FY 2006 CONGRESSIONAL PERFORMANCE BUDGET REQUEST

FEDERAL ENERGY REGULATORY COMMISSION
FEBRUARY 2005

Pat Wood, III
Chairman

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INTRODUCTION

Budget Request: $220,400,000 and 1,295 FTEs

The Federal Energy Regulatory Commission (FERC, the Commission), requests funding of $220,400,000 and 1,295 FTEs for FY 2006. The increase in 15 FTEs in FY 2006 will support the expansion of the Commission's market oversight and investigation efforts. This request does not reflect any requirements that would result from potential changes to the Commission's statutory authority.

Resources by Program

(Dollars in Thousands)

Program	FY 2004 Actual	FY 2005 Estimate	FY 2006 Request	% (+/-) FY 2005 to FY 2006
Energy Infrastructure Funding FTEs	 $136,260 821	 $141,498 847	 $146,703 845	 3.7% -0.2%
Competitive Markets Funding FTEs	 $32,283 206	 $32,709 208	 $33,870 208	 3.5% 0%
Market Oversight Funding FTEs	 $33,403 201	 $35,793 225	 $39,827 242	 11.3% 7.5%
Total Budget Authority Funding FTEs	 **$201,946 1,228**	 **$210,000 1,280**	 **$220,400 1,295**	 **5.0% 1.2%**
Application of Prior Years' Authority	$2,454	$0	$0	n/a
Gross Budget Authority	$204,400	$210,000	$220,400	5.0%
Offsetting Collections	($204,400)	($210,000)	($220,400)	n/a
Net Budget Authority	**$0**	**$0**	**$0**	**n/a**

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.

<u>Vision</u>

Dependable, affordable energy through sustained competitive markets.

<u>Mission</u>

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 that was established in 1920, was abolished and the Commission inherited most of the FPC's regulatory mission.

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.

Making Markets Work

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, we have 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.

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 up prices. 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 that 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 that 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 Corporations' 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 apply 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 encourage 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 we are 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 us the ability to track market conditions and address market problems quickly and effectively. This is a necessary part of restoring public confidence in energy markets. Commissioners are updated frequently on market developments.

Overview of the Document

The next three chapters contain a discussion of the objectives and projected performance measurements to meet each of the goals in the Commission's Strategic Plan. Our performance plan for FY 2006 is presented as an integral part of these chapters. Chapter 4 details the efforts the Commission has undertaken in support of the President's Management Agenda. A series of appendices provide further details.

CHAPTER 1: ENERGY INFRASTRUCTURE

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

Energy Infrastructure Resources
(Dollars in Thousands)

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Request
Total FTEs	**821**	**847**	**845**
Program	676	710	710
Support	145	137	135
Total Funding	**$136,260**	**$141,498**	**$146,703**
Program	114,857	119,482	124,212
Support	21,403	22,016	22,491

Introduction

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

- improving reliability;
- reducing barriers to entry;
- encouraging price-responsive markets;
- better matching of demand and supply;
- improving customer access to low-cost resources; and
- allowing customers to choose between multiple supply sources.

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

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

- expedite appropriate infrastructure development to ensure sufficient energy supplies;
- provide for timely cost recovery to infrastructure investors;

- address landowner and environmental concerns fairly; and
- protect the reliability, security, and safety of the energy infrastructure.

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

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

Although the Commission has no direct jurisdiction over the development of non-hydropower electric generation capacity, natural gas reserves, or siting of oil and petroleum products pipelines, we do have certain jurisdiction over how the wholesale markets for these products operate. To the extent we have authority, we will ensure that mechanisms exist for markets to develop sufficient supplies and avoid disruptions.

Many approaches to this issue are possible. In the Northeast, for example, the industry pays extra for installed reserve generation capacity. In parts of the Mid-Atlantic and Ohio-valley regions, generators connecting to the transmission grid must satisfy a deliverability requirement so that generation capacity can serve all load in the region. We will explore and evaluate all relevant proposals from interested parties and adopt programs that work.

Objective 1.1 Strategies

Identify Projects with High Public Interest Benefits and Facilitate Their Speedy Completion, Consistent with the Commission's Statutory Mandates and Due Process.

The Commission authorizes the construction of interstate natural gas pipelines, storage facilities, and LNG import terminals. We have moved aggressively to reduce the time it takes to approve projects without compromising our environmental protection and public participation responsibilities. Due to both the existence of transportation alternatives (i.e., trucks and barges) and differences in the statutory scheme (i.e., "common carriage"), we do not analyze oil pipeline infrastructure.

LNG Facilities. LNG is seen as key to offsetting declining domestic natural gas supply, enhancing supply diversity, and reducing energy price volatility during peak demand periods. The Commission has signaled a regulatory approach to the development of onshore sites that will remove federal financial and economic regulatory oversight barriers without affecting the jurisdiction of the facilities. In its Preliminary Determination on the Cameron LNG Project, the Commission stated that the proposed import terminal is similar to a gas production facility and is, therefore, exempt from open access requirements and rate and tariff filing requirements. As a result, the Commission has provided financial certainty for companies looking to invest the billions of dollars often required to develop LNG facilities.

Since issuing that policy decision, there has been an unprecedented movement to develop LNG facilities. In fact, the Commission is now working on applications or Natural Gas Pre-Filing requests for twelve proposed LNG projects, with additional companies indicating their intention to develop new projects.

The wave of applications for LNG terminal projects has resulted in a significant increase in the Commission's need for technical and contractor support to conduct cryogenic design reviews, safety studies, and inspections. In FY 2004, about $650,000 will be spent on contracts for cryogenic reviews and inspections. While the Commission anticipates that the pace of LNG terminal filings will not begin to decline until FY 2006, technical and contractor support will continue to increase through FY 2006 as the FY 2004 and FY 2005 filings are processed. The timely review of these facilities is crucial to support the Nation's need for additional gas supplies.

Infrastructure Conferences and Studies. During FY 2004, the Commission participated in, held regional conferences for, and prepared studies on the status of the Nation's energy infrastructure. FERC Commissioners participated along with Governors and utility commissioners from various states. These conferences aimed to identify current infrastructure conditions, needs, and investment and other barriers to expansion, as well as environmental and landowner concerns.

The conferences and studies fostered informative discussions on how the Commission can facilitate and enhance a comprehensive, collaborative approach to energy infrastructure development and reliability. For example, the Commission prepared for Congress an analysis of the natural gas pipeline system and storage in New England. This study, presented in December 2003, assessed the ability of the gas transmission and storage facilities to meet current and projected demand for gas-fired electric generation and other uses. In June 2004, the Commission held a conference in New York City focusing on New York and New England energy infrastructure. It attracted some 400 participants and led to valuable insight on problems and solutions in those areas. In October 2004, the Commission hosted a State of the Natural Gas Industry conference that focused on underground storage and other factors that differentiate regional natural gas deliverability and market needs. Also during October, the Commission held a conference in Hartford, Connecticut with state, regional, and industry representatives to discuss infrastructure related issues in the region.

These efforts, which will continue, have allowed the Commission and all those affected by our infrastructure decisions to become better informed about energy segment interdependencies while working together to ensure an adequate supply of energy exists to meet varying market requirements.

Implement Power Plant Interconnection Rules; Complete Small Plant Interconnection Rules.

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

To address this issue, the Commission issued a final rule for interconnection of large generators in July 2003 (Order No. 2003). An order on rehearing (Order No. 2003-A) was issued in March 2004 and compliance filings were subsequently processed to update the open access transmission tariffs of jurisdictional public utilities to include provisions for the interconnection of large generators. Several requests for rehearing were filed regarding the Commission's findings in Order No. 2003-A, and the Commission's final rule has been appealed to the U.S. Court of Appeals. In December 2004, the Commission issued an order on rehearing (Order No. 2003-B) to clarify Order Nos. 2003 and 2003-A, and adopted a 20-year date certain for the full reimbursement of the upfront payment by generators for interconnection.

The Commission began a separate proceeding in August 2002 to specifically address generators no larger than 20 megawatts in size. The Commission issued a Notice of Proposed Rulemaking (NOPR) for interconnection of small generators in the summer of 2003, and is expected to issue a final rule in 2005. These procedures and agreements will give most competitive energy market participants reasonable certainty about the costs they will bear and the terms and conditions that will affect interconnection to the electric transmission system, and will hasten the interconnection process. Recognizing the special needs of newer technologies such as wind generation, the Commission held a technical conference on the interconnection needs of these resources in September 2004 and issued a NOPR in January 2005. The proposed requirements are in addition to the standard interconnection procedures adopted in Order No. 2003.

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

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

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

Regional planning must be performed by independent entities, like RTOs, which provide objective expert support for local siting authorities. Because they operate the transmission system and oversee the market, RTOs are in a unique position to understand the grid's technical requirements and market needs. The RTOs can integrate this knowledge into long-term regional plans reflecting opportunities and needs for new generation, transmission, efficiency, demand response, and other measures in a reliable, cost effective mix.

In February 2004, the Commission accepted the Southwest Power Pool's (SPP) proposal to establish an RTO covering all or parts of Arkansas, Kansas, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, and Texas. As part of its proposal, SPP included a transmission planning and expansion process; a 2-year planning cycle with the first year's focus on reliability; and the second year's focus on market needs. The Commission strongly supports SPP's efforts as a critical first step toward a regional assessment of transmission needs for this part of the country.

The Commission accepted the proposal of ISO New England (ISO-NE) and the New England Transmission Owners to establish RTO-NE, conditioned on, among other things, the submittal of a seams resolution agreement with the New York Independent System Operator (NYISO). A seams resolution agreement between the two systems will enhance transactions between the New England and New York markets by establishing objectives to coordinate regional planning, addressing common resource adequacy measures and real time price differentials resulting from trade barriers, and examining other seams issues. In addition, the Commission has required ISO-NE and NYISO to eliminate through and out service charges – the transmission service charges that New York and New England currently impose on exports from their respective regions – within six months of the RTO-NE's compliance filing. In November 2004, the Commission accepted filings submitted by NYISO and the New England Power Pool (NEPOOL) to eliminate through and out service charges, and also conditionally accepted two compliance filings and a partial settlement of issues related to the establishment of RTO-NE.

NEPOOL and ISO New England implemented comprehensive revisions to the transmission cost allocation in New England that will ensure New England electricity customers receive reliable and efficient electric service, at just and reasonable rates, by promoting the construction of new transmission facilities. Hearing procedures have been established to determine a final locational installed capacity market design for RTO-NE to appropriately compensate generators needed for reliability and to attract and retain necessary infrastructure to assure long-term reliability. In November 2004, the Commission accepted ISO New England's compliance filing to establish a locational installed capacity mechanism in New England and amended an earlier locational installed capacity proposal to include a separate Southwest Connecticut installed capacity region and corresponding energy load zone to complement the regions originally proposed for other constrained areas of New England. This action helped to ensure that generating capacity is appropriately valued based on its location, allowing existing generators to recover their costs while also providing an incentive to invest in new transmission infrastructure and capacity resources.

The Commission also conditionally accepted a Joint Operating Agreement between PJM Regional Transmission Organization (PJM) – the RTO operating the transmission grid in all or parts of Delaware, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia, West Virginia, and the District of Columbia – and Midwest Independent Transmission System Operators (Midwest ISO or MISO), the RTO operating the transmission grid in all or parts of 15 US states and one Canadian province. This agreement is intended to enhance their combined operational reliability, administer a joint and common market, and facilitate the present and future integration of utilities into the PJM markets and the operations of both RTOs.

In the aftermath of the August 2003 blackout that affected about 50 million people in the U.S. and Canada, the Commission issued a policy statement on Matters Related to Bulk Power System Reliability. The statement supports the efforts of the North American Electric Reliability Council (NERC) to modify existing bulk power system reliability standards and translate them into clear and enforceable requirements by the end of 2004 for implementation in early 2005. The Commission clarified that the term "Good Utility Practice" includes compliance with NERC reliability standards or more stringent regional standards. The Commission also clarified its September 2001 policy statement that the Commission will approve the recovery of prudently incurred costs to further safeguard the reliability and security of our energy supply. Such expenditures include those for vegetation management, improved grid management and monitoring equipment, operator training, and compliance with NERC standards.

The Commission also announced a generic reliability compensation policy in a May 2004 PJM order. When compensation issues are identified that concern generators needed for reliability purposes, the Commission indicated that whether the issue requires a market design fix, an infrastructure investment, or both, it will consider whether: (1) they can implement the proposed solution; (2) whether the solution is feasible; and (3) whether the solution is expected (with a high degree of probability) to solve the problem(s). Any proposed solution must show adequate revenue production and must safeguard against the unwarranted exercise of market power beyond the recovery of such revenue.

Implement Integrated Licensing Process and Interagency Agreements Facilitating Hydropower Licensing, Pipeline Certification, and LNG Facility Authorization.

***Hydropower Licensing*.** Hydropower is an important component of the nation's energy portfolio and supports the need for efficient, competitive electric markets by providing low-cost energy reserves and ancillary services. In addition, hydropower projects provide other public benefits such as increased water supply, recreation, economic development, and flood control, while minimizing the project's adverse impact on environmental resources.

The Commission has authorized the construction and operation of over 1,600 hydropower projects, encompassing approximately 2,600 dams and impoundments and the associated lakes and reservoirs. Our workload in these areas is increasing due to the number of relicense applications that will be filed through FY 2010 for large-scale projects. These applications are for projects that are among the largest under the Commission's jurisdiction, having a combined capacity of almost 14,000 megawatts (MW) and representing 26% of the nation's non-federal hydropower capacity. Of the 70 projects that are up for relicensing, 23 projects have an installed capacity of over 100 MW, and of those projects, eight have an installed capacity greater than 500 MW.

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

Integrated Licensing Process (ILP). To that end, and building on the success of the Alternative Licensing Process (ALP), the Commission worked to develop a more efficient and predictable licensing process. In July 2003, the Commission adopted a final rule for hydropower licensing, creating a new licensing process called the ILP, which improves the efficiency of the process by:

- requiring early study plan development;
- providing for greater staff involvement in the pre-filing portion of the process;
- providing for application preparation in conjunction with NEPA scoping;
- allowing for a greater opportunity for informal and formal dispute resolution;
- consolidating and reducing the information necessary for a potential applicant's pre-application document and draft license application; and
- improving coordination of the Commission's hydroelectric licensing process with the processes of Indian tribes and Federal and state agencies.

While we expect license applications to take approximately 17 months to process using the ILP, there are opportunities to reduce this time.

The July 2003 final rule also designated the ILP as the default licensing process beginning in July 2005 (for the 23 projects that must start the pre-filing process between October 2003 and June 2005, the use of the ILP is optional). To assist in implementing the ILP, the Commission revised its hydropower licensing guidance to include information on the ILP. Throughout FY 2004, regional workshops and project-specific conferences were held to encourage use of the ILP, a practice that will continue through FY 2005. These efforts proved successful, as approximately one-third of the 23 eligible projects proposed using the new process. When the ILP becomes the default process, pre-filing work will begin on the FY 2008 relicense cases. While the Commission is investing additional resources in the pre-filing phase of the ILP from FY 2004 through FY 2007, a return on this investment is expected once the applications are filed in 2008 and the anticipated level of effort in the post-filing phase is reduced.

The Commission is developing an effectiveness study to determine the extent the ILP reduces processing time and costs while maintaining environmental consideration. This study will also help the Commission refine the process, achieve its goals, and better serve all stakeholder needs.

Tribal Relations. Along with the final rule on the ILP, the Commission also issued a policy statement in July 2003 to assure the full consultation and participation of Indian tribes in all applicable Commission proceedings. As a result, early consultation has begun for over 43 relicensing cases due to be filed over the next three years, ensuring that tribes understand and become fully engaged in the licensing process. Because the effectiveness of the licensing process increases the earlier stakeholders are engaged in the process, the Commission plans to invest additional resources in FY 2005 and 2006 to ensure the early participation of tribes in the upcoming relicensing cases. In addition to the policy statement, the Commission has created a new Tribal Liaison position, presented information at two tribal conferences and two licensee conferences, and participated in an EPA-sponsored Tribal/Federal agency NEPA workshop.

Endangered Species Consultation. In addition to state certifications and permits, consultation pursuant to the Endangered Species Act (ESA) was also identified as an impediment to processing some of the licensing cases. In an effort to address this issue, the Commission established workshops with federal fish and wildlife agencies, primarily in the western states where most ESA issues occur. These workshops address issues like improving coordination of project processing schedules and making the process more efficient for the Commission, license applicants, and resource agencies.

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

President Bush's National Energy Plan recommended the formation of an Interagency Task Force to ensure swift processing of applications to construct and operate a pipeline to bring Alaskan natural gas to the Lower-48. The lead agencies are the Departments of State and Energy, in coordination with the Department of Interior and the Commission, and in conjunction with Canada, Alaska, and other stakeholders. The Commission met regularly with these partners throughout FY 2004, building the relationships and laying the groundwork necessary to implement the October 2004 Alaska Natural Gas Pipeline Act (Alaska NGPA or Act).

