs are assessed on past-due bills and remitted to the Treasury when received. For fiscal years 2004 and 2003, these custodial transactions totaled approximately $23.9 million and $36.6 million, respectively. In 2003, the Commission issued a significant civil penalty against one of its regulated companions that is still largely uncollected. Upon collection the money will be remitted to Treasury.

(14) Restatement

Federal reporting standards require that "offsetting receipts" be disclosed as a reduction to outlays on the Statement of Budgetary Resources. In fiscal year 2003, the Commission collected and reported to Treasury offsetting receipts of $18.9 million comprised largely of annual charges and filing fees collected during fiscal year 2003 (see note 1). The Commission, however, did not report these offsetting receipts on its Statement of Budgetary Resources or its Statement of Financing for the year ended September 30, 2003.

As a consequence, the Commission's total net outlays reported for the year ended September 30, 2003 were overstated by $18.9 million. Furthermore, the Commission's Resources Used to Finance Activities and the Resources Used to Finance Items Not Part of the Net Cost of Operations sections of its fiscal year 2003 Statement of Financing were overstated and understated, respectively, by the same amount, resulting in a net effect of zero on the Statement of Financing. Accordingly, the Commission has restated the Statement of Budgetary Resources and the Statement of Financing for the year ended September 30, 2003.

Financial Statements	**Balance as reported in the FY 2003 financial statements**	**Restatement**	**Balance (as restated)**
Statement of Budgetary Resources			
Relationship of obligations to outlays (inflows)			
Outlays (inflows):			
Disbursements	$ 203,133,815	$ -	$ 203,133,815
Collections	(192,215,843)	-	(192,215,843)
Total outlays (inflows) before offsetting receipts	10,917,972	-	10,917,972
Less: offsetting receipts	-	(18,916,145)	(18,916,145)
Net outlays (inflows)	$ 10,917,972	$ (18,916,145)	$ (7,998,173)
Statement of Financing			
Resources used to finance activities			
Budgetary resources obligated:			
Obligations incurred	$ 193,377,167		$ 193,377,167
Less: spending authority from offsetting collections	(192,292,407)		(192,292,407)
Obligations, net of offsetting collections	1,084,760		1,084,760
Less: offsetting receipts	-	(18,916,145)	(18,916,145)
Net obligations	1,084,760	(18,916,145)	(17,831,385)
Other resources:			
Transfers-out, net of appropriations received	(10,772,655)		(10,772,655)
Imputed financing from costs absorbed by others	10,132,936		10,132,936
Net other resources used to finance activities	(639,719)	-	(639,719)
Total resources used to finance activities	445,041	(18,916,145)	(18,471,104)
Resources used to finance items not part of the net cost of operations			
Change in budgetary resources obligated for goods/services/benefits ordered but not yet provided	(1,505,058)		(1,505,058)
Resources that finance the acquisition of assets	(183,102)		(183,102)
Budgetary offsetting receipts that do not affect the net cost of operations		18,916,145	18,916,145
Payments to States	(2,891,743)		(2,891,743)
Total resources used to finance items not part of the net cost of operations	(4,579,903)	18,916,145	14,336,242
Total resources used to finance the net cost of operations	$ (4,134,862)	$ -	$ (4,134,862)

(15) Required Supplementary Information – Intragovernmental Balances (Unaudited)

Intragovernmental receivables at September 30, 2004 and 2003 consists of:

	2004	2003
Department of Interior	$ -	$ 50,834
Nuclear Regulatory Commission	-	60,000
United States Army – Corps of Engineers	-	138,830
	$ -	$ 249,664

Intragovernmental accounts payable at September 30, 2004 and 2003 consists of:

	2004	2003
Government Printing Office	$ 943,452	$ 570,536
General Services Administration	1,367,182	768,066
Veterans Administration	125,179	-
Office of Personnel Management	88,653	80,400
Department of Health and Human Services	-	9,361
Department of Energy Washington Headquarters	185,027	61,363
	$ 2,709,493	$ 1,489,726

Intragovernmental accrued payroll benefits at September 30, 2004 and 2003 consists of:

	2004	2003
Office of Personnel Management	$ 545,952	$ 389,484
Social Security Administration	198,208	137,907
	$ 744,160	$ 527,391

Intragovernmental workers' compensation payable at September 30, 2004 and 2003 totals $568,456 and $521,508, respectively, and is due to the Department of Labor.

This page intentionally left blank.

Performance Report

This page intentionally left blank.

Introduction

In accordance with the Government Performance and Results Act of 1993 (GPRA), the Commission developed its Strategic and Business Plans, as well as its performance measures, to ensure it is fulfilling its mission. When comparing the planned and actual performance according to the guidelines set forth in Section 230 of OMB Circular A-11, the Commission:

- determined that its performance results are complete and reliable based on the fact that results are listed for every performance measure and target, that decision makers use the information contained in the results "on an ongoing basis in the normal course of their duties," and that the information contained in the results are derived via internal tracking mechanisms.
- identified no "significant or material" performance shortfalls based on the fact that none of the Commission's unmet performance measures or targets had an adverse effect on overall program performance.
- made no adjustments to its FY 2005 performance plan as a result of its FY 2004 performance results.

In addition to the FY 2004 performance results that were highlighted in the Management's Discussion and Analysis, the tables on the following pages include the Commission's complete performance measurement data for fiscal years 2001 through 2005.

Performance Measurement Data for Energy Infrastructure (Goal 1)

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

FY 2002		
Performance Measurement	**Performance Target**	**Result**
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
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 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 compliance 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.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Merger and qualifying facilities (QF) 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.
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 24, 2003. The final rule will be issued in FY 2004.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
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.
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".

