FY 2004 CONGRESSIONAL BUDGET REQUEST AND ANNUAL PERFORMANCE PLAN

FEDERAL ENERGY REGULATORY COMMISSION
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Pat Wood, III
Chairman

Federal Energy Regulatory Commission

Vision

Dependable, affordable energy through sustained competitive markets

Mission

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

Goals

Goal 1: Promote a secure, high-quality, environmentally responsible infrastructure through consistent policies

Goal 2: Foster nationwide competitive energy markets as a substitute for traditional regulation

Goal 3: Protect customers and market participants through vigilant and fair oversight of the transitioning energy markets

Goal 4: Strategically manage agency resources

Federal Energy Regulatory Commission
Strategic Plan FY 2002 – FY 2007

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

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

- Identify transmission and pipeline projects with high public interest benefits and facilitate their speedy completion.
- Standardize interconnection of power generation plants of all sizes and technologies.
- Strengthen inter-agency coordination of hydropower licenses and gas pipeline certificates to expedite processing, consistent with due process.

Objective 1.2: Provide Clarity of Cost Recovery to Infrastructure Investors.

- Establish a timely process to include prudently incurred expansion costs in transmission and pipeline rates.
- Ensure that revenue levels and rate design for regulated company services support long-term competitive markets.
- Welcome balanced innovative rate of return proposals that incent pro-competitive behavior and publicly beneficial projects.

Objective 1.3: Address Landowner and Environmental Concerns.

- Encourage collaboration among affected parties and address stakeholder concerns before the licensing/certification process.
- Incorporate reasonable environmental conditions into permits, licenses and certificates and ensure compliance with conditions.

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

- Work with other agencies and parties to identify and address security issues and needs.
- Support industry efforts to improve infrastructure security.
- Ensure strictest adherence to prudent dam safety practices.
- Facilitate prompt recovery of prudently incurred security and safety expenses in jurisdictional rates.

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

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

- Complete firm establishment of regional transmission organizations with clear responsibilities, independence and scope.
- Develop appropriate coordination with states to efficiently oversee regional power markets.
- Encourage balanced, industry-led organizations to develop reliability and business practice standards.
- Firmly establish transmission planning function on a regional basis, with a variety of technology solutions to meet reliability, security and market needs.
- Provide regulatory certainty through clear market rules and case-specific decisions.

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

- Link market-based rate authority to continued presence of balanced market conditions.
- Rely on international best practices to develop comprehensive market protocols/rules.
- Establish robust programs for customer demand-side participation in energy markets.
- Encourage standardized business rules and practices to maximize market efficiency, ease market entry and reduce transactions costs.

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

Objective 3.1: Promote Understanding of Energy Market Operations and Technologies.

- Develop and maintain an expert market-operation oversight and investigation capability.
- Keep abreast of industry and market trends and technological innovations to inform and guide market oversight.
- Enhance the Commission's deliberations and public discussion by developing market information and disseminating findings.

Objective 3.2: Assure Pro-Competitive Market Structure and Operations.

- Assess market conditions and infrastructure adequacy using objective benchmarks.
- Integrate the Commission's market oversight and the work of market monitoring units.
- Identify and remedy problems with market structure and operations, and periodically review market rules for consistency with long-term market development.
- Ensure that mergers and consolidations are consistent with pro-competitive goals.

Objective 3.3: Remedy Individual Market Participant Behavior as Needed to Ensure Just and Reasonable Market Outcomes.

- Investigate market dysfunctions, exercises of market power and rule violations, and remedy problems through Commission authority.
- Use expedited dispute resolution to accelerate processes and minimize customer expense.
- Act swiftly on third-party complaints, using litigation before Administrative Law Judges as needed to determine factual issues.

Goal 4: Strategically Manage Agency Resources.

Objective 4.1: Manage Human Capital to Fulfill the Strategic Plan.

- Apply workforce planning to help meet the challenges of new Commission roles and changing workforce demographics.
- Get the job done flexibly and efficiently with the right mix of internal workforce and contracted services from the private sector.

Objective 4.2: Manage Information Technology to Best Serve the Public and Streamline Work Processes.

- Expedite interactions with customers through secure and efficient e-government initiatives.
- Build effective electronic workload/time-management and case-processing systems to enable getting the work done right and on time.

Objective 4.3: Clearly Communicate and Build Strong Partnerships with all Stakeholders.

- Proactively reach out to groups affected by agency actions for advance input.
- Build strong partnerships with all stakeholders, especially with states.

Objective 4.4: Strategically Manage Financial and Logistical Resources.

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

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INTRODUCTION

Budget Request: $199,400,000 and 1,250 FTEs

The Federal Energy Regulatory Commission (FERC, the Commission), requests funding of $199,400,000 and 1,250 FTEs for FY 2004.

Resources by Program [1]

(Dollars in Thousands)

Program	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request	% (+/-) FY 2003 to FY 2004
Energy Infrastructure Funding FTEs	$99,395 616	$99,148 652	$103,161 652	4.0% n/a
Competitive Markets Funding FTEs	$30,337 196	$30,619 207	$31,604 207	3.2% n/a
Market Oversight Funding FTEs	$23,188 114	$29,880 161	$31,260 161	4.6% n/a
Resource Management Funding FTEs	$37,934 258	$32,353 230	$33,375 230	3.2% n/a
Total Budget Authority Funding FTEs	**$190,854 1,184**	**$192,000 1,250**	**$199,400 1,250**	**3.9% n/a**
Application of Prior Years' Authority	($6,699)	$0	$0	n/a
Gross Budget Authority	$184,155	$192,000	$199,400	3.9%
Offsetting Receipts	($184,155)	($192,000)	($199,400)	n/a
Net Budget Authority	**$0**	**$0**	**$0**	**n/a**

[1] This request does not include funding for the Administration's proposed legislation requiring agency's to accrue the full share of employee pensions and annuitant health benefits beginning in FY 2004. The impact of the proposal to FERC's funding request is shown below on a three year comparative basis:

Program	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request	% (+/-) FY 2003 to FY 2004
Total Budget Authority before Proposed Legislation	**$190,854**	**$192,000**	**$199,400**	**3.9%**
Proposed Legislation	$8,258	$8,407	$8,682	n/a
Total Budget Authority after Proposed Legislation Funding FTEs	**$199,112 1,184**	**$200,407 1,250**	**$208,082 1,250**	**3.8% n/a**

This request does not reflect any requirements that would result from

potential changes to the Commission's statutory authority.

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

Making Markets Work

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

- *Make markets possible*. Promote a secure, high-quality environmentally responsible infrastructure through consistent policies.
- *Establish markets*. Foster nationwide competitive energy markets as a substitute for traditional regulation.
- *Make sure markets work*. Protect customers and market participants through vigilant and fair oversight of the transitioning energy markets.

American energy markets are beginning to recover from the impacts of high prices in 2000 and the first half of 2001. While much remains to be done including identifying and remedying abuses by companies like Enron, the most pressing need is 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. We responded to the crisis in Western energy markets by mitigating unjustifiably high electric prices and ensuring that power sellers did not withhold supplies to drive prices up. These measures provided customers with relief from extreme spot market prices. We also removed a series of regulatory obstacles to expedite providing increased energy supplies to the West.

We responded to allegations of market manipulation by Enron and others by undertaking a large-scale investigation, not only of Enron but also of all other market participants in the West. That investigation clearly showed ways in which Enron and others could and did attempt to manipulate the markets. We are continuing investigations of specific company practices. Equally important, we have instituted measures to prevent such behavior in the future. Similarly, we showed how unregulated companies could take loans from regulated subsidiaries in hopes that rate-payers might cover the losses in case of default. We are currently examining ways to prevent customers from suffering from such

behavior.

Long-term Responses. Since June 2001, electric prices have dropped to just and reasonable levels across the West, and remained there with relatively minor exceptions. Several factors led to this result: reduced demand, relatively mild weather, increased supplies, and our price mitigation. Nonetheless, it is clear that market crises can erupt quickly, especially in electricity, and we are acting to provide a much more stable long-term platform for electricity markets. Two initiatives are especially important:

- Standard Market Design (SMD); and
- Market Oversight and Investigation.

SMD. On July 31, 2002, we proposed for public comment a new rule which will facilitate the adopting of standard designs for electric power markets using the best practices from around the country and the world. The rule is a comprehensive proposal for shaping electric markets throughout the country and, if adopted, will:

- Eliminate residual undue discrimination by creating uniform rules for transmission service across the interstate grid while permitting appropriate regional flexibility;
- Ensure that the transmission grid and short-term markets will be operated by a fair, independent organization (e.g., regional transmission organization (RTO));
- Establish procedures to monitor market operations and mitigate market power and manipulation;
- Preserve and expand the role of states in regional planning, resource adequacy, and pricing for new resources and facilities;
- Supplement long-term bilateral contracts with real-time energy markets that reveal the true costs of transmission congestion and value over location and time;
- Manage congestion on the electric grid by price instead of service denial, creating economic signals for new investments in infrastructure and technology;
- Establish procedures for minimum long-term regional resource adequacy using generation, transmission and demand-side resources, with details set by regional state committees;
- Permit customers under existing contracts to keep the same level and quality of transmission service if they choose to;
- Allow flexible transmission pricing, including participant funding (cost causers are cost payers) for new transmission facilities;
- Rationalize and improve power plant transmitting siting with better signals, participant funding, and regional resource planning; and
- Create stability and certainty for customers and investors.

This proposal will save customers money because effective wholesale

markets will:

- Achieve more efficient use of the current electric system;
- Get more new, efficient, clean generators built, which will drive down electricity prices;
- Treat everyone fairly;
- Protect existing contracts and service quality for native load;
- Prevent California-type melt-downs through market oversight and market power mitigation;
- Reduce price volatility; and
- Assign risk to the market, not customers.

The Commission's proposal will also improve reliability and security of the nation's infrastructure because effective wholesale power markets will:

- Use stable and balanced market rules to encourage investment in new generation, transmission and demand reduction;
- Make technologically smarter use of the existing transmission grid;
- Encourage investment in new technologies that offer greater efficiencies and better environmental solutions;
- Adopt cyber-security standards that reduce grid vulnerability to terrorism;
- Make more new resources available due to long-term planning and adequacy requirements, reducing short-term scarcity and outages; and
- Locate resources closer to customers, making the grid more reliable and secure.

When SMD is implemented, electric markets will have a strong long-term basis for providing customers with the very real – and very large – benefits that come from competition. For these reasons, the Commission is committed to properly formulating the rule in order to support reliable competitive markets in all regions across the country. Tailoring the market design so that the markets are established in a way that work most effectively in each region of the country is paramount. The intent of the standard market design proposal is to build on RTOs introduced in Order No. 2000, where the Commission recognized the need for regional variation in certain aspects of market design. In the Southeast and the West, for example, the Commission has recently reaffirmed this need for reliance on the formation of RTOs and regional differences that come naturally from that process.

Market Oversight and Investigation. One of the clearest lessons of the electric market crisis is that we need to do a much better job of policing natural gas and electric markets and at addressing problems before they become severe. In the spring of 2002, we established a new Office of

Market Oversight and Investigation (OMOI). This Office's job is to make sure that energy markets work. It will, for example:

- Work with regional market monitors, serve as the "cop on the beat" to identify individual players who abuse their market position;
- Provide objective benchmarks to assess market conditions and infrastructure needs; and
- Identify and recommend remedies for problems in the way markets are structured or are operating.

OMOI has given us the ability to identify market conditions and address market problems quickly and effectively. This is a necessary part of restoring public confidence in energy markets. We have developed a new Commission meeting process to update Commissioners frequently on market developments, the first essential change in how the Commission does business in many years. We will commit 110 full time equivalents to this office in FY 2004.

Overview of the Document

The next four chapters detail plans to meet each of the goals in the Strategic Plan. Each chapter contains a discussion of goals and objectives and projected performance measurements. Our performance plan for FY 2004 is presented as an integral part of these chapters. A series of appendices provide further details.

CHAPTER 1: ENERGY INFRASTRUCTURE

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

Operating Expenses

(Budget Authority Dollars in Thousands)

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request
FTEs	616	652	652
Funding [1]	$99,395	$99,148	$103,161

[1] Does not include funding for proposed legislation.

Introduction

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

- Improving reliability;
- Reducing barriers to entry;
- Allowing choice and competition between multiple supply sources;
- Better matching demand and supply;
- Improving customer access to low-cost resources;
- Encouraging price-responsive markets; and
- Fostering innovative new services.

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

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

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

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

Sufficient supplies of energy and a reliable way to transport those supplies are necessary to develop competitive markets. Without these, some suppliers will not be able to enter the market, customers will have limited choices, and prices will be needlessly volatile.

Electric markets can quickly become dysfunctional when demand is too close to supply. Without sufficient supply, the market is also vulnerable to manipulation. Having a reasonable reserve of supply over demand is essential for competitive markets to work.

Although we have no direct jurisdiction over the development of electric generation capacity or natural gas reserves, we do have jurisdiction over how the markets for these products operate. We will ensure that markets have mechanisms for developing sufficient supplies to avoid market disruptions. Many approaches to this issue are possible. In the Northeast, the industry pays extra for installed generation capacity, while the State of Texas is relying almost exclusively on market forces to provide needed capacity. We will explore and evaluate all relevant proposals from interested parties and adopt programs that work.

In the area of hydropower, we authorize the construction and operation of over 1,600 Commission-licensed hydropower projects, encompassing approximately 2,600 dams and impoundments and the associated lakes and reservoirs. Our workload in these areas is increasing due to the 218 relicense applications for projects that will be filed through calendar year 2008. These applications are for projects that are among the largest under Commission jurisdiction, having a combined capacity of approximately 22,000 MW and representing 20% of the nation's hydropower capacity.

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

Objective 1.1 Strategies

Identify Transmission and Pipeline Projects with High Public Interest Benefits and Facilitate Their Speedy Completion.

For competitive markets to develop, adequate transportation is necessary to deliver the supply to where demand exists. Inadequate transportation creates geographic price differences, price volatility, and barriers to

market entry and can undermine reliability. Adequate transportation allows a choice of suppliers and, in turn, the market will stress customer service, price competitiveness, and new services. All customers will benefit.

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

With respect to LNG import terminals, the Commission has signaled a regulatory approach that will remove barriers to the development of onshore sites but will not affect the jurisdiction of the facilities. In its Preliminary Determination on the Hackberry LNG Project, the Commission states that the proposed import terminal is similar to gas production facilities and gathering pipelines. As such, there is no need to impose a tariff or rate schedule on the LNG terminating service – a standard tariff and rate schedule would be imposed on the adjacent pipeline exiting the tailgate of the plant. Therefore, if this project is approved, and other criteria are met, Hackberry may provide LNG terminalling services to prospective customer at the rates, terms and conditions negotiated and agreed to among the parties.