Pursuant to the Act, the Commission issued a NOPR in November 2004 on the conduct of open seasons for anticipated capacity on Alaska natural gas pipeline projects. A one-day technical conference was held in December 2004 in Anchorage, Alaska to gather comments on the NOPR and the Commission expects to issue a final rule by early February 2005. In addition to this final rule, the Alaska NGPA also charged the Commission with completing a single environmental impact statement (EIS) to satisfy the environmental review requirements of all permitting agencies involved. The Act requires the Commission to complete the EIS within 18 months of receipt of a completed application and take final action on any proposal within 2 months of a completed EIS.

The Commission continues to work actively with other Federal agencies on various White House Task Force and other interagency efforts, including:

Interstate Oil and Gas Compact Commission (IOGCC). The Commission is an active member of this organization representing the governors of 37 oil and natural gas-producing states. In May 2004, the Commission took part in an effort to revitalize a joint IOGCC/NARUC initiative to get state and local governments more involved in the siting of natural gas facilities.

Partnering with the Department of Transportation (DOT). In FY 2004, the Commission continued to coordinate DOT's responsibility for natural gas facility safety with the Commissions' siting authority. In addition, the Commission worked closely with DOT to develop and implement the Interagency Agreement required for the Pipeline Safety Improvement Act (PSIA). While the number of projects likely to result from this legislation is large, most either would require minimal review by the Commission or would use the Natural Gas Pre-Filing Process.

Interagency Agreement for Improved Coordination for Environmental Reviews for Interstate Natural Gas Pipelines (Working Group). Since the agreement went into effect in August 2001, the Commission has forged closer working relationships with the signatories. In FY 2004, the working group, which the Commission chairs, will conduct a survey to report on the effectiveness of the agreement.

Interagency Agreement for the Safety and Security Review of LNG Facilities. In January 2004, the Commission, the U.S. Coast Guard, and DOT developed and signed an interagency agreement to address the review of safety and security issues at waterfront LNG import and export facilities.

Collaboration with Mexico and Canada. The Commission participates in six distinct working groups/partnerships with Mexican and/or Canadian agencies to work on electric, gas, and other energy cross-border issues. In February and April 2004, the Commission worked with representatives from Canadian federal and provincial governments on matters associated with siting LNG import facilities. In December 2004, the group held a public conference on the transition to an international Electric Reliability Organization (ERO) that would address cross-border implications of electric reliability authority certification, funding and governance, as well as reliability standards, development, recognition, and enforcement.

Memorandum of Understanding with the Federal Energy Commission of the Russian Federation. The memorandum expresses the participants' intent to share information on, and where feasible provide expertise related to, the technical-scientific methods and economic principles used in energy regulation. In FY 2004, the Commission participated in a U.S.-Russia Bilateral LNG Workshop in Moscow, Russia.

California Energy Commission/California Public Utility Commission Workshop—Natural Gas Market Outlook 2006-2016. In FY 2004, the Commission worked closely with the California agencies to examine natural gas supply options for the State and made a presentation on Western regional infrastructure developments affecting California.

Memorandum of Understanding with the National Energy Board of Canada and Letter of Intent With the Comisión Federal de Energía of Mexico. These agreements express the participants' intent to coordinate their efforts on significant energy infrastructure projects where related matters are pending before the agencies and, where practicable, coordinate the timing of the agencies' respective decision making.

The Commission actively promotes the use of alternative dispute resolution processes (ADR) to resolve disputes between entities that may arise during the pipeline certificate process. Further, we set tight case processing time targets and clearly define our expectations for applicants and other parties in order to process cases expeditiously. Greater acceptance and voluntary use of the Commission's Natural Gas Pre-Filing Process also has expedited case processing.

Objective 1.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	Office of Energy Projects
Percentage of pipeline certificate cases with no precedential issues completed	➢ 90% of unprotected cases within 159 days of filing ➢ 90% of protested cases within 304 days of filing	Office of Energy Projects
Percentage of pipeline certificate cases of first impression or containing larger policy implications completed	90% within 365 days of filing	Office of Energy Projects
Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed	90% within 480 days of filing	Office of Energy Projects
Percentage of qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected quarterly	Office of Energy Projects

Performance Measures	Performance Targets	Data Source
Percentage of LNG import terminals inspected	100% inspected annually	Office of Energy Projects
Percentage of LNG peak-shaving terminals inspected	50% inspected annually	Office of Energy Projects
Percentage of ILP pre-filing notices for NOI/PAD and initial scoping document issued	85% within 60 days of NOI/PAD filing	Office of Energy Projects
Percentage of ILP pre-filing scoping meetings and site visits completed	85% within 90 days of NOI/PAD filing	Office of Energy Projects
Percentage of ILP pre-filing study plan determinations completed	85% within 315 days of NOI/PAD filing	Office of Energy Projects
Percentage of final NEPA documents issued for ALP/TLP cases with settlement agreements	85% within 12 months	Office of Energy Projects
Percentage of final NEPA documents issued for ALP/TLP cases without settlement agreements	85% within 24 months	Office of Energy Projects
Percentage of non-independent transmission provider open access transmission tariffs that have standard generator interconnection procedures in compliance with Order No. 2003 and small generator final rule	75% by September 30, 2006	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of regional planning process elements (e.g. stakeholder involvement, cost allocation, technological innovation, and congestion reduction) implemented in each region	50%	Office of Markets, Tariffs and Rates

Objective 1.2: Provide for Timely Cost Recovery to Infrastructure Investors

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

- give infrastructure owners the proper incentives to lower costs and to provide customers with better services;
- give transmission infrastructure investors confidence that they have a fair opportunity to recover their costs and make a fair return on their investment; and

- give transportation customers reasonable certainty about the costs they will bear for transmission services and about future terms and conditions that affect access to transmission facilities.

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

Objective 1.2 Strategies

Establish Clear Cost Recovery Process for Transmission Investment.

For investors to invest in facilities that provide regulated monopoly services, such as electric transmission and natural gas and oil pipelines, they need to know how and when they will have the opportunity to recover their costs. Thus the Commission must establish clear cost recovery processes that provide a fair opportunity for cost recovery and must act quickly on those proposals that will allow projects to gain access to lower-cost capital markets. Without such assurances, investors will bear greater risks, find it more difficult to obtain financing, and invest in fewer projects than the Nation needs. That in turn will undermine the adequacy of supply – a prerequisite for reliable, reasonable energy markets.

Electric transmission and natural gas and oil pipelines cost recovery and rates are set in tariffs filed with the Commission. Although these filings are usually litigated, we are working to ensure that the cases are processed and settled, or litigated, with appropriate speed and result in clear tariffs that meet both business needs and the public interest. For example, in 2004, the Commission issued a certificate authorizing Cheyenne Plains Gas Pipeline Company to construct and operate a 380-mile pipeline to move gas from the coal-bed methane reserves in Wyoming to mid-continent markets. The order provided for recourse tariff rates and permitted Cheyenne Plains to sell virtually all of its capacity under negotiated rates and contracts, giving customers a measure of certainty regarding the rates for service under long-term contracts. The entire process – including environmental review – was completed within 10 months from the date the application was filed.

Like other Commission regulatory objectives, understanding the role of transportation in energy markets requires accurate, complete, and timely financial information. These needs are met for jurisdictional companies through the Commission's Uniform System of Accounts and program of periodic public financial reporting. In FY 2004, the Commission enhanced accounting and reporting requirements to improve the understanding of the financial condition of public utilities, natural gas companies, and oil pipeline companies. Also in 2004, the Commission issued an order revising the methodology by which the Producer Price Index is calculated and used to establish oil pipeline transmission rates. Recently the U.S. Court of Appeals for the D.C. Circuit affirmed the Commission's index price mechanism for oil pipelines.

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.

The same measures we are undertaking to provide timely cost recovery for infrastructure investors also provide greater rate certainty for customers. Electric utility customers and gas and oil pipeline ratepayers need reasonable assurance of the transportation costs they can expect to face and that they will continue to have nondiscriminatory access to transportation services. We will continue to ensure that terms and conditions of service promote reliable open access for all customers. To the extent that disputes arise concerning rates and/or access, the Commission may address them directly or set them for hearing to be resolved through settlement or litigation.

The Commission has modified its negotiated rate policy for natural gas pipeline transportation in two respects, based on its experience with the existing negotiated rate program and based on industry comments. First, the Commission announced that it will no longer permit the use of gas basis differentials to price negotiated rate transactions, unless the negotiated rates are capped by the just and reasonable recourse rates. Allowing the use of basis differentials as a mechanism for pricing transportation could create an incentive for the pipeline company to attempt to use its monopoly power to manipulate prices in the market.

The second modification pertains to negotiated rate agreements that contain deviations from the pipeline's pro forma service agreement. Here, the Commission will require a pipeline to file the form of service agreement and clearly delineate differences between its negotiated contractual terms and that of its form of service agreement. Additionally, a pipeline must provide a detailed narrative outlining the terms of its negotiated contract, the manner in which such terms differ from its form of service agreement, the effect of such terms on the rights of the parties, and reasons why such deviation(s) do not present a risk of undue discrimination.

Encourage Balanced Innovative Proposals That Provide Incentives for Appropriate Infrastructure Investment.

Traditional cost-of-service rate regulation provides few incentives for regulated companies to lower their costs or to provide better service. As a result, such regulation is not necessarily the best way to set rates for regulated services that support an overarching competitive energy market. The Commission supports innovative rate proposals that promise reduced costs, improve service or remove trade barriers. For example, we encourage formula rates or rates set through other efficiently administered means. It is important such proposals:

- support competitive markets for electric power and natural gas;
- give companies an incentive to build key new projects and operate efficiently; and
- are balanced – i.e., increased returns must be linked to good performance while bad performance must have some downside.

In December 2003, the Commission conditionally accepted a proposal filed by American Transmission Company (ATC) to modify its rate formula to incorporate incentive rate mechanisms, including allowing Construction Work in Progress (CWIP), in its rate base. ATC is a stand-alone transmission company that owns, plans, operates, and maintains transmission facilities and is one of the most congested systems in the Nation. Over the next 10 years, ATC expects to spend $2.3 to $2.8 billion on transmission infrastructure in order to increase reliability on its system, meet load growth, and alleviate congestion that is preventing market participants in Wisconsin and upper Michigan from accessing newly developed markets in the Midwest ISO region. Its proposal to include CWIP in its rate base will allow ATC to maintain adequate cash flow during the construction process. The proposal is expected to help maintain the company's overall financial health and, therefore, ensure the availability of reasonably priced capital. Lower capital costs are expected to minimize the rate impact associated with the increased infrastructure investment. In May 2004, the Commission approved a settlement resolving all aspects of ATC's proposal.

In March 2004, the Commission accepted a proposed 50 basis point incentive adder to the return on equity (ROE) component recovered in the RTO-NE's rates for regional network service without suspension or condition, finding that approval of the adder was appropriate, due to the region-wide benefits that will be set in place by the establishment of RTO-NE. In that same order, the Commission rejected a proposed 50 basis point adder as it pertained to local network service since local facilities do not provide regional benefits.

While only one of the eight approved projects is currently operational, the Commission continues to support the concept of merchant transmission projects and continues to review its policies to ensure that merchant transmission projects have a reasonable opportunity to compete for any necessary transmission upgrades. Under merchant transmission projects, the project developers assume the full market risk and the users of adjacent grids have no risk of assuming costs. Transmission service is provided under the terms of the open access tariff of an ISO or RTO. These projects, which take several years from conception to construction, encourage pro-competitive behavior and allow additional infrastructure to be built outside of traditional rate-making process. In addition, the Commission recently accepted a proposal by PJM to govern relationships between PJM and independent transmission companies (ITCs).

Objective 1.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Percentage of cases for cost recovery, new services, or changes to existing services processed	➢ 100% of NGA Section 4 cases in 30 days ➢ 100% of FPA Section 205 cases in 60 days	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of rate cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of rate cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of Commission Opinions issued once Briefs Opposing Exceptions to Initial Decisions are filed	90% within 12 months	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of merit orders accepting, modifying, or rejecting timely filed cost recovery proposals for new infrastructure submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Number of innovative or flexible rate designs in effect to encourage energy infrastructure development	Increase over FY 2005	Office of Markets, Tariffs and Rates

Objective 1.3: Address Landowner and Environmental Concerns Fairly

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

Objective 1.3 Strategies

Encourage Potential Applicants for Licenses or Certificates to Utilize the Commission's Collaborative Pre-Filing Process.

While reconciling competing interests is never easy, the Commission believes they are best addressed openly and early in the application process. We encourage, and sometimes require, early involvement of state and federal agencies, Indian tribes, and the public. We also provide technical, legal, and ADR assistance to support the parties' efforts to resolve issues before they file with the Commission.

For hydropower licensing cases, settlement agreements continue to increase in number. While a large number of license applications are filed each year using the collaborative ALP process, few of the applications contain settlement agreements. However, a number of parties in these proceedings as well as parties using the traditional licensing process have been able to reach agreement subsequent to the filing of the application. The Commission's practice of approving comprehensive settlements and incorporating the settlement terms into the license has encouraged stakeholders to formulate such agreements.

Since October 2003, the Commission has issued 10 licensing orders based on settlement agreements, including:

- a settlement agreement signed by five parties on the 4-MW Winton Project that provided for recreational and fisheries enhancements;
- a settlement agreement signed by 22 stakeholder groups on the 22-MW Bull Run project which calls for the removal of 2 dams and related power generating facilities;
- a settlement agreement on the 185-MW North Umpqua project setting forth an array of fishery protection and enhancement measures, signed by the licensee and seven federal fish and wildlife agencies;
- a comprehensive settlement agreement, signed by over 30 stakeholder groups, on the 912-MW St. Lawrence project which spanned issues ranging from power allocation to significant fish and wildlife enhancement measures;
- a settlement agreement between the licensee and the U.S. Fish and Wildlife Service designed to avoid long term impacts to listed species for five Snake River projects with a combined capacity of 264 MW that impact over 100 miles of the Snake River; and
- a settlement agreement signed by 14 parties on the 278-MW Lake Gaston project located on the border of North Carolina and Virginia that addressed a myriad of issues designed to, among other things, enhance water quality and the fishery in approximately 130 miles of the Roanoke River.

For natural gas projects, the Commission continues to collect and disseminate information to applicants, citizens, tribes, and state and Federal agencies on ways to identify and resolve disputes prior to filing their application with the Commission. We inform parties how to participate effectively in the process, and give the public early access to information. In FY 2004, we held a conference to share the results of our outreach program to get feedback on how we can improve the process. We also convened a workshop designed specifically to exchange information with tribal groups related to natural gas pipelines. The success of these events led us to plan additional stakeholder involvement workshops for FY 2005 and FY 2006.

The natural gas industry has significantly increased its use of the Commission's Natural Gas Pre-Filing Process, which involves completing a substantial portion of the environmental review and identifying significant non-environmental issues prior to the filing of an application.

In FY 2004, the Cheyenne Plains Pipeline Project received a certificate about 9 months after filing the initial application using the Natural Gas Pre-Filing Process, about 7 months sooner than under traditional processing of major projects. Through our work with project proponents, we also expanded the use of the pre-filing process to include LNG projects and smaller pipeline projects for which an EA is required. This resulted in eleven other projects receiving approval to use the Natural Gas Pre-Filing Process.

Incorporate Reasonable Environmental Conditions into Permits, Licenses, and Certificates and Ensure Compliance with Conditions.

Natural gas projects and hydropower projects have environmental impacts that can be mitigated with appropriate measures. The Commission is committed to satisfying environmental concerns through cost-effective mitigation of environmental impacts, while also seeking to avoid construction delays. Similarly, through the hydropower licensing process and throughout the term of the license the Commission imposes and monitors conditions to mitigate possible environmental impacts of project operation and to provide opportunities to enhance the public's use of project resources.

Natural Gas Projects. We require environmental measures in certificates and inspect natural gas facilities for adherence to prescribed environmental mitigation measures. In FY 2004, the Commission continued to offer training sessions on compliance with Commission regulations and certificate conditions. In addition to helping certificate applicants, the well-attended sessions are also valuable to Commission staff. The comments and questions from the sessions help us monitor the clarity and effectiveness of certificate conditions.

The Commission continues to promote the use of the Third-party Compliance Monitoring Program for environmental compliance. The program establishes a full-time on-site presence during the construction and restoration of major projects; gives the Commission staff immediate access to information regarding field conditions and the ability to respond quickly to requests from landowners and construction contractors; and gives the industry more flexibility to react to changing or unanticipated construction conditions. This program has been very successful and has resulted in substantial benefits for the Commission and the natural gas industry, and has increased industry's awareness of environmental compliance.

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

In FY 2004, the Commission issued a final report on fish passage and a draft report on recreation. The Commission also conducted a workshop on shoreline management and development issues to receive comments on the draft recreation report. In FY 2005, the Commission will issue and hold an informational workshop on the recreation final report.