FY 2003		
Performance Measurement	**Performance Target**	**Result**
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**	**Result**
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 three major onshore projects were inspected at least once every four weeks.
Percentage of relicense filings based upon ALP's	25% of all relicense cases using ALP	45% of the relicense applications filed during FY2004 used ALP.
Complete implementation process of Large Generator Interconnection Policies	By year end, process 90% of all compliance tariff filings submitted by July 31	89% of the 87 compliance tariff filings were completed by the end of FY 2004. The remainder involve cases where additional time was needed to evaluate protests and unique compliance issues, and will be completed by the end of first quarter of FY 2005. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Implement generic policy on Small Generator Interconnection	Issue final rule	Although the Commission expected to issue a final rule by the end of FY 2004, we delayed development and issuance in response to ongoing stakeholder activity to reach a consensus on important technical and legal issues. The extension for stakeholders to submit additional comments will ensure broad industry consensus on the final rule. This, in turn, will speed the ability to implement the requirements of the final rule we now plan to issue in FY 2005. These procedures and agreements, when issued, will provide certainty about the costs market participants will bear and the terms and conditions that will affect interconnection to the electric transmission system thereby hastening the interconnection process.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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	85% of the cases were completed in: ➢ 111 days for unprotested cases that involve no precedential issues; ➢ 190 days for protested cases that involve no precedential issues; ➢ 217 days for cases of first impression or containing larger policy implications; ➢ 448 days for cases requiring a major environmental assessment or environmental impact statement.
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 ➢ TLP case, less than 24 months	➢ 83% of final NEPA documents were issued within 16 months of the date ALP license applications were deemed complete. ➢ 100% of final NEPA documents were issued within 24 months of the date TLP license applications were deemed complete.
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	100% of final NEPA documents were issued within 12 months of the date final settlement agreements were filed with the Commission.
Statutory cases by workload category	All cases competed by statutory action date	Over 99.6% of the 2,900 statutory cases were completed by the required date. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
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	The Commission approved over 100 applications, including 42 in the Western U.S. alone, that ensured rate recovery for utilities and provided additional rate certainty to customers. The Commission also approved 11 applications filed under NGA section 311 to establish rates for interstate gas transportation services provided over intrastate and Hinshaw pipeline systems and another 11 applications by Western U.S. interstate pipelines to establish rate recovery for additional gas infrastructure investment. In the liquefied natural gas (LNG) industry, the Commission provided significant investment recovery certainty by issuing orders establishing initial rates for three proposed LNG import terminal facility projects: ➢ Tractebel Calypso; ➢ AES Ocean Express; and ➢ Trunkline LNG.
Process qualifying facilities workload (regulatory cases)	100% of cases processed by regulatory deadline	100% of QF certification or re-certification applications were completed within the regulatory 90-day time frame prescribed in 18 CFR § 292.207(b)(3)(i).

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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	➢ 100% completed ➢ 100% completed ➢ Disseminated two reports
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	Although no updates or new chapters were added, the Commission developed substantial portions of two new chapters that will be issued in FY 2005: ➢ Seismicity; and ➢ Penstock and Water Conveyance Facilities.
Update the FERC Security Program for Hydropower projects as appropriate	Make program changes as appropriate	Although no security program changes were made, the Commission continued to coordinate with DHS and other Federal dam owners to ensure the adequacy of the current program.
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	99.8% of qualifying dams were in compliance with EAP requirements. The two dams that were not in compliance (because of overdue EAP filings) were promptly issued non-compliance letters and are being closely monitored to bring them back into compliance as soon as possible.
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	All 17 oil pipeline applications to either establish or revise security cost recovery mechanisms or charges were processed within the 30-day statutory period. In addition, both of the gas pipeline applications to recover security-related costs as part of a general rate increase were processed by statutory action date.
	Encourage innovative proposals to recover prudently incurred security costs	Commission staff has met, and continues to meet, with industry representatives, such as the Association of Oil Pipe Lines, to develop innovative recovery methods that reflect the diversity of rate designs, services and system configurations of companies that have identified a need for additional security measures.

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
Reduction in the number of barriers to entry for new generators and reduction in the potential for undue discrimination against new generators, by streamlining and standardizing interconnection terms and conditions in non-independent transmission provider tariffs	75% of all open access transmission tariffs will have standard generator interconnection procedures in compliance with Order No. 2003 (and small generator final rule) by the end of FY 2005	Office of Markets, Tariffs and Rates
Effectiveness of regional planning processes in each region of the country	Establish benchmarks assessing how well each region is meeting the necessary criteria for regional planning, which includes: ➢ an open and inclusive process for stakeholder involvement ➢ objective cost allocation criteria ➢ equal opportunity for a variety of technologies ➢ a process to reduce congestion	Office of Markets, Tariffs and Rates
Timeliness of processing requests for cost recovery, new services, or changes to existing services	100% of all cases processed by statutory action date	Office of Markets, Tariffs and Rates
Timeliness of Commission Opinions, to provide ratepayers with regulatory certainty with respect to rates set for hearing	85% of all Commission Opinions issued within 12 months of Briefs Opposing Exceptions to Initial Decisions on rates set for hearing	Office of Markets, Tariffs and Rates
Timeliness of resolving cost recovery proposals for new infrastructure, to provide investors with regulatory certainty	85% of all merits orders accepting, modifying, or rejecting timely filed proposals, including time for hearing, ADR, or settlement judge participation, issued by date requested by applicant to meet its construction/financing schedule	Office of Markets, Tariffs and Rates

