FY 2008 CONGRESSIONAL PERFORMANCE BUDGET REQUEST

FEDERAL ENERGY REGULATORY COMMISSION
FEBRUARY 2007

Joseph T. Kelliher
Chairman

Federal Energy Regulatory Commission

Strategic Plan FY 2006 – FY 2011

Mission

Regulate and oversee energy industries in the economic, environmental, and safety interests of the American public.

Vision

Abundant, reliable energy in a fair competitive market.

Guiding Principles that Strengthen the Commission's Overall Performance

To fulfill its Mission, the Federal Energy Regulatory Commission commits to…

Organizational Excellence

Use resources efficiently and effectively to achieve its strategic priorities.

Due Process & Transparency

Complete regulatory proceedings in an open and fair manner, consistent with established regulations.

Regulatory Certainty

Provide regulatory certainty through consistent Commission approaches and actions.

Stakeholder Involvement

Ensure that interested parties are informed and provided an appropriate opportunity to participate in Commission proceedings.

Timeliness

Act on regulatory matters in an expeditious manner.

Goal 1: Energy Infrastructure
Promote the Development of a Strong Energy Infrastructure

Objective A: Stimulate Appropriate Infrastructure Development

- Resolve regulatory and other challenges to needed development
- Encourage investment and effect timely cost recovery

Objective B: Maintain a Reliable and Safe Infrastructure

- Assure reliability of interstate transmission grid
- Protect safety at LNG and hydropower facilities
- Incorporate environmental considerations into Commission decisions

Goal 2: Competitive Markets
Support Competitive Markets

Objective A: Develop Rules that Encourage Fair and Efficient Competitive Markets

- Employ best practices in market rules
- Reduce barriers to trade between markets and among regions

Objective B: Prevent Accumulation and Exercise of Market Power

- Assure proposed mergers and acquisitions are in the public interest
- Address market power in jurisdictional wholesale markets

Goal 3: Enforcement
Prevent Market Manipulation

Objective A: Provide Vigilant Oversight

- Identify and remedy problems with structure and operations in energy markets

Objective B: Provide Firm but Fair Enforcement

- Establish clear and fair processes
- Conduct investigations promptly and impose penalties where appropriate
- Encourage self-policing and -reporting of violations

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Overview of the Document

The first three chapters contain a discussion of the objectives and projected performance measurements to meet each of the goals in the Commission's Strategic Plan. Our performance plan for FY 2008 is presented as an integral part of these chapters. Chapter 4 details other Commission initiatives that support all of our goals and objectives. A series of appendices provide further details.

In accordance with the Office of Management and Budget (OMB) guidance, the Commission updated its Strategic Plan for fiscal years 2006 – 2011. During this process, the Commission identified and aligned new strategic objectives and related activities with the three program goals. The revised Strategic Plan also captures new responsibilities resulting from the Energy Policy Act of 2005. A significant change to the Strategic Plan is the inclusion of a guiding principles section. These five principles were identified as underlying values that impact the Commission's work on a daily basis. These principles are highlighted in the Introduction section of this budget request.

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INTRODUCTION

Budget Request: $255,425,000 and 1,370 FTEs

The Federal Energy Regulatory Commission (FERC or the Commission) requests funding of $255,425,000 and 1,370 full-time equivalents (FTE) for FY 2008. The increase in FTEs in FY 2008 will support the Commission in its reliability and enforcement efforts as well as the continued implementation of additional authorities resulting from the Energy Policy Act of 2005 (EPAct 2005).

Resources by Program
(Dollars in Thousands)

Program	FY 2006 Actual Obligations	FY 2007 C.R. Level	FY 2008 Requested Budget	% (+/-) FY 2007 to FY 2008
Energy Infrastructure Funding FTEs	 166,139 932	 166,936 942	 186,743 990	 11.9% 5.1%
Competitive Markets Funding FTEs	 34,570 203	 35,525 208	 40,130 224	 13.0% 7.7%
Enforcement Funding FTEs	 22,877 128	 24,854 145	 28,552 156	 14.9% 7.6%
Total Budget Funding FTEs	** $223,586 1,263**	** $227,315 1,295**	** $255,425 1,370**	** 12.4% 5.8%**

The Commission's FY 2007 Requested Budget was $230,800,000 and 1,320 FTEs. However, a regular FY 2007 appropriation had not been enacted at the time this budget was prepared. Therefore, the Commission is operating under a continuing resolution (C.R.). The amounts included in this budget for FY 2007 reflect the levels provided by the C.R.

Full Cost Recovery

The Commission recovers the full cost of its operations through annual charges and filing fees assessed on the industries it regulates as authorized by the FPA and the Omnibus Budget Reconciliation Act of 1986. The Commission deposits this revenue into the Treasury as a direct offset to its appropriation, resulting in no net appropriations.

Full Cost Recovery	FY 2006 Actual	FY 2007 C.R.	FY 2008 Request
Appropriation	$220,400	$227,315	$255,425
Offsetting Collections	($220,400)	($227,315)	($255,425)
Net Appropriation	**$0**	**$0**	**$0**

Overview of the Commission

The Commission is an independent regulatory agency within the U.S. Department of Energy (DOE) whose function is to oversee major aspects of the Nation's electric, natural gas, hydroelectric, and oil pipeline industries.

The Commission was created through the Department of Energy Organization Act on October 1, 1977. At that time, the Federal Power Commission (FPC), the Commission's predecessor that was established in 1920, was abolished and the Commission inherited most of the FPC's regulatory mission. The following paragraphs will highlight the Commission's federal statutory authority, with a more comprehensive listing available in Appendix B.

Mission
Regulate and oversee energy industries in the economic, environmental, and safety interests of the American public.

Vision
Abundant, reliable energy in a fair competitive market.

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

Since 1935, the Commission has regulated certain electric industry activities under the Federal Power Act (FPA). Under FPA sections 205 and 206, the Commission ensures that the rates, terms and conditions of sales for resale of electric energy and transmission service in interstate commerce by public utilities are just, reasonable, and not unduly discriminatory or preferential. Under FPA section 203, as amended by EPAct 2005, the Commission reviews mergers and acquisitions, and certain corporate transactions involving public utilities and public utility holding companies. Under FPA sections 203, 205 and 206, the Commission primarily regulates investor-owned utilities. Government-owned utilities (e.g., Tennessee Valley Authority, federal power marketing agencies, and municipal utilities) and most cooperatively-owned utilities are not subject to Commission regulation (with certain exceptions).

Regulation of retail sales and local distribution of electricity are matters left to the states. In addition, the Commission does not have a role in authorizing the construction of new generation facilities (other than non-federal hydroelectric facilities) as regulation of such construction is the responsibility of state and local governments. EPAct 2005 gave the Commission authority to permit the construction or modification of transmission facilities in national interest electric transmission corridors designated by the Secretary of Energy, if certain conditions are met.

A major new area of Commission regulation as a result of EPAct 2005 is assuring the reliability of the bulk power system. Under the law, the Commission will codify an Electric Reliability Organization (ERO) that will develop and enforce mandatory reliability standards for the Nation's bulk power system, subject to Commission approval. On July 20, 2006 the Commission conditionally certified the North American Electric Reliability Corporation (NERC) as the ERO and has moved to establish mandatory reliability standards. All owners, users and operators of the bulk power system will be subject to the mandatory reliability standards approved by the Commission.

The Commission's role in regulating the natural gas industry is largely defined by the Natural Gas Act (NGA). Under sections 3 and 7 of the NGA, the Commission regulates the construction of new on-shore liquefied natural gas (LNG) import terminals and natural gas pipelines and related facilities. Under sections 4 and 5 of the NGA, it oversees the rates, terms and conditions of sales for resale and transportation of natural gas in interstate commerce. The Commission's jurisdiction over wholesale sales of natural gas, however, is limited by the Natural Gas Policy Act of 1978 (NGPA) and the Wellhead Decontrol Act of 1989. Pipeline siting and construction is authorized by the Commission if found to be required by public convenience and necessity. As with hydropower licensing, the Commission's actions on LNG and pipeline projects typically require consideration of factors under the National Environmental Policy Act of 1969 (NEPA), the Endangered Species Act, the Coastal Zone Management Act and other similar statutes. Regulation of the production and gathering of natural gas, as well as retail sales and local distribution of natural gas, are matters left to the states.

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

Guarding the Consumer

> *"Of the Commission's primary task there is no doubt, however, and that is to guard the consumer from exploitation by non-competitive electric power companies."*
>
> *NAACP vs. Federal Power Commission*

The Commission is charged with regulating the electric and natural gas industries under the FPA and NGA, laws that were written in the 1930s. Although these 1930-era laws recently underwent important reforms in EPAct 2005, and although the Commission's electric regulatory responsibilities also include portions of the Public Utility Regulatory Policies Act of 1978 (as modified by EPAct 2005) and the Public Utility Holding Company Act of 2005 (PUHCA 2005), the FPA and NGA remain the Commission's core statutory responsibilities. The central charge of the Commission in the area of electric regulation, expressed in the 30-year-old quote to the left, is the same today – protecting wholesale power customers and transmission customers from unjust and unreasonable rates and from undue discrimination and preference. With respect to natural gas regulation, the Commission is charged with the same duty – protecting gas pipeline shippers from unjust and unreasonable rates and from undue discrimination and preference. In carrying out these duties, the Commission relies on both regulation and competition.

Despite perceptions to the contrary, deregulation has never been the Commission's policy with respect to electric or natural gas markets. While the Commission has encouraged competitive wholesale markets, competitive markets are not completely unregulated. The notion that a regulatory agency must choose between relying on regulation or competition is false, as markets subject to the Commission's jurisdiction are subject to both competition and regulation.

> *"The two principal institutions of social control in a private enterprise economy are competition and direct regulation. Rarely do we rely on either of these exclusively; no competitive markets are totally unregulated, and no public utilities are free of some elements of rivalry. The proper object of search, in each instance, is the best possible mixture of the two."*
>
> *Alfred Kahn, Economics of Regulation*

Developing the best possible mixture of reliance on competition and regulation is exactly what the Commission has been doing over the past decade, particularly in the area of electric regulation. In wholesale power markets, Commission policies have promoted effective competition as a means to assure just and reasonable rates. The Commission first pursued this goal in the 1980's by authorizing wholesale power sales at market-based rates, rather than cost-based rates. This marked a fundamental change in Commission policy, with the objective to lower wholesale power prices through a greater reliance on competitive pressures. The courts ultimately affirmed this policy change.

Recognizing that competition is a means to an end – reasonable wholesale prices – not an end unto itself, the Commission did not end regulation. Rather, public utilities that are authorized to make power sales at market-based rates, for example, continue to be subject to Commission regulation.

The Commission also promoted effective competition in wholesale power and natural gas markets by adopting orders establishing rules for open access gas transportation and electric transmission. Open access in gas markets was completed in 1992 with the adoption of Order No. 636. The Commission began to impose electric open access requirements in market-based rate cases and mergers in the 1980's. In 1996, Order No. 888

extended the open access requirements to all jurisdictional public utilities. Over time, the natural gas and electric industries transformed from companies using their monopoly-owned transportation and transmission facilities to supply all the needs of their own wholesale customers, to companies providing competing suppliers and wholesale customers with open and non-discriminatory access to their facilities, under Commission-approved tariffs. The foundation for today's wholesale gas and electric energy markets lies in the reliance on open-access transportation and transmission service. This allows independent suppliers to compete for gas and electricity sales at market-based prices and to offer market choices for customers.

The Commission also promoted development of regional transmission organizations (RTO) and independent transmission system operators (ISO). RTOs and ISOs are not affiliated with energy market participants and thus have no incentive to discriminate in the provision of transmission service. They operate the transmission grid in a certain state or region, thereby eliminating rate pancaking and providing for regional planning. Most RTOs and ISOs also now run certain energy markets. The Commission has begun taking steps to lower RTO and ISO costs by encouraging greater cost accountability by RTOs and ISOs.

The Commission's policies have resulted in significant entry and construction of new generation capacity by independent power producers. At the same time, investment in transmission infrastructure has not kept pace, resulting in increased transmission congestion in some regions. This raises a significant concern for the Commission because transmission congestion acts like an import quota, resulting in higher energy prices.

The Commission monitors the markets to ensure that its policies mitigate market power, and toward that end, has reformed many of its rules in recent years. Since 2001, the Commission has modified its use of regulatory tools to prevent the exercise of market power by focusing on its generation market power policies. In particular, the Commission strengthened its reporting requirements (Order Nos. 2001 and 652) and acted to prohibit, among other things, market manipulation initially through its Market Behavior Rules and later through the implementation of EPAct 2005. Provisions of EPAct 2005 broadly prohibit fraud in energy market transactions. The Commission has implemented these provisions by adopting new electric and gas market anti-manipulation rules in Order No. 670. In 2004, the Commission bolstered its generation market power test by issuing interim market power screens and in May 2006 issued a notice of proposed rulemaking proposing to adopt the existing market power screens in principle with several enhancements.

The Commission also has remained vigilant regarding transmission market power. It issued a proposed rulemaking in May 2006 to reform its electric transmission open access policies to eliminate the remaining potential to engage in undue discrimination and preference in transmission service.

In addition to these reforms, the Commission has other new regulatory tools to guard the consumer. Because of the dramatic changes that have occurred in the electric and gas industries over the past 25 years, the Commission needed these new regulatory tools to discharge its historical duties to protect consumers against unjust and unreasonable rates and undue discrimination and preference. In particular, EPAct 2005 expanded the Commission's authority to review mergers and generation facility acquisitions and granted the Commission authority to impose significant civil penalties. The Commission will judiciously exercise this new authority to prevent the exercise of market power. The Commission exercised the new civil penalty authority in January 2007 when it entered into settlements with five companies involving a total of $22.5 million in penalities.

Finally, EPAct 2005 directed the Commission to facilitate price transparency in wholesale commodity and transmission and transportation markets by permitting the Commission to issue rules to assure timely dissemination of price information to market participants and the public. The Commission conducted a technical conference in October 2006 focusing on ways to facilitate price transparency in markets for the sale and transportation of natural gas and electricity. The Commission continues to monitor industry progress on market transparency and stands ready to use its statutory transparency authority as necessary.

Energy Infrastructure that Serves the Nation's Needs

A strong energy infrastructure is critical to the health of the U.S. economy, as evidenced by the immediate impact Hurricanes Katrina and Rita had on the Nation's economy. The damage to offshore oil and gas production facilities and the disruption to natural gas, oil and petroleum product pipelines caused a surge in energy prices, leading to increased public fears about the adequacy of the Nation's energy supply.

The Commission has an important role in the development of a strong energy infrastructure. Nearly two-thirds of the energy consumed by the United States is transported by pipelines, most of which are regulated by the Commission. This network of pipelines transports oil, petroleum products, and natural gas to meet the needs of our economy. The Commission's rate policies, consistently applied to transportation infrastructure projects, must give investors confidence that they will have an opportunity to recover their investments, and must provide rate certainty to oil and natural gas customers as well.

To meet the growing demand for natural gas, the Commission must respond quickly to the Nation's need to expand existing, or construct new, pipelines and related facilities. Once natural gas reserves are located and developed, the Commission's role is to evaluate proposals to expand or construct interstate pipelines, enabling companies to bring those supplies to the market. Similarly, the timely review of LNG terminal projects to ensure their safe construction and operation is crucial to support the Nation's need for additional gas supplies.

In that role, among others, the Commission has been extremely effective over the years as the timeline for approving major pipeline projects has decreased steadily. The average time to complete the Commission's certificate process of a major pipeline project, including environmental review, is now approximately nine months. Pre-filing allows the environmental review process to start earlier in the project review and allows the public, governmental agencies, and other entities to get involved at a time when fundamental decisions are being made. This helps to open the lines of communication earlier in the project review process so that problems can be averted later.

As an example, the Commission recently considered a combined project in the Southeastern United States consisting of 209 miles of pipeline crossing southern Georgia and northern Florida ranging in diameter from 12 to 36 inches and three new compressor stations. The companies voluntarily used the Commission pre-filing process. Though it was not one of the Commission's largest projects, the environmental analysis for this project determined that it:

- would affect about 2,713 acres, including 680 acres of wetland;
- would cross 56 perennial streams and rivers (6 of which would be major crossings more than 100 feet wide) and 52 intermittent streams; and
- could occur in the vicinity of 20 federally-listed or proposed endangered or threatened species and 19 state-listed endangered or threatened species.

In the environmental impact statement (EIS), Commission staff evaluated two major route alternatives, several route variations, a no-action alternative, and a postponed-action alternative. The companies subsequently adopted one of the route variations recommended in the draft EIS, resulting in a significant reduction in land use impacts and forest clearing. The environmental review was completed and the Commission took final action on the proposal within 12 months.

Although the processes are more effective and efficient than in the past, the Commission will continue to search for ways to reduce the processing time for applications, including removing impediments to the process. This, in turn, will lend greater certainty to the certification process and to those investing in a project.

The Commission also regulates natural gas storage projects. Natural gas storage capacity has remained relatively static for many years while demand has increased. Between 1998 and 2003, gas storage capacity expanded only 1.4 percent while demand rose 24 percent. The volatility of natural gas prices rose sharply during this period. To ensure adequate supplies during peak demand periods, the Commission is encouraging the development of new natural gas storage capacity. In June 2006, the Commission, responding to EPAct 2005, issued a final rule reforming the Commission's pricing policies for natural gas storage. The rule will provide further incentive for the development of new natural gas storage capacity to ensure access to storage services at just and reasonable rates while at the same time ensuring that adequate storage capacity will be available to meet anticipated market demand.