Throughout FY 2002, the Commission held regional conferences on the adequacy of the Nation's electric, gas and other energy infrastructure. FERC Commissioners participated along with Governors and utility Commissioners from various states. These conferences aim to identify current infrastructure conditions, needs, and investment and other barriers to expansion, as well as environmental and landowner concerns. The conferences have fostered informative discussions on how FERC can facilitate and enhance a comprehensive, collaborative approach to energy infrastructure development and reliability for America. This effort, along with the California Quarterly Analysis, has allowed FERC and all those affected by our decisions on infrastructure to become better informed about energy segment interdependencies and how we can work together to ensure an adequacy of energy availability to meet often varying market requirements. These conferences are expected to continue into FY 2004 and possibly beyond.

This increased emphasis on infrastructure adequacy will translate to a new organizational unit within the Commission comprising a cadre of technical experts. This group of industry experts with research and communication skills will continuously examine trends, forecast

scenarios, and prepare findings on energy infrastructure matters.

Standardize Interconnection of Power Generation Plants of All Sizes and Technologies.

One major potential barrier to obtaining adequate generation supplies is the lack of a standard, expeditious way to connect to the transmission grid. Plants are not built if they have no economical means to deliver their power. Standardized interconnection procedures will encourage needed investment, remove incentives for transmission owners to favor affiliated generation, and encourage efficient generation and transmission siting decisions.

To address this issue, the Commission issued the Standardizing Generator Interconnection Agreements and Procedures Notice of Proposed Rulemaking (NOPR) in April 2002, and subsequently in August 2002 established a separate advance NOPR (ANOPR) for standardized interconnection agreement and procedures applicable to small generators. A Final Rule is anticipated to be issued in the spring of 2003 on the Standard Interconnection NOPR and by summer 2003 on the Small Generator ANOPR. These will give 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 grid, and in many areas hasten the interconnection process. To the extent that disputes arise concerning the price, terms, or conditions of generator interconnections, they may be set for hearing and resolved through settlement or litigation.

Strengthen Inter-agency Coordination on Hydropower Licenses and Gas Pipeline Certificates to Expedite Processing, Consistent with Due Process.

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

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

The Commission initiated an effort designed to create a more efficient

licensing process. In September 2002, the Commission issued a public notice inviting interested parties to enter into discussions and make comments concerning adoption of a new licensing process. Attached to the notice for public comment were two proposals for a new licensing process: one by the Interagency Hydropower Committee (composed of representatives from the Commission as well as other Federal agencies) and one by the National Review Group (composed of members of the hydropower industry, nongovernmental organizations, and tribes).

The Commission staff, in conjunction with the United States Departments of Agriculture, Commerce, and the Interior, co-sponsored a series of six public and tribal forums across the country in October and November 2002. In addition, in December 2002, Commission staff provided an opportunity for the Federal agencies, Indian tribes, and interested stakeholders to participate in drafting concepts and language for a new licensing process.

Common themes expressed at the public and tribal forums included a call to reduce the time and the cost of the licensing process, improve the quality and efficiency of federal and state decision-making, and obtain early resolution of study disputes. One reform concept is a proposed licensing process that integrates an applicant's prefiling consultation with resource agencies, Indian tribes, and the public with the Commission staff's National Environmental Policy Act (NEPA) scoping (integrated process). Such an approach would ensure the Commission staff involvement at all stages, establish deadlines for all participants, provide a more effective vehicle for study dispute resolution than currently exists, and better integrate the Commission actions with the actions of other federal agencies with the roles under the FPA. It is expected that the Commission will issue a Notice of Proposed Rule in February 2003.

In November 2002, the Commission sponsored the second in a series of workshops that focused on hydropower licensing proceedings that are 5 years or older. As with the first workshop held in December 2001, interested stakeholders were invited to discuss, on a project-specific basis, procedural impediments that precluded the Commission from taking final action. At least in part due to the actions spurred by the first workshop, the number of old cases dropped from 51 in December 2001 workshop to 35 cases. As did the first workshop, the second workshop identified a key source of licensing delay in the applicant's receipt of necessary state certifications of permits.

Another consequence of the December 2001 workshop was an effort to develop, in concert with state resource agencies, measures that could minimize licensing delays associated with state authorizations. The Commission conducted a series of regional hydropower workshops to focus on water quality certification and coastal zone management

coordination with various state agencies. The workshops have led to an agreement to seek resolution of issues between Commission staff and staff from the water quality certifying agencies before license applications are filed. Eventually, ideas exchanged during the workshops may help eliminate the delays associated with the certification process and will prove useful as the Commission proceeds with designing the new licensing process.

The Commission has also undertaken the following actions that should further minimize processing delays:

- Updating the staff Endangered Species Guide;
- Issuing guidelines for developing Historic Properties Management Plans; and
- Developing memoranda of understanding with other Federal agencies to facilitate compliance with the Magnuson-Stevens Fishery Conservation and Management Act (MSFC) and the Migratory Bird Treat Act (MBTA).

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

Our stakeholder partnership program with other federal and state agencies has also helped to streamline our natural gas certification process. We have taken an active role in the White House Task Force streamlining efforts, and are pleased that our pre-filing NEPA review process has been well received by the other participating Federal agencies and included in the Interagency Memorandum of Agreement.

In April 2002, the White House Task Force asked for our participation in designing and conducting a workshop for industry, regulators, and public interest groups to explain the complexities of right-of-way acquisition on Federal lands. A primary goal of the workshop, held in October 2002, was to educate stakeholders about the benefits of early coordination in the Federal right-of-way acquisition process so that common pitfalls and delays can be avoided. The Commission presented information on interstate natural gas regulatory policies, the coordination between the Commission and other agencies when projects cross Federal lands, our streamlining initiatives, and a case study on the completion of the environmental review for pipeline projects under our NEPA Pre-Filing Program.

President Bush's National Energy Plan recommended that an Interagency Task Force be formed to ensure swift processing of applications to construct and operate a pipeline to bring Alaskan natural

gas to the "lower-48". The Departments of State and Energy were to lead, in coordination with FERC and Interior, and in conjunction with Canada, Alaska, and others. FERC has been meeting regularly with these partners throughout FY 2002, building the working relationships among other federal agencies, Alaska, Canada, gas producers, and gas pipeline companies needed for efficient federal response to a pipeline from Alaska. This effort will continue through FY 2003 and into FY 2004.

We also participated in the following partnerships in FY 2002 and plan to continue these efforts in FY 2003 and FY 2004:

United States/Canada Energy Consultative Mechanism. In FY 2002, FERC staff met with Canadian representatives to discuss such issues as new Canadian and American liquefied natural gas projects, North American energy demand, and a potential natural gas pipeline from Alaska.

North American Energy Working Group (NAEWG). Initiated as part of President Bush's National Energy Policy, the NAEWG has begun to foster communication and cooperation among the governments and energy sectors of America, Canada and Mexico on energy-related matters. Sub-working groups for individual energy resources (e.g., oil, natural gas, electricity, etc.) have been established, and in FY 2002, FERC staff participated in the natural gas and electricity working group discussions.

Connecticut Governor's Task Force. In FY 2002, FERC staff participated on a task force established to review and analyze all pending proposals for permanent large-scale natural gas or electric projects in Connecticut. In addition, the task force is charged with preparing a comprehensive environmental assessment for meeting the State's energy needs.

Interstate Oil and Gas Compact Commission (IOGCC). The IOGCC is an organization representing the governors of 37 oil and natural gas producing states. FERC staff participates as an active member of IOGCC, and in FY 2002 contributed a unique perspective on regulatory approaches to achieve the organization's goals.

Partnering with the Department of Transportation (DOT). In FY 2002, FERC furthered its collaboration with DOT by actively partnering in such efforts as the review and analysis of Tennessee Gas Pipeline Company's Stagecoach Expansion Project. By coordinating DOT's regulatory responsibility for safety of natural gas
facilities with FERC's siting authority, we are ensuring that these interrelated public concerns are addressed in tandem.

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

Partnering with the Canadian National Energy Board (NEB). In FY 2002, as in past years, FERC staff, on a semi-annual basis, engaged in informal meetings with its Canadian regulatory body counterpart to discuss issues associated with importation and exportation of natural gas between the two countries.

Partnering with the Mexican Comision Reguladora de Energia (CRE). Based on the successes realized through partnering with its Canadian sister agency, FERC initiated in FY 2002 a similar program with the Mexican CRE. Through these meetings, FERC and CRE intend to share important insights into regulatory approaches and other areas of common interest to ensure that new natural gas projects involving cross-border projects are being considered in the context of derived benefits to both countries.

We are also helping gas pipeline applicants to understand better our regulatory processes and needs, and the steps they can take before filing with the Commission to improve the quality of the project, proactively address concerns of the public, and improve the likelihood of regulatory approval.

The Commission encourages entities involved in pipeline certificate proceedings to resolve disputes that may arise during the certificate process. One case of particular note involved the construction of a natural gas pipeline from Lake Erie to an interconnect with Consolidated Edison in the City of Mount Vernon, New York. Because of numerous objections about the route through Mount Vernon, the Commission offered the services of its Dispute Resolution Service (DRS) to mediate the dispute. Despite strongly-held differences among the interested parties, they were able to reach an agreement on a revised pipeline route through Mount Vernon within four months. Both the pipeline and the elected city officials heralded the agreement as a great success with the help of the DRS, and the pipeline committed to work closely with the Mount Vernon City officials and its citizens in the future construction.

To process cases expeditiously, we set tight case processing time targets and clearly define our expectation of applicants and other parties. For FY 2003, we expanded the number of certificate applications bound by these schedules and set tighter time targets. Not only did we establish a target timeframe for major cases of considerable size and impact, but we

raised the bar by increasing the percentage of cases in all certificate categories that would meet the timeline targets.

Objective 1.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Complete implementation process of interconnection policies	Process compliance tariff filings within 60 days of filing date	Office of Markets, Tariffs, and Rates
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

Objective 1.2: Provide Clarity of Cost Recovery to Infrastructure Investors

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

- Give transportation infrastructure investors confidence that they have the opportunity to recover their costs and make a fair return on their investment;
- Give competitive energy market players (generators, gas producers, customers, demand aggregators) reasonable certainty about the costs they will bear for transportation and about future terms and conditions

that affect access to transportation; and
- Give transportation owners the right incentives to provide customers with better services, lower costs, or both.

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

Objective 1.2 Strategies

Establish a Timely Process to Include Prudently Incurred Expansion Costs in Transmission and Pipeline Rates.

For investors to invest in facilities that provide regulated monopoly services, such as electric transmission and natural gas pipelines, they need to know quickly and with certainty how and when they will have the opportunity to recover their costs. Thus we must act quickly on rate proposals, especially for new construction. Our policies must provide a fair opportunity for cost recovery, letting those who propose expansion projects gain access to capital markets.

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

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

The Commission's rate policies, consistently applied to transportation infrastructure projects, give investors confidence that they will have an opportunity to recover their investments, and provide rate certainty to customers as well. For example, in the troubled western electric market, the Commission acted in less than 45 days to provide preliminary rate assurances on a proposal to provide much needed transmission capacity to northern California along the congestion-plagued "Path 15." Additionally, in just over 60 days the Commission gave San Diego Gas & Electric Company rate assurances on a project to increase transmission capacity in southern California.

Ensure That Revenue Levels and Rate Design for Regulated Company Services Support Long-term Competitive Markets.

Just as investors in regulated monopoly infrastructure need to know the rules for cost recovery, investors in and customers for electric generation, gas production and demand-side measures need reasonable

assurance of what transportation costs they can expect to face and that they will continue to have nondiscriminatory access to transportation services. Without such assurances, investors will bear greater risks, find it more difficult to obtain financing, and invest in fewer projects than the Nation needs. That in turn will undermine the adequacy of supply that is a prerequisite for competitive energy markets.

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

In a May 2002 order, the Commission addressed several complaints regarding service degradation on the El Paso Natural Gas Company. The Commission found that unrestricted and projected growth in full requirement customer demands coupled with unspecified receipt point rights and routine service reductions had degraded the quality of firm service on the system. The Commission ordered the reformation of the contracts for full requirements service and the establishment of specified receipt point rights. The Commission believes these remedial actions were necessary to assure that customers receive the service to which they are entitled, and to establish proper market incentives for future expansion of gas pipeline infrastructure in the southwest.

Welcome Balanced Innovative Rate of Return Proposals That Incent Pro-competitive Behavior and Publicly Beneficial Projects.

Traditional cost-of-service rate regulation provides few incentives for regulated companies to lower their costs, to provide better service or to remove barriers to open commodity trading. As a result, such regulation is not necessarily the best way to set rates for regulated services that support an overarching competitive energy market. We welcome innovative rate proposals that promise reduced costs, improve service or remove trade barriers. It is important that such proposals:

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

FERC welcomes innovative rate proposals that encourage pro-competitive behavior when infrastructure additions are being considered, and acts quickly on these proposals. We granted Guardian, a natural gas pipeline, a certificate of public convenience and necessity to rearrange and construct new facilities in order to provide greater gas supply and storage service options to its customers. Guardian proposed the use of a lease agreement with another interstate pipeline as the "rate" vehicle for the project. The lease agreement eliminated the need to construct additional compression facilities, thereby keeping costs lower.

Similarly, the Commission approved innovative negotiated rate proposals for new pipelines, such as the Georgia Strait Crossing Pipeline, and certain expansions of existing systems, such as the Trailblazer Pipeline Company and Wyoming Interstate Company.

In February 2002, the Commission conditionally approved negotiated-rate authority for underwater, high-voltage, direct-current transmission lines proposed by TransEnergie under Lake Erie and New York Harbor. Merchant transmission projects can link capacity-rich regions with capacity-deficient regions, and the pricing differential between the affected regions offers an incentive for project investors. All project costs, capital and operating, will be recovered from the revenue derived from voluntary, negotiated sales of transmission rights. An open season bidding process will be established to initially allocate transmission rights. The Commission approved both projects swiftly, acting on one in less than 60 days and one in less than 80 days, giving investors cost recovery certainty and better access to capital markets.