<table>
<tr><th colspan="3">FY 2005</th></tr>
<tr><th>Performance Measurement</th><th>Performance Target</th><th>Data Source</th></tr>
<tr><td>Implementation of rate flexibility or incentives to encourage needed additions to energy infrastructure</td><td>Increase in the number of innovative or flexible rate designs in effect, by approving rate proposals or issuing policy statements providing rate flexibility or incentives needed for infrastructure additions</td><td>Office of Markets, Tariffs and Rates</td></tr>
<tr><td>Evaluate the effectiveness of Commission required resources protection measures, and disseminate information on the results.</td><td>Conduct a workshop and disseminate one report on the results of the evaluation.</td><td>Office of Energy Projects</td></tr>
<tr><td>Maintain environmental quality at hydropower projects.</td><td>Resource protection measures constructed and implemented according to license requirements.</td><td>Office of Energy Projects</td></tr>
<tr><td>Time to complete NEPA Prefiling Process</td><td>8 months after a complete application is filed</td><td>Office of Energy Projects</td></tr>
<tr><td>Yearly increase in the percentage of hydropower projects using the ILP pre-filing process</td><td>25%</td><td>Office of Energy Projects</td></tr>
<tr><td>Participation with NERC in reliability readiness reviews over next 3 years to ensure grid reliability</td><td>One-third of the Nation's control areas reviewed with NERC annually</td><td>Office of Markets, Tariffs and Rates</td></tr>
<tr><td>Timeliness of processing proposals to recover prudently incurred costs to improve the reliability of the transmission grid</td><td>100% of all filings, including innovative proposals, seeking recovery of reliability costs in transmission rates processed by the statutory action date</td><td>Office of Markets, Tariffs and Rates</td></tr>
<tr><td rowspan="2">Clarity and enforceability of reliability rules, with effective penalties for non-compliance</td><td>Assess each region's reliability rules and penalties to determine whether they specify reliability violations and include enforceable and effective penalties</td><td rowspan="2">Office of Markets, Tariffs and Rates</td></tr>
<tr><td>Require each new RTO or ISO to address reliability considerations prior to becoming operational</td></tr>
<tr><td>Enhance reliability oversight by creating a new reliability division</td><td>Division operational by end of fiscal year</td><td>Office of Markets, Tariffs and Rates</td></tr>
<tr><td>Timeliness of processing proposals to recover prudently incurred costs to safeguard the security and safety of energy transportation and supply infrastructure</td><td>100% of all filings, including innovative proposals, seeking recovery of security and safety costs in jurisdictional rates processed by statutory action date</td><td>Office of Markets, Tariffs and Rates</td></tr>
<tr><td rowspan="3">Enhance dam safety</td><td>100% of high- and significant-hazard-potential dams inspected annually</td><td rowspan="3">Office of Energy Projects</td></tr>
<tr><td>Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high</td></tr>
<tr><td>100% of qualifying dams in compliance with EAP requirements</td></tr>
<tr><td>Timely handling of CEII without disrupting requesters' participation rights in other proceedings</td><td>No requester's failure to obtain CEII in a timely manner will affect requester's ability to participate effectively in a proceeding</td><td>Office of General Counsel</td></tr>
</table>

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
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 and gas allocation principles set)	Office of General Counsel

Performance Measurement Results for Competitive Markets (Goal 2)

<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**
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.
➢ 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.

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.

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 of $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.

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.

FY 2002		
Performance Measurement	**Performance Target**	**Result**
Amount of load with congestion management systems	20% increase over FY 2001	Performance target achieved.
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.

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.

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**	**Result**
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)	All three proposals to establish or expand an RTO that were filed in FY 2004 were processed within six months. In addition, three more electric utilities (First Energy, Ameren, and Northern Indiana Public Service) were added to the Midwest ISO in advance of the requested action dates.

FY 2004		
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))	Non-controversial rulemakings completed within 9 months and controversial rulemakings completed within 12 months	In February 2004, the Commission issued a Notice of Proposed Rulemaking to adopt creditworthiness business practice standards developed by NAESB, as well as other standards developed by the Commission. The final rule for this controversial rulemaking is scheduled to be issued within the target 12-month time frame.
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; and ➢ Resource adequacy approaches.	The Commission approved new, or redesigned, cost-effective market elements for each of the six approved RTOs or ISOs, enhancing market operations efficiency.
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"	As the Commission considers whether additional incentives may induce a more effective infrastructure response, a final policy statement has not been issued. However, the Commission in effect accomplished this measure by approving incentives – similar to those suggested in the proposed policy statement – in individual cases where companies have formed RTOs.
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	The Commission hosted and/or participated in numerous meetings with state representatives from each region with existing RTOs or ISOs.
Advance well-functioning markets that deliver the benefits of competition	Complete revisions to interim market-based ratemaking policy	In orders issued in AEP Power Marketing, Inc., et al., 107 FERC & 61,018 (2004), order on reh'g,108 FERC 61,026 (2004), the Commission adopted a new interim generation market power analysis to be applied to market-based rate applications.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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	ISO NE, NY ISO and PJM RTO have market rules permitting, and operate, demand response programs that allow customers and load serving entities to participate (bid) in energy and capacity markets. In addition, enhancements to the market rules and demand response programs are in development or have already been filed with the Commission. On August 6, 2004, the Commission accepted a demand response mechanism framework as part of the Midwest ISO's open access transmission tariff. Although the Commission required further specification of certain aspects of the mechanism, the revisions will be filed well in advance of the March 1, 2005, date the Midwest ISO is scheduled to commence its day-ahead market. The CA ISO, through its Participating Load Program (Supplemental and Ancillary Services), manages a demand response program that allows loads to participate as price-responsive demand in the CA ISO Non-Spinning Reserves, Replacement Reserves, and Supplemental Energy markets.