The Commission also has an important role in assuring a strong electricity infrastructure. In setting rates for both wholesale power sales and transmission in interstate commerce, the Commission intends its pricing policy to encourage investment in generation and transmission facilities. Transmission capacity per megawatt (MW) of peak demand declined during much of the past three decades, prompting the Commission to consider pricing policies to encourage the construction of new transmission facilities. After the Commission initiated a proceeding on these policies, Congress amended the FPA, through EPAct 2005, to require the Commission to establish incentive-based rate treatments for transmission within one year of enactment of the new statute. In late 2005, pursuant to this new directive, the Commission proposed rules to promote greater capital investment in new transmission capacity. In July 2006, the Commission issued a final rule to increase investment in transmission infrastructure, promote reliability, and lower costs for consumers by reducing transmission congestion. The final rule allows companies, among other things, to seek:

- incentive rates of return on equity for new investment in transmission facilities;
- full recovery of prudently incurred transmission-related construction work in progress in rate base; and
- full recovery of prudently incurred pre-commercial operations costs.

The Commission also proposed a number of reforms to improve the development of transmission infrastructure in its May 2006 transmission open access proposed rulemaking. For example, the Commission proposed to amend its *pro forma* open access transmission tariff to require coordinated, open, and transparent transmission planning on both a sub-regional and regional level. It also proposed to require transmission providers to prepare annual studies identifying significant and recurring congestion and possible remedies for the elimination of the congestion.

In addition, EPAct 2005 amended the FPA to grant the Commission new authority to promote an energy infrastructure that serves the Nation's needs. The new law granted the Commission – for the first time – authority to site electric transmission facilities under certain conditions. While this new authority is more limited than the Commission's gas pipeline siting authority, it should help lower the regulatory barriers to investment in the transmission grid. In November 2006, the Commission adopted rules to implement this new authority in accordance with the specific criteria established in EPAct 2005.

In addition to its role in developing a strong energy infrastructure, the Commission now has the responsibility of assuring the reliability of the bulk power system through oversight of the ERO and enforcement of the reliability standards. In October 2006, the Commission issued a notice of proposed rulemaking proposing to approve 83 of 107 reliability standards submitted by the ERO.

Guiding Principles that Strengthen the Commission's Overall Performance

Five principles guide the Commission as it exercises its jurisdiction under its governing statutes. Whether the Commission is adjudicating a rate filing, ruling on a permit application, or developing a new policy, it strives to meet these principles as a means of ensuring that each of its actions is consistent with the public interest.

- *Organizational Excellence*. Above all, the Commission strives to use its resources efficiently and effectively to achieve its strategic priorities. This includes its human resources. The Commission performs targeted recruiting and hiring and has developed a markets-oriented training curriculum for entry-level as well as experienced staff. The Commission also makes efficient use of its information technology to receive filings, produce reports and orders, and maintain data repositories. The Commission tracks the activities of its staff to ensure that they are directed at meeting the Commission's strategic goals and objectives.

- *Due Process and Transparency*. Paramount in all of its proceedings is the Commission's determination to be open and fair to all participants. All significant initial filings submitted to the Commission are announced by way of public notice published in the Federal Register. Material issues of fact are litigated at public hearings governed by due process rules. The Commission encourages the use of alternative dispute resolution procedures, which provide for effective public participation in resolution of a proceeding. The Commission often conducts conferences at which it receives input from members of the public on controversial issues. Finally, many of the Commission's major decisions are discussed and announced at open meetings that are webcast at no charge on its website.

- *Regulatory Certainty*. In each of the thousands of orders, opinions and reports issued by the Commission each year, the Commission strives to provide regulatory certainty through consistent approaches and actions. Without an assurance that the Commission's policies will be internally consistent and applied consistently, investors may be unwilling to bear the risks associated with investing in critical energy infrastructure. Where it is appropriate, the Commission provides generic direction to industry participants in the form of guidance orders, policy statements or rulemakings, to avoid the uncertainty present in case-by-case adjudications. The Commission also has adopted market power rules designed to help prevent the exercise of market power and market abuse, to provide a more stable marketplace, and create an environment that will attract needed investment capital.

- *Stakeholder Involvement*. The Commission conducts regular outreach to ensure that interested persons have an appropriate opportunity to contribute to the performance of the Commission's responsibilities. The Commission also organizes technical conferences and workshops designed to explain and explore issues related to the development and implementation of its policies. In FY 2006, the Commission met with state and federal regulators, industry officials, and the public to discuss regional electric market design and reliability issues. Outreach in FY 2006 engaged stakeholders on certification for the ERO and mandatory reliability standards for the bulk power system. Finally, in processing hydropower and gas-related permit applications, the Commission conducts an extensive collaborative pre-filing process, during which it receives input from a multitude of stakeholders including citizen groups, environmental organizations, tribal interests, and local, state and federal resource agencies. The Commission has adopted the same pre-filing process for resolution of transmission siting applications.

- *Timeliness.* The Commission's goal is to reach an appropriate resolution of each proceeding in an expeditious manner. Toward that end, the Commission has steadily decreased the time it takes to act on projects, such as LNG import terminals, gas storage facilities, and interstate natural gas pipelines. It has done so without compromising its environmental protection and public participation responsibilities. The Commission also sets and tracks compliance with goals for timely resolution of filings for cost recovery, new services or changes to existing services, as well as on opinions resolving initial decisions, complaints, and FPA section 203 applications.

CHAPTER 1: ENERGY INFRASTRUCTURE

Promote the Development of a Strong Energy Infrastructure

Energy Infrastructure Resources
(Dollars in Thousands)

	FY 2006 Actual	FY 2007 C.R. Level	FY 2008 Request
Total FTEs	**932**	**942**	**990**
Program	743	760	805
Support	189	182	185
Total Funding	**$166,139**	**$166,936**	**$186,743**
Program	136,404	137,889	155,380
Support	29,735	29,047	31,363

Introduction

Competitive and reliable energy markets require a strong 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;
- improving customer access to low-cost resources; and
- allowing customers to choose between multiple supply sources.

The Commission seeks to promote the development of a strong energy infrastructure through effective regulation including pricing policies and operating procedures. Pricing policies and operating procedures influence the level of infrastructure investment. They affect the amount and efficiency of infrastructure siting and the smoothness of infrastructure operations. Additional EPAct 2005 authorities will help the Commission continue towards the achievement this goal.

The resources requested will support the Commission’s goal of stimulating appropriate infrastructure development and maintaining a reliable and safe infrastructure.

Objective A: Stimulate Appropriate Infrastructure Development

The Commission has an important role in the development of a strong energy infrastructure that operates effectively and reliably. Nearly two-thirds of the energy consumed by the United States is transported by pipelines, many of which are regulated by the Commission. This network of pipelines transports oil, petroleum products, and natural gas to meet the needs of our businesses and economy. Rising electric power demand highlights the critical need for appropriately stimulating infrastructure development.

A strong energy infrastructure is critical to the health of the U.S. economy. The Commission's rate policies, consistently applied to infrastructure projects, must give investors confidence that they will have an opportunity to recover their investments as well as provide certainty to customers, large and small, so that they can plan accordingly.

In pursuit of this objective, the Commission will:

- resolve regulatory and other challenges to needed development; and
- encourage investment and effect timely cost recovery.

Objective A Strategy 1

Resolve Regulatory and Other Challenges to Needed Development

The Commission's timely identification and resolution of regulatory and other challenges will help lead to the regulatory certainty that is essential to stimulating appropriate infrastructure development.

The Commission is responsible for authorizing LNG facilities, certificating interstate natural gas pipelines and storage projects, permitting electric transmission lines in interstate commerce (under certain circumstances), and licensing non-federal hydropower projects. Throughout all of these application processes, the Commission's goal is to reduce the time it takes to review projects without compromising its environmental protection and public participation responsibilities.

Reconciling competing interests remains a significant challenge to needed development. The Commission believes these issues are best addressed openly and early in the application process. The Commission encourages, and sometimes requires, project proponents to engage in early involvement of state and federal agencies, Indian tribes, and the public. It also provides technical, legal, and alternative dispute resolution assistance to support the parties' efforts to resolve issues before they file with the Commission.

Interconnection. The lack of a standard, expeditious way to connect generators to the electric transmission system is a potential barrier to obtaining adequate generation supplies. Standardized interconnection procedures and agreements for electric generators are necessary to encourage needed investment in generation and transmission infrastructure, reduce opportunities for transmission owners to favor affiliated generation, and encourage efficient generation and transmission siting decisions.

To address this issue, the Commission issued Order No. 2003 in July 2003, which applied to all generators greater than 20 MW. Rehearing orders were issued in March 2004 (Order No. 2003-A), December 2004 (Order No. 2003-B), and June 2005 (Order No. 2003-C). The rehearing orders generally affirmed the legal and policy conclusions on which Order No. 2003 is based. Compliance filings were made in response to Order No. 2003-C to revise the open access transmission tariffs of jurisdictional public utilities to include provisions for the interconnection of large generators. Certain provisions of the Commission's final rule were appealed, but the rule was recently upheld in its entirety by the courts.

In addition to the large generator interconnection orders, the Commission established a separate proceeding for interconnection of small generators (i.e., generators up to 20 MW). A final rule (Order No. 2006) was issued in May 2005 which includes standardized interconnection for small generators. The Commission granted in part, and denied in part, several requests for rehearing in a November 2005 order on rehearing.

In response to the growth of non-traditional generating resources spurred in part by state renewable portfolio standards and production tax credits, the Commission has taken a number of steps to learn more about these technologies. When the Commission issued its landmark electric open access rule in 1996, the vast majority of generation looking to avail itself of the access to transmission consisted of traditional fuel sourced generation – that is, generation whose characteristics the industry and the Commission were well aware of and understood. Today, wind and other intermittent technologies present new opportunities for customers and new challenges to the grid and to the Commission's current rules. Because of the intermittency, size and voltage issues associated with some of these resources, the Commission recognizes that there may be cause for additional revision to the open access transmission tariffs.

During 2004, the Commission held two conferences to clarify the special needs of wind generation. The first conference, held in September 2004, addressed any special interconnection requirements, reliability and safety implications, and special modeling considerations for wind generation. The second conference, held in December 2004, explored other possible barriers to entry affecting renewable energy. In June 2005, the Commission issued a final rule that addresses the special needs of wind generators in interconnecting with the transmission grid, and an order on rehearing was issued in December 2005.

Electric Transmission Siting. EPAct 2005 adds a new section 216 to the FPA, which provides the Commission with electric transmission siting authority in national interest electric transmission corridors designated by

DOE. This authority applies in certain identified circumstances, for example when a state does not have authority to act or has withheld approval for more than one year.

The Commission has established a transmission siting group to process the anticipated application filings. Toward that end, the Commission in November 2006 adopted final rules to specify the form and content of such applications. In addition, the siting group will work closely with DOE, the states, and applicants to provide data and engineering expertise to help resolve disputes at the state level on such issues as:

- public safety;
- applicability of new technology;
- underground transmission line construction; and
- economically feasible alternatives (e.g., distributed generation).

Electric transmission siting cases will undoubtedly be very contentious and complex. The Commission will be hiring additional staff for this group, and, in some instances, it may be necessary for the Commission to acquire contract expertise to assist in the preparation of the record upon which Commission decisions will be based.

Transmission Planning and Non-Affiliated Generation. The Commission issued a notice of proposed rulemaking in May 2006 which, among other things, proposes to reform the transmission planning requirements of the *pro forma* open access transmission tariff to eliminate potential undue discrimination and support the construction of adequate transmission facilities to meet the needs of all load-serving entities. The *pro forma* open access transmission tariff contains only minimal requirements regarding transmission planning, which have proven to be inadequate as the Nation faces inadequate transmission investment in many areas. The Commission has proposed to require public utilities to engage in an open and transparent planning process at both the local and regional levels.

Long-Term Transmission Rights. In July 2006, the Commission finalized guidelines for regional transmission organizations operating organized electric markets to develop proposals to provide long-term firm transmission rights consistent with EPAct 2005. These guidelines will increase long-term transmission price certainty in the organized electricity markets and allow for new investments and other long-term power supply arrangements. Specifically, they provide increased certainty about the congestion cost risks of long-term service in organized electricity markets and help load-serving entities and other market participants support new investments and other long-term power supply arrangements. In a November 2006 order the Commission denied rehearing, upheld its determinations in the final rule and offered certain clarifications.

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

Since issuing that policy decision, there has been a continued movement to develop LNG facilities. Since the approval of Hackberry LNG in 2003, the Commission has issued orders denying one proposed project, and approving ten new LNG import terminals and expansions of three terminals. Of those 13 approved projects, 8 successfully used the Commission's pre-filing process. The average processing time for these major projects was less than 14 months, from filing date to Commission order. Moreover, the Commission is currently working on applications or pre-filing requests for an additional 12 proposed LNG projects.

EPAct 2005 directed the Commission, within 60 days of enactment, to issue regulations requiring the pre-filing process to commence at least six months prior to the filing of an LNG project application. The Commission considers this requirement to be a validation of the Commission's success in the use of the pre-filing process since 2001 on a voluntary basis. With the issuance of Order No. 665, the Commission met this deadline and established pre-filing regulations based on the knowledge gained from the use of the process since 2001.

The wave of applications for LNG terminal projects has resulted in a significant increase in the Commission's need for technical and contractor support to conduct cryogenic and seismic design reviews, safety studies, and inspections. In FY 2006, about $700,000 was spent on contracts for cryogenic and seismic reviews and inspections. While the Commission anticipates that the pace of LNG terminal filings will begin to decline, the need for technical and contractor support will continue to increase as the FY 2007 and 2008 filings are processed, and the approved facilities are constructed and put into service. The timely review of these facilities is crucial to support the Nation's need for additional gas supplies.

Natural Gas Pipelines. A strong 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, the Commission must respond quickly to expand and construct needed pipelines and related facilities. It has moved to reduce the time it takes to approve projects without compromising its environmental protection and public participation responsibilities.

For major pipeline projects requiring an EIS (excluding LNG take-away pipelines which are evaluated in conjunction with their respective LNG terminal projects), the Commission's average certificate processing time was approximately nine months in FY 2006. Its fastest completion time in this category was approximately 5.4 months for a major expansion project by Transcontinental Gas Pipeline Corporation.

The natural gas industry has significantly increased its use of the Commission's pre-filing process, which involves completing a substantial portion of the environmental review and identifying significant non-environmental issues prior to the filing of an application. In FY 2006, over 84 percent of the major projects (including both large gas pipelines and LNG projects) used the pre-filing process.

The number of projects aimed at diversifying the Nation's supply sources is expected to increase in FY 2007 and 2008, such as those projects designed to bring natural gas from the Rocky Mountain producing areas into the eastern United States. The majority of these projects are expected to use the Commission's pre-filing process. While the pre-filing process remains voluntary for natural gas pipelines, if an applicant chooses to use the process, it must follow the new regulations set forth in Order No. 665.

The Commission has added responsibilities for coordinating pipeline project NEPA work as a result of EPAct 2005. The new law amended section 15 of the NGA to designate the Commission as lead agency for coordinating all federal authorizations and for the purpose of complying with NEPA. In November 2006 the Commission issued a final rule in Order No. 687 establishing the procedures for the scheduling of federal authorizations and the maintenance of a consolidated record.

The Commission has been actively preparing to meet its responsibilities in the authorization process for an Alaskan natural gas pipeline project. Fulfilling the obligations required by the Alaska Natural Gas Pipeline Act, the Commission issued Order No. 2005 within the statutory deadline establishing the open season provisions and entered into memoranda of agreement with the Regulatory Commission of Alaska and the National Energy Board of Canada. The Commission also prepared a memorandum of understanding (MOU) with DOE, Department of the Interior, and 10 other federal agencies to ensure cooperation and coordination of efforts, met with agencies and other stakeholders, and toured potential pipeline routes.

EPAct 2005 requires the Commission submit a report to Congress on the progress made in licensing and constructing an Alaskan pipeline. The report, required within 180 days of enactment and every 180 days thereafter until the Alaska natural gas pipeline commences operation, must also identify issues hindering progress. The first report was issued in February 2006 and a second report was issued in July 2006.

Natural Gas Storage Projects. In FY 2006, the Commission authorized 16 storage projects resulting in 4,722 million cubic feet (MMcf) of peak day deliverability and 86 billion cubic feet (Bcf) of storage capacity. In addition, 15 other storage projects representing 2,700 MMcf of peak day deliverability and 95.8 Bcf of storage capacity are currently under analysis. Furthermore, 14 additional storage projects representing 5,045 MMcf of peak day deliverability and 114 Bcf of storage capacity are projected to be filed within the next five years.

The need for additional storage capacity is expected to increase in the future due in part to the damage and disruption to energy infrastructure caused by severe weather conditions in the Gulf Coast region during the 2005 hurricane season. Additional storage facilities will provide storage services needed to help balance the Gulf Coast region's anticipated growth in supply, the change in operations associated with energy infrastructure damage, and the anticipated new volumes of imported LNG. Furthermore, storage capacity from high-deliverability salt cavern gas storage facilities may play a crucial role in backstopping pipeline and electric grids by acting as a substitute for upstream pipeline capacity and flowing gas supply, mitigating adverse effects of pipeline compressor outages or other outages due to severe weather events, and reducing the impact of other temporary capacity constraints which can all cause gas price spikes and require costly fuel switching.