In recent years, the Commission has seen an increased number of shoreline development applications that involve hotly contested, complex issues related to water quality, navigation hazards, aesthetics, and erosion. The Commission issued a guidance manual for shoreline management, and continues to hold shoreline management workshops in the affected regions of the country.

We will continue to monitor compliance through our environmental inspection program to ensure that resource protection measures, designed to maintain environmental quality at hydropower projects, are constructed and implemented according to license requirements. To ensure effective compliance, we have instituted a compliance assistance program consisting of: conducting environmental inspections; building partnerships; engaging in collaborative problem solving; and delivering guidance. This program is designed to ensure that licensees and exemptees understand their responsibilities and the steps necessary to achieve compliance. In FY 2004, we inspected 170 projects and completed over 200 investigations into allegations of environmental non-compliance. We expect to conduct a similar number of inspections and investigations in FY 2005 and FY 2006.

Objective 1.3 Performance Measures

Performance Measures	Performance Targets	Data Source
Timeliness of issuing environmental licensing requirements	Licensing responsibility letters sent within 45 business days of license issuance date	Office of Energy Projects
Percentage of NEPA documents completed for projects utilizing the Pre-filing Processes	85% within 8 months of determining a pipeline or LNG facility application complete	Office of Energy Projects

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

For customers to enjoy the benefits of competitive energy markets, the Nation's energy infrastructure must be reliable, secure, and safe. In the past, we thought of secure and reliable infrastructure in two ways: adequacy and security.

Adequacy is the ability of the electric and natural gas system to supply the aggregate requirements of all consumers most of the time. Following the

August 2003 blackout affecting 50 million Americans and Canadians in parts of the Midwest, Northeast and Ontario, Canada, the Commission participated at the Commissioner and staff level in the Joint US-Canada Power System Outage Task Force and investigation. This produced a November 2003 interim report and a final report that was released in April 2004, which presented an in-depth analysis of the causes of the blackout and recommendations for avoiding reoccurrences. Five weeks later, the Commission and the Task Force jointly held a workshop to address the findings in the final report and to address both immediate and long-term measures needed to ensure a reliable transmission system.

Security is the ability of the system to withstand sudden disturbances for a short time. Following the September 11, 2001, terrorist events, security also means ensuring that such infrastructure is as safe as possible from attack or sabotage.

Objective 1.4 Strategies

Oversee the Development and Enforcement of Mandatory Grid-Reliability Standards to Protect the Bulk Power Supply.

The Nation's transmission grid is an extremely complex network that delivers more than 850,000 megawatts of power operated by some 130-control centers. It includes over 150,000 miles of lines, crosses the boundaries of utilities, States, and our neighbors to the north and south.

When a generator or transmission line fails, the effects are not just local. The failure can have widespread effects and must be addressed by multiple control centers that must act quickly, share information, and coordinate their efforts to isolate or fix the failure. Given the speed at which an electrical problem can spread, good communications, modern technology, rigid operating rules, and trained staff are critical to maintaining system reliability.

Historically, electric transmission system reliability has been primarily the responsibility of the local utility, which has been accountable to state and local regulators. Typically, the utility inspects the transmission system rights-of-way, clears vegetation growth near power lines, and follows regional requirements for extra generation capability to cover unexpected demand growth and unplanned outages of power plants. Many state and local regulators exercise the authority of eminent domain and have siting authority for new generation, transmission, and distribution facilities.

To help ensure the reliability of the transmission grid, in the aftermath of the 1965 Northeast power blackout, the industry has relied upon ten regional reliability councils under the auspices of the North American Electric Reliability Council (NERC). These reliability organizations depend upon the *voluntary* cooperation of their members to maintain grid reliability.

Even with the presence of the reliability councils for the last 40 years, transmission capital investments and maintenance expenditures (e.g., vegetation management) have steadily declined by 0.8 percent and 3.3 percent annually, respectively, in recent years. However, during this same period demand increased at an annual rate of 2.4 percent. The resulting congestion on the grid has both reliability and economic consequences.

The Commission's concerns regarding grid reliability are not new. Even though there is no direct Commission authority or responsibility for the reliability of the transmission grid, the Commission has maintained a close relationship with NERC, including participating in several NERC committees as well as its Board of Directors meetings. The Commission emphasized the importance of reliability through its emphasis on regional planning and operation of the transmission system, such as regional planning of new facilities, greater investment in infrastructure, and better methods of monitoring and managing transmission flow in order to relieve congestion. We have undertaken several initiatives to address these issues, including:

- identifying deficiencies in the transmission infrastructure;
- authorizing incentive rates for new infrastructure, including innovative technologies; and
- promoting the formation of independent regional transmission organizations (RTOs) with clear wholesale market rules to promote an efficient, reliable wholesale marketplace.

One action that will help increase the reliability of the transmission grid is Congressional legislation to create a national energy reliability organization – under the supervision of the Commission – that will be empowered to implement a *mandatory and enforceable* system of reliability requirements. In the meantime, the Commission is doing everything within its current statutory authority to help ensure that blackouts do not occur.

Complete the Establishment of the Commission’s Reliability Division.

At the beginning of FY 2004, the Chairman announced the establishment of a new 30-person Reliability Division. The division, which was initially staffed with existing Commission grid-reliability engineering experts as well as experts on detail from the Oak Ridge National Laboratory, will have access to state of the art software, hardware, and information resources.

During the first half of FY 2004, the Commission's reliability staff devoted its resources to ensuring that the Nation's transmission system was ready for the summer of 2004. To this end, the reliability staff participated, along with industry volunteers, in NERC's reliability readiness reviews of the major U.S. and Canadian transmission operators and reliability coordinators. The reviews, which NERC plans to complete on all industry members every three years, assessed whether they had the equipment, training, and other resources necessary to comply with NERC reliability standards.

In addition to assessing readiness for the upcoming summer peak season, the Commission has begun assessing longer-term and strategic needs and issues by examining:

- how the reliability readiness review process can be improved;
- whether utility system control and data acquisition systems are vulnerable to cyber-security threats;
- how the best operators are trained and the implications for the long-term training needs of electric transmission operators;
- whether transmission owners face risks in deploying new transmission technologies and whether any such risks can be addressed by regulators;
- whether and how gas pipeline disruptions and gas pipeline tariff conditions affect deliverability of natural gas to generators, and how these affect electric system reliability;
- whether the U.S. electric industry collectively has an adequate inventory of replacement transformers, and if not, how the costs of a higher inventory level could be shared; and
- whether the grid around Lake Erie can be designed to be more robust and less susceptible to cascading failure, and whether economic incentives are structured properly for correcting any problems.

The division will be fully operational by the end of FY 2005.

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.

LNG Facilities. Under Section 3 of the NGA, the Commission reviews applications for the siting, construction, and operation of LNG import terminals. As part of its review, the Commission performs a detailed review of safety and security issues, in coordination with the U.S. Coast Guard and Department of Transportation, related to the proposed site as well as any alternative sites that are under consideration. In addition to the Commission's filing requirements, LNG project applicants are also required to comply with DOT's criteria for design and construction of LNG facilities.

Recognizing the increased activity in LNG development in FY 2004, and projected increase for years to come, the Commission created a new team to focus almost exclusively on LNG project review and compliance. Safety and security issues will be paramount among the responsibilities of the new team. To that end, in May 2004, the Commission released its modeling study entitled *Consequence Assessment Methods for Incidents*

Involving Releases from LNG Carriers. The report recommended methods for estimating: spill rates, pool spread and vapor generation for unconfined LNG spills on water, thermal radiation from pool fires on water, and dispersion of flammable vapors. The Commission will use the methodology in the report to calculate site-specific flammable vapor and thermal radiation hazards for each LNG import facility application.

Hydroelectric Facilities. Under Part I of the FPA, the Commission reviews applications for licenses to construct and operate hydroelectric projects. The bulk of the applications pending before the Commission involve an evaluation of the safety and security issues for the relicensing of existing operating projects where siting has already been accomplished. For totally unconstructed projects, the Commission's review includes discussions of safety and security issues relevant to the proposed facilities along with an analysis of any siting alternatives that may be warranted.

To protect life, health, and property, we work to protect the safety of the approximately 2,600 non-federal hydropower dams we license. During FY 2004, the Commission focused closely on security issues and further developed the Hydropower Security Program by:

- conducting security reviews of approximately 1,500 dams;
- continuing to work with the Office of Homeland Security and the FBI to coordinate a national security response at dams;
- developing a vulnerability/security assessment tool for Commission-jurisdictional dams and participating in several field assessments;
- continuing coordination efforts between Commission-jurisdictional dam owners and law enforcement and emergency management agencies;
- participating in workgroups to assist in developing a unified national response to security at dams and conducting two workshops on dam site security;
- participating in the creation of a Federal Dam Sector Intelligence Analysis database and a national Dam Sector Information Sharing and Analysis Center; and
- receiving vulnerability/security assessment results for all security Group 1 and Group 2 dams (1,050 dams) and beginning the review process of these assessments.

These efforts have better prepared the hydropower industry and the Commission to keep dams safe and secure, and to respond quickly and successfully to any safety threats. In FY 2005 and FY 2006, we will improve the Commission's security program by focusing our efforts on ensuring that jurisdictional dam owners/operators have proper continuity of operation (recovery) plans and emergency operating plans.

During FY 2004, the Commission continued implementing its potential failure modes analysis and performance-monitoring program, using the new Engineering Guidelines on *Monitoring Performance of Dams* developed in coordination with licensees. The goal of performance monitoring is to detect and measure physical changes in the structure through appropriate instrumentation, before dam safety problems develop.

The new guidance provides procedures and criteria for dam owners to develop a Performance Monitoring Program which:

- identifies risk reduction opportunities;
- identifies the most significant potential failure modes;
- uncovers data that may be significant to failure modes analysis;
- develops operating procedures to assure there are no weak links that could lead to dam failure caused by improper operation of the dam; and
- focuses instrumentation, monitoring, and inspection programs on providing information on failure modes that present the greatest risk to the safety of the dam.

This performance-monitoring program provides targeted results and is cost-effective, compared to other alternatives. Since an independent consultant inspection is required once every five years, full rollout of this program spans FY 2002 to FY 2006 and will be conducted by the dam owner, independent consultant, and Commission staff. At the end of FY 2004, approximately 20% of the required dams had undergone this new analysis.

The Commission also oversees construction and remediation to correct deficiencies in project structures. In FY 2004, the Commission worked with the licensee and independent engineering consultants on the remediation of the Saluda Dam in Columbia, South Carolina. Engineers determined that the dam would fail if subjected to a repeat of the 1886 Charleston Earthquake, inundating over 120,000 downstream residents. To alleviate this potential hazard, a massive rock fill and concrete structure is being constructed at the existing dam with completion scheduled for 2006. The Commission will continue to work with the licensee, engineering consultants, state and federal agencies, and the public to fix the dam as quickly as possible, while minimizing the associated disruption to the local area.

Natural Gas Pipelines. Under Section 7 of the NGA, the Commission reviews applications for the construction and operation of natural gas pipelines. In its application review, the Commission ensures that the applicant has certified that it will comply with DOT safety standards. We have no jurisdiction over pipeline security, but we actively work with agencies with security responsibilities.

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

> *Technical Conference on Reconstruction of Interstate Natural Gas Facilities*. A conference held with the Department of Transportation's Office of Pipeline Safety (OPS) on whether and how to clarify, expedite, and streamline permitting for interstate pipeline reconstruction in the event of a natural disaster or terrorist attack. Because of this conference and subsequent discussions with other stakeholders, the Commission issued Order No. 633 in May 2003 to expedite reconstruction in the event of major emergency pipeline damages.

Work with Other Agencies and Industry to Address and Improve Infrastructure Security.

The Commission views the reliability of the Nation's energy transportation systems and energy supply infrastructure as critical to meeting the energy requirements essential to the American people. Thus, electric, gas, and oil companies need to continue to adopt new procedures, update existing procedures, and install facilities to further safeguard their electric power transmission grid and gas and oil pipeline systems. To alleviate the uncertainty about a company's ability to recover the prudent expenses necessary to safeguard our energy infrastructure, the Commission allows prompt recovery of such costs, and supports efforts to improve security in other ways as they are identified.

Although the security and safety of gas and oil pipeline and storage facilities are not within the Commission's jurisdiction, we work closely with the agencies that have regulatory responsibility for security.

LNG facilities. The Commission supports the U.S. Coast Guard, which has jurisdiction over offshore LNG facilities, and the Department of Transportation (DOT), which has jurisdiction over onshore LNG facilities. Both agencies have recently issued new guidelines that significantly expand security requirements. On February 11, 2004, we completed an interagency agreement with the U.S. Coast Guard and DOT that designated the Commission as the lead agency for environmental review under NEPA and that we will coordinate our review with the other agencies. The agreement also reinforces the agencies' longstanding efforts to provide for a seamless review of safety and security issues that may arise from the movement of LNG ships, the transfer of LNG to the terminal, and terminal operations.

Where specific security threats are identified in the LNG permitting process, the Commission conducts closed-door technical workshops on the site-specific security issues with all relevant stakeholders and federal, state, and local expert agencies to explore and resolve the security concerns. To date the Commission has conducted one such session.

Natural Gas Pipelines. An identical process is followed when security threats are raised with respect to the natural gas pipeline permitting process. As with LNG, one such session has taken place to date.

The Commission continues the efforts it began in Order No. 630 to restrict access to critical energy infrastructure information (CEII). After Order No. 630 took effect in April 2003, the Commission processed almost 80 CEII requests, and as of May 2004, has processed most of the 200 additional requests received. These figures do not include processing of hundreds of additional requests from owners and operators seeking CEII regarding their own facilities, as well as responding to numerous inquiries regarding the Commission's CEII regulations. In February 2004, the Commission sought public comment on the functioning of the CEII submittal and request processes, and in August 2004, issued Order No. 649, which made minor changes to the regulations but generally maintained the approach of protecting CEII as set forth in Order No. 630.

The Chairman and Commissioners have spoken with many industry stakeholder groups and government leaders about power system reliability. All agreed that reliability legislation is the preferred means to achieve clear and enforceable mandatory reliability standards. Discussions also considered what role the Commission and other U.S., Mexican, and Canadian government agencies could play if legislation should not pass soon. The Commission has also:

- been in contact with staff of the Nuclear Regulatory Commission about the interrelated reliability needs of the transmission system and nuclear power plants;
- established a liaison between the Commission and the National Association of Regulatory Utility Commissioners (NARUC), which represents state utility regulatory agencies; and
- met with representatives of the U.S. Department of Energy, Natural Resources Canada, and Canadian provincial regulators to establish points of contact regarding future discussions of reliability matters.

In regard to participation in NERC/industry reliability activities, the Chairman committed that a Commissioner will attend each NERC Board of Directors meeting. In addition, Commission staff is increasing its participation in, and attendance at, NERC committee, subcommittee, and task force meetings. In particular, the Commission has been actively urging NERC and the industry to accelerate modifying of standards and developing compliance templates, thereby achieving clear reliability standards. With clear standards and templates, NERC and the Commission will be able to judge fairly whether a transmission owner or operator is in compliance.

Allow Prompt Recovery of Prudently Incurred Expenses to Safeguard Reliability, Security and Safety of the Energy Infrastructure.

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

To date twelve oil pipelines have filed applications to recover security related costs, nine of which were filed in FY 2004. One electric company has filed to collect similar costs. In FY 2004, the Commission found that Equitrans, L.P.'s and Florida Gas Transmission Company's (FGT) separate proposals to implement a tracking mechanism to recover capital costs needed to enhance system security were generally consistent with the Commission's policy statement and the specific elements of the tracking proposals were set for hearing. We continue to meet with representatives from the Association of Oil Pipe Lines and individual company officials to discuss ways to recover costs associated with enhanced security measures. Under the Commission approved settlement of FGT's general rate case, FGT is permitted to seek recovery of security-related costs exceeding $20 million through a capital surcharge to its reservation rates.

Two other natural gas companies have filed for the recovery of enhanced security related costs, as the Commission continues to meet with individual company officials to discuss ways to recover such costs.