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of processing filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs)	75% of all filings processed within 6 months of filing, or before applicant's proposed effective date (whichever is later)	Office of Markets, Tariffs and Rates
Establishment of cost-effective elements of market design	Within 3 years of commencement of operation, approved RTO or ISO will implement, if cost effective: ➢ 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
Frequency of meetings with multi-state regional organizations (Regional State Committees) to resolve regional policy and planning issues	Participate in at least one meeting annually with multi-state organizations established for each approved RTO/ISO	Office of Markets, Tariffs and Rates

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Demonstrable improvements in regional competitive market structures	In any region of the country at least one of the following will occur: ➢ addition of a new or expansion of an existing RTO ➢ adoption by an RTO of additional market-oriented features, programs or rules ➢ in regions primarily without RTOs, an increase in the degree of transmission independence (ownership or control) from generation ➢ increase in the amount of competitive solicitation for supply ➢ improvement of open access tariff to reduce entry barriers of foster competition	Office of Markets, Tariffs and Rates
Movement toward competitive markets in each region, including greater interregional coordination of broader, more efficient, and non-discriminatory energy markets	Increase in: ➢ coordination of joint operating agreements between RTOs or an RTO and neighboring non-member utilities ➢ new, independent regional transmission providers ➢ new product markets within RTOs or ISOs ➢ RTO membership through the integration of the transmission facilities of additional transmission owners	Office of Markets, Tariffs and Rates
Elimination of multiple, or "pancaked," transmission rates through the implementation of new rate designs to promote efficient trade across RTO and utility boundaries	The elimination of multiple charges for transmission service between PJM and Midwest ISO	Office of Markets, Tariffs and Rates
Transition existing regulatory constructs into competitive markets	Approval of an energy market that minimizes cost shifts while preserving existing contractual rights and creating efficiency gains	Office of Markets, Tariffs and Rates
Timeliness of corporate application orders	100% of all section 203 applications processed within 90 days of the date comments are filed	Office of Markets, Tariffs and Rates
Timeliness of processing market-based rate filings to advance well-functioning markets that deliver the benefits of competition	100% of all market-based ratemaking filings processed within statutory deadline	Office of Markets, Tariffs and Rates
Existence of RTO/ISO rules that encourage qualified demand response participation on an equal basis with supply options	All RTOs and ISOs have rules that do not inhibit demand response participation in RTO/ISO-controlled markets within 1 year of commencing day-ahead markets	Office of Markets, Tariffs and Rates
Frequency of meetings to support development of robust customer demand-side participation in energy markets	In areas where there is no opportunity for robust customer demand-side participation in energy markets, meet with appropriate state commission officials at least annually to discuss demand response issues	Office of Markets, Tariffs and Rates
Percentage of market-based rates triennial review cases resolved	Resolve 80% of triennial review cases using the new generation market power screens within 1 year of the order on rehearing on the new screens	Office of Markets, Tariffs and Rates

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of processing proposed rulemakings adopting industry-wide business practice standards (North American Energy Standards Board (NAESB)) and proposed rulemakings related to reliability	Non-controversial rulemakings completed within 9 months of receipt of NAESB proposal, and controversial rulemakings completed within 12 months	Office of Markets, Tariffs and Rates
Removal of barriers to entry into wholesale power markets for renewable energy resources	Approval of tariff provisions, both for transmission and generator interconnection, that grant all energy sources an opportunity to compete in the wholesale market	Office of Markets, Tariffs and Rates
Provide timely resolution of third-party complaints	Issue initial order on 80% of all third-party complaints within 60 days of filing and 90% of all requests meeting fast-track requirements within prescribed time frame	Office of Markets, Tariffs and Rates

Performance Measurement Results for Market Oversight (Goal 3)

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[1] 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).[2]
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.
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.

[1] ADR is considered the ‘umbrella’ 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.

[2] 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 requests or active cases include 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).

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 issues 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, it has no results to report for this performance measure.
Timeliness of audits	Complete 90% of audits on time	Target achieved

FY 2003		
Performance Measurement	**Performance Target**	**Result**
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.
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).