In June 2006, the Commission issued a final rule on market-based rates for storage services. These changes implement section 312 of EPAct 2005, and will promote the building of needed storage infrastructure.

Hydropower Projects. Hydropower is an important component of the Nation's energy portfolio and supports efficient, competitive electric markets by providing low-cost energy reserves and ancillary services. Hydropower projects also provide other public benefits such as increased water supply, recreation, economic development, and flood control, while minimizing adverse impacts on environmental resources.

The Commission has authorized construction and operation of over 1,600 hydropower projects, encompassing approximately 2,500 dams and impoundments and the associated lakes and reservoirs. Its workload in these areas is increasing due to the number of relicense applications that will be filed through FY 2016 for large-scale projects. These applications are for projects that are among the largest under the Commission's jurisdiction, having a combined capacity of almost 13,000 MW and representing 23 percent of the Nation's non-federal hydropower capacity. Of the 112 projects that will be up for relicensing during this period, 31 projects have an installed capacity of over 100 MW, and of these projects, seven have an installed capacity greater than 500 MW.

Integrated Licensing Process. In an effort to increase the efficiency of the hydroelectric licensing process, which involves a multitude of stakeholders including citizen groups, environmental organizations, tribal interests, and local, state, and federal resource agencies, the Commission developed the Integrated Licensing Process (ILP). The default licensing process since July 2005, the ILP's ultimate goal is to establish an efficient, predictable, and timely licensing process that develops a record sufficient for the Commission to take final action. To achieve the goals of the ILP, Commission staff must become fully engaged in the pre-filing portion of the process, to help stakeholders define the scope of the licensing process along with the type and number of studies that are undertaken.

In FY 2006 and 2007, the Commission will be involved in the pre-filing process for a total of 17 relicense ILPs and 15 original license ILPs. While the Commission is investing additional resources in the pre-filing phase of the ILP, a return on this investment is expected once the applications are filed in 2008 and the anticipated level of effort in the post-filing phase is reduced.

Expanding Hydropower Development. In 2006, the Commission received a number of proposals to develop both conventional hydropower generated at existing dams and non-conventional power generated at facilities utilizing the kinetic energy of tidal currents and wave action (ocean energy). During FY 2006, the Commission authorized 242 MW of additional capacity at existing licensed hydropower projects. As a result of provisions in EPAct 2005, the Commission saw a small increase in the number of original license applications filed.

In April 2005, the Commission determined that a temporary, small-scale pilot project could be installed in New York's East River without a license as long as it has no net impact to the interstate electric power grid in order to determine the impacts and feasibility analyses of the project. If the pilot is successful, it should open the door for testing of similar facilities and, potentially, for expanding development of this technology.

In November 2006, AquaEnergy Group, Ltd. filed the first license application for an ocean-wave energy hydroelectric project. The project would be located in Makah Bay off the coast of the State of Washington. A license application is also currently being developed by the Verdant Power, LLC, for full build out of the pilot tidal facility in the East River in New York City mentioned above. The Commission has designated a team to work with all stakeholders as Verdant goes through the application process. As part of analyzing these proposals, the Commission is evaluating whether existing hydropower licensing regulations are adequate to address these non-conventional hydroelectric projects or whether new regulations are needed. To gather further information, in December 2006, the Commission hosted a technical conference on the status of new technologies in hydroelectric generation from ocean waves, tides, and currents and from free-flowing rivers, and to explore the environmental, financial, and regulatory issues pertaining to the development of these new technologies.

Alaska Hydropower Development. Section 32 of the FPA provides for the Commission to discontinue its licensing and regulatory authority over small (less than 5 MW) hydropower projects in the State of Alaska. Under the section, this authority would be conveyed to Alaska upon the Commission's certification that the state's program provides the same level of environmental protections and developmental considerations as the Commission's licensing process. In promulgating their regulations, Alaska officials used the same type of collaborative effort that the Commission used in its development of the ILP. The Commission has provided input throughout development of Alaska's proposed program and expects the State to apply for certification during the summer of 2007.

Tribal Relations. The Commission continues to ensure that Indian tribes are engaged in the hydropower licensing process. Early consultation has begun for relicensing cases due to be filed over the next three years. Throughout FY 2006, the Commission has undertaken consultation with over 21 tribes for 10 projects that are up for relicensing. Since early stakeholder involvement increases the effectiveness of the licensing process, the Commission plans to continue investing resources in FY 2007 and 2008 to ensure the early participation of tribes in the upcoming relicensing cases.

Commission Meetings and Reports. During FY 2006, numerous studies were performed and presentations were made at Commission meetings and at conferences that highlighted issues involving the Nation's energy infrastructure, particularly in the areas of natural gas and electricity. The Commission's annual State of the Gas Industry Conference in October 2005 focused on the current and future state of the pipeline infrastructure as well as examining the lessons learned from Hurricanes Katrina and Rita.

The Commission contributed infrastructure expertise to DOE's effort in the Security and Prosperity Partnership between the United States, Canada and Mexico. The Commission's contribution is reflected in two publications: "North America – The Energy Picture II" (January 2006) and "North American Natural Gas Vision" (January 2005). In addition, the Commission participated in the Security and Prosperity Partnership meetings in preparation for meetings between the leaders of the three North American countries' energy agencies and prior to a summit in March 2006 between the leaders of the three countries.

The Commission had been called upon periodically to assist representatives of the Office of the U.S. Trade Representative (USTR) in trade talks with the Government of Japan concerning LNG. In that role, the Commission has provided briefings for the USTR staff as well as Japanese officials on the current status of LNG infrastructure in the U.S.

Objective A
Strategy 2

Encourage Investment and Effect Timely Cost Recovery

Electric transmission and natural gas and oil pipelines' rates and cost recovery are set in tariffs filed with the Commission. For investors to invest in electric transmission facilities and natural gas and oil pipelines, they need to know how and when they will have the opportunity to recover their costs. Thus, the Commission must establish and consistently apply policies that provide a fair opportunity for cost recovery. Without such assurances, investors will bear greater risks, jurisdictional facilities will find it more difficult to obtain financing, and fewer energy projects will be constructed than the Nation needs. That in turn will undermine the provision of adequate and reliable energy service.

The Commission will work to ensure that cases are processed, settled, or litigated with appropriate speed and achieve results that meet both business needs and the public interest.

The Commission will encourage investment and effect timely cost recovery by:

- applying pricing policies, such as innovative rate design, that encourage investment;
- establishing and consistently applying policies that permit timely cost recovery; and
- establishing accounting, reporting, and record retention requirements.

Pricing Policies. The Commission seeks to maintain pricing policies that encourage investment in energy infrastructure. Since 1996 investment in natural gas transportation infrastructure has risen by 48 percent and investment in electric transmission has risen by 23 percent. However, the rate of increase in customer demand of electric energy is growing at a quicker rate than electric transmission capacity is being constructed.

Natural Gas Storage Pricing. In June 2006, the Commission issued a final rule to mitigate natural gas price volatility by encouraging the development of natural gas storage capacity. The final rule provides two approaches for developers of natural gas storage facilities to seek authorization to charge market-based rates. The first approach includes a broadened definition of the relevant product market for storage that would include, to the extent they can be shown to be good substitutes for storage, available pipeline capacity, local gas production and LNG terminals. The second approach, which implements EPAct 2005 provisions, would allow an applicant to request the authority to charge market-based rates even if a lack of market power has not been demonstrated, in circumstances where market-based rates are in the public interest and necessary to encourage the construction of storage capacity in the area needing storage service, and customers are adequately protected.

The Commission has also demonstrated flexibility in cost-based rates for gas storage. For example, the Commission granted use of a modified rate design for Saltville Gas Storage that apportions fixed costs to include injection capacity service. It deferred rate review until four years after the project commences operation given the expected four year phased development period for the project. The Saltville authorization addressed customer needs and the unique features of this 8.2 Bcf rapid response storage field.

The Commission also addressed a petition for a rulemaking to examine, among other issues, granting pricing preferences for anchor shippers – those who provide contractual support for a new pipeline project at the early stage of project development. Based on its review of public comments received, the Commission issued a final rule in October 2006 clarifying that a natural gas company is not necessarily engaged in an unduly discriminatory practice if it charges different customers different rates for the same service based on the date the customers commit to the service, provided potential shippers have a fair opportunity to sign up for the service.

Electric Transmission Pricing Reform. Consistent with a directive in EPAct 2005, the Commission issued a final rule to offer incentives for potential investors to build more electric transmission facilities. The final rule seeks to bolster investment in the Nation's aging transmission infrastructure, promote electric power reliability, and lower costs for consumers by reducing transmission congestion. The final rule identifies specific incentives the Commission will consider based on a case-by-case analysis of individual transmission proposals.

Incentives for traditional utilities and for stand-alone transmission companies include:

- allowing deferred cost recovery;
- accelerating recovery of depreciation expense;
- providing a rate of return on equity (ROE) sufficient to attract new investment;
- providing a higher ROE for utilities that join transmission organizations;
- allowing recovery in rate base of 100 percent of prudently incurred transmission-related construction work in progress (CWIP), in order to increase cash flow;
- expensing prudently incurred pre-commercial operation costs instead of capitalizing them, allowing for immediate cash flow for the utility; and
- allowing recovery of all prudently incurred development costs in cases where construction of facilities may be abandoned or canceled due to circumstances beyond the control of the utility.

Additionally, the rule provides expedited procedures for the approval of incentives to provide utilities greater regulatory certainty and facilitate financing the project. The Commission clarified the rule on rehearing in December 2006.

Simultaneously with the transmission final rule on incentives, the Commission granted two petitions for declaratory orders requesting approval of transmission investment incentive rates for American Electric Power (AEP) Service Corp. and Allegheny Energy Inc. (Allegheny) and its affiliated utility companies. Both requests were for large transmission projects proposed for the Mid-Atlantic regional power grid operated by PJM Interconnection (PJM).

In the AEP proceeding, the Commission conditionally approved proposed incentive rates for a new 765-kilovolt (kV), 550-mile transmission line that would extend from West Virginia to New Jersey. The approved incentives include an ROE set at the high end of the zone of reasonableness, the option to timely recover the cost of capital associated with CWIP, and the ability to expense and recover the costs AEP incurs during the pre-construction and pre-operating period.

In the Allegheny proceeding, the Commission granted the four incentives requested by the company and its subsidiaries, Monongahela Power Co., Potomac Edison Co. and West Penn Power Co. Allegheny proposes to construct a 500-kV transmission line within the PJM region. The proposed line would extend from southwestern Pennsylvania to Virginia. As in the AEP proposal, the approved incentives would include an ROE on the high end of the zone of reasonableness, recovery of CWIP and the ability to expense and recover pre-construction and pre-operating costs.

The Commission expects to review and act upon a significant number of these types of rate proposals in FY 2007 and beyond.

***Cost Allocation for Transmission Upgrades*.** The Commission must address who will pay for needed transmission expansion and upgrades. Beginning with FY 2006, the Commission anticipates a substantial workload involving review of cost allocation plans for transmission upgrades and new generator interconnection facilities, including issues about whether costs should be broadly shared or assigned more narrowly to those who benefit from a particular project. The Commission will work with industry, state regulators, and customers to develop appropriate regional transmission pricing policies and to ensure that cost allocation plans result in rates that are just and reasonable, not unduly discriminatory or preferential and otherwise consistent with FPA sections 205 and 206. This will help encourage investment in transmission infrastructure.

Innovative Rate Proposals. Traditional cost-of-service rate regulation provides few incentives for regulated companies to lower their costs or to provide better service. As a result, such regulation is not necessarily the best way to set rates for regulated services. The Commission supports innovative rate proposals that reduce costs, improve service or remove trade barriers. It is important that such proposals:

- support competitive markets for electric power and natural gas; and
- give companies an incentive to build key new projects and operate efficiently.

The Commission has evaluated applications requesting the use of incentive rates to encourage infrastructure investment. For example, the Commission has approved several applications proposing the creation of independent transmission companies, all of which requested and received some type of incentive rates. These include the creation of Michigan Electric Transmission Company, LLC and ITC Holdings, Inc., which involved the creation of independent transmission companies through the acquisition of transmission facilities from integrated utility owners, and provided for incentives that facilitated ownership transfer.

Merchant Transmission. Merchant transmission projects are non-typical transmission projects for which the Commission approves negotiated (market-based) rates. Merchant transmission projects play a useful role in expanding competitive generation alternatives for customers and meeting reliability needs, as demonstrated by the success of the 330 MW Cross-Sound Cable project which connects Long Island to Connecticut. The 660 MW Neptune project, which is expected to be placed in service by the end of 2007, will connect New Jersey with Long Island.

The Commission continues to work to facilitate merchant transmission projects. For example, in FY 2006, the Commission approved negotiated rates for Montana-Alberta Tie's proposal that will provide up to 600 MW of transmission capacity between Alberta, Canada, and Great Falls, Montana. The project will allow resources, including renewable resources, that are being developed in Montana to get to markets throughout the West. It also further integrates the U.S. and Canadian transmission grids and serves to increase electric system reliability in both countries.

In another example, the Commission accepted the letter agreement that established incentive rate principles for development of the California Path 15 expansion project. The project pooled the resources of an investor owned utility (Pacific Gas & Electric Company), a merchant developer (TransElect), and a federal power marketing authority (Western Area Power Administration). This innovative regulatory approach promoted the development of infrastructure to eliminate transmission constraints on a critical transmission corridor.

The Commission will continue to review its policies to facilitate, as appropriate, opportunities for sponsors of merchant transmission projects.

Cost Recovery Policies. The measures the Commission is undertaking to provide timely cost recovery for infrastructure investors also provide reasonable rates and greater rate certainty for customers. Electric utility customers and gas and oil pipeline ratepayers need reasonable assurance (1) of the transportation costs they can expect to face, (2) that these costs will be fair, and (3) that they will continue to have nondiscriminatory access to transportation services. The Commission will continue to ensure that terms and conditions of service promote reliable open access for all customers.

In July 2006, the Commission granted the essential elements of a Colonial Pipeline Company (Colonial) petition for a cost recovery methodology and granted other assurances with regard to a proposed mainline pipeline expansion designed to assure the reliable transportation of refined products from the Gulf Coast region to growing demand in numerous eastern markets. Specifically, Colonial proposed to expand its system by adding a 36-inch diameter pipeline from Baton Rouge, Louisiana to Atlanta, Georgia. The 500-mile, $1 billion, pipeline expansion would have a nominal capacity of 800,000 barrels per day, which amounts to a 30 percent increase in Colonial's system capacity.

The Commission recently reaffirmed its policy for selective discounting by natural gas pipelines, finding that it is an integral and essential part of the Commission's policies furthering the goal of developing a competitive natural gas transportation market. In addition, the Commission has found that negotiated rates can serve as an effective means to reduce rates to shippers. For example, in the case of Algonquin Gas Transmission LLC, the pipeline filed negotiated rate agreements covering most of the firm shippers on its system. The negotiated rate agreements, filed to effectuate limited-term rate reductions, provided for rate reductions from Algonquin's existing recourse rates under firm rate schedules. The Commission accepted the negotiated rate agreements finding that the agreements provided rate reductions without the time and expense of litigation. The Commission also required that Algonquin Gas Transmission LLC offer negotiated rates to all current and future similarly situated shippers.

The Commission also issued an order (in *Dominion Transmission, Inc.*) clarifying procedures to be used when a pipeline has negotiated a general settlement with customers even though a filing was not previously submitted and pending before the Commission. Specifically, if a pipeline seeks approval of an agreement for a change to be made in its rates, terms and conditions before making an actual section 4 tariff filing, the pipeline should simply file, pursuant to section 385.207(a)(5) of the Commission's regulations, a petition for approval of the agreement, along with *pro forma* tariff sheets showing how the agreement would be implemented. The order encouraged pipelines to reach timely settlements in order to avoid costly and lengthy litigation of issues. The order also indicated that the Commission will act expeditiously on such proposals to ensure any reduced rates are implemented as quickly as possible. This helped achieve timely cost recovery and illustrates one way in which the Commission implements this strategy and uses its resources efficiently and effectively to achieve its strategic goals. In FY 2006, the approved uncontested section 4 rate settlements for Colorado Interstate Gas Company and Tuscarora Gas Transmission Company fell under these new procedures.

The damage done by Hurricanes Katrina and Rita in the Gulf Coast area in late summer 2005 was widespread and severe. Offshore energy production was shut-in; pipelines, power lines, and other means of energy transportation were seriously damaged; and other important parts of the energy infrastructure system, such as natural gas processing plants, were closed. In order to encourage rapid restoration of service, the Commission took a number of actions, including temporarily raising cost limits and including mainline facilities in the definition of eligible facilities that may be constructed by natural gas companies under blanket certificates; granting waivers on a case-by-case basis of the 120-day limit; and granting waivers of tariff provisions to allow delivery of gas at alternative points when the usual delivery points were out of service from hurricane damage. In the February 2006 report, *The Federal Response to Hurricane Katrina: Lessons Learned*, the Commission was recognized as having taken immediate steps to reconstruct the natural gas infrastructure of the region, and reduce the disruption in the natural gas supply.