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

Objective 1.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Statutory cases by workload category	All cases competed by statutory action date	Office of Markets, Tariffs, and Rates
Merger and qualifying facilities workload (regulatory cases)	90% of cases completed by regulatory deadline	Office of Markets, Tariffs, and Rates
Number of cases requiring additional remedial action	Of all cases processed in FY 2004, the percentage requiring additional remedial action will be less than FY 2003	Office of Markets, Tariffs, and Rates

Objective 1.3: Address Landowner and Environmental Concerns

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

Objective 1.3 Strategies

Encourage Collaboration Among Affected Parties and Address Stakeholder Concerns Before the License/Certification Process.

While competing interests are never easy to reconcile, we believe they are best addressed openly and early in the process. For pipeline certificates, we encourage landowners and other parties to become involved early in the process. For hydropower licensing, we promote the alternative licensing process (ALP). In both instances, we expect the parties to resolve issues before they file with the Commission, which allows us to act more expeditiously. To help achieve this goal, we have offered the services of our Dispute Resolution Service which has mediated settlements in several pre-filing disputes.

For hydropower licensing cases, the ALP process allows for enhanced participation, cooperation and communication from stakeholder groups during the preparation of the license application. The use of this nontraditional licensing process continues to result in license applications being filed with the Commission that contain comprehensive settlement agreements. Settlement agreements are also being reached for an increasing number of cases after the license application is filed. Since January 2002, 18 of the 28 licenses issued have been based upon settlement agreements.

For natural gas certificates, we conducted an outreach program to collect and disseminate information on ways for applicants, citizens, and state and other federal agencies to identify and resolve disputes before filing with us. We informed parties how to participate effectively in the process, and give the public early access to information. In FY 2002, we convened workshops to get additional feedback. From the industry, we are seeing a renewed focus on public participation and communication, and are continuing to receive reports about the efforts the regulated companies are making in this area. The workshops held in April, August, and November 2002 dealt specifically with how industry can implement new pre-filing strategies, and included presentations by agencies, landowners, and companies eager to share their experiences. Additional stakeholder involvement workshops are planned for FY 2003 and FY 2004.

Our NEPA Prefiling Process is an outgrowth of the stakeholder involvement workshops. It provides a framework for constructive discussions among stakeholders - natural gas transmission project proponents, potentially affected landowners, Federal, state, and local

agencies, and Commission staff - before the selection of a final pipeline route and the submission of a formal application. The NEPA Prefiling review process can be tailored to specific circumstances. In October 2002, we finalized its basic criteria, which begins with a written request by the project proponent that:

- Explains why the project sponsor needs/wants to do NEPA pre-filing, including timing considerations;
- Identifies other major Federal and state agencies in the project area and verifies that they are aware of and willing to proceed in a pre-filing process;
- Describes a formal plan for public involvement;
- Details what work has been done already, i.e., landowner contacts, agency consultations, engineering, and route planning;
- States the project sponsor will provide third-party contractor options for staff selection and for beginning work pre-filing; and
- Acknowledges that a complete Environmental Report and application are still required at the time of filing.

To date, three projects are or were participating in this program: (1) Kern River Expansion Project; (2) Dominion Transmission's Greenbriaer Project; and (3) Blue Atlantic Transmission System Project. We began our NEPA review of the Kern River project in June 2001; Kern River filed its application in August 2001; and we issued the final EIS in June 2002, about six months faster than average for a major project. Dominion Transmission started its prefiling process in late September 2001 and filed its application in July 2002. We issued a draft EIS in October 2002 and the final EIS is targeted for issuance in the first quarter of 2003. This would also result in certificating a major project about six months faster. Two other applicants have filed requests to use the NEPA Pre-Filing Process.

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

Natural gas pipeline construction and hydropower projects have environmental impacts that can be mitigated with appropriate measures. We are committed to cost effective mitigation of environmental impacts. We also seek to avoid construction delays while satisfying environmental concerns.

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

Hydropower Projects. All modern hydropower licenses include

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

For water quality and fish passage, a new database evaluates effectiveness of these measures in licenses issued since 1986. In FY 2002, we issued an overview report on mitigation effectiveness studies, issued a draft report on water quality, and held a public workshop in September to discuss the results. In FY 2003, we will issue a final water quality report, issue a draft report on fish passage, and hold a fish passage workshop. During FY 2004, we will issue a final fish passage report, issue a draft recreation report, and conduct a workshop on recreation.

In recent years, there have been increased numbers of shoreline development applications that involve complex issues, many of which require environmental assessments. The Commission issued a guidance manual for shoreline management, and held a shoreline management workshop.

To further ensure effective compliance, we have instituted a compliance assistance program. The goal of the program is to ensure that licensees and exemptees understand their responsibilities under their license or exemption and the steps necessary to achieve compliance, thereby lowering their regulatory and administrative burdens. Our compliance staff maintain regular contact with licensees, exemptees, federal and state agencies, and environmental organizations. In FY 2002, we inspected 168 projects, many of which included multiple developments. We expect to conduct a similar number of inspections in FY 2003 and FY 2004. We also completed over 200 investigations into allegations of non-compliance with environmental requirements. In FY 2003 and FY 2004, we anticipate the same number of investigations.

Objective 1.3 Performance Measures

Performance Measures	Performance Targets	Data Source
Evaluate and improve the effectiveness of required environmental enhancement and mitigation measures in hydropower licenses	▸ Conduct 5 site visits ▸ Hold 2 outreach meetings with stakeholders ▸ Disseminate 2 environmental effectiveness reports	Office of Energy Projects

Objective 1.4: Promote Measures to Improve the Security and Safety

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

Objective 1.4 Strategies

Work with Other Agencies and Parties to Identify and Address Security Issues and Needs.

One way to ensure a secure and reliable system is to work with other agencies and parties to identify issues. We routinely maintain contact with key entities responsible for various aspects of the security and reliability of the energy infrastructure, including:

- Other federal and state agencies, such as the President's Critical Infrastructure Protection Board, Department of Transportation (Office of Pipeline Safety), Department of Energy, Federal Emergency Management Agency, Office of Homeland Security, and Department of Commerce's Critical Infrastructure Assurance Office;
- Electric industry organizations, including the North American Electric Reliability Council, independent system operators, and Edison Electric Institute; and
- Natural gas industry and oil pipeline organizations, including the Interstate Natural Gas Association of America, the American Gas Association, and the Association of Oil Pipelines.

Commission staff members attend North American Electric Reliability Council (NERC) and independent system operators (ISO) meetings. We are expanding these outreach and mutual education efforts as we identify appropriate opportunities. All participants agree that a secure and reliable system is necessary for the market to function efficiently. We look to NERC, ISOs, and eventually RTOs to help address security and reliability concerns by engaging in regional planning.

During FY 2002, Commission staff convened several conferences and initiated other activities to improve the security of the natural gas infrastructure. These efforts included:

Conference on Security of Liquefied Natural Gas (LNG) Shipments. A non-public technical conference to examine the national security implications of our decision to authorize reactivation of the Cove Point (in Maryland) facilities for the importation of foreign LNG.

Conference on Security of River Crossing Facilities. A technical conference to obtain interagency safety and security recommendations concerning a route variation in the Iroquois Eastchester Project (in New York) that would place a pipeline underneath (buried in the river bed) two bridges in the East River.

Technical Conference on Reconstruction of Interstate Natural Gas Facilities. With the DOT's Office of Pipeline Safety (OPS), a conference on whether and how to clarify, expedite and streamline permitting and approvals for interstate pipeline reconstruction in the event of a natural or terrorism disaster. As an outcome of this conference and subsequent discussions with industry and other agencies the Commission issued a NOPR, wherein it is currently seeking comments on whether regulatory changes are needed to expedite reconstruction of damaged facilities. In the first quarter of 2003, we issued a NOPR in RM03-4-000 and AD02-14-000 in this matter.

Technical Conference on Reallocation of Natural Gas. With the Department of Energy, a conference on whether and how to clarify, expedite and streamline processes for reallocating natural gas among shippers, pipelines, and local distribution companies in todays non-vertically integrated industry in the event of a disaster, whether natural or otherwise. FERC is following up by working with NARUC and other federal agencies to begin efforts to develop voluntary guidelines for gas reallocation in the event of an emergency.

The two technical conferences have sparked initiatives for FY 2003 and FY 2004, fostering cooperation among federal, state and local agencies and gas industry groups. We are moving ahead with these partners to do further planning and regulatory changes to facilitate prompt response and recovery in the event that natural gas infrastructure is adversely affected by an emergency.

FERC has also been working to reduce the vulnerability of the Nation's electric grid and market operations to physical and computer failures. The bulk electric system is complex and highly interdependent and a failure of its computer or communications systems could cause widespread harm to both electric service and facilities. Thus, FERC has worked with the electric industry (through the NERC Critical Infrastructure Protection Advisory Group) to develop proposed cyber-security standards for electric system participants. These standards are included in FERC's Standard Market Design NOPR and are scheduled to be revised and adopted in early 2003.

Support Industry Efforts to Improve Infrastructure Security.

On September 14, 2001, as a result of terrorist attacks days earlier, the Commission issued a Statement of Policy regarding "Extraordinary Expenditures Necessary to Safeguard National Energy Supplies." The Commission stated it viewed 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 may need to adopt new procedures, update existing procedures, and install facilities to further safeguard their electric power transmission grid and gas and oil pipeline systems; but there may be uncertainty about companies' ability to recover the expenses necessary to further safeguard our energy infrastructure, especially if they are operating under frozen or indexed rates. To alleviate this uncertainty, the Commission assured the regulated companies that it would support industry efforts to improve security by promptly allowing recovery of related costs, and in other ways as security issues and needs are identified.

Although the security of gas pipeline and storage facilities is not under the Commission's purview, we do support the activities of the agencies with regulatory responsibility for security. With regard to LNG facilities, the Commission plays an important role in supporting the U.S. Coast Guard, who has jurisdiction over offshore facilities and DOT, who has jurisdiction over onshore facilities. Both of these agencies have recently issued new guidelines that significantly expand the security requirements.

In September 2002, DOT's OPS issued non-public guidelines to LNG operators that direct them to develop new security procedures for the onshore facilities. Operators are required to prepare a security plan, within 6 months, that responds to the five threat levels of the Office of Homeland Security. OPS will conduct subsequent on-site reviews of the security procedures.

The U.S. Coast Guard issued security guidelines to waterfront facilities in January 2002, and conducts a security assessment of the marine terminal facilities on a quarterly basis. A separate security assessment is made for each LNG vessel prior to entering a port.

A month after the September 11, 2001 attacks, the Commission issued a policy statement removing from easy public access categories of documents that detailed specifications of energy facilities licensed or certificated by the Commission. In January 2002, the Commission issued a notice of inquiry seeking input on how the Commission should identify and handle such information, termed critical energy infrastructure information (CEII), and providing direction to entities filing CEII at the Commission. In September 2002, the Commission issued a notice of proposed rulemaking and revised policy statement, proposing regulations governing submission of and requests for CEII.

The revised policy statement extended CEII protection to information regarding proposed facilities, while at the same time, denying CEII protection to information that simply revealed the location of proposed or existing facilities. The Commission is in the process of developing a final rule on submission of and access to CEII.

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

Ensure Strictest Adherence to Prudent Dam Safety Practices.

To protect life, health, and property, we ensure the safety of approximately 2,600 non-federal hydropower dams we license. Dam failure caused by terrorists is a real and significant threat. During FY

2002 we focused closely on security issues and developed the FERC Hydropower Security Program. We have:

- Responded to the FBI with advice on the threat of terrorism to the nations' dams;
- Participated in workgroups, such as the Interagency Forum on Infrastructure Protection and a Security Task Force of the National Dam Safety Review Board, to assist in the development of a unified national response to security at dams;
- Categorized the FERC hydropower dams into risk categories in order to match the appropriate security program to the identified project risk;
- Established a rapid communication method for dissemination of information to hydropower project owners;
- Formed a FERC Hydro Security Team comprised of representatives from FERC, hydropower licensees, and engineering consultants;
- Developed a comprehensive security program to ensure that reasonable security measures are in place at FERC-jurisdictional dams;
- Obtained Secret and Top Secret security clearances for several dam safety staff members so they can obtain classified threat information; and
- Continued to work with the Office of Homeland Security.

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

Even with the best safety program, emergencies can occur. Emergency action plans specify actions owners must take, in coordination with

federal, state and local preparedness agencies, in case of emergencies such as floods, earthquakes, project failures, or improper operation. We conduct tests to ensure that emergency action plans work as designed.

During FY 2002, we developed a new chapter in the Engineering Guidelines on *Monitoring Performance of Dams*. The goal of performance monitoring is to detect and measure physical changes in the structure through appropriate instrumentation, before dam safety problems develop. Too little instrumentation is ineffective, and too much is costly and may be unnecessary. The new guidance provides procedures and criteria for dam owners to develop a Performance Monitoring Program which: (1) uncovers data that may be significant to failure modes analysis; (2) identifies the most significant potential failure modes; (3) identifies risk reduction opportunities; (4) focuses instrumentation, monitoring and inspection programs to provide information on failure modes that present the greatest risk to the safety of the dam; and (5) develops operating procedures to assure that there are no weak links that could lead to dam failure caused by mis-operation of the dam. We will implement and fine-tune the program in FY 2003 and FY 2004, with full roll out of the program taking five years.

We also oversee remediation to correct deficiencies. In FY 2002, the Commission directed the licensee for the Saluda Dam to remediate the dam on an expedited schedule. Saluda Dam is over a mile long, 210 feet high, and impounds the 2.2 million acre-foot Lake Murray in Columbia, South Carolina. It has been determined that the dam would fail if subjected to a repeat of the 1886 Charleston Earthquake, inundating over 120,000 downstream residents. A massive rock fill and concrete structure will be constructed at the existing dam. Construction began in 2002 and will be completed by 2006. Commission staff will work closely with the licensee, engineering consultants, State and Federal agencies, and the public to accomplish the goal of fixing the dam as quickly as possible, while minimizing the associated disruption to the local area. During FY 2003 and FY 2004, Commission engineers will oversee this tremendous construction activity.

Facilitate Prompt Recovery of Prudently Incurred Security and Safety Expenses in Jurisdictional Rates.

Following the September 2001 attacks on our country, the Commission assured 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 country's energy supply infrastructure in response to the heightened state of alert. Further, the Commission stated that it would give its highest priority to processing any filing made for the recovery of extraordinary expenditures to

safeguard the reliability of our energy transportation systems and energy

supply infrastructure.

The Commission has approved two security surcharge requests to date, and a number of gas and oil pipeline companies have informally discussed proposals with staff.