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**	**Result**
Enhance institutional capability for overseeing energy markets	Improve metrics/indicators of gas and electric market performance measures	Staff developed standard performance metrics for all RTO/ISO markets that, beginning in calendar year 2004, became a part of the annual reporting done by the market monitoring units of each RTO/ISO. Additionally, a Daily Scorecard of metrics is posted on the Commission's intranet indicating daily gas and electric prices, weather, and gas futures.
Development of market expertise	30% of OMOI staff have energy market experience gained through direct activity in those markets.	30% of OMOI staff have gained energy market expertise by engaging in energy market activities such as: ➢ attending RTO/ISO conferences and workshops; ➢ participating in monthly conference calls with MMUs; ➢ attending weekly OMOI oversight meetings on energy markets; and ➢ attending training sessions.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Track Performance of Natural Gas and Electric Markets	Issue Market Surveillance Reports to the Commission twice each month	In accordance with the change in the Commission Meeting schedule – from once every two weeks to once every three weeks – the Surveillance Report schedule changed from twice each month to 16 times each year – once every three weeks not including August. Therefore, the 16 Surveillance Reports that were completed, in effect, accomplish this measure's original intent. In addition, these reports were redacted and presented to Commission staff and multiple external stakeholders, including state public utilities.
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.	➢ The Winter Energy Market Assessment, published in November 2003, reported on the upcoming winter heating season. ➢ The State of the Markets Report, published in January 2004, analyzed the state of the energy markets for an 18-month span. ➢ The Summer Energy Market Assessment, published in June 2004, reported on the upcoming summer cooling season. ➢ The Commission also published, in May 2004, the results of an investigation into the January 2004 New England gas price spike.
Timeliness of corporate application orders	Process all section 203 applications within 90 days of the date comments are filed	➢ 98% (158 out of 162) of the section 203 corporate applications were completed by the target completion date. The four applications that were not completed within a 90-day period raised fundamental policy issues and protests that required additional time to evaluate. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Timeliness of industry wide financial audits	Complete 90% of audits within 120 days	➢ 88% of the financial audits (22 out of 25) that were opened and closed this fiscal year were completed within the 120 day timeframe. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Timeliness of Hotline call resolutions	Resolve 80% within 1 week of initial contact	72% of all Hotline matters were resolved within 2 weeks of initial contact. Although the target called for most resolutions to occur in 1 week, Hotline information is only collected on a bi-weekly basis. Future performance measures were previously revised to account for this process change. In addition, this performance target was set at an approximate level, and the deviation from that level is slight.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timeliness of formal complaint resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	➢ Issued three initial decisions on complaints set for hearing, all within the established deadlines. ➢ The Commission also handled eight additional complaints, though no targets were set for their completion due to their complexity. Of those eight: ➢ four were settled; ➢ two were returned to the Commission for further action or set for hearing before a judge; ➢ one was dismissed; and ➢ one was withdrawn.
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	There were 54 requests or active cases in FY 2004, 2 more than in FY 2001. This number includes simple inquiries about ADR, cases in which persons eventually indicated that they were not interested in using ADR or ADR was deemed inappropriate, and cases that are ongoing into FY 2005.
Percentage of customers satisfied with ADR processes	85%	86% of the cases (21 out of 24) that were completed in FY 2004 achieved settlement.
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	**OALJ/OAL:** Of the 113 cases closed in FY 2004, 29 cases were terminated by initial decision, leaving 84 cases where ADR was used. Of those 84 cases, settlement was achieved in 90% (76) of the cases. This was greater than the 80% rate achieved in FY 2001. **DRS:** Of the 24 cases[3] that were completed in FY 2004, 86% (21) of the cases achieved settlement. This was slightly less than the 90% rate achieved in FY 2001. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.

3 This includes 9 cases that began prior to FY 2004 but were completed in FY 2004, but does not include simple inquiries about ADR (8), cases in which persons eventually said they were not interested in trying ADR or ADR was determined to be inappropriate (10), or ongoing cases (12).

FY 2004		
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 ➢ 95% of complex litigated cases within 329 days ➢ 95% of exceptionally complex cases within 441 days ➢ 95% of regular complaints within 60 days	**ADR Cases[4] – OALJ/OAL:** 76 cases were successfully completed through the use of ADR: ➢ 4 of the 76 cases (5%) were completed in < 60 days; ➢ 13 of the 76 cases (17%) were completed in < 100 days; ➢ 20 of the 76 cases (26%) were completed in < 150 days; ➢ 36 of the 76 cases (47%) were completed in < 200 days; and ➢ 40 cases (53%) were completed in > 200 days. **ADR Cases[3] - DRS:** 24 cases were successfully completed through the use of ADR: ➢ 9 of the 24 cases (37%) were completed in < 60 days; ➢ 12 of the 24 cases (50%) were completed in < 100 days; ➢ 14 of the 24 cases (58%) were completed in < 150 days; ➢ 16 of the 24 cases (67%) were completed in < 200 days; and ➢ 8 cases (37%) were completed in > 200 days. **Litigated Cases – OALJ/OAL:** ➢ Track I Cases: No Track I cases during FY 2004. ➢ Track II Cases: FY 2004 Average processing time was 324 days. ➢ Track III Cases: FY 2004 Average processing time was 448 days. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance. **Regular Complaints – OGC:** 95%

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.	

4 As the results show, the performance targets for ADR cases are unrealistic. These cases are very complex, multi-party, multi-issue cases that involve lengthy, often heated, negotiations over hotly contested issues and/or millions of dollars. Given the Commission's success rate, we do not feel that the deviation from the target level had an adverse affect on the overall performance of this program. Future targets for this performance measure will be reviewed and/or revised.

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
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 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
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 2004	Dispute Resolution Service
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2004	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 Measurement Results for Management Initiatives

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 were 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.
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
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.
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.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
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.

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 (MTB) 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.
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.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	66% of all hires were at entry-levels
New staff from summer intern program	Hire 30% of participants into permanent positions	25% of summer interns were hired into permanent positions This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	The net increase of 21 staff into high grade positions included 3 minorities (14%) and 7 women (33%).
Improved executive performance	➢ Implement 360 degree assessment of senior staff ➢ Expand training in leadership and management skills	➢ Completed 360 degree assessments & feedback; ➢ Implemented and completed FERC-wide training for all new supervisors; ➢ Developed a Leadership & Management Development Program; and ➢ Initiated an Executive coaching pilot program.
Mentoring program	Implement FERC-wide mentoring program for all employees	Although still being developed, the program's scheduled completion date is November 2004. This performance target was set for an approximate date, and the deviation from that date is slight. This difference had no effect on overall program performance.
Average IT costs per FTE	Below industry average for Federal agencies	Performance target achieved
Percentage of transactions accepted electronically	95% of transactions accepted electronically	The Commission received 75.7% of qualified documents (25,343 out of 33,469) electronically. Qualified documents represent 57% of the total documents (33,469 out of 59,114) submitted to the Commission in FY 2004. Although we did not meet the target level, the deviation had no effect on overall program performance. Besides submitting transactions electronically, parties have the option to submit transactions via digital media (i.e. CD). In addition, the percentage represents an increase over the FY 2003 result of 53%.
Improved Internet Website	99% availability	Performance target achieved