In August 2006, the Commission revised its regulations to better monitor and assess the physical state of the interstate natural gas pipeline grid and gas storage infrastructure when service is disrupted due to damage caused by a hurricane, other natural disasters or acts of terrorism. The final rule requires jurisdictional natural gas companies to report to the Commission damage to their facilities and report service disruptions that occur when a natural disaster or other cause results in a reduction in pipeline throughput or storage deliverability.

The Commission has also taken action to ensure that security-related costs are recovered. In accordance with its policy statement regarding "Extraordinary Expenditures Necessary to Safeguard National Energy Supplies," issued three days after the September 11th terrorist attacks, the Commission continues to give the highest priority to processing any filings made for the recovery of extraordinary expenditures to safeguard the reliability and security of the Nation's energy transportation systems and energy supply infrastructure.

***Hydropower Facilities*.** EPAct 2005 included incentives, such as a tax credit, to promote the development of nonfederal hydropower at existing dams (for capacity that will go on line by December 31, 2007). This tax credit should allow an increase in infrastructure through the construction of generating facilities at non-hydropower dams and the addition of new facilities at existing hydro projects. Similar incentives, when first introduced in the early 1980s, resulted in a substantial increase in the number of hydropower development proposals at existing dams throughout the country. EPAct 2005 authorized incentive payments to non-federal dam owners who add generating devices to existing dams or conduits for 10 years at 1.8 cents per kilowatt hour, and a one-time incentive payment of up to ten percent of the cost of improvements up to $750,000 for non-federal hydroelectric projects which make capital improvements that increase efficiency by at least three percent. A further increase in the number of license applications for original projects is expected. With the development of the ILP, the Commission is strategically positioned to assist potential applicants early on in the application process to discern the economic and environmental feasibility of a particular project. In addition, the ILP allows the Commission to complete the licensing process in an expedited manner and at less cost.

EPAct 2005 also authorized a tax credit for incremental production gains from efficiency improvements or capital additions to existing hydroelectric facilities placed in service after the passage of EPAct 2005 but before January 1, 2008. This tax credit is available only if the Commission makes the facility-specific certification required by EPAct 2005. In December 2005, Commission staff issued instructions explaining the information it will need to evaluate and certify such incremental increases in generation. This guidance should accelerate the development of additional waterpower capacity to be placed in service prior to the expiration of tax credit on January 1, 2008.

EPAct 2005 also amended the process of licensing hydroelectric facilities in a manner that could promote hydropower development. Under prior law, the U.S. Departments of the Interior, Commerce, or Agriculture could attach a mandatory condition to a hydroelectric license and the licensee and the Commission were required to accept the condition. Under EPAct 2005, licensees or other participants may offer an alternative to the mandatory license condition and such alternative must be accepted if the relevant department determines that it will either cost significantly less or will result in improved operation of the project. In considering such alternatives, the relevant department must document that it gave "equal consideration" to the effects of the mandatory conditions on a variety of factors, such as energy supply, distribution, cost, and use; flood control; navigation; water supply; and environmental quality. This could result in significant cost and power savings in hydropower recovery.

Accounting, Reporting, and Record Retention Requirements. Like other Commission objectives, understanding the role of transportation in energy markets requires accurate, complete, and timely financial information. These needs are met for jurisdictional companies through the Commission's Uniform System of Accounts and program of periodic public financial reporting. In addition, the Electric Quarterly Report (EQR) collects transaction information for short- and long-term power sales from public utilities, including power marketers, which provides transparency of market-based and cost-based power sales for the most recent calendar quarter.

As part of the Commission's ongoing effort in identifying emerging trends and issues affecting jurisdictional entities, it is continuing to update its accounting and financial reporting requirements to enhance transparency and improve how the economic consequences of transactions and events are measured and reported. New quarterly financial reporting requirements for public utilities and licensees, natural gas companies, and oil pipeline companies provide more timely, transparent, relevant and understandable financial information. In December 2005, the Commission issued Order No. 668 adopting changes to provide greater transparency and uniformity to reporting of costs incurred by RTOs and ISOs and all other public utilities in providing transmission service.

Also in December 2005, the Commission adopted a final rule (Order No. 667) in connection with the repeal of the Public Utility Holding Company Act of 1935 (PUHCA 1935) and the enactment of the PUHCA 2005. This rule, among other things, established accounting, reporting, and record keeping requirements for centralized service companies and certain holding companies. These responsibilities were previously administered by the Securities and Exchange Commission (SEC). The rule provided a short transition period during which affected entities will continue to largely follow existing SEC requirements through calendar year 2006 and called for a separate proceeding to implement more permanent requirements. In October 2006, the Commission adopted a final rule, Order No. 684, which provides more permanent requirements and extended the transition period to January 2008. The final rule, among other things, adds a new Uniform System of Accounts for centralized service companies, new preservation of record requirements for holding companies and certain service companies, and revises the FERC Form No. 60, Annual Report of Centralized Service Companies, to provide for financial reporting consistent with the new Uniform System of Accounts. Order No. 684 will provide for greater transparency of centralized service company operations which will protect ratepayers from pass-through of improper service company costs.

Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Resolve Regulatory and Other Challenges to Needed Development		
Timeliness of processing complete filings containing amendments to non-independent electric transmission provider OATTs	By the statutory due date or applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Issue Alaska Gas Pipeline Reports to Congress	Issue Reports in February and August 2008	Office of Energy Projects / Office of the General Counsel

Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of pipeline certificate cases with no precedential issues completed	➢ 90% of unprotected cases within 159 days of filing ➢ 90% of protested cases within 304 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of pipeline certificate cases of first impression or containing larger policy implications completed	90% within 365 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed	90% within 480 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of NEPA documents completed for projects utilizing the pre-filing processes	85% within 8 months of determining a pipeline or LNG facility application complete	Office of Energy Projects / Office of the General Counsel
Percentage of qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected every 8 weeks	Office of Energy Projects
Percentage of ILP pre-filing study plan determinations completed	85% within 150 days of applicant's filing of the proposed study plan	Office of Energy Projects / Office of the General Counsel
Percentage of infrastructure studies completed	➢ 100% for regional and issue-based infrastructure conferences ➢ 100% for Commission- and Congressional-directed studies	Office of Energy Projects

Encourage Investment and Effect Timely Cost Recovery		
Timeliness of processing complete applications for incentive rates	➢ 100% of statutory cases processed within statutory deadlines ➢ 100% of declaratory orders processed within 120 days of filing date or by applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing cost recovery cases for new infrastructure(including prudently-incurred expenses to safeguard and enhance the reliability, security and safety of the energy infrastructure)	➢ 100% of statutory cases processed within statutory deadlines ➢ 95% of certificate cases processed within 12 months or applicants' requested date, whichever is later ➢ 90% of cases that were set for hearing processed within 12 months of briefs opposing exceptions	Office of Energy Markets and Reliability / Office of Energy Projects / Office of the General Counsel
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Enforcement

Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of Accounting Inserts completed for inclusion in merit orders on cost recovery proposals for new gas pipeline infrastructure	95%	Office of Enforcement
Percentage of financial accounting filings completed timely	75% within 60 days of filing date	Office of Enforcement
Percentage of reporting requirement filings completed timely	75% within 60 days of filing date	Office of Enforcement

Objective B: Maintain a Reliable and Safe Infrastructure

The Nation's energy infrastructure must be reliable and safe in serving energy customers. The Commission works closely with federal, state and local agencies to:

- assure the reliability of interstate transmission grids;
- protect safety at LNG and hydropower facilities; and
- incorporate environmental considerations into Commission decisions.

Objective B Strategy 1

Assure Reliability of Interstate Transmission Grid

The Nation's electric transmission grid is an extremely complex network operated by some 130 balancing authorities delivering more than 850,000 MW of power. It includes over 150,000 miles of power lines that cross the boundaries of different utilities, states, Canada and Mexico. When a generator or transmission element fails, it can have widespread effects and must be addressed by multiple electricity balancing authorities that must quickly share information and coordinate their efforts to isolate or fix the failure. Given the economy's dependence on a reliable supply of electricity, it is critical for the industry to have clear, unambiguous, mandatory and enforceable reliability standards and secure communications and control technology. The Commission also needs a highly trained staff that understands the complexities of the bulk power system.

Historically, while the Commission regulated access to the transmission grid, it had no role in the approval or enforceability of reliability standards. Prior to 1965, reliability of the interconnected electric grid was managed by individual utilities which were, to varying degrees, accountable to state and local regulators. Following the Northeast Blackout of 1965, regional reliability organizations and, later, NERC were formed to develop voluntary reliability rules and to encourage reliable operating practices.

In August 2005, EPAct 2005 added to the FPA a new section 215 on reliability. It directed the Commission to promulgate new rules addressing establishment of an ERO and development of mandatory electric reliability standards and enforcement procedures for reliability violations.

As described more fully below, the Commission's work to implement this responsibility will focus on:

- overseeing the development and enforcement of mandatory grid-reliability standards to protect the bulk power system;
- addressing and improving infrastructure security; and
- coordinating efforts with Canada and Mexico.

Electric Reliability Standards. On September 1, 2005, three weeks after EPAct 2005 became law, the Commission issued a notice of proposed rulemaking proposing criteria that an entity must satisfy in order to qualify as the ERO and procedures under which the ERO may propose new or modified reliability standards for Commission review. In February 2006, the Commission finalized new rules on the certification of an ERO and the procedures for the establishment, approval, and enforcement of mandatory electric reliability standards. This followed technical conferences in November and December 2005 which addressed: the process that the ERO will use in proposing the new mandatory reliability standards; the role of regional entities in the ERO's standards development process; how existing reliability standards can be improved over time by the regional entities; how to establish new electric reliability standards; the roles states play with respect to reliability; and issues related to compliance and enforcement of standards.

In July 2006, the Commission certified NERC as the ERO and accepted, with some modifications and clarifications, NERC's proposed governance structure, funding, reliability standards development process, enforcement program and pro forma Regional Entity delegation agreement. As the ERO, NERC will be responsible for developing mandatory electric reliability standards subject to Commission approval and oversight. Through the Regional Entity agreements, NERC will delegate enforcement powers to Regional Entities that will directly monitor compliance with reliability standards and assess penalties for violations. The standards will apply to all users, owners, and operators of the bulk-power system. As the ERO, NERC will coordinate activities of the Regional Entities to assure consistent enforcement across the grid. NERC itself will retain enforcement powers, subject to Commission review. When appropriate, the Commission will use its own enforcement authority under the FPA to assure compliance with reliability standards. Thus, the Commission will rely on a regime of regional enforcement, but itself will be the ultimate enforcer of reliability.

As part of its application to become the ERO, NERC submitted a petition for Commission approval of 102 proposed reliability standards. The

Commission's preliminary staff assessment of the proposed standards concluded that the proposed standards represent a "solid foundation" on which to maintain and improve the reliability of the Nation's bulk power system. It also found various deficiencies in the current NERC standards, many of which NERC had already identified. The Commission asked for public comment on staff's preliminary assessment of the existing voluntary reliability standards, held a technical to discuss the preliminary assessment, and proposed in a rulemaking to approve 83 of 107 reliability standards for the Nation's bulk power system and the Glossary of Terms submitted by NERC.

To ensure reliability, Commission staff currently participates with NERC on approximately 30 "readiness reviews" per year. These reviews assess the readiness of reliability coordinators, balancing authorities, and transmission operators to operate the bulk power system reliably. They also serve to identify opportunities for improvement. Once the reliability standards are in place, Commission staff will, in addition to participating in readiness reviews, periodically audit the ERO for compliance with its statutory and regulatory criteria for maintaining certification and its performance in enforcing the reliability standards. Commission staff may independently audit and will participate with the ERO in its auditing of the Regional Entities to whom certain compliance and enforcement authority may be delegated and will audit users, owners, and operators of the bulk power system in response to complaints or reliability incidents (e.g., facility outages or blackouts) or allegations of non-compliance with the reliability standards.

In July 2006, the Commission granted an April 2006, petition from the governors of Arizona, California, Colorado, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming to establish a regional advisory body, as provided for under EPAct 2005. The Western Interconnection Regional Advisory Body may provide advice to the Commission, the ERO and a Regional Entity on specified issues affecting that region, and the Commission may give deference to the advice of the regional advisory body.

Regulation of the ERO and the assessment and enforcement of reliability standards is a new area of responsibility for the Commission. The issues are extremely complex and will undoubtedly be contentious and time consuming, requiring extensive outreach and education. The Commission has been and will continue to hire additional staff and in some instances it may be necessary for the Commission to acquire contract expertise.

Electric Infrastructure Security. The Commission works with other agencies and with industry on a number of fronts to address and improve infrastructure security. The Commission continues to communicate and collaborate with Department of Homeland Security (DHS), DOE, Nuclear Regulatory Commission, and NERC, among others. The scope and confidentiality of this work varies from undertaking studies to assessing risk. Many of these activities will lead to the development or modification of ERO reliability standards.

The Commission encourages innovative approaches to system security, reliability, and practices that will improve the ability of the transmission grid to withstand and quickly recover from a terrorist attack. The Commission anticipates industry filings to address potential terrorist attacks.

As part of its electric infrastructure security work, the Commission has begun an information exchange among the industry. The Commission also took other significant steps to ensure the reliability of the interstate transmission grid in FY 2006:

- In January 2006, the Commission directed the PJM Interconnection and Potomac Electric Power Co. to develop and implement a comprehensive plan to preserve reliability in the Washington, D.C. region. The Commission concluded that reliability standards are not being met during certain conditions, and that the long-term reliability of the regional power grid in the Washington, D.C. area is compromised.

- In July 2006, the 69 kV portion of the Potomac River Project was completed (i.e., two feeders were energized). Additionally, PJM Interconnection and Potomac Electric Co. anticipate an in-service date of June 21, 2007 for the 230 kV portion of the Potomac River Project;

- In April 2006, the Commission and the Nuclear Regulatory Commission met to discuss and promote interactions between the two agencies on matters relating to the reliability of the bulk power system and the operation of United States commercial nuclear power plants; and

- In September 2006, the Commission approved an innovative agreement among electric utilities put forth by the Edison Electric Institute establishing a Spare Transformer Equipment Program designed to increase the industry's inventory and availability of spare electric transformers. The Commission concluded that this agreement will help to maintain the integrity of the nation's transmission system in the event of a future terrorist strike by providing participating utilities immediate access to a pool of spare transformers and, thus, dramatically reducing the length of an outage resulting from an attack. The Commission has encouraged the participating utilities to expand the scope of the program to include such emergency situations as natural disasters, under which the transfer of spare transformers will be required under the agreement.

Interface with Canadian and Mexican Regulators on North American Electric Reliability. The U.S.-Canada Bilateral Electric Reliability Working Group, which now includes representatives from Mexico as observers, held public conferences in FY 2005 and 2006 on the transition to an international ERO and the cross-border implications of reliability standards, development, recognition, and enforcement. The Commission will continue its efforts to closely coordinate with Canadian and Mexican regulatory authorities to address ERO reliability standards and other reliability issues affecting both sides of the border.

Objective B Strategy 2

Protect Safety at LNG and Hydropower Facilities

The Commission is responsible for the safety of LNG and non-federal hydropower facilities throughout the entire life cycle of a project: design review, construction, and operation. The Commission also has a limited regulatory role in the safety of natural gas pipelines and storage projects.

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

Pursuant to a directive in section 3 of the NGA, as amended by EPAct 2005, the Commission is pursuing an MOU with the U.S. Department of Defense to coordinate and consult on the siting, construction, expansion, and/or operation of LNG facilities that may affect activities of an active military installation. If the Commission determines there would be an effect, it will obtain concurrence prior to authorizing the facilities.

The Commission continues to work closely with the U.S. Coast Guard in FY 2006 to help it refine its guidance for the preparation and review of a waterway suitability assessment. In addition, the Commission is continuing to work with the U.S. Coast Guard to ensure that environmental impacts of U.S. Coast Guard actions related to LNG facilities and tanker transit are adequately addressed in the EIS.

In any order authorizing an LNG terminal, the Commission will require the development of an emergency response plan which must include a cost-sharing framework for the applicant and state and local authorities. While developing the plan, the applicant must consult with the U.S. Coast Guard and state and local authorities. The Commission will review and approve the plans.

In FY 2006, the Commission announced the reorganization of its LNG staff into two branches. The LNG Engineering Branch continues to be responsible for reviewing the design of new LNG projects and working with the U.S. Coast Guard to ensure the safe siting, operations, and reliability of facilities. The new LNG Compliance Branch reviews and approves the final engineering design of authorized LNG projects, inspects these facilities during construction to ensure compliance with the safety and reliability requirements of Commission orders, and conducts the annual and biennial safety and reliability inspections of the existing jurisdictional LNG peak shaving and marine import terminals for the life of these facilities. The separation of responsibilities for the LNG facilities ensures that the review of new facilities does not conflict with the on-going obligation of the Commission to ensure the safe and reliable operation of existing facilities.

Also in FY 2006, the LNG staff convened a technical conference to discuss its Draft Preferred Submittal Format Guidance for Resource Reports 11 (reliability and safety) and 13 (LNG plants) and recent initiatives to more precisely define and limit the Critical Energy Infrastructure Information (CEII) content in Resource Report 13 and other filings. Other topics included site exclusion zone issues and calculation methodology, agency coordination with respect to emergency response plans, including the National Association of State Fire Marshals and military installations, and various marine safety issues with specific emphasis on the U. S. Coast Guard's Guidance on Assessing the Suitability of a Waterway for LNG Marine Traffic (NVIC 05-05).