Objective 1.4 Performance Measures

Performance Measures	Performance Targets	Data Source
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	Office of Energy Projects
Update the FERC Security Program for Hydropower projects as appropriate	Make program changes as appropriate	Office of Energy Projects
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	Office of Markets, Tariffs, and Rates
Percentage of high- and significant- hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	Office of Energy Projects

CHAPTER 2: COMPETITIVE MARKETS

Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation

Operating Expenses

(Budget Authority Dollars in Thousands)

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request
FTEs	196	207	207
Funding [1]	$30,337	$30,619	$31,604

[1] Does not include funding for proposed legislation.

Introduction

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

Meeting this goal includes two objectives:

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

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

Objective 2.1: Advance Competitive Market Institutions Across the Entire Country

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

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

We believe that the best sustainable path to competitive power markets is to establish regional transmission organizations (RTOs) implementing fair market rules that are consistent across the nations bulk power markets. RTOs must operate the transmission system and competitive markets, across very large geographic areas, operating independently of all other market participants. As a result, the most immediate task is to complete development of RTOs and independent electric wholesale markets in every region of the country. Our goals include:

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

Objective 2.1 Strategies

Complete Firm Establishment of RTOs with Clear Responsibilities, Independence and Scope.

Much has already been accomplished in establishing RTOs. Today, proposals for RTOs are in various stages of completion in all regions of the United States. The Midwest Independent System Operator, Inc. (Midwest ISO) was approved by the Commission as an RTO in December 2001 and commenced operations in February 2002 in all or parts of several Midwestern states and one Canadian province. The Southwest Power Pool (SPP) has proposed to join the Midwest ISO. The Pennsylvania-New Jersey-Maryland Interconnection (PJM), which

was granted RTO status in late 2002, is working with the Midwest ISO and SPP to create a joint and common market that will span from the Atlantic Ocean to the Rocky Mountains. Finally, the Commission (1) approved key aspects of SeTrans RTO, which would extend over eight Southeastern states; (2) gave preliminary approval to WestConnect RTO, that would operate in parts of the Desert Southwest states of Arizona, Colorado, New Mexico and Utah; and (3) approved key aspects of the RTO West proposal which includes all, or part of, eight Pacific Northwest states.

However, in addition to establishing RTOs, we are making the difficult decisions regarding scope and configuration that arise in RTO filings. A standard market design (SMD) will quicken the transition to functional RTOs and lower transactions costs across RTOs. The intent of the standard market design proposal is to build on existing RTO formation efforts and to allow regional variation in appropriate aspects of market design. Existing ISOs and RTOs under development are incorporating these concepts into their formation. To the extent that disputes arise, they may be set for hearing and resolved through settlement or litigation.

These efforts will create solid RTOs with consistent, clear responsibilities throughout the country. That in turn will provide the indispensable foundation for competitive electricity markets to deliver benefits to the Nation's power customers.

Develop Appropriate Coordination with States to Efficiently Oversee Regional Power Markets.

The state-federal split of jurisdiction defined in the Federal Power Act has served as the basis of industry development for more than 65 years. While states have strong, long-standing legal responsibilities for how the electric power industry operates, transmitting electric power 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 electric power industry requires communication and complementary efforts at the federal and state levels. To expand our cooperation with the states, we are establishing new organizational relationships specifically to coordinate and improve our relationships with the states. We are working closely with states at every stage of SMD and RTO development, including state commission participation and comment in RTO and market design discussions and proceedings to understand state and regional concerns and needs.

Overall we can achieve these results if together the Commission and the states develop strong, workable definitions of the role each entity needs

to play. To help make this joint enterprise succeed, we plan to continue

the following initiatives begun in FY 2002:

- Staffing a Division of State Relations within the Office of External Affairs to interact with state commissioners;
- Holding infrastructure issues conferences in the northwest, midwest, northeast, and southeastern regions;
- Establishing FERC staff teams to participate in and facilitate dialogue, i.e. among states and market participants in RTO and market design discussions; and
- Working with state commissioners and officials on specific projects, including demand response in New England and California and transmission congestion on the Delmarva Peninsula

Encourage Balanced, Industry-led Organizations to Develop Reliability and Business Practice Standards.

As competitive electricity markets grow, we need to ensure that business is being conducted consistently. This will prevent customers from having to deal with many different approaches, while helping to ensure reliability. Reliability concerns both the physical infrastructure and market functionality. Developing consistent standards for reliability and business practices is a very detailed, highly technical undertaking. However, if the details of the standards are not developed fairly, they could advantage some market players at the expense of others.

Given 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 to use groups of experts drawn from all parts of the industry and for the Commission to address issues those experts can not agree on. Since the first quarter of FY 2002, the Commission has worked with the electric industry to achieve consensus on the information of NAESB's wholesale electric quadrant (WEQ) as the group responsible for addressing business practices. 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 are working together to coordinate the development of business practice and reliability standards. 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 efficient operation of markets.

Firmly Establish Transmission Planning Function on a Regional Basis, 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 RTOs as an objective expert-support for local siting authorities. Because they operate the transmission system and oversee the market, RTOs will be in a unique position to understand the grid's technical requirements and market needs, and integrate them into a long term regional plan that reflects regional needs and values. Input from state officials and stakeholders will be crucial for effective, meaningful regional plans.

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 full potential, in July 2002 the Commission issued a proposed rulemaking to implement standardized power market rules (discussions of SMD and its impact on developing competitive markets are contained throughout this document).

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

The Commission continues to engage in extensive public outreach and has extended comment periods to allow maximum opportunity for review and consideration of the proposed rule and to assure that everyone with a stake in this rulemaking will be heard with the goal being a fully fleshed out set of practical market rules. Months after issuance, certain issues of the proposal continue to evolve. For example, the Commission has indicated in its RTO rulings that flexibility is needed in appropriate aspects of market design to accommodate regional concerns. While regional development through RTOs is proceeding, it now appears that elements of SMD may develop on a staggered timetable. The Commission is committed to getting the structure right and then letting the markets operate under appropriate oversight.

The Commission plans to issue a white paper on its proposed SMD rule in April 2003, to reveal its current thinking on major SMD issues and invite comment before preparing the final rule.

Performance Measures	Performance Targets	Data Source
Timely processing of RTO filings	Improvement over FY 2003	Office of Markets, Tariffs, and Rates
Percentage of country covered by approved RTOs or ISOs (percentage of electricity load)	80% of electricity load in regions where we have jurisdiction	Office of Markets, Tariffs, and Rates
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC)	Rulemakings completed within 9 months of external party action, or improvement over FY 2003	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 that could prevent the market from operating efficiently and could invite or even require continued regulatory distortions.

Objective 2.2 Strategies

Link Market-Based Rate Authority to Continued Presence of Balanced Market Conditions.

We allow the use of market-based rates for electric power, unless companies can exercise market power or engage in anticompetitive behavior. In practice, our traditional test for market power led to approval of market-based rates for most generators who requested them. The crisis in California made clear that our traditional definition of market power did not always prevent markets from developing problems. In particular, when demand nearly reaches supply, markets become unbalanced and the opportunity for exercising market power grows. In such situations, even an otherwise well functioning market may no longer guarantee the full benefits of competition that justify market-based pricing.

To alleviate this potential problem, we have revised our test for market power to include a supply margin assessment (SMA). Under the SMA we have required that to retain market-based rates, a company must either belong to a regional group that monitors markets and has provisions to mitigate market power, i.e. an RTO, or it must pass the SMA. In response to industry concerns, we have stayed the operation of certain aspects of the SMA analysis pending a technical conference to be held in early 2003. After hearing industry views at the technical conference, we will initiate a rulemaking to develop new analytical, appropriate methods for assessing markets and market power. To the extent that there are indications or complaints of an abuse of market power, they may be resolved on the facts, set for hearing, or resolved through settlement.

Rely on International Best Practices to Develop Comprehensive Market Protocols/Rules.

Traditionally, we have worked within North America to develop competitive wholesale markets by relying on states and industry participants to design markets. However, competitive energy markets are well developed in some other parts of the world (e.g., the United Kingdom) and are growing in many other places. We need to watch and communicate with regulators and government officials in all of these new markets to understand their experiences with market elements that worked or did not work for them.

Establish 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 assumed most demand is fixed, and has priced power to most customers at constant rates during fairly long periods such as a month or year. The result is that customers have seldom seen prices change in the short run and have had little if any incentive to change their usage to meet the true costs of producing power at any given time. The lack of short-term demand response was a major contributing factor to the problems in western electricity markets, just as individual customer decisions to conserve electricity were a significant part of the solution to the problem. In the future, electricity markets at both the wholesale and retail levels will require a full demand response to better balance supply with demand and reduce supplier market power.

States have direct jurisdictional authority over many demand-side measures. However, we are working to encourage more demand response, including:

- 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.

We have worked closely with the six-state New England Demand Response Initiative to support their development of region-wide demand response programs that link retail and wholesale demand response and work effectively in both competitive retail markets and traditionally regulated states.

Encourage Standardized Business Rules and Practices to Maximize Market Efficiency, Ease Market Entry, and Reduce Transactions

Costs.

Absent consistent, non-discriminatory rules for all transmission customers, there are substantial competitive consequences and higher costs to all retail customers. The Commission began standardizing the design of electric transmission markets, engaging a wide array of stakeholders and state commissioners
in an extensive discussion on the appropriate principles of standard market design, throughout FY 2002. SMD's goals are to:

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

While at this time, SMD is only a proposed rule, in many parts of the country, RTOs and ISOs are already implementing the key features of SMD. In the Northeast, most SMD features are already in place – and the region is continuing to move toward a single market design across all three ISOs. For example, New England will implement locational marginal transmission pricing in 2003. California, the Electric Reliability Council of Texas (ERCOT), and the Midwest also are already implementing most SMD features. Even in regions that do not yet have functioning independent system operators or RTOs, RTO proposals have incorporated much of SMD. This is particularly true of the Northwest (RTO West) and parts of the Southeast (SeTrans).

While several aspects of our proposal have been controversial, through ISOs and RTO proposals, most regions have implemented or have committed to implement key elements of SMD, 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 SMD and RTOs will continue to develop over 2003, resulting in better markets and better protection against failure.

Objective 2.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Adopt market design standards for wholesale electric markets	Implement SMD final rule	Office of Markets, Tariffs, and Rates

(Continued on next page)

Percentage of RTOs and ISOs with approved regional planning processes	100% of RTOs and ISOs subject to SMD Final Rule	Office of Markets, Tariffs, and Rates

Performance Measures	Performance Targets	Data Source
Percentage of public utilities owning interstate transmission facilities with filed SMD implementation plans	100% of public utilities subject to SMD Final Rule	Office of Markets, Tariffs, and Rates
Percentage of RTOs and ISOs with SMD tariffs in effect in compliance with the SMD Final Rule	50% of RTOs and ISOs subject to SMD Final Rule	Office of Markets, Tariffs, and Rates
Timeliness of industry wide financial audits	Complete 90% of audits within 120 days	Office of Executive Director

CHAPTER 3: MARKET OVERSIGHT

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

Operating Expenses

(Budget Authority Dollars in Thousands)

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request
FTEs	114	161	161
Funding [1]	$23,188	$29,880	$31,260

[1] Does not include funding for proposed legislation.

Introduction

The need for market oversight and investigation is both crucial and urgent. We must offer the public credible assurance that we can and will identify and remedy energy market problems to maintain justness and reasonableness. Such assurances will contribute to stable, competitive electric markets over the long run.

To meet this need, in April 2002 the Commission established the Office of Market Oversight and Investigation (OMOI), which will assess market performance, ensure conformance with Commission rules, and report on its findings to the Commission and the public. In August 2002, the office was organized and operating. By FY 2004, OMOI intends to provide an authoritative understanding of energy markets to the Commission and the public. The office will analyze overall energy markets to identify and remedy key issues before they become major problems, and serve as "cops on the beat" to ensure that individual market players play by the rules.

The Commission has three main objectives in meeting this goal:

- Promote understanding of energy market operations and technologies;
- Assure pro-competitive market structures and operations; and

- Remedy individual market participant behavior as needed to ensure just and reasonable market outcomes.

Objective 3.1: Promote Understanding of Energy Market Operations and Technologies

This first objective is essentially about information, ensuring that we can get the information we need to regulate markets successfully and disseminate our knowledge to a variety of audiences.

Objective 3.1 Strategies

Develop and Maintain an Expert Market Operation Oversight and Investigation Capability.

Emerging energy markets continually pose new issues that can affect customers quickly, much more rapidly than traditional regulatory processes can respond. We must identify and analyze adverse issues and offer solutions before they become major problems, by having a staff that has expertise in all aspects of market performance.

To develop this expertise, we will continue to hire new staff members with strong market backgrounds, focusing on market operations and investigations. We will also upgrade existing staff knowledge and skills through targeted training programs. Finally, we will also gain access to first-rate talent through contracting with outside parties (see Objective 4.1).

Keep Abreast of Industry and Market Trends and Technological Innovations to Inform and Guide Market Oversight.

The electric power industry, and to a lesser extent the natural gas industry, are changing rapidly. Even as Standard Market Design (SMD) becomes the template for short-term electricity markets, other electric markets such as long-term contracts and derivatives will continue to evolve rapidly. Basic market conditions also change. For example, in the short term, even a small change in the weather or in the balance between supply and demand can have large effects on prices. Similarly, over a longer time period, even a small change in the amount of demand response to high prices could dampen price spikes. And over an even longer term, technological innovation in generation, transmission or demand resources will change the basic nature of many electric markets. We need to follow all these changes as they happen and use our knowledge of new developments to structure our work.

A key part of this work is staying current on technological developments. For example, in FY 2002, Commission staff received regular briefings on new technologies such as web-enabled demand response technologies, distributed generation, flexible alternating current transmission systems (FACTS), wide-area measurement systems, and others. In FY 2003, the Commission brought in its first

Technology Fellow, a technical expert from private industry who will work with the agency for several months to advise us on regulatory issues and share his or her technology expertise with agency staff.

Enhance the Commission's Deliberations and Public Discussion by Developing Market Information and Disseminating Findings.

Market oversight and investigation must provide trustworthy analyses based on strong empirical evidence, so that the Commission can make fair and farsighted decisions and the public can have confidence in American energy markets.

This will require three key efforts:

- Creating the information resources needed to understand energy markets and to take appropriate actions. That not only requires acquiring and processing the right data, but also having the technical resources needed to interpret, understand, and use the resulting information. Maintaining and enhancing our Market Oversight Resources (MOR) room is a key part of this work.
- Creating new processes to present market analysis and enforcement issues to the Commission, so that Commissioners and staff understand energy market developments as they happen and can make fully informed decisions about all the issues that come before them.
- Designing a set of publications, both in print and on the web, that present market information and analysis in forms accessible to all those who are interested.