Objective 1.4 Performance Measures

Performance Measures	Performance Targets	Data Source
Percentage of NERC reliability readiness reviews in which FERC participates	➢ 100% of the Reliability Coordinators ➢ 80% of the Nation's total load capacity (by Control Area)	Office of Markets, Tariffs and Rates
Issue final rule on Electric Reliability Organization (ERO) certification and mandatory reliability standards enforcement	Final rule issued within 180 days of enactment of reliability legislation	Office of Markets, Tariffs and Rates / Office of the General Counsel
Formalize working relationship with NERC to facilitate consistent treatment of reliability standards throughout North America	Execute MOA/MOU by September 30, 2006	Office of Markets, Tariffs and Rates
Develop and hold international workshops to increase bi-national coordination in preparation of an international ERO	Conduct two workshops by September 30, 2006	Office of Markets, Tariffs and Rates

Performance Measures	Performance Targets	Data Source
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred reliability costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of new RTOs or ISOs performing reliability functions included in Orders No. 2000 or No. 888, respectively	100%	Office of Markets, Tariffs and Rates / Office of the General Counsel
Conduct review of existing RTOs or ISOs to ensure that reliability rules specify what constitutes a reliability violation and include effective and enforceable penalties consistent with NERC standards	100% reviewed by September 30, 2006	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred safety and security costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of high- and significant-hazard-potential dams inspected annually	100%	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation	100%	Office of Energy Projects
Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s)	100%	Office of Energy Projects
Number of instances of unauthorized access to Critical Energy Infrastructure Information (CEII)	No instances	Office of the General Counsel
Number of complaints from CEII requesters on inability to participate in a proceeding due to failure to obtain CEII in a timely manner	No complaints	Office of the General Counsel

CHAPTER 2: COMPETITIVE MARKETS

Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation

Competitive Markets Resources

(Dollars in Thousands)

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Request
Total FTEs	**206**	**208**	**208**
Program	170	175	175
Support	36	33	33
Total Funding	**$32,283**	**$32,709**	**$33,870**
Program	26,918	27,300	28,327
Support	5,365	5,409	5,543

Introduction

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

Meeting this goal includes two objectives:

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

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

Objective 2.1: Advance Competitive Market Institutions Across the Entire Country

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

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

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

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

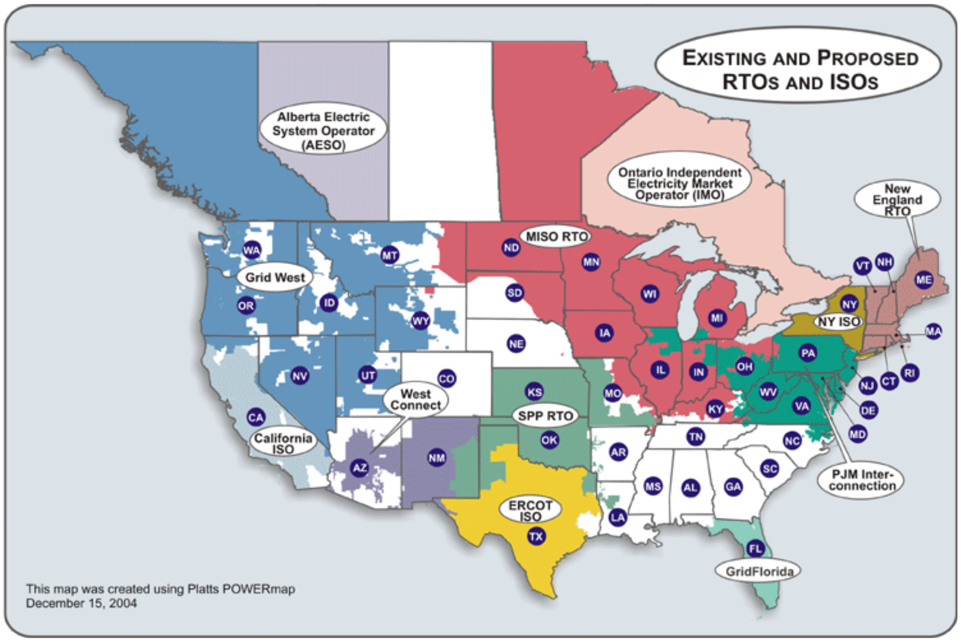
Objective 2.1 Strategies

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.

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

- The Midwest ISO operates in all or parts of 15 Midwestern States and one Canadian province.
- The PJM Interconnection, granted RTO status in late 2002, is working with the Midwest ISO to create a joint and common market that will span from the Atlantic Ocean to the Rocky Mountains. In May 2004, Commonwealth Edison was successfully integrated into PJM. American Electric Power (AEP) successfully integrated into PJM in October 2004 and Duquesne plans to integrate into PJM in January 2005. Pursuant to a May 2004 PJM and Virginia Electric and Power Company application, the Commission issued an order In October 2004 establishing PJM South, subject to certain conditions.
- ISO-New England was granted RTO status in March 2004, subject to fulfillment of certain market design requirements.
- The New York ISO and ISO New England have working groups that are striving to make the two ISOs act as if they were a single operator, and dispatch across seams in a manner that would be more consistent with dispatch over internal constraints. The order granting ISO New England RTO status required ISO New England to submit a seams resolution agreement with NYISO. In November 2004, the Commission accepted a Seams Resolution Agreement between the two organizations that resolved the previously identified seams issues, with two clarifications. First, a Virtual Regional Dispatch must be made (ISO New England has submitted its Virtual Regional Dispatch Pilot Program), and second, for each remaining seams issue a proposal must be filed with the Commission 60 days prior to the implementation date of the proposal.
- The SPP, conditionally approved to operate an RTO covering an eight state region in February 2004, SPP expects to begin operations in 2005.
- The California ISO, currently operating as a statewide ISO, is in the process of implementing a redesign of its wholesale electricity markets.
- WestConnect RTO was given preliminary approval to operate in parts of the Desert Southwest States of Arizona, Colorado, New Mexico and Utah, and continues to explore staged implementation.
- In December 2004, Grid West (formerly RTO West) adopted by-laws and initiated the process for establishing an interim governing board to develop a new, regionally focused, independent transmission provider for all or parts of eight Pacific Northwest States.
- GridFlorida's provisional approval for an RTO for the state of Florida in 2001, stalled by a state court review, is now under the state commission review. In early 2005, ICF Resources, LLC is scheduled to complete and present its cost-benefit study findings to the Florida Public Service Commission.

• Although it received approval of key aspects of its proposal, a group of Southeast U.S. utilities has suspended its 2-year effort to create the SeTrans RTO, which was proposed to extend over eight Southeastern States. One of those utilities has filed a proposal to establish an "independent entity" to oversee the administration of its transmission function. The proceeding is pending Commission and state review.



As a next step in establishing wholesale regional power markets, in March 2004, the Midwest ISO filed its energy markets tariff proposal for establishing an energy market. When implemented in March 2005, the tariff will provide security constrained, centrally dispatched day-ahead and real-time markets using locational marginal pricing for the entire Midwest region. The result will be greater transparency of the values associated with using the electrical grid, and clear economic indicators showing where investments in infrastructure will be most valued.

Support Creation of Regional State Committees to Advise ISOs and RTOs.

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

Developing a competitive wholesale electric power industry requires a high level of interaction between the Commission and its counterparts at the state level. For example, the Commission is vitally interested in the attitudes of the states regarding its market initiatives and has solicited their input at every opportunity, while working closely with states at each stage of regional market development. This includes state commission participation and comment in RTO and market design discussions and proceedings to understand state and regional concerns and needs.

In 2004, the Commission continued its regional outreach program, convening local technical conferences between the Commission, state representatives, and industry officials to discuss regional market design issues. For example, in March 2004 the Commission met in Dallas, Texas, with members of SPP and representatives of the states covered by the newly approved SPP RTO. In July 2004, in New Orleans, and again in October 2004, in Jackson, Mississippi, the Commission met with representatives from Entergy Corporation, its state regulators, and other electric industry market participants, to discuss Entergy's ICT proposal. Because of these meetings, and others like them, the Commission is able to achieve greater clarity on a number of important issues related to independent grid operation, transmission planning and market monitoring that impact both wholesale and retail electricity markets.

Also during 2004, Commission staff placed at the Midwest ISO offices continued to work with the Midwest stakeholders on issues regarding pre-filing, tariff implementation, and market protocol implementation. They have met with state regulatory commissions in Minnesota, Iowa, and Wisconsin to discuss seams issues, cost control, FTR allocations, and the treatment of grandfathered agreements. In August 2004, additional Commission staff was placed at the SPP offices in Little Rock, Arkansas.

The Commission's goal is to have outreach success at the newly formed SPP RTO similar to the success at the Midwest ISO. We believe these, and future successes, will significantly increase our ability to realize our goal of regional competitive bulk power markets that will benefit customers and consumers for years to come.

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

- holding infrastructure issues conferences in the various regions;
- working with state commissioners and officials on projects to ensure grid reliability and competitive markets; and
- participating in and facilitating dialogue among states and market participants on RTO and market design issues.

Coordinate Operation of RTOs and ISOs to Reduce or Eliminate Seams Issues.

The Commission will continue to facilitate discussions between industry and states in addressing the seams issues that occur at RTO and ISO boundaries. Seams are barriers and inefficiencies resulting from equipment limitations and differences in market rules and designs, operating and scheduling protocols, and other control-area practices that inhibit or preclude the ability to transact capacity and energy between regions. Power products and differences in pricing and market rules can differ significantly between ISO and RTO markets and result in reduced competition between suppliers across regional boundaries. Thus, resolving seams differences between regions could lower the cost of transacting power sales between regions, permit dispatch of lower cost power and, ultimately, lower costs to customers.

When neighboring regions have RTO or ISO markets, the regions can work together to revise rules and improve market pricing at the seams. For example, over the last few years markets in the Northeast have undertaken a series of projects, known as the Northeast Seams Initiative, designed to reduce the seams among the RTOs and ISOs. This initiative is intended to harmonize market rules, eliminate seams and develop larger markets among ISO New England, the New York ISO, PJM and the Ontario Independent Market Operator.

In another instance, the borders of the Midwest ISO and PJM create a seam on the power grid between the two RTOs that may be responsible for inefficiencies that limit the RTOs' ability to coordinate power flows, and expose consumers to inflated rates. In an effort to eliminate this seam and improve coordination between the two regions, Midwest ISO and PJM executed a Joint Operating Agreement (JOA) to work toward creating seamless operations to serve wholesale electricity customers in 22 states, the District of Columbia and parts of Canada. Additionally, the agreement will improve coordination of inter-regional congestion management, operational data exchange, real-time communications, emergency protocols, system planning, and market monitoring. The JOA is fully implemented with regard to market to non-market coordination, allowing the comprehensive exchange of data and information between the Midwest ISO and PJM.

Promote Transparency of Competitive Electric and Gas Markets.

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

Reporting of gas and electric prices to index developers declined significantly in 2002, creating widespread concern over the accuracy and reliability of price indices. In January 2003, the Commission took the lead in examining the process by which wholesale natural gas and power transactions are reported to price index developers and published for industry use. Significant progress has been made in improving the index development process. The Commission required eleven energy companies identified in the final report to reform their trade reporting processes or cease reporting.

At the same time, the Commission took several other actions to address the quality of reporting and price indices generally. The Commission held technical conferences, issued discussion papers, and held a follow-up workshop to explore the desirability of a “safe harbor” for good faith reporting of prices to price index developers. On July 24, 2003, the Commission issued a policy statement on Natural Gas and Electric Price Indices, setting out standards for natural gas and electricity price index developers and the companies that report transaction data to index developers. The policy statement also created a rebuttable presumption that companies that report trade data in accordance with the standards do so in good faith and will not be subject to administrative penalties for inadvertent errors in reporting.

At the beginning of FY 2004, the Commission issued two orders adopting behavior rules for market participants. Both of these orders adopt a behavior rule requiring that, to the extent a company reports natural gas or electricity transaction data to price index developers, they must report such transactions in accordance with the policy statement standards. In addition, all holders of market-based rate authority and all sellers using blanket gas certificate sales authority were directed to notify the Commission whether or not they report prices to index developers in accordance with the policy statement.

In November 2004, the Commission issued an order stating that it will continue to monitor price formation in energy markets and the use of price indices in jurisdictional tariffs. In addition, the Commission noted several positive developments since issuance of the July 2003 policy statement, including an increase in the number of companies reporting price data in accordance with the policy statement standards and improved confidence in price transparency of the indices. Lastly, the Commission adopted criteria to be applied prospectively to any price index proposed to be used in a tariff, will monitor wholesale transaction data reporting and price index publication, and plans to report on these issues in the next State of the Markets report.

Ensure that Mergers and Consolidations Are Consistent with Pro-competitive Goals.

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

Recently the Commission issued orders in several cases where it took measures to ensure that consolidations of energy assets did not harm competition:

- Oklahoma Gas and Electric's acquisition of the McClain generating facility where the Commission found that the acquisition would harm competition in the OG&E control area absent additional mitigation measures. In July 2004, the Commission approved a settlement that included several pro-competitive provisions, thereby allowing the acquisition to be completed.
- Southern California Edison's acquisition of the Mountainview facility, where the Commission announced it would review affiliate power purchase agreements, whether cost- or market-based, under stricter standards, previously applied only to market-based contracts.
- Acquisitions of affiliated generating plants by Ameren and Cinergy, where the Commission announced it would review acquisitions of affiliated generation under a stricter standard to ensure that affiliates did not receive preferential treatment at the expense of wholesale customers.
- The merger of Ameren and Illinois Power, where the Commission analyzed the effect of combining two large contiguous utilities in the Midwest on wholesale competition, rates for wholesale customers, and the ability of the Commission and State commissions to regulate the companies.

Objective 2.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Percentage of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs) processed	100% within 6 months of filing or before applicant's proposed effective date (whichever is later)	Office of Markets, Tariffs and Rates / Office of the General Counsel

Performance Measures	Performance Targets	Data Source
RTO / ISO establishment of cost-effective market design elements per Order No. 2000	Within three years of commencement of operation, each approved RTO or ISO will implement (if cost effective): ➢ firm transmission rights ➢ resource adequacy approaches ➢ regional independent grid operation ➢ regional transmission planning process ➢ market monitoring and market power mitigation ➢ transparency and efficiency in congestion management ➢ spot markets to meet customers' real-time energy needs ➢ fair cost allocation for existing and new transmission	Office of Markets, Tariffs and Rates
Demonstrable improvements in regional competitive market transparency and independence	In each region of the country, there will be: ➢ RTO expansion or creation ➢ increase in competitive solicitation for supply ➢ RTO adoption of additional market-oriented features, programs or rules ➢ improvement of open access tariff to reduce entry barriers or foster competition ➢ increase in the degree of transmission independence (ownership or control) from generation in regions primarily without RTOs	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: ➢ new product markets within RTOs or ISOs ➢ new, independent regional transmission providers ➢ coordination between RTOs or between RTOs and neighboring non-member utilities ➢ RTOs membership through the integration of transmission facilities of additional transmission owners	Office of Markets, Tariffs and Rates
Promote efficient trade across RTO and utility boundaries through the implementation of new rate designs	Eliminate multiple, or "pancaked" transmission rate charges at one additional RTO seam	Office of Markets, Tariffs and Rates
Transition existing regulatory constructs into competitive markets	Approve an additional energy market that minimizes cost shifts while preserving existing contractual rights and creating efficiency gains	Office of Markets, Tariffs and Rates
Increased presence at RTOs, to improve relationships with and knowledge of existing RTOs	Creation and staffing of an office at one existing RTO each year and at any new RTO within 6 months of commencement of operations	Office of Markets, Tariffs and Rates

Performance Measures	Performance Targets	Data Source
Percentage of Section 203 applications processed	98% within 90 days of the comments filing date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Improve cost effectiveness of expenses associated with ISO / RTO functions and market activities	Establish accounting rule changes to accommodate increased transparency of expenses and specific characteristics of ISO / RTOs and functional business segments that allow for meaningful examination of cost effectiveness of products and services	Office of Markets, Tariffs and Rates

Objective 2.2: Establish Balanced, Self-Enforcing Market Rules

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

Objective 2.2 Strategies

Complete Revisions to Market-Based Ratemaking Policy to Prevent Exercise of Market Power.

The Commission allows the use of market-based rates for electric power if the seller and its affiliates do not have, or have adequately mitigated, an ability to exercise market power. The Commission also considers whether any barriers to entry exist and whether there is evidence of affiliate abuse or reciprocal dealing. In particular, when available supply is low relative to demand or supply is controlled by only a few entities, the opportunity for exercising market power grows. In such situations, even an otherwise well-functioning market may no longer guarantee the full benefits of competition that justify unmitigated market-based pricing.

In April 2004, the Commission adopted new indicative screens for analyzing generation market power, designed to identify entities that have the potential to exercise generation market power and to impose appropriate mitigation measures to address that potential. All entities seeking to obtain or retain market-based rate authority are required to apply the new screens, and entities with pending market-based rate triennial review filings will be required to apply the new screens in accordance with the schedule adopted in a May 2004 order. Concurrent with the announcement of the new approach, the Commission initiated a generic rulemaking proceeding to analyze and update the four factors relied upon when granting market-based rate authority. This proceeding began with a June 2004 technical conference to consult industry experts and frame the issues upon which the rulemaking will be based.

The Commission, in November 2003, issued a set of behavioral rules for jurisdictional sellers of wholesale electricity and natural gas. These rules, designed to provide direction about prohibited behavior in energy markets, form part of the Commission's response to recent issues in the Nation's energy market. Additionally, the rules contain the breadth and flexibility to address new and unanticipated activities as they may arise. The Market Behavior Rules call for all electric market-based rate tariffs and gas blanket certificates to contain provisions relating to (1) market manipulation, (2) reporting, and (3) record retention. Electric market-based rate tariffs must also contain provisions relating to unit operations, communications and related tariffs. Under the rules, if a seller is found to have engaged in prohibited behavior, the seller would be subject to disgorgement of unjust profits and non-monetary remedies such as revocation of the seller's market-based rate authority or blanket certificate authority. In May 2004, the Commission issued an order denying rehearing and clarifying the Market Behavior Rules.