Future plans include issuing final guidance for the above drafts on Resource Reports 11 and 13, issuing draft Good Engineering Practices for LNG Facilities, and conducting a technical conference to receive public comments before issuing final Good Engineering Practices. Other planned activities include issuing seismic design guidelines for LNG facilities, creating guidance for the completion of plant inspection manuals that can be used by industry and its staff, and providing guidance on the construction reports and semi-annual operational reports.

Hydropower Facilities. The Commission has authorized construction and operation of over 1,600 non-federal hydroelectric projects. To protect life, health, and property, the Commission works to ensure the safety of the approximately 2,500 dam structures included in these Commission-authorized projects. During FY 2006, the Commission continued implementing its potential failure modes analysis and performance-monitoring program, and refined the newly-formed technical resource groups to apply the best dam safety expertise to the most difficult dam safety issues in an effective and efficient manner.

The goal of performance monitoring is to use appropriate instrumentation to detect and measure physical changes in the structure before dam safety problems develop. The program includes procedures and criteria for dam owners that:

- identify risk reduction opportunities;
- identify the most significant potential failure modes;
- develop dam operating procedures; and
- focus instrumentation, monitoring, and inspection programs on providing information on failure modes that present the greatest risk to the safety of the dam.

This program is providing exceptional methods to better identify and solve dam safety issues, and has improved coordination, abilities, and trust among all stakeholders. Full rollout of this program will be completed in FY 2008. Potential failure modes analyses will be conducted by the dam owner, independent consultant, and Commission staff at the next-scheduled independent consultant inspection. By the end of FY 2006, approximately 60 percent of the required dams will have undergone this new analysis. In FY 2007 and 2008, the Commission will have transitioned from the initial work of identifying potential failure modes to an emphasis on performance monitoring and the assessment of resulting data. We will work with federal and state agencies on earthquake analyses and additional guidance on state-of-the-practice safety issues. There have been incidents of malfunction of various remote control operations at Army Corps of Engineers, Bureau of Reclamation and Commission projects. This raises the need for a national cooperative assessment of remote control equipment at dams, in which we will be heavily involved.

The Commission has developed an aggressive security program that helps protect hydropower projects and safeguards this portion of the Nation's infrastructure. During FY 2006, the Commission focused closely on security issues and further developed the hydropower security program by:

- conducting three workshops on dam site security and emergency action planning;
- providing significant contributions to DHS on dam security and criticality of dams;
- continuing to work with DHS and the Federal Bureau of Investigation to coordinate a national security response at dams;
- leading interagency coordination on federal infrastructure security at dams, including the creation of the Government Coordinating Council for Dams;
- continuing coordination efforts between Commission-jurisdictional dam owners and law enforcement and emergency management agencies; and
- coordinating with various federal and state dam safety agencies, Federal Emergency Management Agency and DHS, and providing industry guidance on the format and content of disaster recovery plans for hydropower projects.

These efforts have better prepared the hydropower industry and the Commission to keep dams safe and secure, and to respond quickly and successfully to any safety threats. In FY 2007 and 2008, the Commission will further improve its security program by ensuring that jurisdictional dam owners/operators have proper cyber and supervisory control and data acquisition security, continuity of operations (disaster recovery) plans, and emergency action plans.

The Commission also oversees construction and remediation to correct deficiencies in project structures. The Commission responded to the December 2005 overtopping and breach of the Taum Sauk Pumped Storage Project's upper reservoir dike, near Lesterville, Missouri. Commission staff conducted an intensive investigation of the events surrounding this incident. The Commission also convened an expert panel of engineering consultants to evaluate and oversee the forensic evaluation and the design of the project repair. Throughout the process, Commission staff has been working closely with the licensees, the engineering consultants, and the State of Missouri's dam safety and environmental agencies.

Commission staff quickly applied the lessons learned at Taum Sauk to other pumped storage projects by conducting a technical review of the operations and controls of the jurisdictional pumped storage projects. The review was followed up with a workshop of all pumped storage project owners in November 2006 and a collaborative group of pumped storage project representatives, engineering consultants, other federal agencies, and Commission staff was formed to develop pumped storage technical guidance.

Natural Gas Pipelines and Storage Facilities. Under section 7 of the NGA, the Commission reviews applications for the construction and operation of natural gas pipelines. In its application review, the Commission ensures that the applicant has certified that it will comply with DOT safety standards. The Commission has no jurisdiction over pipeline safety or security, but actively works with other agencies with safety and security responsibilities.

The Commission acts as the lead federal agency for the siting and authorization of jurisdictional natural gas storage facilities as these facilities are integral to the interstate natural gas pipeline systems engaged in the transportation of gas in interstate commerce. The Commission also approves the expansion, acquisition, or abandonment of these facilities.

Further, for underground gas storage facilities, the Commission historically has played a limited role regarding the safety of these facilities. Routinely, the Commission requires that storage developers supply certain safety related information up until the time that the certificated storage volumes have been achieved, which could take a year or more, depending on the type and size of the storage project.

Critical Energy Infrastructure Information. The Commission continues the efforts it began in Order No. 630 to restrict access to CEII while still providing information needed by the public to participate in siting and other proceedings. From April 2003 through May 2006, the Commission received over 1,100 CEII requests. This figure does not include hundreds of additional requests from owners and operators seeking CEII regarding their own facilities, processing numerous requests from federal agency requesters as well as numerous inquiries regarding the Commission's CEII regulations. The Commission granted most requests for access to CEII. As provided in Order No. 630, the Commission continually monitors and evaluates the effectiveness of the CEII process. In an effort to improve the process for handling CEII requests, the Commission on September 21, 2006 issued a final rule clarifying the definition of CEII and simplifying the procedures for obtaining access to CEII without increasing vulnerability of energy infrastructure. That same day, the Commission issued a notice of proposed rulemaking that would allow annual certification for repeat requesters of CEII, provide CEII appeal rights, and make several other changes designed to make the process more efficient.

Objective B
Strategy 3

Incorporate Environmental Considerations into Commission Decisions

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

Natural Gas Projects. The Commission requires environmental measures in certificates and authorizations, inspects natural gas facilities for adherence to prescribed environmental mitigation measures, and demonstrates its commitment to expedited project reviews and addressing landowner concerns when performing NEPA reviews. For example, in June 2006 in the Cove Point Expansion project, the 74 environmental mitigation conditions imposed on the project will reduce noise and air quality impacts and impacts on endangered species and water bodies along the route, and result in modifications to the design of the LNG terminal to improve safety, security and reliability, among other things.

In Southern Natural Gas Company's Cypress Pipeline and Florida Gas Transmission Company's Phase VII Expansion projects, the Commission issued an order in June 2006 that included 36 environmental mitigation conditions. These conditions included the implementation of a compliant resolution process; the protection of springs and wells, and sensitive species; measures to reduce impacts on water bodies and cultural resources; Coastal Zone Management Act consistency; noise mitigation; and other resource issues.

In FY 2006, the Commission continued to offer training sessions on compliance with Commission regulations and certificate conditions. In addition to helping certificate applicants, the well-attended sessions are also valuable to Commission staff. The comments and questions from the sessions help the Commission monitor the clarity and effectiveness of certificate conditions.

In addition to the training sessions, the Commission undertook the evaluation of the effectiveness of the Interagency Agreement for natural gas projects. In addition to industry, agency, and public focus groups, the Commission hosted four meetings to discuss the results of the focus groups and gather additional comments and concerns. The results of the evaluation will be used by the Commission, and each of the other signatory agencies, to determine whether modifications in process or procedures are required to ensure effective participation by agencies and stakeholders in the Commission's environmental review process. The staff also used the meetings as an opportunity to discuss the Commission's implementation of its EPAct 2005 requirements.

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

Hydropower Projects. Hydropower licenses include requirements that are designed to protect, mitigate and enhance the environmental resources of project areas. These requirements address water quality, land use management, endangered species, recreation, cultural resources and fish habitat and passage, among other resources. In many cases, measures to protect, mitigate and enhance the environmental resources of project areas are proposed in settlement agreements filed with the Commission. For hydropower licensing cases, settlement agreements continue to increase in number. The Commission encourages parties to develop settlements that are consistent with the Commission's responsibilities under the FPA so that the Commission can include agreed-upon provisions in licenses.

In FY 2006, the Commission issued several licenses that included significant environmental measures agreed to by the signatories and set forth in the agreements, including:

- a settlement signed by seven stakeholder groups for the 40.26 MW Saranac River Hydroelectric Project, located on the Saranac River in Clinton County, New York, which included significant measures designed to protect and enhance fishery and aquatic resources by limiting impoundment fluctuations, maintaining a base flow downstream of the High Falls and Kents Falls Developments, and releasing seasonal minimum flows in the High Falls and Kents Falls bypassed reaches;
- a settlement signed by eight stakeholder groups for the two-development, 8.25 MW Conecuh River project, located on the Conecuh River in Alabama, which contained provisions to protect and enhance fishery and aquatic resources by providing additional minimum flows and stabilizing reservoir water levels and to enhance recreation resources by developing a comprehensive recreation plan;
- a settlement signed by 14 stakeholder groups for the 2.7 MW Piercefield Hydroelectric Project, located on Raquette River in St. Lawrence and Franklin Counties, New York, which included provisions for stabilizing reservoir levels, providing flows for downstream fish passage maintaining a base flow of 150 cubic feet per second from the Piercefield impoundment to the river downstream and providing annual recreation flows for boating; and
- a settlement signed by 14 stakeholder groups for the two-development 16.68 MW Willamette Falls Hydroelectric Project, located on the Willamette Rivers near the cities of Oregon City and West Linn, Oregon, which provides for improving fish passage conditions at the project and enhancing public appreciation and understanding of the history of Willamette Falls.

To ensure that agreements are promulgated in a manner consistent with Commission practice, the Commission issued a Policy Statement on Hydropower Licensing Settlements and encouraged parties to seek the advice of Commission staff to provide settling parties with a Commission preview of draft agreements to capture inconsistencies with Commission policies or practices. During FY 2006, the Commission assisted in developing several settlement agreements, including:

- a comprehensive settlement agreement signed by the applicant, Portland General Electric, and 32 parties on proposed environmental measures for the 173 MW Clackamas River Hydroelectric Project, No. 2195-011, located in Clackamas County, Oregon. The 32 settlement parties included four federal agencies, five state agencies, seven local agencies and 13 non-governmental organizations. The agreement includes 55 proposed license articles describing how Portland General Electric would operate the project and its responsibilities for certain environmental measures;
- a comprehensive settlement agreement signed by 10 parties for the 865.76 MW Rocky Reach Hydroelectric Project, located near Wenatchee, Washington, which included a full range of measures

designed to provide protection, mitigation, and enhancement measures for shoreline erosion, water quality, white sturgeon, bull trout, Pacific lamprey, resident fish, wildlife, cultural resources, and recreation resources;

- a comprehensive settlement agreement signed by itself and 51 other parties for the 762 MW Oroville Project which impounds Lake Oroville, located on the Feather River in Butte County, California, and includes downstream water quality and temperature targets, recreation enhancements, cultural resources protection, and improvements to aquatic, riparian and terrestrial habitats and continued and enhanced operations of the Oroville fish hatchery; and
- a collaborative process involving over 160 stakeholders whose goal is to reach a mutually acceptable agreement on all interests related to Duke Power Company's 841 MW Catawba-Wateree project, located in Alexander, Burke, Caldwell, Catawba, Gaston, Iredell, Lincoln, McDowell, and Mecklenburg counties, North Carolina and Chester, Fairfield, Kershaw, Lancaster and York Counties, South Carolina. A settlement has not been reached to date and Duke Power Company will file its license application in August 2006.

The Commission continues to receive an increasing number of land and water use development applications that involve contested, complex issues related to water quality, navigation hazards, aesthetics, and erosion around licensed lakes and reservoirs. The Commission expects the same trend to continue, as the public leisure demands continue to grow on lakes and reservoirs. The Commission has issued a guidance manual for shoreline management, and continues to hold land resources management and development workshops in the affected regions of the country. The Commission also conducts workshops on noxious plants to exchange scientific information and improve coordination among licensees, federal and state resource agencies, and noxious plant experts on effective control and eradication methods to be used in licensed lakes and reservoirs.

The Commission will monitor compliance through its environmental inspection program to ensure that resource protection measures, designed to maintain environmental quality at hydropower projects, are constructed and implemented according to license requirements. The Commission's compliance assistance program comprising environmental inspections, building partnerships, engaging in collaborative problem solving, and delivering guidance ensures effective license compliance and resource protection. In FY 2006, Commission staff will inspect 170 projects and complete over 200 investigations into allegations of environmental non-compliance. Commission staff expects to conduct a similar number of inspections and investigations in FY 2007 and 2008.

Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Assure Reliability of Interstate Transmission Grid		
Timely approval of ERO/RE budgets and business plans	Complete by November 1, 2008	Office of Energy Markets and Reliability
Timeliness of processing proposed reliability standards	100% of filed proposed reliability standards are remanded or approved within 18 months, unless found incomplete	Office of Energy Markets and Reliability / Office of the General Counsel
Review the performance of the ERO	Implement the procedures developed in FY 2007	Office of Energy Markets and Reliability
Percentage of ERO / industry reliability readiness reviews of Reliability Coordinators in which FERC participates	100%	Office of Energy Markets and Reliability
Percentage of load served, included in ERO / industry reliability readiness reviews, in which FERC participates	50%	Office of Energy Markets and Reliability
Percentage of ERO penalty action rulings reviewed to prevent inappropriate rulings from going into effect by default	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Protect Safety at LNG and Hydropower Facilities		
Percentage of high- and significant-hazard-potential dams inspected annually	100%	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation	100%	Office of Energy Projects
Percentage inspected annually: ➢ LNG import terminals ➢ LNG peak-shaving facilities	➢ 100% ➢ 50%	Office of Energy Projects
Percentage of LNG facilities that meet all current safety standards or are subject of a compliance letter	100%	Office of Energy Projects
Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s)	100%	Office of Energy Projects
Control access to Critical Energy Infrastructure Information	No instances of improper access or improper denial affecting national security or Commission proceedings	Office of the General Counsel

Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Incorporate Environmental Considerations into Commission Decisions		
Timeliness of issuing environmental licensing requirements	Licensing responsibility letters sent within 45 business days of license issuance date	Office of Energy Projects / Office of the General Counsel
Percentage of final NEPA documents issued for ALP/TLP cases: ➢ with settlement agreements ➢ without settlement agreements	➢ 85% within 12 months ➢ 85% within 24 months	Office of Energy Projects / Office of the General Counsel
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	Office of Energy Projects

CHAPTER 2: COMPETITIVE MARKETS

Support Competitive Markets

Competitive Markets Resources (Dollars in Thousands)	FY 2006 Actual	FY 2007 C.R. Level	FY 2008 Request
Total FTEs	**203**	**208**	**224**
Program	162	168	182
Support	41	40	42
Total Funding	**$34,570**	**$35,525**	**$40,130**
Program	28,096	29,121	33,051
Support	6,474	6,404	7,079

Introduction

The Commission continues to develop rules that encourage fair and effective competitive markets and prevent the accumulation and exercise of market power.

To help reach these goals, the Commission reorganized the staff and structure from the Office of Markets, Tariffs and Rates into the Office of Energy Markets and Reliability in early FY 2006. Changes were also made to the Office of Market Oversight and Investigations which resulted in the new Office of Enforcement. These realignments match the Commission's work in the areas of competitive markets and reliability.

To develop rules that encourage fair and efficient competitive markets, the Commission will continue to:

- employ best practices in market rules; and
- reduce barriers to trade between markets and among regions.

To prevent the accumulation and exercise of market power, staff efforts in the Office of Energy Markets and Reliability and the Office of the General Counsel will dovetail with those of the Office of Enforcement staff to:

- assure proposed mergers and acquisitions are in the public interest; and
- address market power in jurisdictional wholesale markets.

The Commission is charged by statute with ensuring that prices in jurisdictional energy markets remain just and reasonable and not unduly discriminatory or preferential. One way the Commission does this is by preserving and expanding the transparency of information and operations in energy markets. As discussed more fully below, this in turn relies on Commission rules being effective at encouraging fair and efficient competitive markets. The Commission will accomplish this primarily through:

- its rate and corporate jurisdiction under sections 205, 206 and 203 of the FPA;
- its rate jurisdiction under sections 4 and 5 of the NGA;
- its rate jurisdiction under the Interstate Commerce Act; and
- EPAct 2005 amendments to the FPA and NGA related to market operations, including new transparency provisions and anti-manipulation provisions.

One key initiative that will support the development of competitive electric markets is reform of the Commission's *pro forma* open access transmission tariff governing public utility transmission services.

Objective A: Develop Rules that Encourage Fair and Efficient Competitive Markets

Commission rules encourage fair and efficient competitive markets by preventing the accumulation and exercise of market power and promoting transparency of competitive electric and gas markets.

The Commission's work related to this objective will use the strategies of:

- continuing to evaluate and make improvements in jurisdictional competitive wholesale markets, especially the best practices it finds in organized markets; and
- reducing the market and reliability barriers to trade between market regions.