Objective 3.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Enhance institutional capability for overseeing energy markets	Improve metrics/indicators of gas and electric market performance measures	Office of Market Oversight and Investigation
Development of market expertise	▸ 30% of OMOI staff have energy market experience gained through direct activity in those markets.	Office of Market Oversight and Investigation

Objective 3.2: Assure Pro-competitive Market Structures and Operations

This second objective concerns market oversight. It looks at overall market structure and performance and attempts to prevent possible future problems. Competition is increasing the dynamics of the electric and natural gas industries. We must ensure that the market structures and rules we help put in place work well and provide a framework that will serve evolving markets in the future. To do so, we need to track market

behavior and evaluate market performance so that we can understand and discern:

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

Objective 3.2 Strategies

Assess Market Conditions and Infrastructure Adequacy using Objective Benchmarks.

Energy market oversight will be effective to the extent it can sort out which issues are important and then focus on the areas of real concern. We are developing benchmarks to show systematically how well markets are operating and whether there are potential infrastructure shortages that could hurt market operations. We will present these benchmarks in scorecards detailing how well the industry is operating. We will use them both to guide our own efforts to address identified trouble spots and to focus the attention of all industry players on problems that need solutions.

Integrate the Commission's Market Oversight and the Work of Market Monitoring Units.

Each ISO/RTO will have a Market Monitoring Unit (MMU). The MMUs will have detailed knowledge of the markets they monitor and will be able to tailor their monitoring programs to meet the specific characteristics of their own markets as well as to meet the generic issues that affect all markets. As a result, they will be able to identify rapidly developing problems and will be the first line of defense against market problems. However, the MMUs may have limited scope if they are not in an area operated by an RTO, and may know relatively little about other markets (including financial) that affect their market areas. Our market oversight function should provide the broader view of how markets interact, inform MMUs and be informed by them.

As a result, it is vitally important for us to develop a close partnership with the MMUs in each market. This effort will include:

- Developing clear lines of communication with each MMU and ensuring that some Commission staff become expert in dealing with each regional market;
- Developing agreed-upon roles and responsibilities for what MMUs must do and what we must do;
- Standardizing, to the degree possible, the way that MMUs report on their own markets, to facilitate comparisons among markets and to establish best practices; and
- Stationing Commission staff onsite at MMUs as needed.

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

Identifying relevant market metrics and gathering the necessary data on a timely basis will provide a key tool in identifying and addressing market problems of either a structural or operational nature. Progress in these metrics toward long-term, fully developed targets will provide insight into the functional levels of the observed markets.

Acquiring the data we need to monitor energy markets means finding more strategically valuable information, from both public and proprietary sources, that will allow us to pinpoint possible problems for further investigation.

The Commission issued Order No. 2001, Electronic Filing of Electric Quarterly Reports. The new report will equalize reporting requirements for traditional utilities and power marketers, and make information more easily available to the public (i.e. through the Commission's Internet web site). It will also provide greater price transparency, promote competition, enhance confidence in the fairness of the markets, and provide a better means to detect and discourage unacceptable practices.

OMOI is developing two new sets of periodic reports to provide the Commission with the market performance data needed to identify and correct potential problems in the markets before they become serious. Published in the summer cooling and winter heating seasons, the Seasonal Market Assessments will examine major regional markets for natural gas and electric power. They will examine issues such as basic supply-demand balances, transportation adequacy, and the degree of market concentration. They also will assess whether there are any major vulnerabilities that might threaten market disruptions in the future.

The annual State of the Markets Report, another major periodic report, will give a comprehensive review of the year and provide measures for energy market performance.

We will supplement the Seasonal Market Assessment and State of the Markets reports with other periodic reports. These will include twice-monthly Market Surveillance Reports and bulletins to analyze fast-breaking market developments. These reports will include analyses of apparent market anomalies when prices seem to be high in unexpected places or volumes seem abnormal. Such anomalies can indicate problems with data, new patterns of market trading, or gaming. Information for these reports will come largely from our MOR room, the center that lets us follow market activities as they happen. We will supplement these data with information from significantly improved industry contacts, including close coordination with RTO and other

market monitors.

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 also eliminate competitors and can lead to markets that are too concentrated to be fully competitive. In light of emerging market realities, we will examine mergers under our jurisdiction to ensure that they do not harm the overall competitive balance of the energy markets. This issue takes on additional importance today, when so many energy companies are financially weak.

Objective 3.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Track Performance of Natural Gas and Electric Markets	Issue Market Surveillance Reports to the Commission twice each month	Office of Market Oversight and Investigation
Assess Performance of Natural Gas and Electric Markets	Publish regular summer and winter Seasonal Market Assessments, State of the Market Reports, and other reports as conditions warrant.	Office of Market Oversight and Investigation
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	Office of Markets, Tariffs, and Rates

Objective 3.3: Remedy Individual Market Participant Behavior as Needed to Ensure Just and Reasonable Market Outcomes

This third objective covers enforcement. It examines individual companies and seeks to remedy past problems. The purpose of making energy markets work is to bring the benefits of competition to both wholesale and retail customers throughout the country. Since wholesale and retail markets are so closely integrated, our efforts to protect wholesale customers are a necessary foundation for the states' efforts to protect retail

customers. Energy markets will produce just and reasonable results for all customers, as markets have done in many other industries, but only if:

- *The markets really are competitive*. Customers must not be subject to

abuses of market power that bring benefits to the supplier but not the customers.

- *All customers have recourse when there is a problem*. Customers who feel abused must have a trusted body that will investigate their claims and redress any valid complaints.

As a result, we need to develop a market investigation program that gives individuals reason to believe that the market will operate fairly for all. Establishing the credibility of this program, our most urgent task in protecting customers and market participants, can be accomplished through the following strategies.

Objective 3.3 Strategies

Investigate Market Dysfunctions, Exercises of Market Power and Rule Violations, and Remedy Problems through Commission Authority.

In highly dynamic industries, market participants constantly seek new profit opportunities, including new ways to use market power. To protect customers, we will detect any significant abuses of market power quickly by paying close attention to complaints we receive. We will also develop our own analytic capabilities, such as creating automated audits that flag potential abuses. Once we identify abuses, we will devise remedies that mitigate the effects of market power, prohibit abusive actions, and/or impose penalties that deter future abuses. We will apply the remedies to match the specific facts in individual cases.

Our enforcement activities depend on the timeliness and quality of our investigations. We will establish clear targets for how long investigations of different types may take and we will hold ourselves accountable to those targets.

During FY 2002, the Commission initiated a fact-finding investigation into whether any entity, including the Enron Corporation, manipulated short-term prices in the electric or natural gas markets, or otherwise exercised undue influence over wholesale prices in the west during 2000 and 2001. An interim report on this investigation was issued on August 13, 2002. This investigation, which is being handled by Commission staff and outside experts, has helped us identify the specific areas of expertise needed to conduct similar investigations in the future.

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

The Commission continues to encourage parties to use alternative dispute resolution (ADR), whenever appropriate, to resolve conflicts in all areas of Commission work. The Commission's Dispute Resolution Service is becoming a greater resource for facilitation and mediation, and also offers consultation and training in effective negotiation skills to individuals and organizations that do business with the Commission. The results are that parties can frequently resolve their disputes faster,

less expensively and more satisfactorily, and fewer Commission resources are needed to address the disputes than with litigation or Commission orders. The Hotline in OMOI continues to be a quick and effective resource for addressing informal disputes. In addition, the Commission's administrative law judges may serve as settlement judges or mediators, thereby offering another alternative to litigation that allow the parties to exercise greater control over the outcomes.

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

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

Litigation can be costly and time-consuming, though we seek to streamline the process as much as possible. For example, at the end of FY 2002 the Chairman reestablished the Office of Administrative Litigation, centralizing the Commission's litigation staff. This reorganization will lead to more efficient handling of the unique, complex issues that arise in a pro-competitive environment, and speed their resolution.

Objective 3.3 Performance Measures

Performance Measures	Performance Targets	Data Source
Timeliness of Hotline calls resolutions	Resolve 80% within 1 week of initial contact	Office of General Counsel / Office of Market Oversight and Investigation
Timeliness of formal complaints 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 Market Oversight and Investigation/ Office of Markets, Tariffs, and Rates
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service / Office of Administrative Law Judges/ Office of Administrative Litigation
Percentage of customers satisfied with ADR processes	85%	Dispute Resolution Service / Office of Administrative Law Judges/ Office of Administrative Litigation
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	Dispute Resolution Service / Office of General Counsel / Office of Administrative Law Judges/ Office of Administrative Litigation

(Continued on next page)

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	Dispute Resolution Service / Office of General Counsel / Office of Administrative Law Judges/ Office of Administrative Litigation

Performance Measures	Performance Targets	Data Source
	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	

CHAPTER 4: RESOURCE MANAGEMENT

Strategically Manage Agency Resources

Operating Expenses

(Budget Authority Dollars in Thousands)

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request
FTEs	258	230	230
Funding [1]	$37,934	$32,353	$33,375

[1] Does not include funding for proposed legislation.

Introduction

To accomplish the agency's goals, we must manage our resources efficiently and coordinate our work with many other entities at the state and federal levels. Our primary objectives in this area are to:

- Manage human capital to fulfill the strategic plan;
- Manage information technology to best serve the public and streamline work processes;
- Clearly communicate and build strong partnerships with all stakeholders; and
- Strategically manage financial and logistical resources.

Objective 4.1: Manage Human Capital to Fulfill the Strategic Plan

We face significant challenges in adapting our workforce's skills to meet two major changes. First, as our regulatory approach shifts to making markets work, we must develop a new and different mix of talent and skills. Second, over 25 percent of our workforce, made up mostly of experienced and highly trained employees, is eligible for retirement by 2005. We will need to ensure that this potential rapid turnover of experienced employees does not compromise our skill and knowledge base. To contend with these changes, we need to manage the transition by assessing our current talents and needs, finding new talent and further developing the skills of current employees.

Objective 4.1 Strategies

Apply Workforce Planning to Help Meet the Challenges of New Commission Roles and Changing Workforce Demographics

Strategic and business planning, discussed in Objective 4.4, clarifies the Commission's focus and priorities and the kinds of work efforts and resources necessary to meet our goals and objectives. Tied to these efforts, we are developing a comprehensive workforce planning process to guide recruitment, succession planning and employee development. That process will help the Commission accomplish its mission by having the right people, in the right places, doing the right things.

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

Get the Job Done Flexibly and Efficiently with the Right Mix of Internal Workforce and Contracted Services from the Private Sector

Staffing. Staffing and building capabilities in the new Office of Market Oversight and Investigations is a prime focus of our efforts. This new focus requires increased skills in, and more understanding of, market investigations, market operations, risk management and derivatives, investment in unregulated industries, analysis of overall market information, and the effect of energy transportation systems on commodity pricing.

A major part of acquiring these skills will involve hiring market experts, partnering with other agencies, and working with others on contract. We have worked with the Office of Personnel Management to add Senior Level positions in the area of market oversight and investigations to bolster our high-level markets expertise. Other skills can be increased through on-the-job experience and knowledge sharing among staff, including staff-led training.

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

We are also working to realign and refocus the mix of skills and tasks in our Chief Information Officer department. Following a detailed management audit of FERC's in-house and contractor staffing and

functions, comparing them to best practices and the agency's evolving mission, we have developed a new and reduced staffing plan for federal and contractor employees. This transition in staff and budget should lead to a more efficient and effective use of our agency resources that serves our enterprise and taxpayers better, and frees up dollars and positions we can devote to other priorities.

Additionally, to meet our staffing requirements, we are enhancing our recruiting and training processes, finding new ways to retain needed talent, and aligning staff assignments with our most important strategic goals. We have initiated an aggressive entry-level recruitment effort to bring new talent into the Commission. Since its inception at the end of FY 2001, this program has brought 54 new employees into the Commission with a variety of skills including accounting, auditing, engineering, economics, and law. We have supplemented this effort with a reinvigorated summer intern program, designed to create a pool of future employees who can learn how the Commission works while demonstrating their skills and potential. In the summer of 2002, we had 40 interns, many of whom have expressed interest in permanent jobs with FERC.

Leadership and Employee Development. Our leadership program reinforces accountability for achieving business objectives and promoting employee growth and development. The program emphasizes executives' responsibilities for leading change, achieving results, leading people, demonstrating business acumen, building coalitions, and communicating. We have begun a program of 360-degree assessments for all executives, supplemented by individual coaching. In addition, an Executive Speakers series emphasizes the importance of leadership and promotes learning and benchmarking opportunities.

Succession Planning. As part of the workforce planning process, offices are reviewing workforce data, assessing current competencies and future skills needs and working with human resources staff to develop succession strategies.

Other development efforts include an orientation program and the mentoring of new employees. In addition, we support entry level recruitment initiatives by developing training programs and training plans. These programs are designed to help new employees contribute more quickly to the Commission's success while achieving their career goals.

Diversity. Our recruiting program also focuses on increasing the diversity of our workforce, targeting job fairs and schools that include large numbers of minorities. The Commission is working to improve the representation of Hispanics and Native Americans. The Commission

continues to promote diversity through a series of developmental sessions aimed at assisting managers and employees in understanding that diversity is critical to the Commission's future as an effective organization.

Objective 4.1 Performance Measures

Performance Measures	Performance Targets	Data Source
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	Office of Executive Director
New staff from summer intern program	▸ Hire 30% of participants into permanent positions	Office of Executive Director
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	Office of Executive Director
Improved executive performance	▸Implement 360 degree assessment of senior staff ▸ Expand training in leadership and management skills	Office of Executive Director
Mentoring program	Implement FERC-wide mentoring program for all employees	Office of Executive Director

Objective 4.2: Manage Information Technology to Best Serve the Public and Streamline Work Processes

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

A competitive energy industry requires reliable and timely information in useful electronic formats. Investment in state-of-the-art technology is a necessity and has been audited to assure return on investment. Our staff depends on a robust standard office automation environment with reliable information flows, to enable the integration of different programs and industries. We are constantly improving the stability, reliability, and - most importantly - the security of our IT infrastructure and data repositories. Our IT infrastructure supports a local area network, a wide area network, an intranet, public Internet, video conferencing capabilities, electronic filing, and a large electronic library of public and internal documents.

Objective 4.2 Strategies

Expedite Interactions with Customers through Secure and Efficient e-Government Initiatives

E-Initiatives. In April 2002, the Commission initiated the FERC On-Line project to achieve the President's Management Agenda initiatives of expanding electronic government (e-government). Currently, many categories of formal FERC documents may be filed via the Internet. E-Filing will be extended to all documents submitted in Commission proceedings, reducing the cost of making a filing for our customers while reducing the cost and handling time for FERC to receive and

process the document. An important goal is to be able to load documents filed with or issued by the Commission into our systems with less manual processing.