Work with States to Support Robust Programs for Customer Demand-side Participation in Energy Markets.

Energy markets must allow response from both the supply and the demand side of the industry. Historically, the industry has priced power to most customers at rates reflecting average costs over fairly long periods of time. The result is that customers have seldom seen prices change in the short run and have had little if any incentive to change their usage to meet the true costs of producing power at any given time. The lack of a real-time price signal to customers, which would cause short-term demand response, was a major contributing factor to the problems in western electricity markets, just as individual customer decisions to conserve electricity were a significant part of the solution to the problem. In the future, electricity markets at both the wholesale and retail levels will require short-term demand response to better balance supply with demand and reduce supplier ability to exercise market power.

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

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

FERC efforts to support demand response have included:

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

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

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

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

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

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

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

In addition to the WEQ, we have been working with NAESB's Wholesale Gas Quadrant (WGQ) to develop creditworthiness standards for shippers on natural gas pipelines, which will lower information costs to shippers and increase market efficiency. Input from both shippers and the pipelines have proven crucial to our understanding of the credit issues faced by industry participants. On June 25, 2003, NAESB filed ten business practices dealing with creditworthiness. On February 12, 2004, the Commission issued a Notice of Proposed Rulemaking proposing to adopt the creditworthiness standards developed by NAESB as well as other standards developed by the Commission.

We are working with NAESB Wholesale Electric and Wholesale Gas Quadrants through NAESB's Gas-Electric Coordination Task Force to identify and develop business practice and communication standards needed to coordinate the scheduling of electric and gas transactions. On April 26, 2004, the task force filed an interim status report to the Commission detailing its progress and identifying a list of potential issues for standards development.

Following the recommendations of a Fall 2003 report by the National Petroleum Council (Council) on the natural gas industry, the Commission held a conference in February 2004 on natural gas quality and interchangeability issues. In the report, the Council recommended that the Commission examine natural gas quality issues and their potential impact on future liquefied natural gas imports. Subsequently, the natural gas industry, under the leadership of the Natural Gas Council, initiated an industry-wide collaborative effort to examine the need for, and the possible scope of, industry-wide consensus on these issues. The

Commission expects to receive a final report on these issues early in 2005, after which it will consider the need for further action to implement the consensus recommendations, if any, and to develop appropriate policies on natural gas quality and interchangeability.

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

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

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

Proposed market rules evolved over many months as the result of extensive outreach efforts with interested parties. The Commission indicated in its RTO rulings that flexibility is needed in appropriate aspects of market design to accommodate regional concerns. For example, the California Independent System Operator Corporation filed tariff provisions to implement an oversight and investigations program. The CAISO's enforcement protocols provides for monitoring, investigating and enforcing the new rules of conduct included in the CAISO tariff. The Commission conditionally accepted the CAISO's behavioral rules.

An important foundation to RTO operation is a transmission system that is independent of any bias of one market participant relative to another. In 2003, the Commission approved applications to establish ITCs that will operate under the umbrella of an RTO. For instance, we approved the formation of ITC Holdings, Inc., and GridAmerica, two independent transmission companies that now operate under the Midwest ISO. During FY 2004 GridAmerica was fully integrated under the Midwest ISO umbrella bringing 4 million customers and 14,000 miles of high-voltage transmission line to the Midwest ISO operation. Since neither of these entities has a financial connection with other aspects of the electric industry (i.e., generation and distribution) in the region in which they will operate, they should have the incentive to focus exclusively on the growing electric transmission business in their respective regions. As needed transmission infrastructure is added, electricity customers will benefit by having access to a greater number of competing suppliers.

Prevent Undue Preference and Self Dealing in Affiliate Transactions.

The Commission's Edgar policy, which has been in effect since 1991, involves a review of power purchase agreements between affiliates to determine whether the rate is just and reasonable and whether there is an absence of self-dealing. With the development of significant amounts of independent generation in every region, competitive alternatives to affiliate purchases have increased.

In July 2004, the Commission provided guidance regarding the standards it will use to evaluate whether a request for proposal (RFP) used in support of applications to transfer ownership of jurisdictional facilities satisfies the Edgar criteria. The underlying principle when evaluating an RFP under the Edgar criteria is that no affiliate should receive undue preference during any stage of the RFP. The Commission indicated that the following four guidelines will help determine if an RFP satisfies that underlying principle:

- transparency – the competitive solicitation process should be open and fair;
- definition – the product or products sought through the competitive solicitation should be precisely defined;
- evaluation – evaluation criteria should be standardized and applied equally to all bids and bidders; and
- oversight – an independent third party should design the solicitation, administer bidding, and evaluate bids prior to the company's selection.

In October 2004, the Commission issued a NOPR that proposed to standardize and clarify market-based rate sellers' reporting requirement for changes in status. The Commission proposed to impose uniform standards on all market-based rate sellers by eliminating the option to delay reporting changes in status until submission of the triennial review, or to file a triennial review in lieu of reporting changes in status as they occur. Acting pursuant to section 206 of the FPA, the Commission proposed to amend its regulations and modify the market-based rate authority of current market-based rate sellers to include the requirement to timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. The Commission proposed to incorporate the reporting requirement into the market-based rate tariff of each entity that is currently authorized to make sales at market-based rates, as well as the reporting requirement of all future applicants. The Commission proposed that notice of such changes in status be filed no later than 30 days after the change in status occurs.

The Commission held several conferences in 2004 on market-based rates. In January 2004, the Commission held conferences to discuss the four-prong market power test it uses in evaluating whether an applicant obtains or retains market-based rate authority, and conferences to discuss competitive power purchase solicitations. In December 2004, the Commission held conferences to discuss transmission market power and barriers to entry, and additional conferences are planned for January 2005 to discuss affiliate abuse and reciprocal dealing and generation market power.

Ensure Renewable Energy Resources are Accommodated in Interconnection and Transmission Rules.

Wind energy, a renewable energy resource, has become one of the fastest growing energy sources in the world today. The economics of wind generation continue to improve, making it an increasingly attractive alternative to traditional sources of energy generation. Even with its expansive growth in recent years, the full benefits of this cheap and abundant source of energy have yet to be realized.

Wind generation, by its nature, is especially vulnerable to interconnection and transmission policies that are designed for traditional facilities. For these reasons wind generation has typically been relegated to market niches. These niches typically see wind generation complementing an Investor Owned Utility's (IOU) portfolio in order to meet certain Renewable Portfolio Standards, or operating as a Qualifying Facility under the requirements of the Public Utility Regulatory Policies Act. Wind generation continues to face many obstacles when attempting to compete in the market as merchant generation.

Certain regions of the United States are more proactive in the acceptance of wind than other regions. The CAISO has taken steps to remove the operational and regulatory obstacles that typically burden wind generation. In California, wind generation has been able to break out of its market niche role. Due, in part, to the innovation shown by the CAISO, California now leads the Nation in installed capacity for wind generation. The regions in which centralized energy markets exist (i.e., RTOs) have the potential to incorporate policies similar to those that exist in the CAISO in order to accommodate the operational characteristics of wind generation. It is in the regions where development of RTO markets is slowed or stalled that wind producers face the greatest barriers to entry. These areas that lack RTOs also happen to include the majority of the geographic locations that are most conducive to wind generation.

The emergence of nontraditional sources of energy generation has highlighted obstacles present in today's markets. While the landscape and participants in energy markets have changed, certain regulatory policies governing the market have not. It has become apparent that further industry change may be needed in order to accommodate these new market participants.

During 2004, the Commission held two technical conferences to clarify the special needs of wind generation. The first conference, held in September 2004, addressed any special interconnection requirements, reliability and safety implications, and special modeling considerations for wind generation. The second conference, held in December 2004, identified any regulatory impediments faced by wind generation developers and any policy options for overcoming these hurdles. After reviewing the post-conference comments, the Commission intends to propose measures that will increase flexibility in services and open access tariff rules to better accommodate wind generation and other intermittent resources. Options for accomplishing this objective include pilot programs and policy or rule changes.

Objective 2.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Percentage of market-based rate filings processed	100% within 60 days of filing date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of competitive energy markets and market institution cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of competitive energy markets and market institution cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of RTOs and ISOs with rules that do not inhibit demand response participation in RTO/ISO-controlled markets	100% within 1 year of commencing day-ahead markets	Office of Markets, Tariffs and Rates
Conduct meetings to support development of robust customer demand-side participation in energy markets in areas where it does not exist	Meet at least annually to discuss demand response issues with appropriate state commission officials	Office of Markets, Tariffs and Rates
Percentage of pending market-based rates triennial review cases resolved	Initial action taken on 80% of cases by June 21, 2005	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of non-controversial rulemakings within 9 months ➢ 100% of controversial rulemakings within 12 months	Office of Markets, Tariffs and Rates / Office of the General Counsel
Develop open access tariff modifications to increase competitive market opportunities of alternative energy technologies (including wind generation)	Issue open access tariff final rule	Office of Markets, Tariffs and Rates / Office of the General Counsel

Performance Measures	Performance Targets	Data Source
Percentage of initial orders issued on third-party complaints	➢ 80% within 60 days ➢ 95% within 180 days	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of initial orders issued on fast track third-party complaints	90% within prescribed time frame	Office of Markets, Tariffs and Rates / Office of the General Counsel

CHAPTER 3: MARKET OVERSIGHT

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

Market Oversight Resources (Dollars in Thousands)	FY 2004 Actual	FY 2005 Estimate	FY 2006 Request
Total FTEs	**201**	**225**	**242**
Program	165	189	203
Support	36	36	39
Total Funding	**$33,403**	**$35,793**	**$39,827**
Program	28,165	29,943	33,402
Support	5,238	5,850	6,425

Introduction

Market oversight and investigations works to provide the public and market participants credible assurance that the Commission will identify and remedy energy market problems, as well as remedy improper behavior and maintain just and reasonable rates. Such actions contribute to stable, competitive energy markets over the long run.

At the center of the Commission's oversight effort is our ability to provide an authoritative understanding of energy markets to the public by assessing market performance, ensuring conformance with Commission rules, and reporting on findings. The Commission also analyzes overall energy markets to identify and remedy key issues before they become major problems and ensures that individual market players play by the rules. Our two main objectives in meeting our goal of full and fair market oversight are to:

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

The Commission's market oversight and investigation function provides regular summaries of how energy markets are performing, with a degree of detail and sophistication that helps inform Commission policies and decisions. This has allowed the Commission to identify key emerging issues and address them quickly. For example, we have focused industry attention on the need for greater transparency in energy pricing, which is leading to considerable improvement in industry practice. Similarly, our investigations function has tracked more cases of potential misbehavior by market participants, shown misbehavior in more cases, and led to recovery of more money than ever before.

Going forward, the market oversight and investigations function will need to increase its efforts in three areas:

- *Detailed monitoring of individual electric markets.* Wholesale electric markets differ considerably from region to region. To understand how each market works, to identify potential problems, and to respond to individual behavior problems requires dedicating staff to specialize in each individual market. (This is not true for natural gas, which has a well-integrated national market.) With this need in mind, we are requesting 15 additional full-time equivalents (FTEs) for FY 2006.
- *Fully developed audit function.* Auditing represents an essential intermediate function between market oversight and enforcement. While the Commission has developed initial market audit and financial audit capabilities, more is necessary. Audits are more focused on particular companies and practices than the Commission's broad oversight function is. By completing more audits, the Commission can examine many forms of behavior that affect markets as well as jurisdictional entities' financial accounting and reporting practices rather than initiating a full enforcement effort. An enhanced audit function will also let the Commission follow the performance of RTOs much more closely in the future. A strong audit function will enhance the Commission's toolkit for following energy markets and financial issues and help establish the Commission's presence throughout the industry. This will help keep companies vigilant internally against questionable practices.
- *Strong human capital development.* As energy markets recover from their recent problems, the Commission will face increasing competition for top notch market-oriented employees. As a result, we will need to bring in more entry-level staff members and develop their expertise, as opposed to hiring highly experienced staff. This will require much stronger training, including the need to expand our markets training program.

Objective 3.1: Provide Vigilant and Effective Oversight of Market Operations

The Commission has established market structures and rules to provide a framework for evolving markets. To ensure that they provide the needed framework, our market tracking and evaluations aim is to discern:

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

Objective 3.1 Strategies

Promote Understanding of Energy Market Operations and Technologies through Maintaining Expert Skills, Keeping Abreast of Trends and Innovations, and Reporting Findings as Appropriate.

For the public to have confidence in American energy markets, the Commission must provide trustworthy analyses based on strong empirical evidence and make fair and farsighted decisions. This requires access to relevant and timely information about electric and natural gas markets.

To do this we have maintained, updated, and expanded data systems, largely consisting of the resources available through our state-of-the-art Market Monitoring Center (MMC). We supplement those resources by improving access to RTO/ISO data, engaging states and other federal agencies in market oversight, and continuing to develop and enhance the Electric Quarterly Report. We will continue to identify further information requirements and develop new information systems as needed.

The Commission's systems efforts have resulted in access to a very large proportion of energy and related market data. However, much crucial energy price development takes place behind less transparent market activity in bilateral physical and derivatives markets. Without major structural change, these markets are unlikely to provide adequate information to the Commission without priority efforts to gather that information through increased industry interaction and with closer coordination with oversight, audit, and investigation activities. These efforts require augmenting the Commission's skills, processes, and systems.

The initial phase of developing the Commission's oversight function focused on combining experienced employees with external hires possessing specific needs in understanding market processes. This strategy was possible at the time due to the overall downturn in the energy economy. However, with returning economic growth, hiring for particular talents is already proving more difficult. For the same reasons, trained Commission employees are likely to be increasingly valuable to industry over time. Consequently, the Commission's external hiring will need to be at lower levels, with greater resources dedicated to targeted training and development programs.

Assess and Report on Market and Infrastructure Conditions Using Objective Benchmarks.

The Commission has developed benchmarks and standardized graphics to monitor natural gas, electric, associated fuel, financial and equity market conditions and developments, to show systematically how well markets are operating. Tri-weekly reports systematically review data to help identify anomalous behavior or patterns that reflect potential market manipulation.

The annual *State of the Markets Report* gives a comprehensive review of the preceding year and provides measures for energy market performance. The report underscores the differences between reporting for well-organized markets and the less transparent bilateral markets. It uses the common metrics developed in conjunction with the Market Monitoring Units (MMUs) discussed below.

In addition to these reports, the Commission is developing ways to measure the performance of RTOs and ISOs. RTOs and ISOs are responsible for reliable and efficient operation of electric systems and markets over significant areas of the country, covering more than 60 percent of customer demand. Since they are monopolies operating under Commission-approved tariffs, we must ensure that they are publicly accountable for their performance.

Ensuring RTO/ISO accountability is a challenge. As nonprofit organizations, RTOs and ISOs lack many of the monetary measures businesses use to gauge performance; as natural monopolies, they face no competitive test of performance. To address the challenge of assessing RTO/ISO performance, the Commission is creating a series of common performance measures for RTOs and ISOs that focus on aspects of the business that are important to the public and that the RTOs and ISOs control. We have begun to develop such measures and are examining how RTOs and ISOs measure their own performance.

Encourage effective RTO and ISO Market Monitoring Units.

Each established RTO/ISO has a Market Monitoring Unit (MMU) with six MMUs in place today. MMUs have detailed knowledge of the markets they monitor and tailor their monitoring programs to deal with specific characteristics of their own markets as well as generic issues. Thus, they can identify developing problems rapidly and be the first line of defense against market problems. However, the MMUs may have limited understanding of markets outside their area of operations, and may know relatively little about other markets (including financial and gas) that affect their market areas. The Commission's market oversight function provides the broader view of how markets interact, informs MMUs, and is informed by them.

The Commission has developed and maintained close partnerships with the MMUs in all RTO/ISO markets. Our relationships with the MMUs is changing as appropriate, subsequent to the December 2003 behavior rules that indicated a need to coordinate more closely on matters of market intervention. We, along with the MMUs, are implementing procedural changes designed to increase interaction. The exact nature of our relationship has not been determined.

As specified in the behavior rules, the Commission will review the effectiveness of this new regulation on an annual basis. The annual State of the Markets Report will include this review.

Identify and Remedy Problems with Market Structure and Operations, and Periodically Review Market Rules for Consistency with Long-term Market Development.

An important task of the Commission's market oversight function is to identify market problems as they develop, so that we can rectify them quickly. We continually observe market developments, both large and small, report new issues that develop, and strive to anticipate responses to long periods of relatively high-energy prices.