Objective A Strategy 1

Employ Best Practices in Market Rules

The operations of jurisdictional energy industries in the United States must work together as seamlessly as possible for consumers to get energy at reasonable prices. The operations occur:

- across regionally operated electric markets and electric transmission facilities; and
- through a number of market hubs and pipeline networks for natural gas and oil products.

The Commission integrates its regulation of these separate but highly inter-related energy industries but recognizes that there are significant differences among the electric markets - one of which is structural. The

United States does not have a national electricity market, but rather a series of regional electricity markets. Some regions have independent operation of transmission facilities within a state or region and organized energy markets administered by RTOs or ISOs, while others rely on transmission operated by integrated investor-owned utilities. Effective competition can exist under either structure. In addition, some of the benefits of organized markets can be achieved outside the structure of RTOs and ISOs. Current Commission policy promotes the voluntary formation of RTOs and ISOs. A key to expansion of organized markets is whether the existing RTOs and ISOs prove to be a success, delivering reliable service at just and reasonable prices to the benefit of their members.

The Commission will continue to build policies that reflect the successes achieved in energy markets. It will also incorporate lessons learned from:

- the creation and sharing of general best practices across organized markets; and
- the development and use of effective and efficient business rules and practices.

General Best Practices in Organized Markets. The Commission will continue to look for best practices in organized markets to improve its policies in furtherance of competitive wholesale markets. Some recent activities include:

- In February 2005, the Commission accepted a restated and revised seams resolution agreement filing entered into by ISO New England, Inc. (ISO-NE) and the New York Independent System Operator (NYISO). NYISO and ISO-NE have working groups that are striving to more closely align the policies of the two organizations and dispatch across seams in a manner that would be more consistent with internal dispatch.

- The Midwest ISO operates in all or parts of 15 Midwestern states and one Canadian province. In April 2005, the Midwest ISO implemented a Transmission and Energy Markets Tariff under which it provides security-constrained, centrally-dispatched day-ahead and real-time energy markets. The new energy markets will provide greater transparency of the values associated with using the electrical grid, and clear economic indicators showing where investments in infrastructure are needed.

- The Midwest ISO will continue to enhance and expand its existing market structure through development of a permanent resource adequacy plan. In the first phase of development, the Midwest ISO will integrate Operating Reserves and Regulation into its centrally-dispatched energy markets. This integration is expected to produce certain efficiencies, and potentially significant savings, by coordinating and consolidating certain functions between the Midwest ISO and the balancing authorities in its region. The Midwest ISO anticipates filing plans for this first phase in early 2007. In the second phase of development, the Midwest ISO intends to develop longer-term (multi-year) financial transmission rights and to facilitate the use of longer-term energy contracts by market participants.

- In June 2006, PJM and the Midwest ISO filed an informational report informing the Commission of their progress towards a joint and common market and implementation of the PJM/Midwest ISO Joint Operating Agreement. The report included the results of a production cost study completed by these RTOs to assess the expected annual production cost savings of a single unit commitment and dispatch over the combined Midwest ISO and PJM footprint. The study concluded that the cost of implementing a single dispatch could outweigh the achievable level of associated savings at this time. However, the study identified a number of initiatives that are expected to increase the convergence of the two markets and achieve significant savings, such as PJM's implementation of marginal losses, alignment of PJM Operating Reserve and the Midwest ISO Revenue Sufficient Guarantee products, moving joint-owned units between markets, and alternative border pricing mechanisms. Since the signing of the Joint Operating Agreement between PJM and Midwest ISO, these RTOs have indicated that they have implemented a functional common market and will be continually implementing improvements such as those described in their report to resolve seams issues and promote convergence between the markets.

- The Southwest Power Pool (SPP), approved to operate within an eight-state region, began operations as an RTO in February 2005. SPP has identified state involvement, capacity and resource adequacy, and an energy imbalance market as key items on its agenda. The Commission conditionally accepted SPP's transmission cost allocation plan, which is intended to encourage investment in transmission expansion throughout SPP. In March 2006, the Commission rejected in part and conditionally accepted in part SPP's proposal to implement a real-time energy imbalance market and a market monitoring and market power mitigation plan. SPP filed a compliance filing and several additional elements of its imbalance market design, including a transmission loss allocation method, a new external market monitor agreement, a reserve sharing proposal and a standard form market participant agreement. In July 2006, the Commission accepted most of SPP's compliance filing, rejected the reserve sharing proposal and directed another compliance filing. SPP's target implementation date for the imbalance market is February 1, 2007.

- The California ISO (CAISO), currently operating as a statewide ISO, is in the process of implementing a redesign of its wholesale electricity markets, which is expected in January 2008. The CAISO's proposal provides for a new congestion management system, revises market power mitigation measures, and establishes a financially binding day-ahead energy market that will optimize energy supplies, ancillary services and electricity demand in the day-ahead time frame. Under its proposal, the CAISO will use a full network computer model to accurately depict available capacity and constraints on the CAISO's grid across all market time frames, and will allocate transmission and capacity among competing uses using Locational Marginal Pricing.

- In FY 2006, the Commission approved proposals by four jurisdictional vertically-integrated utility systems to contract with an independent third-party, to act as their independent transmission service coordinator. Under the proposals, the independent transmission service coordinator will administer various open access transmission tariff-related functions with respect to transmission service provided over the utilities' systems. Generally, the independent coordinator will assume responsibility for, among other things: (1) evaluation and approval of all transmission service requests; (2) calculation available transmission capacity; (3) operation and administration of Open Access Same-Time Information System (OASIS), which makes information about available transmission capability public and provides a means for requesting transmission service; (4) evaluation, processing and approval of all generation interconnection requests, and performance and/or oversight of related interconnection studies; and (5) coordination of transmission planning. The utility systems with approved proposals are MidAmerican Energy Co., Duke Power, Louisville Gas and Electric Co., and Entergy Services, Inc. The Commission will also assess how successful these proposals are in their operations and gather best practices to inform its regulatory policies in FY 2008 and beyond.

Demand response is one example of a best practice the Commission is encouraging in energy markets to allow response from both the supply and the demand side of the industry. Historically, retail prices have reflected average costs over fairly long periods of time. The result is that customers have seldom seen prices change in the short-run and have had little if any incentive to change their usage in response to the true costs of producing power at any given time.

States have direct jurisdiction over retail electricity sales and end-user demand side measures. However, some demand-side programs and the role of demand-side resources in wholesale markets may invoke aspects of the Commission's jurisdiction. For that reason, Commission efforts to support or promote demand response rely on coordination with the states and Commission policies need to complement state conservation and demand response policies where possible.

The Commission prepared a demand response report under EPAct 2005. The August 2006 Commission report assessed the saturation and penetration rates of advanced meters and communications, the annual resource contribution of demand resources and the potential for demand response as a quantifiable, reliable resource for regional planning purposes.

Information from this August report has already become useful to state and federal policy deliberations related to encouraging demand response in electric power markets as a best practice. In November 2006 the Commission initiated a demand response collaborative dialogue with state regulators to explore how to better coordinate the respective approaches to electricity demand response policies and practices. With FERC serving as the federal co-chair, the collaborative dialogue will examine the coordination of federal and state demand response policy changes that could improve demand response in order to lower costs in retail and wholesale markets. The group held its first meeting at the annual National Association of Regulatory Utility Commissioners meeting in November 2006.

In addition to the demand response collaborative dialogue, the Commission will continue collaborating with DOE as it works to develop and implement a demand response research program. The Commission will also carefully consider and act on demand response issues as they arise in the filings it receives.

A case-specific example of when demand response issues arise in Commission proceedings involves PJM. In April 2006, after finding that PJM's existing capacity obligation rules were unjust and unreasonable, the Commission determined that certain elements of the proposed alternative, reliability pricing model (RPM), may form the basis for a just and reasonable capacity market. Under RPM, load serving entities can satisfy their capacity obligations not only with generation, but also with existing and planned demand resources. In December 2006, the Commission approved, subject to conditions, a settlement adopting PJM's amended RPM to provide greater incentives for new generation, transmission, and demand response.

The Commission believes that demand response programs can reduce electric price volatility and balance supply and demand at lower price levels, and will continue to work with state regulators to support such programs as appropriate in addressing best practices.

Using Effective and Efficient Business Rules and Practices. The Commission has encouraged the development of business rules and practices that maximize market efficiency, ease market entry and reduce transaction costs, relying on the North American Energy Standards Board (NAESB), RTOs and ISOs, where appropriate. The lack of consistent, non-discriminatory rules for all transmission customers can have substantial competitive consequences and lead to higher costs for all customers.

Based on the Commission's experience in the natural gas industry with NAESB, the best way to develop business practice standards is for industry experts to develop the standards, with the Commission resolving issues those experts cannot agree on and then codifying the standards through the Commission's notice and comment procedures. The Commission was instrumental in the formation of the Wholesale Electric Quadrant of NAESB as the group responsible for addressing business practices in the electric industry.

In April 2006, the Commission issued a final rule adopting the first set of wholesale electric standards promulgated by NAESB. These standards deal with, among other things:

- OASIS business practice standards, Standards and Communication Protocols, and Data Dictionary; and
- business practice standards for Coordinating Interchange, Area Control Error Equation Special Cases, Manual Time Error Correction, and Inadvertent Interchange Payback, which complement NERC's Version 0 Reliability Standards.

The Commission also works with NAESB's Wholesale Gas Quadrant. In May 2005, the Commission issued a final rule adopting the Wholesale Gas Quadrant's latest standards, which included their Version 1.7 standards, standards implementing the Commission's Standards of Conduct, and standards implementing gas quality reporting requirements. In FY 2007, the Commission will be working with the Wholesale Gas Quadrant on version 1.8 of its standards.

The Commission worked with NAESB's Wholesale Electric and Wholesale Gas Quadrants on a joint effort to identify and develop business practice and communication standards needed to coordinate the scheduling of electric and gas transactions. In June 2005 and February 2006, NAESB filed reports outlining business practice standards to improve coordination between the two industries during times of weather-related emergencies and highlighting for Commission action policy issues that may inhibit such coordination. In October 2006, the Commission issued a notice of proposed rulemaking proposing to incorporate by reference the gas-electric coordination business practice standards adopted by NAESB. At the same time, the Commission instituted inquiries into the gas-electric coordination practices of the RTOs and ISOs.

Objective A Strategy 2

Reduce Barriers to Trade Between Markets and Among Regions

In exercising its jurisdiction over wholesale markets, and transmission and transportation in interstate commerce, the Commission strives to reduce barriers to trade in gas and electric markets. It also seeks to adopt approaches that are complementary to those of the states in their regulation of retail markets.

Barriers can be caused by differences in state rules or by differences in approach by individual service providers within a market. The Commission has supported efforts by industry groups, such as NAESB, to address such differences in operating and business practices by standardizing business practices in both gas and electric markets. In wholesale electric markets, the Commission's open access transmission tariff reform proceeding further seeks to increase the consistency and transparency of the rules governing jurisdictional transmission service. For example, by proposing a consistent method of calculating available transmission capability (ATC), the Commission seeks to simplify the process of obtaining transmission service by eliminating confusion over the validity of ATC data. An example of an intra-market barrier in gas markets is the increasing number of disputes over natural gas quality and interchangeability. The Commission's June 2006 policy statement on the matter delineates five principles the Commission will use as it addresses disputes over gas quality and interchangeability on a case-by-case basis.

Inter-market barriers also are a primary focus of the Commission. For example, the Commission has facilitated discussions between industry and states to address the seams issues that occur at boundaries between organized markets. Seams refer to the barriers and inefficiencies that result from differences in market rules and designs, operating and scheduling protocols, and other control-area practices that inhibit or preclude the ability to execute capacity and energy transactions that cross regional boundaries. Significant differences in power products and pricing and market rules between organized markets can reduce competition between suppliers across the regions. Thus, resolving seams differences between regions could lower the cost of transacting power sales between regions, permit dispatch of lower cost power and, ultimately, lower costs to customers.

The Commission staff meets with state regulatory commission staff and other state and governmental entities on a variety of market design, reliability, and operational issues. They work with stakeholders on issues regarding pre-filing, tariff implementation, and market protocol implementation. They have met with state regulatory commissions and staffs to discuss seams issues, cost control, financial transmission right allocations, and the treatment of grandfathered agreements. Commission staff also works with RTOs and ISOs on stakeholder issues and attend board meetings.

Some examples follow of actions that will result in eliminating or reducing seams issues at RTO and ISO boundaries.

- Order No. 672 requires that one region's deviations from established reliability standards cannot adversely affect another region. It also establishes regulations governing conflict resolution between reliability standards and state reliability actions as well as with market rules functions, orders, tariffs, rate schedules or any agreement accepted, approved, or ordered by the Commission.

- Progress within the Eastern Interconnection is being made to address important differences between the organized markets that impact commerce and the reliable operation of the grid. Notably, the Northeast Seams Initiative is intended to harmonize market rules for the purpose of developing larger markets among ISO-NE, NYISO, PJM and the Independent Electric System Operator of Ontario.

- The February 2005 resolution agreement between ISO-NE and the NYISO established specific milestones and timelines for resolution of each of the remaining inter-regional seams identified by the parties in their agreement.

- The Joint Operating Agreements between Midwest ISO and PJM:
    - enhance the RTOs' combined operational reliability by focusing on real-time communications, emergency protocols, and operational data exchange (all important measures after the August 2003 blackout);
    - address seams issues;
    - provide for long-term transmission planning;
    - facilitate the present and future integration of utilities into the PJM markets and the operations of both RTOs;
    - institute planning steps to further coordinate ancillary service markets, the allocation of transmission capacity and related financial rights; and
    - continue development of a joint and common market covering the RTOs' combined regions.

- The Joint Operating Agreements between the SPP and Midwest ISO accomplish many of the objectives listed above by:
    - installing protocols for confidential treatment of bid or pricing data, transmission data, and exchange of operations planning data to enhance reliability;
    - improving available flowgate capability (AFC) calculations to increase the use of the transmission system in each RTO;
    - providing for long-term transmission planning coordination between the RTOs.

- Similarly, as SPP assumes the role of Independent Coordinator of Transmission of the Entergy Operating Companies, it should improve transparency of transmission information, enhance transmission access, and relieve transmission congestion. SPP also intends to apply regional planning principles to the Entergy system in order to reduce seams issues. These include a more regional focus for long-term transmission planning, improved AFC calculations, and improved communications among Entergy and neighboring utilities.

- Seams issues previously addressed by the Seams Steering Group-Western Interconnection will be addressed by various sub-regional working groups and the Western Electricity Coordinating Council (WECC). WECC is taking the lead to address seams created by differences in commercial practices (e.g., coordination of hour-ahead schedules, OASIS business practices, congestion management) between and among entities operating in the Western Interconnection. The various sub-regional planning groups are informally coordinating their efforts in order to monitor both sub-regional and WECC-wide planning.

- In December 2006, the Commission held a technical conference to discuss seams issues in the Western Interconnection raised by the approved CAISO market redesign.

Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Employ Best Practices in Rules		
Percentage of initial orders completed on third-party complaints	➢ 75% of complaints filed with the Commission are processed within 90 days ➢ 90% of the complaints filed with the Commission are processed within 180 days, or by the complainant's requested date, whichever is later	Office of the General Counsel / Office of Energy Markets and Reliability
Timeliness of processing proposed market rules	By the statutory due date or applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of unopposed rulemakings within 9 months ➢ 100% of all rulemakings within 12 months	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing complete applications to encourage demand response in organized markets	➢ 100% of statutory cases processed within the statutory deadlines ➢ 100% of declaratory orders processed within 120 days of filing date or by applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Reduce Barriers to Trade Between Markets and Among Regions		
Timeliness of processing complete filings to reduce or eliminate seams between organized markets	By the statutory due date or applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel

Objective B: Prevent Accumulation and Exercise of Market Power

Most industries that transition to increased competition witness considerable restructuring, including consolidations of companies within individual segments of the industry. Mergers and other dispositions or acquisitions can bring efficiencies from economies of scale and also can represent the result of successful competition when more effective business models grow. However, they can also eliminate competitors and can lead to markets that are too concentrated and not fully competitive. In light of emerging market realities, the Commission will prevent accumulation and exercise of market power by:

- assuring proposed mergers, dispositions and acquisitions are in the public interest; and
- addressing market power in jurisdictional wholesale markets.

The Commission thus will safeguard the consumer from consolidations of energy assets that decrease competition and ensure that the rates consumers pay for electricity and transmission services in wholesale markets are just and reasonable.

To guard against transmission and generation market power, the Commission's landmark Order No. 888, issued in 1996, required all jurisdictional public utilities to offer non-discriminatory open access transmission service pursuant to a Commission-approved tariff.

The Commission in 2006 proposed to reform public utilities' open access transmission tariffs to promote greater transparency and further guard against undue discrimination and preference in transmission service.

Objective B Strategy 1

Assure Proposed Mergers and Acquisitions are in the Public Interest

The Commission will continue to work to protect consumers as it exercises its authority over mergers, acquisitions and dispositions of jurisdictional facilities, as modified by EPAct 2005. Under EPAct 2005's amendments to FPA section 203, the Commission will review certain public utility acquisitions of generation-only facilities. It also will make required findings that proposed transactions do not result in inappropriate cross-subsidization or encumbrances of utility assets. Thus, assurances of consumer protection in FY 2008 and beyond will continue as the Commission implements amended section 203 and utilizes its enhanced access to holding company books and records under the PUHCA 2005.