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	97.3% of public documents were available online within 24 hours of receipt or issuance. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Improved reliability and availability of FERRIS	Increase customer satisfaction 25% over FY 2003	87.5% customer satisfaction rate
Network availability	99%	Performance target achieved
Desktop reliability	Increase reliability by 5% per year	Performance target achieved
Standard office automation platform and PC rate of refresh	33%	Performance target achieved
Timeliness of virus file updates on servers and workstations	Updates within 24 hours from release by vendors	92% of updates were completed within 24 hours of release. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	Overall, the Commission had a 93% performance rating according to the FISMA OMB metric. According to the Putman scorecard, the Commission had an 84% performance rating and moved from an F to a solid B. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	Increased the number of Press releases by 16%, the number of briefings with Elected Officials (i.e. Senate and House of Representatives) by 1%, but decreased the number of Industry interactions by 38%. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Redesign Internet Website	Make internet site more useful and user-friendly	Implemented new features (i.e. Public Event Calendar and Energy Projects Database) that are extremely popular with users.
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	The Commission made a total of 94 presentations – in a variety of forums – to numerous stakeholders throughout FY 2004.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Report Market Conditions	Publish regular summer and winter Seasonal Market Assessments, and other reports as conditions warrant	➢ The Winter Energy Market Assessment, published in November 2003, reported on the upcoming winter heating season. ➢ The State of the Markets Report, published in January 2004, analyzed the state of the energy markets for an 18-month span. ➢ The Summer Energy Market Assessment, published in June 2004, reported on the upcoming summer cooling season. ➢ The Commission also published, in May 2004, the results of an investigation into the January 2004 New England gas price spike.
Discussions with State regulatory bodies on Commission policies and actions	Formal, effective interactions between FERC and state officials on policy issues	The Commission held 23 different meetings with State regulators.
Expand discussions with Canada and Mexico	Formal interaction with Canadian and Mexican regulators on policy issues	The Commission held or participated in 10 different meetings with Canadian and/or Mexican officials on issues related to infrastructure, reliability, and other policy initiatives.
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	The Commission held one infrastructure conference in the Northeast.
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	Commission staff meets regularly with market monitors early in the winter heating season (usually in December) and the summer cooling season (usually in June) and also participates in monthly conference calls with RTO/ISO market monitors.
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	The 64 outreach opportunities during FY 2004 represent an 8% increase over FY 2003.
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	Manage-to-budget (MTB) information was tracked and provided to office contacts on a bi-weekly basis. However, ongoing reviews and discussions between the Budget Division, individual office MTB contacts, and the Chief Financial Officer did not necessitate the need for quarterly reviews with Office Directors.
Monitoring of business plan	➢ Clarity of fit between projects, activities, and objectives ➢ Periodic monitoring of completions and adjustments to plan and related resources	➢ In order to better align work and resources between the various goals and objectives of the Commission, several changes were made to the Business Plan in FY 2004. This increased the logical arrangement and clarity of projects and activities within the Commission's goals and objectives. ➢ The Business Plan was updated twice during FY 2004 to adjust workload completions and reflect resource reallocations based on workload priority changes.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timeliness of annual charges collections	Collect 98% of outstanding receivables within 45 days of billing	97% of annual charge collections were made within 45 days of billing. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Invoices paid by electronic funds transfer	98%	Over 99% of invoices were paid by electronic funds transfer.
Percentage of payments accomplished without error	98%	Over 99% of payments were accomplished without error.
Accuracy and completeness of annual financial statements	Unqualified opinion	Performance target achieved
Percentage of contracts performance-based	100%	Performance target achieved
Percentage of contracts advertised online	100%	76% of contracts were advertised on-line. The deviation from the performance target is not significant and had no effect on overall program performance. The contracts that were not advertised on-line were sole source contracts for highly technical and specialized personnel primarily in the reliability and dam safety program areas.

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
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 by implementing an experienced supervisors leadership program	Office of Executive Director
Improved technical development	Implement second phase of “markets curriculum” for experienced staff	Office of Executive Director
Mentoring program	Implement FERC-wide mentoring programs	Office of Executive Director
Improved human capital processes	Implement selected human resources flexibilities provided by new SES Pay-for-Performance legislation	Office of Executive Director
Improved employee morale	Conduct baseline FERC-wide employee survey; identify issues and conduct follow-up survey; set improvement targets for follow-up survey in FY 2006	Office of Executive Director