During the year, the Commission generates internal reports on market developments in three major ways:

- Every three weeks we develop Market Surveillance Reports, which include background information and new developments in energy markets.
- During periods of acute market stress, we follow the markets in real-time, giving bulletins as needed and flagging items that need rapid attention.
- In response to some of the issues identified in the Market Surveillance Reports (or the State of the Markets Report) that require in-depth work, we prepare ad hoc reports to explain these issues more fully, often noting possible ways to address problems. We often hold technical conferences with knowledgeable experts to assist in the development of these detailed reports.

Another important aspect of market oversight is analyzing apparent market anomalies such as high prices or abnormal volumes in unexpected places. Such anomalies can indicate problems with data, new patterns of market trading, or "gaming" of market rules. Information for these reports comes largely from the Commission's MMC, which lets us follow market activities as they happen. We supplement these data with information from industry contacts, including RTO market monitors, and by following up on audit and investigation results.

The reports and insights identify key problems for the Commission to consider, present possible responses, and, in the case of apparent behavioral problems, lead to further investigations and audits.

Other activities during 2004 included:

- pursuing follow-up efforts on price transparency;
- calling attention to the illiquidity of certain gas price indices and promoting discussion or remedies;
- investigating the communication of non-public storage inventory information in violation of the Commission's Standards of Conduct;
- holding a technical conference to discuss whether the Commission should institute a generic rulemaking requiring daily posting of natural gas storage inventory levels;
- investigating various market activities and signals including December 2003 natural gas price increases and a January 2004 natural gas and electric price spike in New England;
- investigating the sudden significant increase in prices for natural gas futures contracts after the Energy Information Administration's (EIA) weekly storage report was posted in November 2004; and
- improving working relationships with the Commodity Futures Trading Commission, Department of Justice, various states, and other federal agencies to encourage public discussion and resolution of energy industry problems on topics such as capital availability for energy markets, credit issues, natural gas price formation, and price discovery and indices.

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

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

The Commission also issued a final rule on regulated company participation in corporate cash management programs and a final rule and rehearing order on quarterly financial reporting; both issues designed to broaden disclosure of financial information.

Objective 3.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Frequency of Market Surveillance Reports issued to the Commission	Report issued for each public Commission meeting	Office of Market Oversight and Investigations
Frequency of Market Snapshot Reports issued to State Public Utility Commissions	Quarterly	Office of Market Oversight and Investigations
Number of regions receiving the Market Snapshot Reports	Increase over FY2005	Office of Market Oversight and Investigations
Publish an annual State of the Markets Report	Complete by June 30, 2006	Office of Market Oversight and Investigations
Publish public market reports (including summer and winter seasonal assessments)	At least 2 reports	Office of Market Oversight and Investigations
Number of Daily Energy Reports distributed to Commission staff	At least 225	Office of Market Oversight and Investigations
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Review EQR submissions for completeness and contact companies that make up at least 80% of reported revenue for incomplete submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Conduct follow up reviews of companies that make up at least 80% of reported revenue on exercise of market power or market manipulation	Within 60 days of final submission	Office of Market Oversight and Investigations
Timeliness of reporting to Commission on important market events	Analysis complete within 60 days of event	Office of Market Oversight and Investigations
Number of corporate profiles completed	At least 10	Office of Market Oversight and Investigations

Objective 3.2: Prevent Market Manipulation and Enforce Commission Rules

Through its investigation and audit functions, the Commission examines companies' compliance with regulatory requirements and seeks to remedy violations. We have made significant progress in developing a program to protect customers from market power and other abuses and to ensure that energy markets within the Commission’s jurisdiction are competitive and fair to all customers. Customers must have confidence in competitive markets and know that we will rigorously investigate suspected instances of violations of statutory or Commission requirements resulting in unfair competition and where we find fault, take appropriate action.

Objective 3.2 Strategies

Investigate Statutory and Rule Violations, and Impose Appropriate Remedies.

In highly dynamic industries, market participants constantly seek new profit opportunities, including new ways to use market power or to manipulate markets. To protect customers, the Commission seeks to detect abuses of market power or statutory or rule violations by thoroughly investigating observed market anomalies, complaints, and referrals from RTO/ISOs, and by conducting both targeted and random audits. In addition, the Enforcement Hotline is a mechanism whereby industry participants provide information to the Commission that may result in investigations. Once the Commission identifies violations, it applies remedies to mitigate the effects of market power, requires disgorgement of unjust profits where called for, imposes civil penalties or other sanctions when available under existing laws, and requires compliance plans to prevent future violations. Findings in particular cases can also serve as the basis for changes in regulations to address market power or manipulation issues.

Issues having the most significant impact on the market are addressed with the highest priority. We establish targets for the time to complete the investigations and audits depending on their nature and levels of complexity.

During FY 2004, the Commission completed over 90 investigations, 26 financial audits, and eight operational audits of energy companies and municipalities, including natural gas pipelines and electric utilities. The investigations gathered facts related to possible instances of market power and manipulation, undue discrimination or affiliate abuses, and violations of rules and tariffs. During 2004, the Commission brought enforcement actions that resulted in the recovery of $92 million in refunds and disgorgement and $21 million in civil penalties and other recoveries. We also required the entities to adhere to rigorous compliance plans consisting of many corrective actions.

Also in FY 2004, the Commission completed 12 operational audits of public utilities and natural gas pipelines to verify compliance with the Commission’s tariff requirements and regulations. These audits focused on transmission market power, operational transparency, affiliate abuse, standards of conduct and code of conduct compliance, capacity release, creditworthiness, and contract administration. These audits resulted in over 100 recommendations to remedy deficiencies in companies’ practices. Our current and future audit efforts will focus on ensuring that public utilities and natural gas pipelines are operating their transmission systems in a way that is fair to all customers seeking their services.

The 26 financial audits the Commission completed during FY 2004 covered a wide range of accounting and reporting topics including material and supplies inventory, annual charges data, formula rate billings, and maintenance expenses. Currently, audits are underway at five ISO/RTOs and four natural gas pipelines to assess whether they are complying with the Commission's accounting and reporting requirements. Also, two formula rate audits are in process to evaluate whether these companies are properly billing costs through their formula rates.

In response to the problems affecting western energy markets in 2000 and 2001, the Commission began an investigation in 2002 to determine what happened in both gas and electric markets in the West. This fact-finding investigation looked at whether any entity, including the Enron Corporation, manipulated short-term prices in the electric or natural gas markets, or otherwise exercised undue influence over wholesale prices in the West during 2000 and 2001. This investigation helped the Commission identify the specific areas of expertise needed to conduct similar investigations in the future, and significantly improved our understanding of markets and specific market problems. The Commission is wrapping up market manipulation issues stemming from the Western energy crisis and the investigations and litigation ordered in response to the investigation's final report.

The Commission issued a number of important orders in June 2003 based on those investigative findings. One of these orders required over 40 power trading companies to show cause why they should not be required to return any profits they made using the Enron gaming strategies. Another order required over 20 power trading companies to show cause why they should not have to return any profits they made by manipulating the market through partnerships and alliances. Only one of these cases (Enron) remains in litigation at this time, with the other cases either dismissed or settled. Other orders initiated non-public investigations into whether physical withholding of electricity, or anomalous bidding to manipulate market prices, occurred. Settlements of the anomalous bidding and physical withholding investigations have resulted in the recovery of almost $82 million. In addition, we have facilitated global settlements to resolve all issues related to California (i.e. Williams, Dynegy, Duke) which will result in refunds of $628 million.

Additionally, the Commission has investigated the communication of non-public storage inventory information in violation of the Commission's Standards of Conduct rule. We found that employees of Dominion Resources, Northern Illinois Gas Company (Nicor), and Columbia Gas Transmission Corporation released the information to one or more of their customers which may have resulted in undue preference when dealing with transactions involving the purchase and sale of natural gas in the wholesale market. These three companies have settled with the Commission and have agreed to pay $8.1 million in civil penalties and refunds and in addition will undertake prospective measures to deter similar conduct in the future.

The Commission has increased its cooperation and sharing of information with federal agencies having responsibility for regulation of energy companies, including conducting joint investigations with other agencies such as the Commodity Futures Trading Commission and the Department of Justice. These joint investigations assist us in investigating volatility and spikes in commodity prices for natural gas and electricity, as well as potential manipulation.

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

Use Expedited Dispute Resolution to Accelerate Settlements and Minimize Customer Expense.

The Commission encourages parties to use alternative dispute resolution (ADR) whenever appropriate, to resolve conflicts. ADR supports the Commission’s objective to be more citizen-centered, results-oriented, and market-driven. The Commission’s experience with ADR demonstrates that it provides for effective public participation in government decisions, encourages respect for affected parties, averts future complaints that enable the Commission to direct more of its resources for critical matters, and avoids costs that would normally finance extensive litigation.

The Commission's Dispute Resolution Service (DRS) is becoming a greater resource for facilitation and mediation, and offers consultation and training in effective facilitation and negotiation skills to individuals and organizations that do business with the Commission, state agency personnel, and Commission staff. To help achieve the objective of increased use of ADR, the Commission has developed a Conflict Resolution Training Program with an emphasis on training staff in negotiation and facilitation skills, as well as conflict assessment and the design and maintenance of a successful collaborative process. This success has led to increased exposure for the Commission’s DRS and resulted in successful mediation of approximately 75% of the cases referred to it.

The Commission collaborates with other federal and state agencies to improve ADR services throughout the government. For example, we have met with state regulatory agencies to discuss how to employ ADR as a tool to resolve conflicts and we have taught ADR skills at the National Association of Regulatory Utility Commissioners (NARUC)'s Annual Regulatory Studies Program. The Commission also consults with other federal agencies about addressing conflict, is active in the Interagency ADR Working Group and its committees, and has provided assistance in conflict avoidance in efforts to develop energy infrastructure projects on Tribal lands.

In addition to being a source for Enforcement investigations, the Enforcement Hotline continues to be a quick, effective, and increasingly popular resource for addressing informal market-related disputes and questions. Between August 2003 and July 2004, the Enforcement Hotline fielded 133 market-related calls, down from 197 market-related calls during the same months of the previous year.

Act Swiftly on Third-party Complaints, Using Litigation before Administrative Law Judges as Needed to Determine Factual Issues.

In some cases, the best approach to investigating a possible abuse of market power will be through our formal litigation process. This is especially true when it is important to establish the exact facts of a case in open proceedings. The openness of the process can also promote credibility in important cases.

Since litigation can be costly and time-consuming, we are always seeking to streamline the process as much as possible. We have a centralized litigation staff to guide the efficient handling of the unique, complex issues that arise in a pro-competitive environment, and speed their resolution. In addition, the Commission's administrative law judges may serve as settlement judges or mediators, thereby offering another alternative to litigation that allows the parties to exercise greater control over the outcomes. During FY 2004, approximately 75% of the cases referred to litigation before an administrative law judge were resolved through some means of alternative dispute resolution.

Advocate Enhanced Penalty Authority.

Currently the Commission has very limited civil penalty authority under the Natural Gas Policy Act (NGPA) and Part II of Federal Power Act (FPA), and has no civil penalty authority under the Natural Gas Act (NGA), with respect to violations of those statutes or orders or rules there under. Limited criminal penalty authority is also available under the FPA, NGA, and NGPA with respect to willful and knowing violations of those Acts and the Commission can refer evidence of such violations to the Department of Justice to pursue criminal proceedings at its discretion.

This limited civil and criminal penalty authority does not provide sufficient disincentives to market manipulation or other inappropriate behaviors and severely constrains the Commission's ability to punish wrongdoers who violate its rules or orders. Specifically, Section 504 of the NGPA (see also 15 C.F.R. §385.1602) provides for civil penalties of up to $5,500 per day for violations associated with transportation on behalf of others and certain sales by intrastate pipelines; it generally does not apply to other sales and transportation activities. Section 31 of the FPA (see also 18 C.F.R. §385.1602) provides for civil penalties of up to $11,000 per day for certain violations relating to hydroelectric projects regulated under Part I of the FPA. Section 316 of the FPA (see also 18 C.F.R. §385.1602) provides for civil penalties of up to $11,000 per day for violations only of sections 211, 212, 213 and 214 of the FPA. Therefore, neither of these penalty provisions applies to the vast majority of the Commission's rate regulation under Part II of the FPA.

With respect to criminal penalties, Section 21 of the NGA, section 504(c) of the NGPA and section 316 of the FPA provide for not more than $5,000 per day or imprisonment of not more than two years, or both, for any willful and knowing act or omission in violation of the Acts; section 21 of the NGA, section 504 of the NGPA, and section 316 of the FPA also provide an additional $500 per day criminal penalty for certain violations. The Commission will continue to advocate stronger penalty authorities.

Objective 3.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Percentage of Hotline calls resolved	60% within 2 weeks of initial contact	Office of Market Oversight and Investigations
Percentage of non-environmental disputes sent to ADR resolved	75% within 120 days	Dispute Resolution Service
Number of ADR requests and referrals to the Dispute Resolution Service	Minimum number of requests and referrals equal to FY 2004	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction	80% customer satisfaction rate	Dispute Resolution Service
Percentage of market manipulation cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of market manipulation cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Timeliness of reporting to the Commission on operational audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of operational audit recommendations issued and implemented	85%	Office of Market Oversight and Investigations

Performance Measures	Performance Targets	Data Source
Timeliness of reporting to the Commission on financial audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of financial audit recommendations issued and implemented	85%	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on Standards of Conduct compliance audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of Enforcement investigations completed	75% within one year	Office of Market Oversight and Investigations

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

Strategic Management of Human Capital

Based on the priorities in our Human Capital Plan, we are focusing our strategic human capital activities on targeted recruiting, employee training, and the proper allocation of skilled staff. Our success in these critical areas will determine how efficiently and effectively we can meet current mission objectives and prepare for future ones.

We face significant challenges in adapting our workforce skills to meet two major changes: the shift in regulatory approach and an aging workforce. First, our approach to regulation continues to shift towards a market orientation, which requires further enhancing the skills of our workforce in this direction. Second, in FY 2006 more than 30% of our highly trained, experienced workforce, including leaders, will be eligible for retirement. By FY 2008, over 40% of our workforce will be eligible for retirement. To manage the anticipated turnover, we plan to develop strong recruitment, retention, and succession programs to ensure that anticipated turnover will not compromise resource needs.

Starting in FY 2003, we began to address the need to hire and retain employees with the right skills to conduct critical ongoing work and to meet new workload requirements. We made a concerted effort to recruit and market the FERC as an "employer of choice" at colleges and universities where students have the specific skills we require to do our work successfully. Our strategies included the aggressive use of various recruitment and retention incentives, such as the Student Loan Repayment Program. Since then, over 50% of our new hires have been in entry level positions, and these new employees have had the proper skills to begin contributing more quickly.

In addition, we have instituted a career intern program and strengthened our student hiring program, again focusing on attracting new employees with specifically needed skills. The result has been that approximately 30% of the participants in those programs to whom we offered permanent positions accepted employment.

To address the challenges of an aging workforce, and the possibility that we might lose a large number of experienced and knowledgeable employees at the same time, we obtained a multi-year early out and buyout authority through FY 2005 to give offices more flexibility in managing their workforce. We have offered buyouts on two occasions and are considering a third buyout offering. Positions made available through buyouts have been reallocated to increase entry-level hiring and to recruit new employees, at various levels, with needed skills.

Staffing, recruitment and building capabilities for the Commissions' expanding electric reliability responsibilities will be a major focus of our human capital efforts. In the wake of the August 2003 blackout, the Commission must recruit talented electrical engineers who can ensure that adequate reliability rules are put in place and enforced. Although we will acquire these skills largely through recruitment, we also will use on-the-job training and knowledge sharing among existing staff. To bolster its expertise and knowledge sharing capabilities in the area of reliability, we have obtained OPM authorization to hire additional senior level experts who will increase our talent base and help the new program start quickly and successfully.

As we expand our reliability efforts, we also will continue to strengthen our market oversight and investigative functions. In addition, we need to continue performing such traditional functions as ratemaking and licensing. In all of these areas, we will focus on hiring employees who have the needed engineering, economic, financial and legal skills. Ensuring high-quality regulatory work will remain our priority, even as we face the possibility of rapid turnover of skilled employees due to pending retirements.

Activities to enhance employee skills and capabilities include development of a curriculum based on the market-oriented regulatory environment, aggressive training for new supervisors and required refresher training for all supervisors, and the requirement for all senior executives to enhance their skills related to each of the Office of Personnel Management’s Executive Leadership Qualifications. To ensure employee development, for both agency improvement and individual growth, the Chairman has instituted a policy that all employees must receive a minimum of 40 hours of training each year. In addition, we are identifying core competencies and skills as a first step in developing a tailored developmental program to ensure consistency throughout the Commission.

In consideration of feedback from the General Accounting Office, we are modifying the Human Capital Plan to include more collaboration with Commission offices in the planning and review process. We are also investigating opportunities to develop analytical tools to assist with organizational modeling, forecasting, and succession planning.

Expanded Electronic Government

We are aligning Information Technology (IT) development and investment to support all agency goals more effectively and at lower cost.