Mergers in the Public Interest. The Commission has issued orders in a number of important cases where it took measures to ensure that consolidations of energy assets did not decrease competition and were in the public interest:

- In June 2005, the Commission authorized the merger of Exelon and PSE&G, creating a combined company with nearly 40,000 MW of electric generation capacity in PJM and the Midwest ISO – the largest merger the Commission had authorized in years. The Commission based its authorization on the applicants' commitment to divest 4,000 MW of intermediate and peaking generation facilities located in PJM, along with the long-term sale of energy from 2,600 MW of nuclear capacity. This is the largest divestiture ever approved by the Commission.

- In December 2005, the Commission approved the merger of Duke Energy Corp. and Cinergy Corp., creating a company with operations in different geographic markets in the United States and parts of Canada. The merged companies own more than 45,000 MW of electric generation and 17,500 miles of natural gas transmission pipeline.

- In another December 2005 action, the Commission approved MidAmerican Energy Holdings Co.'s acquisition of PacifiCorp. MidAmerican is a public utility holding company providing electric service to over 698,000 customers in Illinois, Iowa, and South Dakota. PacifiCorp, operating through two regulated subsidiaries, serves electric customers in parts of California, Idaho, Oregon, Utah, Washington, and Wyoming.

- ITC Holdings Corporation, parent to independent transmission owner International Transmission Company, asked the Commission to approve a disposition of jurisdictional facilities resulting from a public offering of common stock. In addition, ITC asked the Commission to find that after the sale of stock, International Transmission still would be considered independent of market participants and thus still would qualify for favorable rate treatment. In May 2005, the Commission approved the transaction and made the requested finding. This will encourage independent transmission companies to build badly-needed transmission infrastructure.

- In September 2006, the Commission conditionally approved the acquisition of Michigan Transco Holdings LP by ITC Holdings Corp., marking the first time the Commission has authorized the acquisition of a stand-alone transmission company, or "transco," by another transco.

- In October 2006, the Commission approved the merger of KeySpan Corp and National Grid. In order to ensure that the merger was consistent with the public interest, the Commission accepted the applicants' commitments to (1) hold wholesale power and transmission customers harmless for a period of five years from costs related to the merger that exceed merger-related savings; and (2) seek prior Commission authorization for sales from upstate generating resources into New York City or Long Island submarkets.

- In October 2006, the Commission also approved the acquisition of the NorthWestern Companies with Babcock & Brown Infrastructure Limited, an Australian-based utility infrastructure company that owns and manages infrastructure businesses worldwide. In order to ensure that the acquisition was consistent with the public interest, the Commission accepted the applicants' commitments to (1) hold wholesale sales and transmission customers harmless for five years from rate increases that are the result of costs related to the acquisition; and (2) not seek to recover the acquisition premium in rates.

EPAct 2005 Provisions to Provide More Consumer Protection. Prior to EPAct 2005, the Commission did not have jurisdiction over dispositions or acquisitions of facilities that involved only the transfer of facilities for the generation of electric energy. However, the Commission received and acted on many applications for the disposition or acquisition of jurisdictional transmission facilities and/or jurisdictional wholesale contracts in conjunction with the transfer of generation facilities.

EPAct 2005 amended FPA section 203 to give the Commission authority over certain public utility acquisitions of generation-only facilities, as well as authority over certain public utility holding company mergers and acquisitions. These new authorities will strengthen the Commission's oversight and will enhance its ability to prevent the accumulation of market power.

PUHCA 2005, enacted in conjunction with the new section 203 authorities, provides increased access to holding company books and records. The Commission and states may obtain access to the books and records of holding companies, service companies, and other companies in the holding company system if relevant to jurisdictional rates. This will enhance the ability of the Commission and state utility regulators to protect captive customers of regulated utilities.

The Commission issued Order No. 667 in December 2005, finalizing its rules to implement the repeal of PUHCA 1935 and enactment of PUHCA 2005, as it relates to federal access to books and records. Order No. 667 emphasized that the Commission's primary means of overseeing jurisdictional companies that are members of holding companies continues to be the FPA and the NGA. These statutes enable the Commission to detect and disallow from jurisdictional rates any imprudently incurred, unjust or unreasonable or unduly discriminatory or preferential costs from affiliate transactions between companies in the same holding company system. Separately, the Commission routinely places code of conduct restrictions on power sales at market-based rates between regulated and non-regulated affiliates, and on sales of non-power goods and services between a utility with captive customers and its affiliates that have market-based rates. Further, when approving a proposed merger under FPA section 203, the Commission applies similar code of conduct restrictions on the provision of non-power good services between a utility with captive customers and any non-regulated affiliates in the same holding company system.

In Order No. 667, the Commission established, among other things, procedures for Exempt Wholesale Generator (EWG) and foreign utility company (FUCO) self-certification, permitted declaratory order petitions for EWG and FUCO status, and replaced and streamlined the SEC Form U-13-60 with the FERC Form No. 60, the Annual Report of Centralized Service Companies.

Order No. 667 provided a short transition period during which affected entities would continue to largely follow existing SEC requirements through calendar year 2006 and called for a separate proceeding to implement more permanent requirements. Consistent with the directives of PUHCA 2005, the Commission also adopted a process to exempt from the federal books and records requirements of PUHCA 2005, or waive the Commission regulations for, certain specified persons and classes of transactions. The Commission will consider other exemptions and waivers on a case-by-case basis. The April 2006 rehearing order on Order No. 667 added a new requirement that persons with a waiver or exemption notify the Commission if facts or circumstances change.

In October 2006, the Commission issued Order No. 684 which provided more permanent accounting and record retention requirements for holding companies and centralized service companies within holding company systems. The Order added a new Uniform System of Accounts for centralized service companies and created record retention requirements for holding companies and centralized service companies. The Order further extended the transition period to comply with the requirements to January 2008. Order No. 684 will provide for greater transparency of centralized service company operations which will provide additional consumer protection.

Further Evaluations of PUHCA 2005 Underway. In December 2006, the Commission held a technical conference to assess whether additional exemptions or regulatory actions related to the repeal of PUHCA 1935 are necessary. The conference also considered the appropriateness of blanket authorization in the context of FPA section 203, as well as whether additional regulatory steps are necessary to protect against inappropriate cross-subsidization, or encumbrances of utility assets.

Objective B
Strategy 2

Address Market Power in Jurisdictional Wholesale Markets

To address market power in jurisdictional wholesale electric energy markets, the Commission considers control of generation and transmission assets, as well as whether any barriers to entry exist and whether there is evidence of possible affiliate abuse or reciprocal dealing. These considerations become especially important because the opportunity for exercising market power grows when available supply is low relative to demand or when supply is controlled by only a few entities. In such situations, even an otherwise well-functioning market may not produce rates that are just and reasonable. Therefore, consistent with its statutory mandates, the Commission must act to ensure that:

- the open access transmission tariff terms and conditions under which electric transmission service is provided are being applied in a way that is not unduly discriminatory or preferential; and
- other forms of market power are mitigated.

As described more fully below, in furtherance of these goals the Commission has proposed revisions to the *pro forma* open access transmission tariff to prevent opportunities for the exercise of market power. It also has made changes in how it guards against the exercise of market power in electric operations and gas storage.

Open Access Transmission Tariff Reform. In 1996, the Commission issued Order No. 888, which required, as a remedy for undue discrimination, that all public utilities provide open access transmission service consistent with the terms and conditions of a *pro forma* open access transmission tariff. To achieve this, the Commission required all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to file an open access transmission tariff containing certain non-price terms and conditions, and to functionally unbundle wholesale power services from transmission services. While Order No. 888 set the foundation upon which to build competitive electric markets, after ten years of experience the Commission has determined that the opportunity to exercise undue discrimination may still exist and must be eliminated.

The electric industry that existed when Order No. 888 was issued has changed considerably and questions have arisen concerning the continued reasonableness of various non-rate terms and conditions of the open access transmission tariffs. Public utilities retain the discretion and the incentive to interpret and apply the provisions of their open access transmission tariff in a manner that can result in unduly discriminatory behavior on their particular transmission systems. Further, this could lead to inconsistent results across public utility systems to the detriment of customers and potential competitors. Transmission customers also may have ways to use the open access transmission tariff to their own advantage, particularly in the scheduling and queuing processes. Moreover, open access transmission tariff provisions have been modified in numerous ways on a company-by-company basis, leading to uncertainties within the industry as to the proper interpretation of certain provisions and to potentially inconsistent and unfair treatment of customers across public utilities.

The Commission issued a notice of proposed rulemaking in May 2006 proposing amendments to its regulations and the *pro forma* open access transmission tariff to ensure transmission services are provided on a nondiscriminatory and just and reasonable basis. The proposal, which considered industry comments, marked the first major reform of the open access transmission tariff since its adoption ten years ago. The proposed rulemaking is intended to strengthen the *pro forma* open access transmission tariff to ensure that it achieves its original purpose of remedying undue discrimination, not to create new market structures. The Commission took this action to strengthen the *pro forma* tariff and address deficiencies that have become apparent since its adoption, particularly in the areas of ATC calculation and transmission planning.

Market Power in Wholesale Power Sales. The Commission authorizes market-based rates if the seller and its affiliates either do not have an ability to exercise market power in wholesale power markets, or if the Commission can condition the authorization in a way that will mitigate the market power they may have. The Commission also considers whether any barriers to entry exist and whether there is evidence of possible affiliate abuse or reciprocal dealing.

The Commission has been steadily strengthening its market-based rate test in recent years. The Commission has bolstered reporting requirements, modified the generation market power threshold, and revised and clarified the change-of-status reporting requirement. In addition, the Commission has required a number of entities with existing market-based rate authority to adopt mitigation measures where they have been found to have market power or have accepted a presumption of market power. In other cases, the Commission has revoked market-based rate authority for entities that fail to submit triennial market analyses or electronic quarterly reports, as required by their authorization.

Over the last few years, the Commission has held several conferences on market-based rates. In January 2004, the Commission held conferences to discuss the four-prong market power test it uses in evaluating whether an applicant obtains or retains market-based rate authority and to discuss competitive power purchase solicitations. In December 2004, the Commission held conferences to discuss transmission market power and barriers to entry, and additional conferences were held in January 2005 to discuss affiliate abuse and reciprocal dealing and generation market power. In addition, several publicly-noticed technical conferences were held regarding market-based rate triennial review filings.

Resulting in part from these technical conferences, in May 2006 the Commission issued a notice of proposed rulemaking to reform its current four-prong analysis for determining whether a wholesale seller of electric energy, capacity or ancillary services qualifies for market-based rate authority. The Commission proposed to codify its market-based rate standards in its regulations.

The current four-prong analysis examines generation market power, transmission market power, other barriers to entry and affiliate abuse/reciprocal dealing. Under the proposed rule, the Commission's review would be reformed into a more traditional horizontal and vertical market power analysis.

Regarding horizontal – or generation – market power, the Commission proposed to retain the current indicative screens, with some modification, and proposed to eliminate the exemption from the market power analysis for generation constructed after 1996.

Regarding vertical market power, the Commission proposed to retain its policy that having an open access transmission tariff on file is deemed to mitigate a seller's transmission market power. However, the Commission proposed that violation of the open access transmission tariff may be cause for revoking market-based rate authority.

In addition, the Commission proposed to modify and streamline its process by: 1) adopting a standardized market-based rate tariff of general applicability; 2) adopting a regional approach to triennial reviews; and, 3) allowing small sellers to file only change in status filings (i.e., relieve them of the requirement to file a triennial review).

Regarding affiliate abuse/reciprocal dealing, the Commission proposed to retain its policy that sales of power between a utility and any of its non-regulated power sales affiliates must be pre-approved by the Commission prior to transacting. The Commission also proposed to codify code of conduct restrictions in its regulations.

In its continuing effort to address potential affiliate abuse between electricity sellers and their transmission provider affiliates, the Commission issued Order No. 2004 on Standards of Conduct. Order No. 2004, which took effect in September 2004, applies to all jurisdictional transmission providers (electric public utilities and natural gas pipelines) and governs the behavior of transmission providers towards their affiliates that compete with non-affiliates for access to transmission capacity and compete in wholesale commodity markets. The Commission intends to continue with its compliance efforts to assist the industry in addressing issues associated with undue preference and self-dealing. For example, in May 2005 in Chicago, Illinois, and again in April 2006, in Phoenix, Arizona, the Commission hosted technical conferences to work with the industry to promote compliance. During the conferences, Commissioners and Commission staff provided informal guidance to industry participants regarding implementation of the Standards of Conduct. The Commission has posted extensive guidance on its website, including responses to over 60 frequently asked questions about Order No. 2004. In November 2005, the Commission also announced a new process by which market participants could obtain "no-action letters," i.e., a determination by Commission staff whether the participant's proposed action would lead staff to recommend enforcement action with respect to the Standards of Conduct, among other items. On November 17, 2006, the United States Court of Appeals for the District of Columbia vacated Order No. 2004 as it applies to the relationship between natural gas pipelines and their non-marketing affiliates. National Fuel Gas Supply Corp. v. FERC, – F.3d – (D.C.Cir. 2006). The Commission intends to act promptly to address the deficiencies the court found in Order No. 2004.

The Commission also is monitoring industry compliance with Order No. 889 OASIS requirements which pertain to required electronic posting of certain electric transmission information. Following an initial compliance review of 190 transmission providers' internet and OASIS web sites, the number of transmission providers posting all required elements has dramatically improved, as all of the companies have come into compliance. In Phase 2 of its effort, the Commission began on-site operational audits of specific transmission providers in February 2005 to determine whether and how they are complying with the remainder of the requirements of the Standards of Conduct, including the independent-functioning requirement and the information-sharing prohibitions. These audits have been completed or are nearing completion and audit reports have been or will be issued to the transmission providers. The Commission also conducts ongoing random Standards of Conduct compliance audits and will continue to do so.

Market Power in Gas Storage Operations. As discussed in more detail in chapter 1, EPAct 2005 amended NGA section 4 to authorize the Commission to allow a natural gas company to charge market-based rates for providing storage and storage-related services at storage facilities placed into service after August 8, 2005, subject to appropriate conditions, even if the seller cannot demonstrate that it lacks market power. The final rule, issued in June 2006, provides two approaches for developers of natural gas storage facilities to seek authority to charge market-based rates. The first approach includes a more expansive definition of the relevant product market for storage, and the second approach would implement the new NGA section 4(f) and allow an applicant to request authority to charge market-based rates even if a lack of market power has not been demonstrated. The Commission will be reviewing market-based rate applications filed under these new rules to ensure that natural gas storage providers cannot exercise market power and that customers are adequately protected.

In summary, open access transmission tariff reform and the approaches described above will allow the Commission to assess market power in jurisdictional markets and prevent accumulation and exercise of market power. By doing so, the Commission will be supporting competitive markets in FY 2008 and beyond.

Strategy		
Performance Measurement	**Performance Target**	**Data Source**

Assure Proposed Mergers and Acquisitions are in the Public Interest		
Percentage of final orders in merger cases not reversed by the courts	90%	Office of the General Counsel / Office of Energy Markets and Reliability
Percentage of merger applicants reporting on compliance with merger conditions imposed by the Commission	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing complete filings for the disposition, consolidation, or acquisition, under section 203 of the FPA, of jurisdictional facilities (including transactions involving certain transfers of generation facilities and public utility holding company transactions, and issues of cross subsidization or encumbrances of utility assets)	➢ Within 180 days for non-major dispositions ➢ Within 360 days for major dispositions	Office of Energy Markets and Reliability / Office of the General Counsel

Address Market Power in Jurisdictional Wholesale Markets		
Timeliness of processing complete initial electric market-based rate filings	Within 60 days of the filing date or by applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Reform analysis for determining electric market-based rate authority	Complete final rule implementation	Office of Energy Markets and Reliability / Office of the General Counsel
Update Frequently Asked Questions on the ferc.gov website related to Standards of Conduct	Semi-annually	Office of Enforcement
Staff will sponsor an industry-wide (gas & electric) Standards of Conduct conference to assure clear and enforceable rules	Once Annually	Office of Enforcement

CHAPTER 3: ENFORCEMENT

Prevent Market Manipulation

Enforcement Resources (Dollars in Thousands)	FY 2006 Actual	FY 2007 C.R. Level	FY 2008 Request
Total FTEs	**128**	**145**	**156**
Program	102	117	127
Support	26	28	29
Total Funding	**$22,877**	**$24,854**	**$28,552**
Program	18,784	20,374	23,618
Support	4,093	4,480	4,934

Introduction

Competitive energy markets can succeed only when competition is combined with effective regulation. The Commission has adjusted its regulatory policies to the meet the dramatic changes that have occurred in both the natural gas and electricity industries. While the core legal duties of the Commission have not changed – that is, to guard against unjust and unreasonable rates and undue discrimination and preference – the means of discharging this duty have evolved over time. The Commission ordered the unbundling of natural gas sales and transportation in a series of landmark orders, which proved to be an unqualified success. In the wake of these orders, the Commission witnessed a surge of activity by gas pipelines, as they sought to restructure the way they did business and the way they interconnect to new markets. As a result, market areas are now served by more pipelines and there is more competition for shippers' business, who themselves have seen their number of choices increase. Overall, the cost of gas transportation has fallen while throughput has risen.