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

- eForms, eReports, and eTariffs, which will provide for faster and improved receipt and publication of data; and
- eDistribution, including eList (a formal legal service list) of participants in each Commission proceeding, eService (electronic document delivery) by the Commission to participants, eNotification of Commission issuances for interested parties, and eSubscription service that will allow interested parties to receive information about specific Commission proceedings and topics.

We are coordinating closely with the federal e-government initiatives to ensure consistency of our e-Initiatives and prevent duplication.

FERC is garnering results from the e-government initiatives. In the area of Government to Business initiative, FERC will continue to work with partnering agencies to implement an effective central e-Rulemaking capability for the public. The public will be able to use the central site to review, and submit comments on FERC regulations published in the Federal Register.

FERC is also leveraging results from the Internal Efficiency & Effectiveness e-Government initiatives. FERC is going to leverage the resources provided by e-Training, the Government-wide learning resources center that supports the development of the Federal workforce. For example, FERC is going to expand on it resources with courses such as IT security awareness training, project management, and IT office automation products. FERC is also actively involved in the e-payroll initiative and will promote and take full advantage of e-travel and e-records management initiatives.

The Commission is undertaking a comprehensive redesign of its internet web site, FERC.gov, to make it more useable for: energy practitioners; landowners and citizens affected by natural gas and hydroelectric projects; and the press, financial community, and Commission staff. In 2002, more than 430,000 unique users visited the Commission's internet web site. The redesign is scheduled to be completed in July 2003.

Information Availability and Security. Increasing competition in the industry often requires information to be quickly available through the Internet. To meet this requirement, we are improving server reliability, providing a powerful search engine, making it easier to navigate our

Internet site, making notices available to the public within minutes of issuance, and ensuring the quality and usefulness of the information disseminated through our website.

Other enhancements focus on information security to meet all requirements of the Government Information Security Reform Act. We apply the most current security patches for known vulnerabilities, especially for those systems that are accessible via the Internet. We are assessing risk to IT systems and processes and maintaining adequate security commensurate with those risks; conducting vulnerability assessments, audits, testing, and evaluation of security best practices to ensure that program officials and security managers understand and mitigate the risk to agency systems; and conducting a regular security awareness training program. In addition, we continually upgrade our firewall infrastructure and intrusion detection system.

Build Effective Electronic Workload/Time-Management and Case-Processing Systems to Enable Getting the Work Done Right and On Time

An additional component of the FERC On-Line initiative is the development of an agency-wide Activity Tracking Management System (ATMS). This system will improve the capture of, on a Commission-wide basis, workload assignment and tracking of docketed (Commission cases, rulemakings, and other regulatory proceedings) and non-docketed activities and filings. ATMS will link to our human resources and budget systems data and will indicate milestones, statutory and other external deadlines, issues, and efforts. ATMS will also support the Commission's business plan by reporting docketed and non-docketed workload and staff time expenditures by work categories correlated to business plan activities. Also, ATMS will meet the fundamental requirement of providing effective workload tracking for first level managers so they can provide valid data for the budget and business plan.

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

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

Objective 4.2 Performance Measures

Performance Measures	Performance Targets	Data Source
Average IT costs per FTE	Below industry average for Federal agencies	Office of Chief Information Officer
Percentage of transactions accepted electronically	95% of transactions accepted electronically	Office of the Secretary
Percentage of e-Issuance versus paper	90% of issuances made electronically	Office of the Secretary
Improved Internet Website	99% availability	Office of Chief Information Officer
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	Office of Chief Information Officer
Improved reliability and availability of FERRIS	Increase customer satisfaction 25% over FY 2003	Office of Chief Information Officer
Network availability	99%	Office of Chief Information Officer
Desktop reliability	Increase reliability by 5% per year	Office of Chief Information Officer
Standard office automation platform and PC rate of refresh	33%	Office of Chief Information Officer
Timeliness of virus file updates on servers and workstations	Updates within 24 hours from release by vendors	Office of Chief Information Officer
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	Office of Chief Information Officer

Objective 4.3: Clearly Communicate and Build Strong Partnerships with All Stakeholders

The effectiveness of our policies and activities depends not only on the work done by the Commission, but also on the work of others. It will take strong partnerships with all stakeholders to foster nationwide competitive energy markets and investment in energy infrastructure, to ensure that energy customers' interests are safeguarded, and to help in the resolution of conflicts among the various interests.

Thus we are working proactively to assure that customers, elected officials, and industry clearly understand our policies, activities, and goals. We are also listening closely to understand the views of our customers,
elected officials, and industry. Our communications plan will center around two primary strategies:

- Proactively reach out to groups affected by agency actions for advance input; and
- Build strong partnerships with all stakeholders, particularly with governors and states.

Objective 4.3 Strategies

Proactively Reach out to Groups Affected by Agency Actions for Advance Input.

To make markets work, the Commission must have input from various points of view, incorporating the experience and perspectives of many.

Therefore, before fashioning new policy, we will advise the customers, elected officials and industry of our intentions and potential strategies and solicit their input. We will expand our traditional outreach meetings and use other means to get the benefit of multiple points of view. We do this through three primary vehicles: (1) NOPRs and ANOPRs, to assure the opportunity for formal public input, (2) outreach meetings with key audiences, and (3) issuance of position papers and policy proposals for comment in advance of more formal rulemakings.

People must understand both the benefits of competition in the energy markets and the steps we are taking to make competition work in the electricity markets. At the same time, the public must be confident that the Commission is aggressively pursuing irregularities and taking action to protect the public and market participants.

A Commission-wide outreach program will build on a communications plan to coordinate the Commission's message, consistent with our strategic plan. The communications plan will encompass media relations and Congressional interactions, responding to inquiries from all sources, and communicating regulatory policy to staff. We are working to earn better press coverage of FERC's regulatory goals and actions, and to articulate our positions more clearly in written orders, reports and speeches.

New reports from OMOI will help enhance public understanding of energy markets, beginning with the new Seasonal Market Assessments, published prior to the start of the heating and cooling seasons. As conditions warrant, such as during times of unanticipated market disruptions, we will make other reports available to the public. All public reports will be available through FERC's Internet web site.

The FERC's Internet web site will increasingly communicate the Commission's regulatory activities and allow interactions with customers, elected officials and industry. Special emphasis will be placed on redesigning the web site to make it more usable for landowners and the public affected by our natural gas facilities siting and hydropower licensing programs. The redesigned Internet web site will also target electricity and natural gas consumers. It will educate them about the roles that the Commission and the states play in regulating the energy markets, and will showcase steps the Commission is taking to protect consumers from irregularities in the market.

As the importance of energy issues has increased, FERC's profile has risen accordingly. In FY 2002 FERC Commissioners testified in ten Congressional hearings. FERC Commissioners and staff also delivered 154 speeches to industry, local, national and international groups.

Build Strong Partnerships with All Stakeholders, Especially with States.

We plan to strengthen cooperative partnering through state-federal regional RTO panels, to address issues of mutual concern. Such panels and workshops further the goal of receiving input from states, help reduce the transaction costs for states engaged in issues under our jurisdiction, and provide greater insights on state concerns regarding energy markets.

We have already initiated state-federal regional panels to discuss state interests affected by RTO developments. For example, in October 2001, we held a Commissioner-led series of conferences entitled "RTO Week." These conferences featured informative discussions among state commissioners and representatives from every sector of the electric industry on topics such as states' role in the RTO formation and market oversight process and standardization of business practices. In February and March 2002, we held a number of additional technical conferences on SMD, meeting with state regulators, industry members and many other experts and stakeholders.

We are discussing major initiatives such as standard market design, demand response, and our interconnection policies with the states and governors. In addition, we have expanded these discussions to include Canadian and Mexican regulatory bodies (see Objective 1.1).

We have developed a new Division of State Relations within the Office of External Affairs to coordinate outreach efforts with the states and to act as a clearinghouse for information and inquiries from states within each RTO region.

The Dispute Resolution Service continues outreach efforts with stakeholder groups to encourage greater use of conflict resolution mechanisms and to develop better relationships between and among these groups. The Dispute Resolution Service will also continue its efforts to implement a standard conflict resolution program for RTOs that will broaden the opportunities for entities to resolve their disputes by focusing on meeting their business and resource interests and at the same time achieve results that are consistent with good utility practice.

Objective 4.3 Performance Measures

Performance Measures	Performance Targets	Data Source
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	Office of External Affairs
Redesign Internet Website	Make internet site more useful and user-friendly	Office of External Affairs / Office of Chief Information Officer

(Continued on next page)

Performance Measures	Performance Targets	Data Source
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	Office of Market Oversight and Investigation / Office of Energy Projects / Office of the General Counsel
Report Market Conditions	Publish regular summer and winter Seasonal Market Assessments, and other reports as conditions warrant	Office of Market Oversight and Investigation
Discussions with State regulatory bodies on Commission policies and actions	Formal, effective interactions between FERC and state officials on policy issues	Office of External Affairs / Office of Markets, Tariffs, and Rates / Office of the General Counsel
Expand discussions with Canada and Mexico	Formal interactions with Canadian and Mexican regulators on policy issues	Office of External Affairs / Office of Energy Projects / Office of Markets, Tariffs, and Rates
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	Office of External Affairs / Office of Energy Projects
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	Office of Market Oversight and Investigation
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	Dispute Resolution Service

Objective 4.4: Strategically Manage Financial and Logistical Resources

To use our resources well, we need to:

- Identify the priorities of the Commission;
- Focus our direction on these priorities; and
- Budget our resources accordingly.

The following strategies will help us to achieve this objective.

Objective 4.4 Strategies

Integrate Budget, Business Plan, and Performance Measurement to Improve Performance and Accountability.

This budget request is structured on our five-year strategic plan, which focuses on making markets work. We adopted the first annual strategic plan on September 25, 2001, detailing the Commission's activities and resource allocations to meet the strategic plan's goals and objectives. The strategic plan was revised for FY 2003 and the business plan was formalized in the summer 2002, with regular revisions since then.

The business plan enables management to tie budget resources to Commission activities. To build in accountability, the business plan also identifies responsible offices and due dates. These activities and due dates also form the basis for many of the Commission's output performance measures. As stated in Objective 4.2, the Commission's Activity Tracking and Management System (ATMS) is the IT vehicle that will provide the necessary real time reports for planning and monitoring Commission work.

Developing the business plan is an iterative process. In its early stages, it is helping to identify which activities move us toward particular goals and objectives. Future iterations will better refine priorities, identify gaps in implementation, organize resource allocation, and ensure the results we want to see. The Chairman and senior staff use the plan aggressively as a management tool.

Generate Accurate and Timely Financial Information to Support Operating, Budget, and Policy Decisions.

The Commission's Annual Financial Statements for FY 2001 were accurate and complete, receiving an unqualified opinion from its external auditors.

The Commission's Manage to Budget program allows Commission offices direct control of their salary spending levels. Ultimately, each office's performance relies on sound fiscal management and awareness of the impact personnel actions have on their salary budgets. This has enhanced the Commission's use of alternative measures for staffing, including use of retention allowances, recruitment bonuses, and the student loan program to attract and retain quality personnel. This in turn directly supports the President's management agenda initiative regarding strategic management of human capital.

Objective 4.4 Performance Measures

Performance Measures	Performance Targets	Data Source
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	Office of Executive Director
Monitoring of business plan	▸ Clarity of fit between projects, activities, and objectives ▸ Periodic monitoring of completions and adjustments to plan and related resources	Office of Executive Director
Timeliness of annual charges collections	Collect 98% of outstanding receivables within 45 days of billing	Office of Executive Director
Invoices paid by electronic funds transfer	98%	Office of Executive Director
Percentage of payments accomplished without error	98%	Office of Executive Director
Accuracy and completeness of annual financial statements	Unqualified opinion	Office of Executive Director
Percentage of contracts performance-based	100%	Office of Executive Director
Percentage of contracts advertised online	100%	Office of Executive Director

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); [$199,928,000] $199,400,000 to remain available until expended: Provided, That notwithstanding any other provision of law, not to exceed [$199,928,000] $199,400,000 of revenues from fees and annual charges, and other services and collections in fiscal year [2003] 2004, 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 [2003] 2004, so as to result in a final fiscal year [2003] 2004 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 2001 Actual	FY 2002 Actual			FY 2003 Estimate			FY 2004 Estimate		
Pipeline Certificates	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Construction Activity	68	121	137	52	100	110	42	135	135	42
Prior Notice & Abandonments	26	42	45	23	40	43	20	45	47	18
Meetings & Conferences	0	151	151	0	151	151	0	151	151	0
Compliance Filings & Reports	41	262	211	92	285	310	67	290	310	47
Environmental Analysis	35	106	116	25	110	110	25	110	110	25
Environmental Compliance & Safety Inspections	100	1,424	1,424	100	1,100	1,100	100	1,100	1,100	100
Rehearings, Complaints & Declaratory Orders	31	105	115	21	105	115	11	72	76	7

Hydropower Licensing	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Original Licenses	27	7	12	22	5	7	20	5	7	18
Relicenses	107	20	25	102	31	25	108	20	25	103
5 MW Exemptions	2	0	1	1	2	1	2	2	1	3
Declaratory Orders	3	2	2	3	2	2	3	11	7	7
Rehearings and Remands	36	61	61	36	61	61	36	40	44	32
Cases Set for Hearing	2	1	2	1	1	1	1	1	1	1
ADR – Third Party Neutral	3	10	8	5	12	10	7			

Project Compliance and Administration	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Amendments	433	1,516	1,431	518	1,500	1,450	568	1,500	1,450	618
Jurisdiction	12	7	8	11	10	10	11	10	10	11
Federal Lands	1	45	46	0	75	75	0	75	75	0
Headwater Benefits	2	116	118	0	120	120	0	120	120	0
Compliance	95	403	378	120	325	325	120	325	325	120
Surrenders, Transfers	25	87	51	61	45	45	61	45	45	61
Conduit Exemptions	5	4	9	0	5	5	0	5	5	0
Environmental Inspections and Assistance	64	168	210	22	160	160	22	160	160	22
Preliminary Permits	86	238	99	225	50	100	175	50	100	125
Complaints	11	2	12	1	2	2	1	0	1	0
Rehearings	5	30	35	0	30	30	0	60	60	0