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

In FY 2004, we developed an Enterprise Architecture for the entire agency and linked it to a formalized IT Capital Planning and Investment Control process. These initiatives will support the modernization of outdated systems, the development of new technologies to meet our changing business needs, and the directing of IT investment dollars toward projects that will yield the greatest benefits.

In support of the President's Management Agenda, the FERC Online Project is reducing time and costs both for customers to make filings and for the Commission to receive and process those filings. We will continue extending FERC Online eFiling capabilities to cover all documents submitted in Commission proceedings – including complex documents, those containing critical energy infrastructure information, and those with attestation and fee requirements. Related to this, FERC Online eTariff will enable the electronic filing of tariffs, and FERC Online eService will provide the capability for serving documents electronically. In addition, we will continue to participate in federal eGovernment initiatives.

Among electronic systems for the enhancement of internal management, we are implementing the agency-wide FERC Online Activity Tracking Management System for improved workload tracking, business planning, and budgeting. In addition, we are operating, maintaining and improving the FERC Online Virtual Agenda, which allows for electronic distribution of Commission meeting materials and for electronic notational voting.

To deal with the possibility of disruptions in agency operations, we have improved our Continuity of Operations Planning and disaster recovery procedures. To ensure the availability and reliability of our office automation support systems, we have improved and will continue to upgrade our operations and maintenance capabilities, configuration management procedures and computer security program.

In carrying out all of these activities, we will strengthen our compliance with the Federal Information Security Management Act and other applicable OMB and NIST guidance.

The Commission continues to improve its internet website to make it more "citizen-centered," empowering citizens to fully participate in the Commission's decision making processes by providing easy, convenient access to public information. Some of the improvements include:

- conducting online customer satisfaction surveys and performing annual usability testing to meet the needs of citizens, while meeting all privacy, accessibility and information quality requirements;
- making the Commission's web content easier for citizens to find on search engines, including "pushing" the Commission's most important content to users via RSS (Really Simple Syndication);
- continually updating the Energy Projects searchable database, allowing citizens to find project-specific information without knowing the docket number; and
- continually posting information to the Commission's Public Calendar, including FERC-sponsored technical conferences, public scoping meetings and site visits for specific energy projects, information on Commission meetings, links to new Commission decisions on the date they are issued.

APPENDIX A

PROPOSED APPROPRIATION LANGUAGE

Proposed Appropriation Language

For necessary expenses of the Federal Energy Regulatory Commission to carry out the provisions of the Department of Energy Organization Act (42 U.S.C. 7101, et seq.), including services as authorized by 5 U.S.C. 3109, the hire of passenger motor vehicles and official reception and representation expenses (not to exceed $3,000); [$210,000,000] *$220,400,000* to remain available until expended: *Provided*, That notwithstanding any other provision of law, not to exceed [$210,000,000] *$220,400,000* of revenues from fees and annual charges, and other services and collections in fiscal year [2005] *2006* shall be retained and used for necessary expenses in this account, and shall remain available until expended: *Provided further*, That the sum herein appropriated from the General Fund shall be reduced as revenues are received during fiscal year [2005] *2006* so as to result in a final fiscal year [2005] *2006* appropriation from the General Fund estimated at not more than $0.

APPENDIX B

WORKLOAD TABLES

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

COMMISSION WORKLOAD[1]	FY 2003 Actual	FY 2004 Actual			FY 2005 Estimate			FY 2006 Estimate		
Pipeline Certificates	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Construction Activity	54	92	94	52	95	100	47	100	100	47
Prior Notice & Abandonments	4	44	37	11	45	40	16	45	45	16
Meetings & Conferences	0	151	151	0	151	151	0	150	150	0
Compliance Filings & Reports	81	243	246	78	245	255	68	245	245	68
Environmental Analysis	24	111	90	45	95	100	40	95	95	40
Environmental Compliance & Safety Inspections	100	598	598	100	700	700	100	700	700	100
Rehearings	14	13	20	7	18	23	2	18	16	4
Complaints	0	3	1	2	2	2	2	2	2	2
Declaratory Orders	1	2	1	2	2	2	2	2	2	2
Remands	1	1	1	1	1	1	1	1	1	1
Dispute Resolution Services	-	3	2	1	6	5	2	8	7	3

Hydropower Licensing	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Original Licenses	12	11	5	18	5	5	18	5	5	18
Relicenses	97	20	39	78	8	30	56	11	25	42
5 MW Exemptions	2	0	0	2	1	2	1	1	1	1
Rehearings	30	30	13	47	30	60	17	30	47	0
Declaratory Orders	2	2	2	2	2	2	2	2	2	2
Remands	1	1	1	1	1	1	1	1	1	1
Cases Set for Hearing	2	0	2	0	0	0	0	0	0	0
Dispute Resolution Services	7	30	30	7	35	35	7	38	38	7

Project Compliance and Administration	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Amendments	634	1,691	1,859	466	1,600	1,600	466	1,650	1,600	516
Jurisdiction	5	7	10	2	10	10	2	10	10	2
Federal Lands	0	45	45	0	45	45	0	45	45	0
Headwater Benefits	13	120	120	13	120	120	13	120	120	13
Compliance	202	494	566	130	325	325	130	325	325	130
Surrenders, Transfers	51	31	62	20	45	45	20	45	45	20
Conduit Exemptions	0	4	4	0	4	4	0	4	4	0
Environmental Inspections And Assistance	22	170	170	22	170	170	22	170	170	22
Preliminary Permits	75	72	47	100	30	100	30	30	30	30
Rehearings	32	50	48	34	20	20	34	20	54	0
Complaints	1	3	4	0	3	3	0	3	3	0
Dispute Resolution Services	0	2	0	2	2	2	2	2	2	2

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

COMMISSION WORKLOAD	FY 2003 Actual	FY 2004 Actual			FY 2005 Estimate			FY 2006 Estimate		
Dam Safety and Inspections	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Operations Inspections[2]	788	1,412	1,388	812	1,480	1,634	658	1,527	1,592	593
Prelicense Inspections	3	8	7	4	7	8	3	7	7	3
Construction Inspections	37	162	150	49	196	209	36	159	161	34
Exemption Inspections	103	281	245	139	241	296	84	293	288	89
Special Inspections	18	169	143	44	114	121	37	89	89	37
Engineering Evaluation & Studies	862	5,496	5,641	717	6,175	6,521	371	5,865	5,890	346
Part 12 Reviews	101	200	127	174	256	252	178	195	197	176
Dam Safety Reviews	1	58	32	27	27	39	15	27	27	15
EAP Tests	20	40	42	18	49	46	21	53	53	21

Rates and Tariffs	P	R	C	P	R	C	P	R	C	P
Gas Certificates & Rate Evaluations	11	43	19	35	30	45	20	30	40	10
Market-Based Rates	402	1,311	1,081	632	1,200	1,300	532	1,200	1,350	382
Rehearings (Electric)	437	108	131	414	250	260	404	270	350	324
Complaints (Electric)	50	30	51	29	40	45	24	45	55	14
Declaratory Orders (Electric)	25	30	40	15	40	45	10	45	55	0
Remands (Electric)	14	3	6	11	11	11	11	4	4	11
Negotiated Rates	25	294	293	26	290	295	21	290	296	15
Cost-Based Rates	267	1,821	1,868	220	1,800	1,800	220	1,800	1,800	220
Service Terms and Conditions & Order 637	30	393	380	43	390	400	33	390	395	28
Rehearings (Gas)	99	155	92	62	185	185	62	170	170	62
Complaints (Gas)	5	8	11	2	10	10	2	12	10	2
Declaratory Orders (Gas)	0	2	2	0	1	1	0	1	1	0
Remands (Gas)	2	2	2	2	2	4	0	2	2	0
RTO & ISO Filings	87	142	127	102	140	150	92	140	150	82
Compliance Certificate & Rate Filings	476	811	821	466	735	745	456	635	650	441
Compliance Refund Reports	63	123	118	68	120	125	63	120	125	58
Dispute Resolution Services (Oil)	0	1	1	0	3	2	1	3	2	2
Rehearings (Oil)	9	17	3	23	20	35	8	18	26	0
Complaints (Oil)	9	5	10	4	5	8	1	6	7	0
Declaratory Orders (Oil)	2	2	4	0	2	2	0	2	2	0
Remands (Oil)	1	1	1	1	1	1	1	1	2	0

2 Includes about 50 inspections per fiscal year for DOE and NRC.

COMMISSION WORKLOAD	FY 2003 Actual	FY 2004 Actual			FY 2005 Estimate			FY 2006 Estimate		
Corporate Applications	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Interlocking Positions	1	324	318	7	325	331	1	325	325	1
Mergers	0	1	1	0	0	0	0	5	4	1
Asset Acquisition or Disposition	25	169	168	26	170	175	21	170	170	21
Cogen, Small Power Producer & QF	119	528	575	72	530	530	72	530	530	72
Compliance & Other Corporate Filings	23	64	69	18	65	65	18	65	65	18
Dispute Resolution Services	0	1	1	0	1	1	0	1	1	0

Legal Matters	P	R	C	P	R	C	P	R	C	P
Cases Set for Hearing	75	113	109	79	125	126	78	125	126	77
Settlement Judge Proceedings	88	73	86	75	73	88	60	73	88	45
Dispute Resolution Services	6	30	30	6	35	29	12	40	34	18
Appellate Review	135	100	95	140	105	100	145	110	105	150
Audits	9	55	34	40	35	55	20	35	40	15
Accounting	40	107	102	45	80	95	30	80	80	30

APPENDIX C

RESOURCE REQUEST BY INDUSTRY

RESOURCE REQUEST BY INDUSTRY

Funding

(Dollars in Thousands)

Industry	FY 2004 Actual	FY 2005 Estimate	FY 2006 Request	% (+/-) FY 2005 to FY 2006
Electric Power	$87,324	$89,460	$93,407	4.4%
Natural Gas & Oil Pipelines	59,119	62,102	65,498	5.5%
Hydropower	55,503	58,438	61,495	5.2%
TOTAL	**$201,946**	**$210,000**	**$220,400**	**5.0%**

FTEs

Industry	FY 2004 Actual	FY 2005 Estimate	FY 2006 Request	% (+/-) FY 2005 to FY 2006
Electric Power	531	559	568	1.6%
Natural Gas & Oil Pipelines	362	381	387	1.6%
Hydropower	335	340	340	0%
TOTAL	**1,228**	**1,280**	**1,295**	**1.2%**

APPENDIX D

OBJECT CLASS TABLE

Object Class Summary
(Dollars in Thousands)

Obligations		FY 2004 Actual	FY 2005 Estimate	FY 2006 Request
11.9	Personnel Compensation	$111,890	$121,308	$126,196
12.1	Benefits	25,276	25,502	27,034
13.0	Benefits for Former Personnel	559	25	25
	Total, Personnel Compensation & Benefits	$137,725	$146,835	$153,255
21.0	Travel and Transportation of Persons	2,819	3,093	3,393
22.0	Transportation of Things	16	1	1
23.1	Rental Payments to GSA	19,006	19,500	20,300
23.2	Rental Payments to Others	423	451	477
23.3	Communications, Utilities & Misc. Charges	1,962	1,860	1,939
24.0	Printing and Reproduction	2,148	2,877	2,877
25.0	Other Services	$33,289	$30,761	$32,977
25.1	Advisory and Assistance	6,298	6,155	7,318
25.2	Non-Federal	3,949	2,647	2,739
25.3	Federal	1,069	608	703
25.4	Operation & Maintenance of Facilities	1,788	1,724	1,750
25.7	Operation & Maintenance of Equipment	20,185	19,627	20,467
26.0	Supplies and Materials	881	988	977
31.0	Equipment	3,664	3,532	4,152
41.0	Grants, Subsidies & Contributions	5	45	45
42.0	Insurance Claims and Indemnities	8	57	7
	TOTAL, OBLIGATIONS	**$201,946**	**$210,000**	**$220,400**
	Application of Prior Years' Budget Authority	2,454	0	0
	GROSS BUDGET AUTHORITY	$204,400	$210,000	$220,400
	Offsetting Receipts	(204,400)	(210,000)	(220,400)
	NET BUDGET AUTHORITY	**$0**	**$0**	**$0**

APPENDIX E

COMPARATIVE PERFORMANCE MEASUREMENT DATA

Performance Measurements for Energy Infrastructure, FY 2001 – FY 2006

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 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: <u>RP02-129-000, Southern LNG</u> ***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. <u>IS03-457, Plantation Pipe Line Co.</u> ***Filed:*** July 31, 2003 ***Order Issued:*** August 29, 2003 ***Target:*** Met <u>IS03-475, West Shore Pipe Line Co.</u> ***Filed:*** August 12, 2003 ***Order Issued:*** September 30, 2003 ***Target:*** While this case was not acted on within the 30-day target, it met our statutory guidelines as we acted prior to the proposed effective date of October 1, 2003.
Implement generic policy on Large Generator Interconnections and Small Generator Interconnections	Issue final rules on both policies in FY 2003	The Large Generator Interconnection final rule was issued on July 24, 2003, and became effective on October 20, 2003. The Small Generator Notice of Proposed Rulemaking was also issued on July 245, 2003. The final rule will be issued in FY 2004.
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: ➢ unprotested cases that involve no precedential issues, 159 days ➢ protested cases that involve no precedential issues, 304 days ➢ cases of first impression or containing larger policy implications, 365 days ➢ cases requiring a major environmental assessment or environmental impact statement, 480 days	➢ 148 days for Category 1 ➢ 193 days for Category 2 ➢ 272 days for Category 3 ➢ 469 days for Category 4

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

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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).
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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
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
Implementation of rate flexibility or incentives to encourage needed additions to energy infrastructure	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	Office of Markets, Tariffs and Rates
Evaluate the effectiveness of Commission required resources protection measures, and disseminate information on the results.	Conduct a workshop and disseminate one report on the results of the evaluation.	Office of Energy Projects
Maintain environmental quality at hydropower projects.	Resource protection measures constructed and implemented according to license requirements.	Office of Energy Projects
Time to complete NEPA Prefiling Process	8 months after a complete application is filed	Office of Energy Projects
Yearly increase in the percentage of hydropower projects using the ILP pre-filing process	25%	Office of Energy Projects
Participation with NERC in reliability readiness reviews over next 3 years to ensure grid reliability	One-third of the Nation's control areas reviewed with NERC annually	Office of Markets, Tariffs and Rates
Timeliness of processing proposals to recover prudently incurred costs to improve the reliability of the transmission grid	100% of all filings, including innovative proposals, seeking recovery of reliability costs in transmission rates processed by the statutory action date	Office of Markets, Tariffs and Rates

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Clarity and enforceability of reliability rules, with effective penalties for non-compliance	Assess each region’s reliability rules and penalties to determine whether they specify reliability violations and include enforceable and effective penalties	Office of Markets, Tariffs and Rates
	Require each new RTO or ISO to address reliability considerations prior to becoming operational	
Enhance reliability oversight by creating a new reliability division	Division operational by end of fiscal year	Office of Markets, Tariffs and Rates
Timeliness of processing proposals to recover prudently incurred costs to safeguard the security and safety of energy transportation and supply infrastructure	100% of all filings, including innovative proposals, seeking recovery of security and safety costs in jurisdictional rates processed by statutory action date	Office of Markets, Tariffs and Rates
Enhance dam safety	100% of high- and significant-hazard-potential dams inspected annually	Office of Energy Projects
	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	
	100% of qualifying dams in compliance with EAP requirements	
Timely handling of CEII without disrupting requesters’ participation rights in other proceedings	No requester’s failure to obtain CEII in a timely manner will affect requester’s ability to participate effectively in a proceeding	Office of General Counsel
Prevent unauthorized access to security-related documents	No instances of unauthorized access to security-related documents	Office of General Counsel
Number of instances of improved regulation to facilitate security and emergency response	Number of specific measures (e.g., number of security surcharge requests approved, gas allocation principles set)	Office of General Counsel

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	Office of Energy Projects
Percentage of pipeline certificate cases with no precedential issues completed	➢ 90% of unprotected cases within 159 days of filing ➢ 90% of protested cases within 304 days of filing	Office of Energy Projects
Percentage of pipeline certificate cases of first impression or containing larger policy implications completed	90% within 365 days of filing	Office of Energy Projects
Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed	90% within 480 days of filing	Office of Energy Projects
Percentage of qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected quarterly	Office of Energy Projects