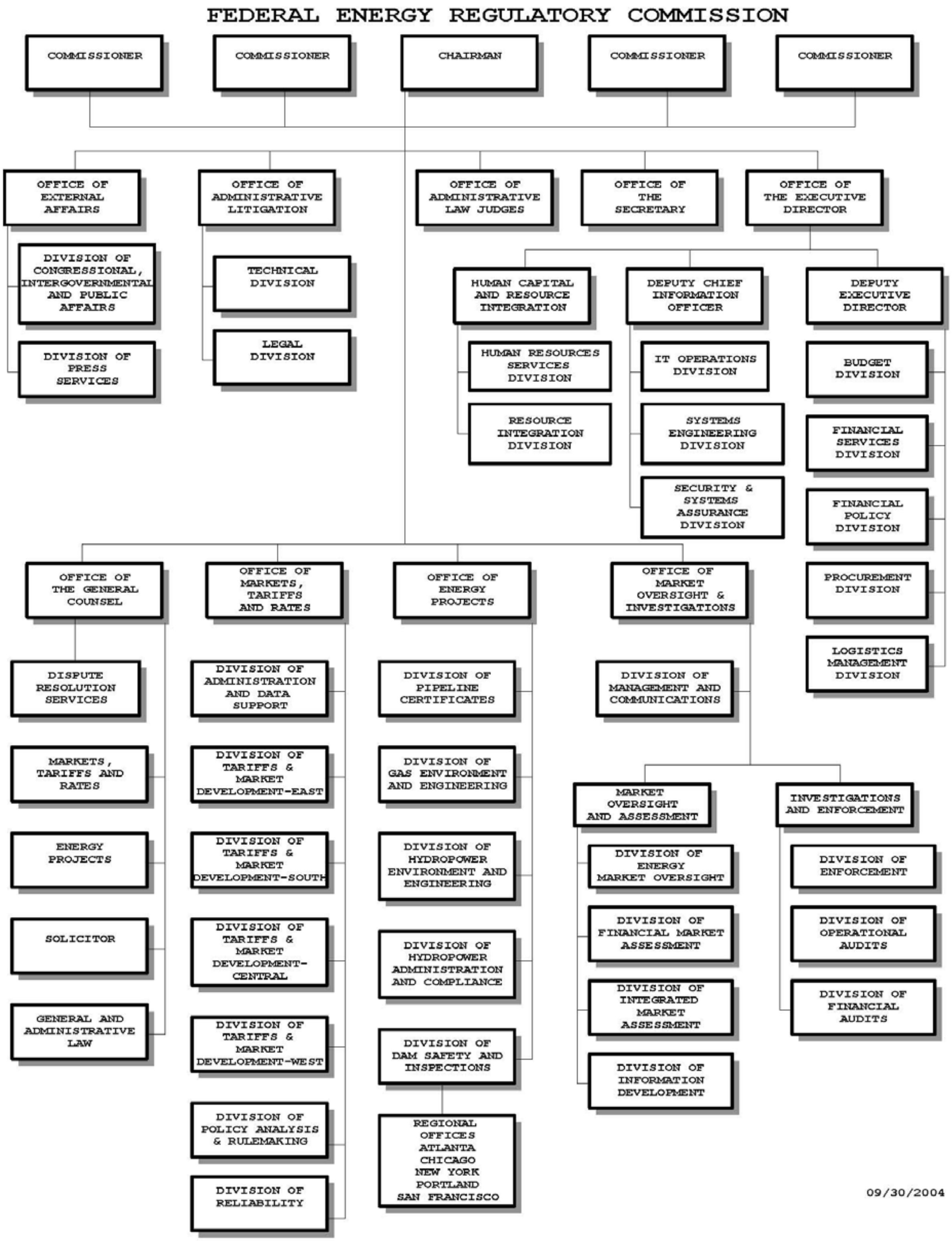
FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Improved services to employees	Successful implementation of payroll services and integration with HR services	Office of Executive Director
Average IT costs per FTE	Below industry average for federal agencies	Office of Executive 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 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

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
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	85%	Office of Executive Director
Percentage of contracts advertised online	85%	Office of Executive Director

Appendix A

Organizational Chart

This page intentionally left blank.


FEDERAL ENERGY REGULATORY COMMISSION
COMMISSIONER
COMMISSIONER
CHAIRMAN
COMMISSIONER
COMMISSIONER
OFFICE OF EXTERNAL AFFAIRS
OFFICE OF ADMINISTRATIVE LITIGATION
OFFICE OF ADMINISTRATIVE LAW JUDGES
OFFICE OF THE SECRETARY
OFFICE OF THE EXECUTIVE DIRECTOR
DIVISION OF CONGRESSIONAL, INTERGOVERNMENTAL AND PUBLIC AFFAIRS
DIVISION OF PRESS SERVICES
TECHNICAL DIVISION
LEGAL DIVISION
HUMAN CAPITAL AND RESOURCE INTEGRATION
DEPUTY CHIEF INFORMATION OFFICER
DEPUTY EXECUTIVE DIRECTOR
HUMAN RESOURCES SERVICES DIVISION
RESOURCE INTEGRATION DIVISION
IT OPERATIONS DIVISION
SYSTEMS ENGINEERING DIVISION
SECURITY & SYSTEMS ASSURANCE DIVISION
BUDGET DIVISION
FINANCIAL SERVICES DIVISION
FINANCIAL POLICY DIVISION
PROCUREMENT DIVISION
LOGISTICS MANAGEMENT DIVISION
OFFICE OF THE GENERAL COUNSEL
OFFICE OF MARKETS, TARIFFS AND RATES
OFFICE OF ENERGY PROJECTS
OFFICE OF MARKET OVERSIGHT & INVESTIGATIONS
DISPUTE RESOLUTION SERVICES
MARKETS, TARIFFS AND RATES
ENERGY PROJECTS
SOLICITOR
GENERAL AND ADMINISTRATIVE LAW
DIVISION OF ADMINISTRATION AND DATA SUPPORT
DIVISION OF TARIFFS & MARKET DEVELOPMENT-EAST
DIVISION OF TARIFFS & MARKET DEVELOPMENT-SOUTH
DIVISION OF TARIFFS & MARKET DEVELOPMENT-CENTRAL
DIVISION OF TARIFFS & MARKET DEVELOPMENT-WEST
DIVISION OF POLICY ANALYSIS & RULEMAKING
DIVISION OF RELIABILITY
DIVISION OF PIPELINE CERTIFICATES
DIVISION OF GAS ENVIRONMENT AND ENGINEERING
DIVISION OF HYDROPOWER ENVIRONMENT AND ENGINEERING
DIVISION OF HYDROPOWER ADMINISTRATION AND COMPLIANCE
DIVISION OF DAM SAFETY AND INSPECTIONS
REGIONAL OFFICES ATLANTA CHICAGO NEW YORK PORTLAND SAN FRANCISCO
DIVISION OF MANAGEMENT AND COMMUNICATIONS
MARKET OVERSIGHT AND ASSESSMENT
INVESTIGATIONS AND ENFORCEMENT
DIVISION OF ENERGY MARKET OVERSIGHT
DIVISION OF FINANCIAL MARKET ASSESSMENT
DIVISION OF INTEGRATED MARKET ASSESSMENT
DIVISION OF INFORMATION DEVELOPMENT
DIVISION OF ENFORCEMENT
DIVISION OF OPERATIONAL AUDITS
DIVISION OF FINANCIAL AUDITS
09/30/2004

This page intentionally left blank.