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

COMMISSION WORKLOAD	FY 2001 Actual	FY 2002 Actual			FY 2003 Estimate			FY 2004 Estimate		
Dam Safety and Inspections	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Operations Inspections[2]	681	1,411	1,364	728	1,556	1,599	685	1,378	1,459	604
Prelicense Inspections	19	34	40	13	16	17	12	20	20	12
Construction Inspections	50	169	173	46	167	170	43	203	185	61
Exemption Inspections	117	314	270	161	287	310	138	248	270	116
Special Inspections	46	112	121	37	83	96	24	109	116	17
Engineering Evaluation & Studies	262	2,923	2,802	383	3,281	3,296	368	3,492	3,516	344
Part 12 Reviews	71	249	194	126	221	236	111	214	230	95
Dam Safety Reviews	0	8	8	0	5	5	0	6	5	1
EAP Tests	16	49	44	21	39	41	19	37	38	18

Rates and Tariffs	**P**	**R**	**C**	**P**	**R[3]**	**C**	**P**	**R**	**C**	**P**
Gas Certificates & Rate Evaluations	50	51	48	53	50	45	58	50	50	58
Market-Based Rates	330	684	748	266	534	650	150	550	600	100
Negotiated Rates	24	319	341	2	320	322	0	350	340	10
Cost-Based Rates	1,122	2,730	2,684	1,168	1,919	2,500	587	1,900	2,200	287
Service Terms and Conditions & Order 637	154	526	606	74	525	515	84	500	500	84
RTO, ISO, Transco & Power Exchange Filings	153	120	145	128	125	150	103	125	150	78
Compliance Certificate & Rate Filings	955	1,365	1,017	1,303	1,300	1,200	1,403	1,300	1,250	1,453
Compliance Refund Reports	121	96	83	134	100	95	139	100	100	139

Corporate Applications	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Interlocking Positions	5	269	262	12	250	250	12	245	245	12
Mergers	1	16	14	3	15	15	3	10	10	3
Asset Acquisition or Disposition	8	110	114	4	110	110	4	110	110	4
Cogen, Small Power Producer & QF	53	261	244	70	260	240	90	250	260	80
Compliance & Other Corporate Filings	41	67	74	34	75	80	29	75	80	24
RTO, ISO, Transco & Power Corporate Filings	3	3	5	1	10	8	3	5	8	0

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

3 Order No. 2001 eliminates approximately 1,300 service agreement filings per fiscal year. The full-year effect of this reduction is reflected in FY 2003, as these items continued to be received through the 3rd quarter of FY 2002.

COMMISSION WORKLOAD	FY 2001 Actual	FY 2002 Actual			FY 2003 Estimate			FY 2004 Estimate		
Legal Matters and Investigations	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Cases Set for Hearing	67	101	90	78	110	104	84	110	108	86
ADR – Third Party Neutral	33	102	103	32	111	112	31	116	118	29
Complaints and Declaratory Orders	101	137	141	97	133	134	96	139	146	89
Rehearings and Remands	294	456	468	282	515	526	271	466	499	238
Appellate Review	130	80	80	130	95	85	140	100	90	150
Audits	24	40	38	26	45	63	8	45	45	8
Accounting	13	52	57	8	52	52	8	55	52	11

APPENDIX C

RESOURCE REQUEST BY INDUSTRY

RESOURCE REQUEST BY INDUSTRY

Funding [1]

(Dollars in Thousands)

Industry	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request	% (+/-) FY 2003 to FY 2004
Electric Power	$66,736	$70,750	$73,478	3.9%
Natural Gas & Oil Pipelines	67,618	69,719	71,898	3.1%
Hydropower	56,500	51,531	54,024	4.8%
TOTAL	**$190,854**	**$192,000**	**$199,400**	**3.9%**

[1] Does not include funding for proposed legislation.

FTEs

Industry	FY 2002 Actual	FY 2003 Estimate	FY 2004 Request	% (+/-) FY 2003 to FY 2004
Electric Power	422	459	459	-
Natural Gas & Oil Pipelines	425	457	457	-
Hydropower	337	334	334	-
TOTAL	**1,184**	**1,250**	**1,250**	**-**

APPENDIX D

OBJECT CLASS TABLE

Object Class Summary [1]

(Dollars in Thousands)

Obligations		FY 2002 Actual	FY 2003 Estimate	FY 2004 Request
11.9	Personnel Compensation	$99,456	$109,767	$112,682
12.1	Benefits	22,100	22,432	22,997
13.0	Benefits for Former Personnel	958	25	25
	Total, Personnel Compensation & Benefits	122,514	132,224	135,704
21.0	Travel and Transportation of Persons	2,102	2,493	2,761
22.0	Transportation of Things	54	5	5
23.1	Rental Payments to GSA	18,995	18,600	19,400
23.2	Rental Payments to Others	415	408	438
23.3	Communications, Utilities & Misc. Charges	4,262	2,225	2,735
24.0	Printing and Reproduction	2,596	2,797	2,884
25.0	Other Services	34,156	27,406	29,340
25.1	Advisory and Assistance	7,298	5,120	6,058
25.2	Non-Federal	5,861	2,631	3,526
25.3	Federal	1,405	1,263	1,272
25.4	Operation & Maintenance of Facilities	1,567	1,735	1,475
25.7	Operation & Maintenance of Equipment	18,025	16,657	17,009
26.0	Supplies and Materials	850	921	946
31.0	Equipment	4,886	4,869	5,135
41.0	Grants, Subsidies & Contributions	18	45	45
42.0	Insurance Claims and Indemnities	6	7	7
	TOTAL, OBLIGATIONS	**$190,854**	**$192,000**	**$199,400**
	Application of Prior Years' Budget Authority	(6,699)	0	0
	GROSS BUDGET AUTHORITY	$184,155	$192,000	$199,400
	Offsetting Receipts	(184,155)	(192,000)	(199,400)
	NET BUDGET AUTHORITY	**$0**	**$0**	**$0**

[1] Does not include funding for proposed legislation.

APPENDIX E

COMPARATIVE PERFORMANCE MEASUREMENT DATA

Performance Measurements for Energy Infrastructure, FY 1999 – FY 2004

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

FY 2000		
Performance Measurement	**Performance Target**	**Result**
▸ The Commission's certification program will allow the appropriate amount of new pipeline capacity to be available to serve the market when needed ▸ Certification of new pipelines will be timely, while fairly balancing the interests of the gas market, project sponsor, landowners, and the environment	Number of days to complete 82% of filings by case type: ▸ prior notice filings within 56 days ▸ unprotested filings within 159 days ▸ protested filings within 304 days ▸ cases of first impression within 365 days	82% of filings completed in: ▸ 55 days ▸ 127 days ▸ 218 days ▸ 272 days
Inspect all onshore construction projects over 2 miles in length at least once	90% of projects inspected at least once	99% of projects inspected at least once
Inspect each major onshore construction projects at least once every four weeks during ongoing construction activity	100% of projects inspected at least once	100% of projects inspected at least once

(Continued on next page)

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

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

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

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

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Percentage of natural gas pipelines with approved Order No. 637 compliance filings	100% of pipelines subject to Order No. 637	
Statutory cases by workload category	All cases competed by statutory action date	
Merger and qualifying facilities workload (regulatory cases)	80% of cases completed by regulatory deadline	
Number of cases requiring additional remedial action	Less than 20% of all cases processed in FY 2003 require additional remedial action	

(Continued on next page)

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timely processing of filings seeking recovery of security and safety expenses in jurisdictional rates	Process filings: -- within 30 days for gas and oil rate filings -- within 60 days for electric filings	
Implement generic policy on Big Generator Interconnections and Small Generator Interconnections	- Issue final rules on both policies in FY 2003	
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	
Percentage of filings addressing the development of increased hydropower capacity	25% of all relicense cases using ALP	
Increase non-federal hydropower capacity	Complete license amendments proposing increased capacity/generation in less than 12 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	
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	
Increase the percentage of hydropower licenses issued using ALP	2% increase over FY 2002	
Evaluate and improve the effectiveness of required environmental enhancement and mitigation measures in hydropower licenses	‣ Conduct 5 site visits ‣ Hold 2 regional meetings with stakeholders ‣ Disseminate 2 environmental effectiveness reports	
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	
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	
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams 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	

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Complete implementation process of interconnection policies	Process compliance tariff filings within 60 days of filing date	
Percentage of relicense filings based upon ALP's	25% of all relicense cases using ALP	

(Continued on next page)

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: ‣ unprotested cases that involve no precedential issues, 159 days ‣ protested cases that involve no precedential issues, 304 days ‣ cases of first impression or containing larger policy implications, 365 days ‣ cases requiring a major environmental assessment or environmental impact statement, 480 days	
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	
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	
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	
Statutory cases by workload category	All cases competed by statutory action date	
Merger and qualifying facilities workload (regulatory cases)	90% of cases completed by regulatory deadline	
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	
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	
Update the FERC Security Program for Hydropower projects as appropriate	Make program changes as appropriate	
Number of cases requiring additional remedial action	Of all cases processed in FY 2004, the percentage requiring additional remedial action will be less than FY 2003	
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	
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	
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	
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	

Performance Measurements for Competitive Markets, FY 1999 – FY 2004

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

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

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

<table>
<tr><th colspan="3">FY 2002</th></tr>
<tr><th>Performance Measurement</th><th>Performance Target</th><th>Result</th></tr>
<tr><td>‣ 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</td><td>‣ Reasonable range of suppliers should lead to competitive pricing
‣ Participation indicates confidence in market rules and oversight</td><td>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.</td></tr>
</table>

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

(Continued on next page)

Increase in types of tariffed services offered (e.g., parking and lending in natural gas)	Innovation indicates markets are working and market participants are creating their own solutions	In its Annual Performance Report for Fiscal Year 2001, the Commission acknowledged the ineffectiveness of this performance measurement to evaluate the agency's success at developing energy markets. New measurements will be in effect for FY 2003 with attributes the Commission perceives to be necessary for markets to function
Increased services in the market (develop a time line for different services, e.g., new futures exchanges, new types of products (e.g., weather derivatives) and independent exchanges	New service offerings show adaptation to price volatility and help to stabilize markets through hedging of risks	With the end of Enron Online and Dynegy Direct, wholesale energy services largely shifted toward stronger, higher-quality services, including the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE). Enron Online and Dynegy Direct were not exchanges, but extensions of Enron's and Dynegy's marketing efforts. Consequently, they were susceptible to the credit weaknesses of their owners. Exchanges like NYMEX and ICE have better approaches to managing credit risk, and consequently are better for the industry. For example, NYMEX extended its credit clearing ability to certain over-the-counter natural gas and electricity trades. On October 22, 2002, NYMEX announced that it had cleared more than $1.1 billion of these deals since inception of the service on May 31, 2002. In addition, on June 17, 2002, NYMEX and the Chicago Mercantile Exchange (CME) introduced their e-miNY natural gas contracts that handle smaller volumes than standard NYMEX natural gas contracts, extending the reach of exchange-traded futures contracts to smaller energy companies. E-miNY contracts are traded on CME's GLOBEX electronic trading platform. ICE began over-the counter clearing as well, in March 2002. On November 7, 2002, ICE announced that total cleared notional value of natural gas contracts in the United States had surpassed $10 billion. Success of these higher-quality products is a positive sign for energy markets.
Volume of financial risk-hedging transactions, e. g. futures contracts	Viable financial markets provide critical support for physical markets	Futures contracts for natural gas have shown promise in 2002, strengthening to what appears to be record levels. To date, however, there has been no attempt to revive electric futures markets in the U.S.

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

(Continued on next page)

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. See map "RTOs Approved by FERC in FY 2002." The map shows a number of RTOs that received approval or preliminary guidance during FY 2002. A statistical breakdown is provided in the graph "Percentage of Customer Demand Covered by RTOs Approved by FERC in FY 2002." (See map and graph on page 93)

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

(Continued on next page)

Amount of load with congestion management systems	20% increase over FY 2001	Performance target achieved. See map "Transmission Congestion Management Systems Approved by FERC in FY 2002." A statistical breakdown is provided in the graph "Transmission Congestion Management Systems Approved by FERC in FY 2002." (See map and graph on page 94)
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	
Percentage of country covered by approved RTOs or ISOs (percentage of electricity load)	70% of electricity load in regions where we have jurisdiction	
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	
Establish RTOs/ISOs with sufficient market monitoring and mitigation measures in place	Fewer complaints about rates in RTOs filed with the Commission	
RTO/ISO wholesale market design includes demand-response features	Measure increasing percentage of operating RTOs and ISOs with demand response programs	
Adopt market design standards for wholesale electric markets	Issue final Standard Market Design rule	
Enhanced regulatory support for market institutions	Creation of OMOI and market performance indicators	

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timely processing of RTO filings	Improvement over FY 2003	
Percentage of country covered by approved RTOs or ISOs (percentage of electricity load)	80% of electricity load in regions where we have jurisdiction	