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of LNG import terminals inspected	100% inspected annually	Office of Energy Projects
Percentage of LNG peak-shaving terminals inspected	50% inspected annually	Office of Energy Projects
Percentage of ILP pre-filing notices for NOI/PAD and initial scoping document issued	85% within 60 days of NOI/PAD filing	Office of Energy Projects
Percentage of ILP pre-filing scoping meetings and site visits completed	85% within 90 days of NOI/PAD filing	Office of Energy Projects
Percentage of ILP pre-filing study plan determinations completed	85% within 315 days of NOI/PAD filing	Office of Energy Projects
Percentage of final NEPA documents issued for ALP/TLP cases with settlement agreements	85% within 12 months	Office of Energy Projects
Percentage of final NEPA documents issued for ALP/TLP cases without settlement agreements	85% within 24 months	Office of Energy Projects
Percentage of non-independent transmission provider open access transmission tariffs that have standard generator interconnection procedures in compliance with Order No. 2003 and small generator final rule	75% by September 30, 2006	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of regional planning process elements (e.g. stakeholder involvement, cost allocation, technological innovation, and congestion reduction) implemented in each region	50%	Office of Markets, Tariffs and Rates
Percentage of cases for cost recovery, new services, or changes to existing services processed	➢ 100% of NGA Section 4 cases in 30 days ➢ 100% of FPA Section 205 cases in 60 days	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of rate cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of rate cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of Commission Opinions issued once Briefs Opposing Exceptions to Initial Decisions are filed	90% within 12 months	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of merit orders accepting, modifying, or rejecting timely filed cost recovery proposals for new infrastructure submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Number of innovative or flexible rate designs in effect to encourage energy infrastructure development	Increase over FY 2005	Office of Markets, Tariffs and Rates
Timeliness of issuing environmental licensing requirements	Licensing responsibility letters sent within 45 business days of license issuance date	Office of Energy Projects

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of NEPA documents completed for projects utilizing the Pre-filing Processes	85% within 8 months of determining a pipeline or LNG facility application complete	Office of Energy Projects
Percentage of NERC reliability readiness reviews in which FERC participates	➢ 100% of the Reliability Coordinators ➢ 80% of the Nation's total load capacity (by Control Area)	Office of Markets, Tariffs and Rates
Issue final rule on Electric Reliability Organization (ERO) certification and mandatory reliability standards enforcement	Final rule issued within 180 days of enactment of reliability legislation	Office of Markets, Tariffs and Rates / Office of the General Counsel
Formalize working relationship with NERC to facilitate consistent treatment of reliability standards throughout North America	Execute MOA/MOU by September 30, 2006	Office of Markets, Tariffs and Rates
Develop and hold international workshops to increase bi-national coordination in preparation of an international ERO	Conduct two workshops by September 30, 2006	Office of Markets, Tariffs and Rates
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred reliability costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of new RTOs or ISOs performing reliability functions included in Orders No. 2000 or No. 888, respectively	100%	Office of Markets, Tariffs and Rates / Office of the General Counsel
Conduct review of existing RTOs or ISOs to ensure that reliability rules specify what constitutes a reliability violation and include effective and enforceable penalties consistent with NERC standards	100% reviewed by September 30, 2006	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred safety and security costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of high- and significant-hazard-potential dams inspected annually	100%	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation	100%	Office of Energy Projects
Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s)	100%	Office of Energy Projects
Number of instances of unauthorized access to Critical Energy Infrastructure Information (CEII)	No instances	Office of the General Counsel
Number of complaints from CEII requesters on inability to participate in a proceeding due to failure to obtain CEII in a timely manner	No complaints	Office of the General Counsel

Performance Measurements for Competitive Markets, FY 2001 – FY 2006

<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>

<table>
<tr><th colspan="3">FY 2002</th></tr>
<tr><th>Performance Measurement</th><th>Performance Target</th><th>Result</th></tr>
<tr><td>Increase in types of tariffed services offered (e.g., parking and lending in natural gas)</td><td>Innovation indicates markets are working and market participants are creating their own solutions</td><td>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</td></tr>
</table>

FY 2002		
Performance Measurement	**Performance Target**	**Result**
➢ Number and size of capacity holders by market ➢ Number and size of natural gas and electric secondary market participants ➢ Number and size of pipeline suppliers by region and major customer ➢ Number and size of electric power marketers	➢ Reasonable range of suppliers should lead to competitive pricing ➢ Participation indicates confidence in market rules and oversight	Several significant energy marketers have announced either plans to exit the energy trading business, or consideration of exit. Generally sited reasons include financial underperformance and credit concerns. The resulting contraction can have negative effects on liquidity in energy markets. Companies that have announced complete or partial exits from energy trading in recent months include large players like: ➢ American Electric Power ➢ Aquila ➢ Dynegy ➢ El Paso Companies considering exit include ➢ Allegheny ➢ CMS Some players have announced interest in entering as well, including the Bank of America.
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.

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

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

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

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

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.
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.

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

FY 2004		
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.
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.
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

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
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
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

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
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
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

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs) processed	100% within 6 months of filing or before applicant's proposed effective date (whichever is later)	Office of Markets, Tariffs and Rates / Office of the General Counsel
RTO / ISO establishment of cost-effective market design elements per Order No. 2000	Within three years of commencement of operation, each approved RTO or ISO will implement (if cost effective): ➢ firm transmission rights ➢ resource adequacy approaches ➢ regional independent grid operation ➢ regional transmission planning process ➢ market monitoring and market power mitigation ➢ transparency and efficiency in congestion management ➢ spot markets to meet customers' real-time energy needs ➢ fair cost allocation for existing and new transmission	Office of Markets, Tariffs and Rates

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Demonstrable improvements in regional competitive market transparency and independence	In each region of the country, there will be: ➢ RTO expansion or creation ➢ increase in competitive solicitation for supply ➢ RTO adoption of additional market-oriented features, programs or rules ➢ improvement of open access tariff to reduce entry barriers or foster competition ➢ increase in the degree of transmission independence (ownership or control) from generation in regions primarily without RTOs	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: ➢ new product markets within RTOs or ISOs ➢ new, independent regional transmission providers ➢ coordination between RTOs or between RTOs and neighboring non-member utilities ➢ RTOs membership through the integration of transmission facilities of additional transmission owners	Office of Markets, Tariffs and Rates
Promote efficient trade across RTO and utility boundaries through the implementation of new rate designs	Eliminate multiple, or “pancaked” transmission rate charges at one additional RTO seam	Office of Markets, Tariffs and Rates
Transition existing regulatory constructs into competitive markets	Approve an additional energy market that minimizes cost shifts while preserving existing contractual rights and creating efficiency gains	Office of Markets, Tariffs and Rates
Increased presence at RTOs, to improve relationships with and knowledge of existing RTOs	Creation and staffing of an office at one existing RTO each year and at any new RTO within 6 months of commencement of operations	Office of Markets, Tariffs and Rates
Percentage of Section 203 applications processed	98% within 90 days of the comments filing date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Improve cost effectiveness of expenses associated with ISO / RTO functions and market activities	Establish accounting rule changes to accommodate increased transparency of expenses and specific characteristics of ISO / RTOs and functional business segments that allow for meaningful examination of cost effectiveness of products and services	Office of Markets, Tariffs and Rates
Percentage of market-based rate filings processed	100% within 60 days of filing date	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of competitive energy markets and market institution cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of competitive energy markets and market institution cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of RTOs and ISOs with rules that do not inhibit demand response participation in RTO/ISO-controlled markets	100% within 1 year of commencing day-ahead markets	Office of Markets, Tariffs and Rates

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Conduct meetings to support development of robust customer demand-side participation in energy markets in areas where it does not exist	Meet at least annually to discuss demand response issues with appropriate state commission officials	Office of Markets, Tariffs and Rates
Percentage of pending market-based rates triennial review cases resolved	Initial action taken on 80% of cases by June 21, 2005	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of non-controversial rulemakings within 9 months ➢ 100% of controversial rulemakings within 12 months	Office of Markets, Tariffs and Rates / Office of the General Counsel
Develop open access tariff modifications to increase competitive market opportunities of alternative energy technologies (including wind generation)	Issue open access tariff final rule	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of initial orders issued on third-party complaints	➢ 80% within 60 days ➢ 95% within 180 days	Office of Markets, Tariffs and Rates / Office of the General Counsel
Percentage of initial orders issued on fast track third-party complaints	90% within prescribed time frame	Office of Markets, Tariffs and Rates / Office of the General Counsel

Performance Measurements for Market Oversight, FY 2001 – FY 2006

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[3] 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).[4]
Percentage of contested proceedings that achieve consensual agreements	25% increase over FY 2000	**OALJ**: During FY2001 80% of cases set for hearing were resolved through some form of ADR vs. 76.7% during FY2000. **DRS**: 90% vs. 89% during FY 2000.5
Number of requests and referrals for ADR services	Increase by 50% over FY 2000	**OALJ**: During FY2001 60 out of 77 cases (77.9%) terminated by OALJ were resolved through some means of ADR vs. 60 out of 83 cases (72.3%) during FY2000 **DRS**: 52 requests vs. 40 requests in FY 2000, a 30% increase. This includes simple inquiries about ADR, cases referred to DRS in which the parties indicated no interest in pursuing ADR, cases referred to Enforcement, and ongoing cases.

[3] 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.

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

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

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

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

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

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	**<u>ADR Cases – OALJ/OAL:</u>** 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 **<u>ADR Cases – DRS:</u>** 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%) **<u>Litigated Cases – OALJ/OAL:</u>** ➢ 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 **<u>Regular Complaints – OGC:</u>** 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[5] 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.

5 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[6] – 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.	

6 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

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Frequency of Market Surveillance Reports issued to the Commission	Report issued for each public Commission meeting	Office of Market Oversight and Investigations
Frequency of Market Snapshot Reports issued to State Public Utility Commissions	Quarterly	Office of Market Oversight and Investigations
Number of regions receiving the Market Snapshot Reports	Increase over FY2005	Office of Market Oversight and Investigations
Publish an annual State of the Markets Report	Complete by June 30, 2006	Office of Market Oversight and Investigations
Publish public market reports (including summer and winter seasonal assessments)	At least 2 reports	Office of Market Oversight and Investigations

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Number of Daily Energy Reports distributed to Commission staff	At least 225	Office of Market Oversight and Investigations
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Review EQR submissions for completeness and contact companies that make up at least 80% of reported revenue for incomplete submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Conduct follow up reviews of companies that make up at least 80% of reported revenue on exercise of market power or market manipulation	Within 60 days of final submission	Office of Market Oversight and Investigations
Timeliness of reporting to Commission on important market events	Analysis complete within 60 days of event	Office of Market Oversight and Investigations
Number of corporate profiles completed	At least 10	Office of Market Oversight and Investigations
Percentage of Hotline calls resolved	60% within 2 weeks of initial contact	Office of Market Oversight and Investigations
Percentage of non-environmental disputes sent to ADR resolved	75% within 120 days	Dispute Resolution Service
Number of ADR requests and referrals to the Dispute Resolution Service	Minimum number of requests and referrals equal to FY 2004	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction	80% customer satisfaction rate	Dispute Resolution Service
Percentage of market manipulation cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of market manipulation cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Timeliness of reporting to the Commission on operational audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of operational audit recommendations issued and implemented	85%	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on financial audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of financial audit recommendations issued and implemented	85%	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on Standards of Conduct compliance audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of Enforcement investigations completed	75% within one year	Office of Market Oversight and Investigations

Performance Measurements for Resource Management, FY 2001 – FY 2006

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

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

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	The Commission met its performance target of bi-weekly tracking of the MTB process. However, the quarterly reviews between the CFO and Office Directors did not take place. This was due to the open and constant communication between the Division of Budget and the individual office MTB points-of-contact. As a result, managers were able to make quicker and more informed decisions on the resources within their particular program. No issues were raised during these discussions that necessitated involvement from the CFO or Office Directors.
Timeliness of annual charges collections	Within 45 days of billing	The Commission collected 74% of the total dollar value of current year annual charge billings within the 45 day billing period; however, by the close of the fiscal year, the Commission collected 96% of the total dollar value of current year billings.
Invoices paid by electronic funds transfer	98%	The Commission processed over 99% of its disbursements via electronic funds transfer.
Accuracy and completeness of annual financial statements	Unqualified opinion	The Commission received an unqualified opinion on its FY 2002 financial statements.
Percentage of contracts performance-based	100%	100% of all contracts were performance based.
Percentage of contracts advertised online	100%	100% of all competitive contract requirements advertised in the Fed Biz Ops.

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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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
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 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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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.
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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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.
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

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
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
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

FY 2005		
Performance Measurement	**Performance Target**	**Data Source**
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	Office of External Affairs / Office of Energy Projects
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	Office of Market Oversight and Investigations
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	Dispute Resolution Service
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	Office of Executive Director
Monitoring of business plan	➢ Clarity of fit between projects, activities, and objectives ➢ Periodic monitoring of completions and adjustments to plan and related resources	Office of Executive Director
Timeliness of annual charges collections	Collect 98% of outstanding receivables within 45 days of billing	Office of Executive Director
Invoices paid by electronic funds transfer	98%	Office of Executive Director
Percentage of payments accomplished without error	98%	Office of Executive Director
Accuracy and completeness of annual financial statements	Unqualified opinion	Office of Executive Director
Percentage of contracts performance-based	85%	Office of Executive Director
Percentage of contracts advertised online	85%	Office of Executive Director

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of summer interns hired into permanent positions	30%	Office of Executive Director
Percentage of new hires that are at entry-level	50%	Office of Executive Director
Number of Senior Professional staff involved in on-campus recruitment	Increase over FY 2005	Office of Executive Director
Implement entry-level Professional Development Program	Complete by September 30, 2006	Office of Executive Director
Percentage of minorities among summer-intern and entry-level positions	Increase over FY 2005	Office of Executive Director
Percentage of minorities among senior-level positions (GS-14, GS-15, SL, and SES positions)	Increase over FY 2005	Office of Executive Director
Implement Commission-wide Business Requirements guidelines	Complete by September 30, 2006	Office of Executive Director
Percentage of employees that receive at least 40 hours of training	100%	Office of Executive Director

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of new supervisors (those with < 2 years experience) that receive at least 40 hours of management and/or leadership training	100%	Office of Executive Director
Federal Protective Service rating on evacuations and shelter-in-place procedures	Rating of satisfactory or above	Office of Executive Director
Reliability of IT infrastructure	99% network availability rate	Office of Executive Director
Timeliness of virus file updates upon notification	➢ Headquarters updated within 24 hours ➢ Regional Offices updated within 48 hours	Office of Executive Director
FISMA compliance according to the Putnam scorecard	Grade of "A"	Office of Executive Director
Integrate the Business Plan, CPIC process, and IT architecture into the Commission's Enterprise Architecture	Complete by September 30, 2006	Office of Executive Director
Percentage of approved IT initiatives with supporting documentation per the Commission's CPIC process	100%	Office of Executive Director
Establish earned value management schedule and cost performance indices for all major projects	Complete by September 30, 2006	Office of Executive Director
Develop and implement automated Business plan	Complete by September 30, 2006	Office of Executive Director
Percentage of qualified-procurements that are performance-based	100%	Office of Executive Director
Percentage of qualified-procurements that are advertised on-line	100%	Office of Executive Director
Percentage of total procurement dollars awarded to small, women-owned, and minority businesses	5% increase over FY 2005	Office of Executive Director
Percentage of invoices paid via electronic funds transfer	99%	Office of Executive Director
Percentage of payments in compliance with Prompt Payment Act deadlines	100%	Office of Executive Director
Percentage of payments made without error	100%	Office of Executive Director
Timeliness of collecting accounts receivable	90% of invoices collected by due dates	Office of Executive Director
Complete and accurate annual financial statements	Unqualified opinion on audited financial statements	Office of Executive Director
Percentage of filings capable of being received electronically	95%	Office of the Secretary
Percentage of Commission orders approved during open meetings issued	99% within 5 business days	Office of the Secretary
Percentage of Commission orders approved by notational vote issued	99% within 1 business day of adoption date	Office of the Secretary

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of legally required notices issued	95% within 3 business days of being posted on eLibrary	Office of the Secretary
Percentage of speeches or presentations to external stakeholder groups	➢ 20% to Infrastructure groups ➢ 50% to Competitive Markets groups ➢ 30% to Oversight and Investigation groups	Office of External Affairs
Percentage of press releases on important agency actions issued	95% within 24 hours of order being issued	Office of External Affairs
Percentage of responses to international delegation meeting requests	➢ 60% within 3 business days ➢ 100% within 5 business days	Office of External Affairs
Percentage of responses to public inquiries	➢ 60% within 3 business days ➢ 100% within 5 business days	Office of External Affairs
Percentage of agency actions and time-sensitive content posted on the FERC Internet Website	95% within 1 hour of order being issued	Office of External Affairs
Timeliness of notices to NEB (Canada) and CRE (Mexico) of FERC activities pursuant to Memorandum of Understanding	Within 1 business day	Office of External Affairs
Timeliness of regional hearings or conferences email notifications sent to State officials and Governors	Within 1 business day	Office of External Affairs
Submit FY 2004 Annual Report to Congress	Complete by June 30, 2006	Office of External Affairs
Submit FY 2004 international exchange and training activity data to U.S. Department of State	Complete by April 1, 2006	Office of External Affairs
Submit FY 2004 FOIA Annual Report to Department of Justice	Complete by February 1, 2006	Office of External Affairs
Submit FY 2004 Information Quality Agency Annual Report to OMB	Complete by January 1, 2006	Office of External Affairs