Appendix B

Strategic Plan

This page intentionally left blank.

Federal Energy Regulatory Commission
Strategic Plan FY 2004 – FY 2008

6/17/2004

Vision

Dependable, affordable energy through sustained competitive markets

Mission

The Federal Energy Regulatory Commission regulates and oversees energy industries in the economic and environmental interest of the American public.

Goals and Objectives

Goal 1: Promote a Secure, High-Quality, Environmentally Responsible Infrastructure through Consistent Policies.

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

- Identify projects with high public interest benefits and facilitate their speedy completion, consistent with the Commission's statutory mandates and due process.
- Implement power plant interconnection rules; complete small plant interconnection rules.
- Firmly establish regional electric system expansion planning, with a variety of technology solutions to meet reliability, security and market needs.
- Implement integrated licensing process and interagency agreements facilitating hydropower licensing, pipeline certification and LNG facility authorization.

Objective 1.2: Provide for Timely Cost Recovery to Infrastructure Investors.

- Establish clear cost recovery process for transmission investment.
- Ensure that revenue levels and rate designs for regulated company services are just and reasonable and support long-term competitive markets, through formula rate or other administratively efficient means, when possible.
- Encourage balanced innovative proposals that provide incentives for appropriate infrastructure investment.

Objective 1.3: Address Landowner and Environmental Concerns Fairly.

- Encourage potential applicants for licenses or certificates to utilize the Commission's collaborative pre-filing process.
- Incorporate reasonable environmental conditions into permits, licenses and certificates and ensure compliance with conditions.

Objective 1.4: Protect the Reliability, Security and Safety of the Energy Infrastructure.

- Oversee the development and enforcement of mandatory grid-reliability standards to protect the bulk power supply.
- Complete the establishment of the Commission's Reliability Division.
- Serve as the lead U.S. agency on the siting and authorization of LNG facilities, hydroelectric facilities, and interstate natural gas pipelines, and ensure adherence to prudent safety practices by the same.
- Work with other agencies and industry to address and improve infrastructure security.
- Allow prompt recovery of prudently-incurred expenses to safeguard reliability, security and safety of the energy infrastructure.

Goal 2: Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation.

Objective 2.1: Advance Competitive Market Institutions Across the Entire Country.

- Encourage continued development of cost-effective wholesale regional power markets in ISO-New England, New York ISO, PJM Interconnection, Midwest ISO, Southwest Power Pool and California, and further development of Regional Transmission Organizations in Southeastern and Western (outside California) regions.
- Support creation of regional state committees to advise ISOs and RTOs.
- Coordinate operation of RTOs and ISOs to reduce or eliminate seams issues.
- Promote transparency of competitive electric and gas markets.
- Ensure that mergers and consolidations are consistent with the public interest.

Objective 2.2: Establish Balanced, Self-Enforcing Market Rules.

- Complete revisions to market-based ratemaking policy to prevent exercise of market power.
- Work with states to support robust programs for customer demand-side participation in energy markets.
- 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.
- Provide regulatory certainty through clear market rules and case specific decisions.
- Prevent undue preference and self dealing in affiliate transactions.
- Ensure renewable energy resources are accommodated in interconnection and transmission rules.

Goal 3: Protect Customers and Market Participants through Vigilant and Fair Oversight of Both Traditionally Regulated and Transitioning Energy Markets.

Objective 3.1: Provide Vigilant and Effective Oversight of Market Operations.

- Promote understanding of energy market operations and technologies through maintaining expert skills, keeping abreast of trends and innovations, and reporting findings as appropriate.
- Assess and report on market and infrastructure conditions using objective benchmarks.
- Encourage effective RTO and ISO market monitoring units.
- Identify and remedy problems with market structure and operations, and periodically review market rules for consistency with long-term market development.

Objective 3.2: Prevent Market Manipulation and Enforce Commission Rules.

- Investigate statutory and rule violations, and impose appropriate remedies.
- Use expedited dispute resolution to accelerate settlements and minimize customer expense.
- Act swiftly on third-party complaints, using litigation before Administrative Law Judges as needed to determine factual issues.
- Advocate enhanced penalty authority.

Management Initiatives Supporting all Goals and Objectives

Human Capital

- Implement the Human Capital Plan to meet challenges of new Commission roles and changing workforce demographics.
- Use the right mix of internal workforce and contracted services from the private sector to meet the agency's statutory mandates efficiently and effectively.

Information Technology

- Complete the implementation of e-government initiatives to expedite interactions with customers.
- Build effective electronic workload/time-management and case-processing systems to expedite work processes.

Agency Resources

- Integrate budget, business plan, and performance measurement to improve performance and accountability.
- Generate accurate and timely financial information to support operating, budget, and policy decisions.

Communication

- Reach out to groups affected by agency actions in a timely manner.
- Build strong partnerships with all stakeholders, legislators and regulators.