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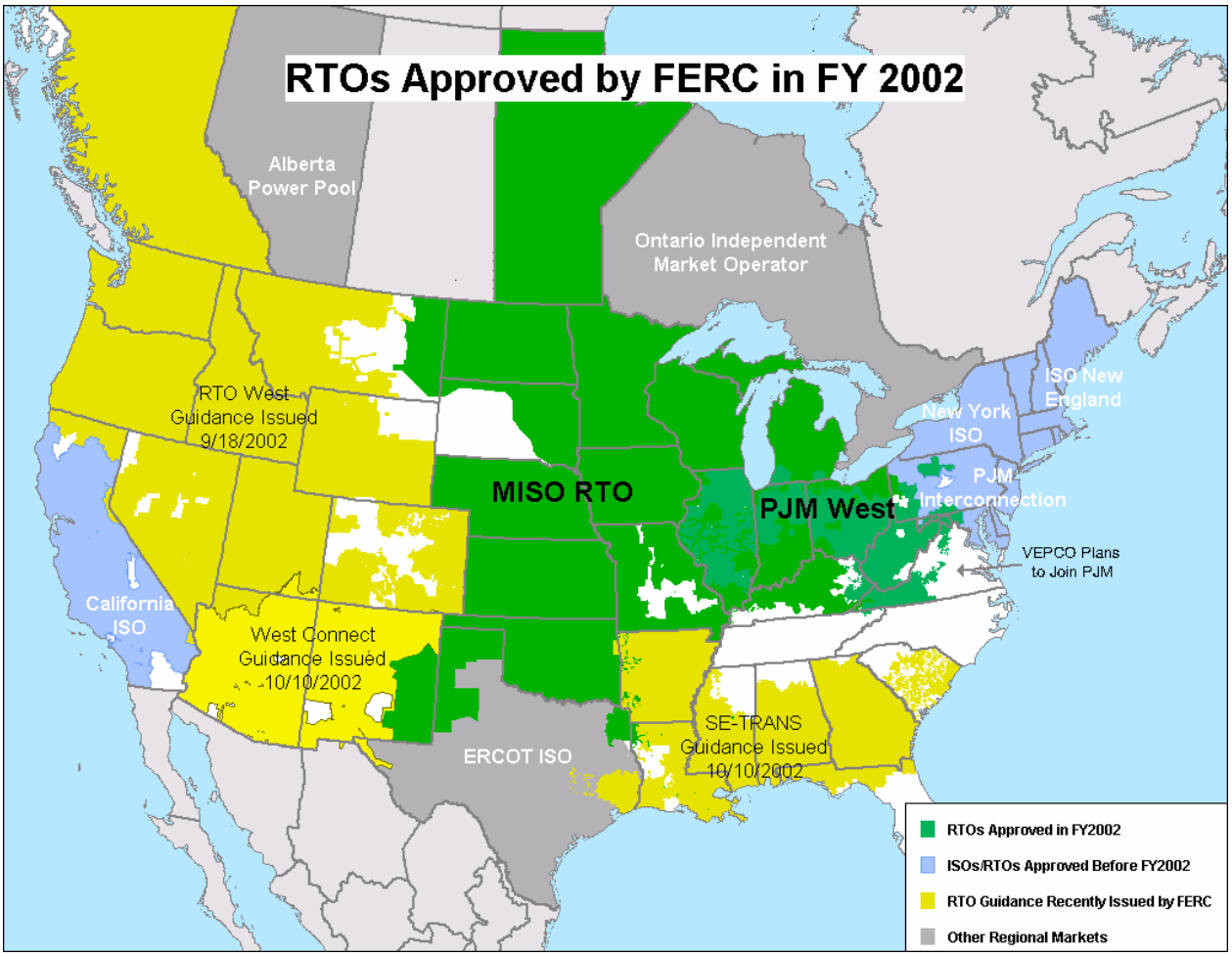
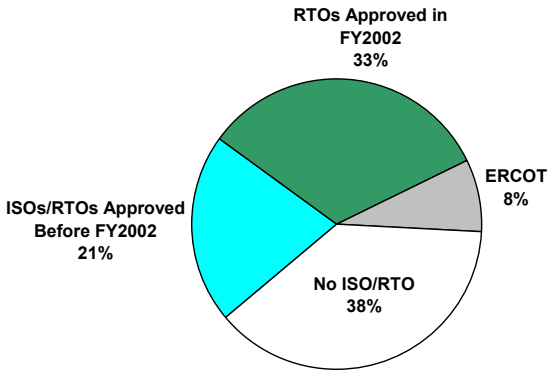
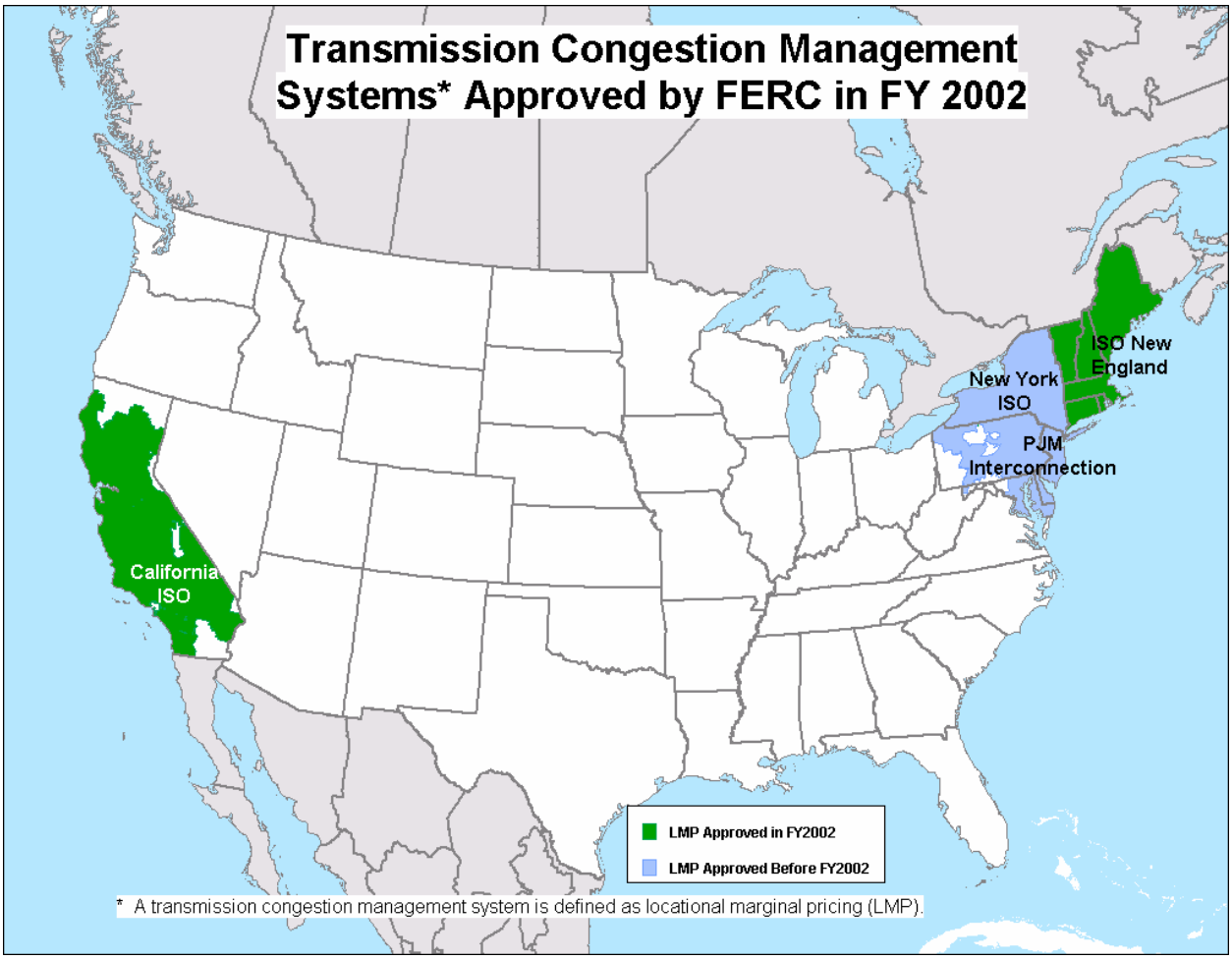
FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC)	Rulemakings completed within 9 months of external party action, or improvement over FY 2003	
Adopt market design standards for wholesale electric markets	Implement SMD final rule	
Percentage of RTOs and ISOs with approved regional planning processes	100% of RTOs and ISOs subject to SMD Final Rule	
Percentage of public utilities owning interstate transmission facilities with filed SMD implementation plans	100% of public utilities subject to SMD Final Rule	
Percentage of RTOs and ISOs with SMD tariffs in effect in compliance with the SMD Final Rule	50% of RTOs and ISOs subject to SMD Final Rule	
Timeliness of industry wide financial audits	Complete 90% of audits within 120 days	



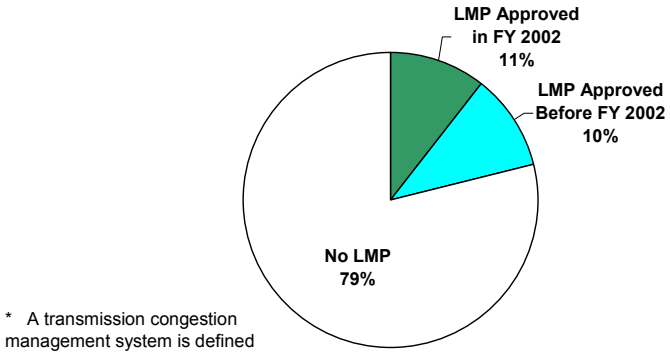
Percentage of Customer Demand Covered by RTOs Approved by FERC in FY 2002



Source: FERC Form 714 net energy for load data for 2001.



Transmission Congestion Management Systems* Approved by FERC in FY 2002



* A transmission congestion management system is defined as Locational Marginal Pricing (LMP).

Source: FERC Form 714 net energy for load data for 2001.

Performance Measurements for Market Oversight, FY 1999 – FY 2004

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

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

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

(Continued on next page)

[5] 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.

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

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

FY 2002		
Performance Measurement	**Performance Target**	**Result**
Number of market monitoring institutions and systems	Increase over FY 2001	Performance target achieved. See the map "RTOs Approved by FERC in FY 2002." Market monitoring activities are conducted by market monitoring units (MMUs) within approved RTOs and independent system operators (ISOs). A statistical breakdown is provided in the graph "Percentage of Customer Demand Covered by RTOs Approved by FERC in FY 2002." (See map and graph on page 93)
Number of public utilities separating ownership or operation of transmission facilities from generation	Increase over FY 2001	Performance target achieved. See the map "RTOs Approved by FERC in FY 2002." For public utilities, separation of ownership or operation of transmission facilities from generation is a condition of approval to participate in an RTO. A statistical breakdown is provided in the graph "Percentage of Customer Demand Covered by RTOs Approved by FERC in FY 2002." (See map and graph on page 93)
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.

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FY 2002		
Performance Measurement	**Performance Target**	**Result**
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).
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 Investigation ▸ Publish regular summer and winter Seasonal Market Assessments ▸ Develop metrics/indicators of gas and electric market performance measures	
Top to bottom review of all existing information systems to monitor markets	Complete entire review	
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	
Development of market expertise	▸ Training on market issues for 40% of OMOI and 20% of OMTR, OGC, and other staff ▸ Hiring of staff with market expertise ▸ Issuance of market assessment products and data analysis demonstrating market understanding	
Establishment of protocols between the Commission and independent market monitoring units of RTOs	All approved RTOs	
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	
Timeliness of audits	Complete 90% of audits on time	
Timeliness of Hotline calls resolutions	Resolve 80% within 1 week of initial contact	
Timeliness of formal complaints resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	
Percentage of customers satisfied with ADR processes	85%	
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	
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	

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Enhance institutional capability for overseeing energy markets	Improve metrics/indicators of gas and electric market performance measures	
Development of market expertise	▸ 30% of OMOI staff have energy market experience gained through direct activity in those markets.	
Track Performance of Natural Gas and Electric Markets	Issue Market Surveillance Reports to the Commission twice each month	

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FY 2004		
Performance Measurement	**Performance Target**	**Result**
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.	
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	
Timeliness of Hotline calls resolutions	Resolve 80% within 1 week of initial contact	
Timeliness of formal complaints resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	
Percentage of customers satisfied with ADR processes	85%	
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	
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	

Performance Measurements for Resource Management, FY 1999 – FY 2004

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

FY 2000		
Performance Measurement	**Performance Target**	**Result**
Reduce the processing time for docketed workload and for resolving disputes	None established	▸ Met or exceeded processing targets for natural gas pipeline certificates ▸ Set new time lines to reduce average litigation times by up to one quarter. Designated times were met in 80% of cases. ▸ 52% of cases set for hearing were mediated ▸ Average time for approval of uncontested settlements dropped from more than 100 days to 47 days
Minimize filing burden	None established	▸ Revised accounting and reporting requirements to reduce information reporting and maintenance burden by 25%, and updated records retention requirements ▸ Initiated e-filing pilot for 35% of Commission's filings
Generate better information for use by the industries	None established	Extended use of Internet to disseminate dam safety information, pilot e-filings, and issue notices, orders, and major rules
Continue to receive an unqualified audit opinion on the Annual Financial Statements	Unqualified opinion	Unqualified opinion received
Formulate the budget so that current year costs are within 5% of the total budgetary resources for the fiscal year	Spending within 5% of funding	Actual spending was within 5% of funding

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

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

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FY 2002		
Performance Measurement	**Performance Target**	**Result**
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	
New staff from summer intern program	▸ Hire 30% of participants into permanent positions	
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	
Encourage knowledge sharing	Conduct informal training workshops	
Improved executive performance	Implement 360 degree assessment of senior staff	
Percentage of transactions accepted electronically	95% of transactions accepted electronically	
Percentage of e-issuance versus paper	90% of issuances accepted electronically	

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

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Improved Web site	▸ Redesigned Web site ▸ 99% availability	
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	
Network availability	99%	
Standard office automation platform and PC rate of refresh	33%	
Timeliness of virus definition files updates on servers and workstations	Updates within 24 hours from release by vendors	
IT system changes to comply with enterprise IT architecture and configuration management practices	Implement 98% reviews	
Improved integration of work processes and electronic filing	Refresh integrated filing, docket, and document management system	
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	
Timeliness of annual charges collections	Within 45 days of billing	
Invoices paid by electronic funds transfer	98%	
Accuracy and completeness of annual financial statements	Unqualified opinion	
Percentage of contracts performance-based	100%	
Percentage of contracts advertised online	100%	

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	
New staff from summer intern program	▸ Hire 30% of participants into permanent positions	
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	
Improved executive performance	▸Implement 360 degree assessment of senior staff ▸ Expand training in leadership and management skills	
Mentoring program	Implement FERC-wide mentoring program for all employees	
Average IT costs per FTE	Below industry average for Federal agencies	
Percentage of transactions accepted electronically	95% of transactions accepted electronically	
Percentage of e-Issuance versus paper	90% of issuances made electronically	
Improved Internet Website	99% availability	
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	
Improved reliability and availability of FERRIS	Increase customer satisfaction 25% over FY 2003	
Network availability	99%	
Desktop reliability	Increase reliability by 5% per year	
Standard office automation platform and PC rate of refresh	33%	
Timeliness of virus file updates on servers and workstations	Updates within 24 hours from release by vendors	
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	
Redesign Internet Website	Make internet site more useful and user-friendly	

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

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Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	
Report Market Conditions	Publish regular summer and winter Seasonal Market Assessments, and other reports as conditions warrant	
Discussions with State regulatory bodies on Commission policies and actions	Formal, effective interactions between FERC and state officials on policy issues	
Expand discussions with Canada and Mexico	Formal interaction with Canadian and Mexican regulators on policy issues	
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	
Monitoring of business plan	▸ Clarity of fit between projects, activities, and objectives ▸ Periodic monitoring of completions and adjustments to plan and related resources	
Timeliness of annual charges collections	Collect 98% of outstanding receivables within 45 days of billing	
Invoices paid by electronic funds transfer	98%	
Percentage of payments accomplished without error	98%	
Accuracy and completeness of annual financial statements	Unqualified opinion	
Percentage of contracts performance-based	100%	
Percentage of contracts advertised online	100%	