With respect to wholesale power sales, the Commission used to prevent market power exercise by setting rates for each individual seller under cost-based regulation. Today, the Commission permits market-based rates and increasingly sets rules of general applicability that govern an entire market. As a result of this regulatory approach change, it is even more important for the Commission to enforce compliance with its regulations and orders, and to monitor market power to ensure that market-based rates remain just and reasonable.

The Commission seeks to detect violations quickly, publicize misconduct where appropriate, and take prompt action to prevent future misconduct. The Commission can identify violations by many methods, including review of market information required to be filed by market participants; investigation of significant price spikes or market anomalies; periodic audits of compliance with Commission tariffs, rules and regulations; referrals from RTO and ISO market monitors; tips and complaints from the public and market participants; and self-reports of violations by companies (the Commission's Enforcement Policy Statement issued in October 2005 encourages companies to self-report violations to mitigate remedies). It is important that the Commission understands market dynamics, detects problems or issues in energy markets early, prevents violations of its rules, and enforces compliance with the laws under its jurisdiction. Perhaps most important, the Commission needs to ensure that utilities subject to its jurisdiction have effective internal monitoring and compliance programs in place to help assure that they are following established Commission rules and regulations. Commission oversight must then provide an independent and external check to ensure that the compliance programs of each jurisdictional utility are adequate, and to periodically audit utility compliance with the Commission's rules, regulations, and statutory requirements.

> *"The Energy Policy Act of 2005 permanently changed the Commission. It outlawed market manipulation in power and gas markets, gave us responsibility to assure reliability of the electric grid, and gave us meaningful enforcement tools that we badly needed. Congress entrusted the Commission with substantial civil penalty authority, and we are using that penalty authority firmly and fairly to sanction wrongdoing and to encourage compliance. We are now an enforcement agency capable of very effective oversight, and are dedicated to becoming a preeminent enforcement agency."*
>
> *Joseph T. Kelliher*
> *FERC Chairman*

The Commission's two main objectives in meeting its goal of preventing market manipulation are:

- provide vigilant oversight; and
- provide firm but fair enforcement.

Each year the Commission performs investigations and conducts audits for noncompliance with the laws and regulations under its jurisdiction. While these actions help to deter violations from occurring in the first place, the Commission will take even greater steps on a variety of fronts to reduce the probability that violations will occur and to detect problems before they become severe or widespread. To prevent market participants and regulated entities from unknowingly violating the Commission's rules, the Commission will work with stakeholders to explain the intent and requirements of its rules and the laws it administers.

The Commission's enforcement tools were greatly reinforced when EPAct 2005 conferred expanded authority, which provided, for the first time, penalty authority for violations of the NGA and all of Part II of the FPA. It further provided or increased (for violations of the NGPA) the level of penalties to $1 million each day for the duration of the violation. Penalties of this magnitude also are applicable, pursuant to EPAct 2005 amendments to the FPA and NGA, to any entity (not just companies traditionally subject to the Commission's jurisdiction) who manipulates wholesale gas or electric markets by engaging in fraud or deceit in connection with jurisdictional transactions. Armed with this expanded authority, which is comparable to that of other federal regulatory bodies, the Commission intends to create an even stronger and more effective compliance and enforcement program to protect the public interest.

Objective A: Provide Vigilant Oversight

Energy markets are complex and change rapidly. When problems develop in energy markets without a remedy, they can seriously affect millions of customers. Therefore, a key part of the Commission's market-oriented approach to the natural gas and electric power industries is to identify potential problems quickly and to address them before they become severe.

Objective A Strategy 1

Identify and Remedy Problems with Structure and Operations in Energy Markets

To accomplish this objective, the Commission has developed a comprehensive program of energy market oversight. To support the energy market oversight program, the Commission acquires and processes large amounts of energy market information. Energy market oversight and information are an integral part of the overall Office of Enforcement. Issues that market oversight identifies quickly feed into investigations and audits, as appropriate.

Identifying Problems through Energy Market Oversight. The core of the Commission's efforts to identify problems in energy markets is market oversight. The energy market oversight program reviews all key markets daily to detect both suspicious behavior by individual market participants and problems with market rules or operations that affect outcomes significantly. Understanding the scope of this program requires knowing which markets the Commission monitors and how it goes about tracking them.

Markets Monitored by the Commission. The market oversight program focuses most closely on the Commission's most direct concerns: wholesale physical markets for natural gas and electric power and associated transmission markets. For natural gas, the Commission's oversight includes examining detailed prices, price differences among different points on the grid, utilization of the interstate natural gas pipeline grid, supply of gas (both production and imports, including LNG), demand levels, storage activity, and, where possible, trading patterns. By observing all these aspects of the natural gas industry, the Commission can detect longer-term problems (for example, potentially tight markets a season ahead) and short-term market anomalies (for example, unusual trading patterns or price differences that are not consistent with pipeline usage).

For electric power, market oversight includes examining detailed prices, price differences geographically and over time, utilization of the transmission network, generation levels, overall demand levels, and, where possible, trading patterns. In RTO and ISO markets, the Commission works closely with market monitoring units to ensure comprehensive coverage of all activity in those markets. Market oversight for electric power allows the Commission to detect longer-term problems (for example, infrastructure deficiencies) and short-term market anomalies (for example, unexplained price or trading patterns).

The oversight program also closely examines connections between natural gas and electric markets. In many cases, natural gas is the marginal fuel for electric power – often the price of power closely tracks the gas price. Electric generation also is frequently the marginal use for natural gas, so that electric usage can strongly affect gas prices. The Commission's market oversight program examines detailed interactions between the two industries to detect any possible problems as soon as possible.

Finally, many other markets affect the operation of the physical electric power and natural gas markets. As a result, the Commission's market oversight program reviews related markets every day, including:

- Financial markets for electric power and natural gas (overseen by the Commodity Futures Trading Commission (CFTC)). These markets give market players many ways to manage the large risks involved in all energy markets. But problems can and do develop in the interface between physical and financial markets. The Commission coordinates its market monitoring of these markets with the CFTC.

- Generation inputs. These include fuel (coal and oil as well as natural gas) and emissions credits. One can only assess the meaning of prices in power markets in relation to prices in related input markets.

- Long-term financial markets. A crucial question for both natural gas and electric power is the ability of the industries to invest in new infrastructure when needed. The market oversight program tracks long-term investments in the industries, along with related financial markets.

- International markets. The United States and Canada form a tightly integrated continental energy market. Market oversight tracks developments in Canada that may affect the United States. It also tracks the growing natural gas market in the Atlantic Basin between Europe and North America.

How the Commission Monitors Markets. The Commission's market oversight program employs a series of staff experts on various natural gas and electric power markets. The centerpiece of the program is a daily meeting in which oversight staff review developments in all relevant markets for the previous day. The meeting follows a standard format to ensure that all key markets are covered – but meeting leaders encourage analysts to bring up any additional issues they have observed. Since the various markets are highly interconnected, the daily staff meeting allows all the analysts to see how developments in one market are affecting the others.

Each daily meeting identifies a series of market anomalies that require further explanation, both unusual participant behavior in the previous day's markets and anomalous patterns that repeat themselves over time. Individual analysts follow up on these items, either resolving them or flagging them for further work. This further work can include short studies, the development of new analytic tools, or reporting to other parts of the Commission for further action. Representatives of the Division of Investigations and the Division of Audits attend all daily meetings. This allows the investigations and audits staff to stay current with market developments that may affect current investigations and audits as well as giving a first indication of issues that may come up in the future. Under the Commission's rules and practices, the investigations and audit staff can initiate a preliminary non-public investigation or commence an audit based on information gleaned from market oversight activities.

Periodically through the year, the market oversight program also considers trends over longer time frames. These longer-term examinations of energy markets build on the insights gained in the daily oversight meetings. The Commission's experience shows that only intensive involvement in day-to-day energy markets allows a strong understanding of longer-term issues.

Remedying Potential Market Problems. The market oversight program has neither the expertise nor the mission to remedy potential problems on its own. Rather, it reports its findings to other groups that are charged to address the problems identified. The key forms of reporting are to the senior management of the Office of Enforcement, to other relevant offices within the Commission, to the Commission itself, and to the public.

Reports to the senior management of the Office of Enforcement. In the first instance, market oversight is an integral part of the Commission's overall Enforcement program. Market oversight, therefore, reports any potential problems with market participant behavior to the senior staff of the Office, which then decides which problems to refer for investigation (by the Division of Investigations) or audit (by the Division of Audits). These investigations and audits then address serious market participant problems in the most appropriate way.

Reports to other Commission Offices. The Office of Enforcement ensures compliance with existing rules and operations. When market oversight observes potential problems with current practices, it reports its results to those offices in the Commission that can develop Commission orders to change existing tariffs or issue new Commission rules.

Reports to the Commission and the Public. Market oversight reports all of its major findings to the Commission itself, as well as to the affected staff offices. At regular intervals, it also reports directly to the Commission and the public on longer-term issues. These reports give both the Commission and interested members of the public the information they need to respond to major developments. For example, if natural gas storage is strained going into the winter, market oversight reports can help alert affected regions as well as the Commission to the nature and extent of the problem, so that local officials can take appropriate action. Key reports to the Commission and the public include:

- Weekly reports to the Commission. These document major developments found during the week's daily meetings. They also describe any issues reported to other Commission staff.

- Monthly reports in open Commission meetings. These reports highlight key strategic issues facing the Nation's natural gas and electric power markets. Twice a year, the monthly report analyzes potential problems in the coming peak season (either heating or cooling season) to alert both the Commission and the public as to areas that need continuing attention.

- Annual reports on overall market performance. In the past, the Commission has issued annual State of the Market reports with detailed data for many energy markets and overall analysis of how well the markets are working. In the future, the Commission will improve the timeliness of this reporting by developing a web-based information center that it will update on a regular basis.

- Periodic reports on current issues, such as the two pamphlets produced in the winter 2005-06 to explain natural gas basics, provide important information to the public on the way markets work.

Energy Market Information. Both natural gas and electric power are traded at many sites around the country, each with its own price and volume behavior. Prices and market conditions change frequently, every five minutes for many power markets. As a result, energy markets generate vast quantities of raw data. The energy market oversight program requires information support that includes:

- acquiring large volumes of data to reflect ongoing market conditions;
- validating the data to ensure that it is accurate and pertinent to the issues being addressed;
- processing the data so that meaningful patterns become apparent, despite the large volume of data that can easily become overwhelming; and
- developing a real-time information capability to address rapidly developing situations and emergencies.

The Commission's energy market information capability addresses all of these areas.

The Commission obtains a large quantity of publicly-available information on all the markets it oversees. Most of these data come from commercial information providers, and is the same information available to market participants. It also uses the EQR, a record of every power sale by jurisdictional electric companies.

The Commission validates information primarily by trying to use it to understand markets. Experience shows that when data are not accurate or pertinent, they come into conflict with other data sources. By observing discrepancies among data sources, the Commission can assess the quality of the information it obtains from all sources. This is a key reason that analysts must share their insights widely – the daily meeting frequently uncovers information issues that are then resolved. As a result, the information available for future oversight continually improves over time.

The Commission's market oversight staff works hard to visualize market information to show important patterns. A stream of prices by itself is almost meaningless. The Commission detects important patterns by, for example, comparing related prices with each other, developing geographic pictures of how markets inter-relate, developing timelines of important incidents plotted against price changes, and creating threshold values for further consideration. All of these efforts result in data interpretation tools that the Commission then automates. The result is to let analysts spend as much time as possible looking at important aspects of the markets, rather than simply poring over lists of numbers.

The Market Monitoring Center (MMC), where Commission staff can access most of the real-time and other data subscribed to from information providers, is a hub of data-collecting and analysis for Commission research staff and a "must-visit" for foreign and domestic visitors engaged in or contemplating monitoring their energy markets. In FY 2006, more than 75 groups were briefed on MMC functions and operations by Commission staff; these groups were comprised of over 685 individuals from 19 foreign country delegations. Staff from the U.S. Congress, state commissions, federal agencies, and other energy-related agencies and organizations were also given tours of the MMC in conjunction with appropriate briefings.

In addition to having real-time availability of data, Commission staff held 34 outreach meetings on price transparency from June through August 2006 with groups from the entire value chain for natural gas and electricity as well as with information providers. Subsequently, the Commission held a price transparency technical conference at which the Commission and senior FERC staff had the opportunity to ask panelists from all facets of the industry about transparency issues of interest to them.

In FY 2006, the Commission made available to state energy agencies information on energy markets including natural gas supplies and prices of electric power, LNG facilities planned and under construction, coal market fundamentals, weather implications and an analysis of observed changes over the month. The program provides for a monthly phone discussion with state representatives of the information and other energy issues the agencies may wish to discuss. This outreach program started out modestly and has now grown over 35 participating state energy agencies.

Finally, in the reorganization that led to the establishment of the Office of Enforcement, the Division of Energy Market Oversight likewise was reorganized to include a Market Monitor Relations branch to better define the Office's and Division's focus on working with the market monitors in the Commission-approved RTOs and ISOs as well as the market monitors approved by the Commission outside the organized markets, e.g., where the Commission authorized a major merger between electric utilities.

Strategy		
Performance Measure	**Target**	**Data Source**
Identify and remedy problems with structure and operations in energy markets		
Regular monitoring of natural gas and electric markets with significant issues of market structure and operations identified	Weekly reporting of significant issues of market structure and operations	Office of Enforcement
Timeliness of actions on significant issues identified by regular monitoring of natural gas and electric markets	Within 6 months of completed report	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Complete transition of consolidated reporting to a web strategy	Complete by June 30, 2008	Office of Enforcement

Objective B: Provide Firm but Fair Enforcement

In light of the new authorities granted the Commission by EPAct 2005, the Commission has taken a number of steps to craft a cohesive approach to enforcement, built around the central theme that Commission enforcement actions will be firm but fair. The basic approach to enforcement was explained in the October 2005 *Policy Statement on Enforcement*, which outlined factors the Commission will consider when assessing civil penalties or developing remedies for violations of the statutes, orders, rules and regulations the Commission administers. The Policy Statement provides comprehensive guidance, consistent with the enforcement practices of other federal agencies, to entities subject to the jurisdiction of the Commission.

The Policy Statement also identifies factors to be weighed in determining the seriousness of the violation, and indicates what consideration will be given for mitigating factors, such as adopting strong internal compliance programs, voluntarily reporting violations, and cooperating with staff investigations. The Commission is committed to using the full range of remedies available – civil penalties, disgorgement of unjust profits, or conditioning, revocation, or suspension of authorizations – but to exercise discretion to apply such penalties and remedies in a fair, reasonable, and appropriate manner.

In addition to the Policy Statement, the Commission has codified important rules, including principally the prohibition of energy market manipulation and the revision and codification of the 2003 Market Behavior Rules. The Commission has provided greater due process to industry, including providing a no-action letter process and increasing the opportunities for companies to resolve disputed matters during the course of an audit. Thus, while placing entities on notice that the Commission's rules and regulations will be enforced vigorously and even-handedly, the Commission also has provided more transparency about the rules it enforces and greater opportunities for entities to seek guidance about how the rules apply to them.

Objective B
Strategy 1

Establish Clear and Fair Processes

In EPAct 2005, Congress amended the NGA and FPA to prohibit the use of manipulative or deceptive devices or contrivances by any entity in connection with the purchase or sale of electric energy, natural gas, or transmission or transportation services subject to the jurisdiction of the Commission. In October 2005, the Commission provided guidance to the industry on how the Commission intends to use its new authority in the 2005 *Policy Statement on Enforcement*. In this Policy Statement, the Commission emphasized it will be firm but fair in enforcement actions, and that companies will be given credit for proactive programs to assure compliance with the Commission's rules, regulations, and orders.

On January 19, 2006, the Commission issued a final rule in new Part 1c of the Commission's regulations adopting new regulations to implement the statutory anti-manipulation authority. The new rules are modeled on Rule 10b-5 of the SEC, and make it unlawful for any entity, directly or indirectly, (1) to use or employ any device, scheme, or artifice to defraud, (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (3) to engage in any act, practice, or course of business that operates or would operate as a fraud or deceit.

In February 2006, following the adoption of the new anti-manipulation rule, the Commission in Order No. 674 revised its Market Behavior Rules by rescinding Market Behavior Rule 2 as no longer necessary and codified

Market Behavior Rules 1, 3, 4, and 5 in Part 35 of the Commission's regulations. Market Behavior Rule 6 was also rescinded as duplicative of existing requirements.

Also, in February 2006, the Commission amended its regulations in Parts 41, 158, 286, and 349 to give additional rights to companies undergoing an operational audit, such that they can contest proposed audit findings at the staff level before final action by the Commission. In October 2005, the Commission adopted the no-action letter process to permit market participants to seek advice on whether staff would recommend action against specific transactions in light of the anti-manipulation rules, Market Behavior Rules, or Standards of Conduct.

Another enforcement responsibility under new section 215 of the FPA is the Commission's authority to enforce reliability standards. The Commission is responsible for reviewing enforcement actions taken by the ERO, a self-regulatory organization. While there were approximately 338 reliability standards violations in 2004, the first year NERC began reporting this information, it is difficult to estimate how many enforcement actions the ERO will take, and how many would be reviewed by the Commission. In addition, the Commission is also authorized to initiate enforcement action on its own motion, which is a new enforcement responsibility for the Commission.

In addition to these processes above, the Commission has continued its operational and financial audit processes. In FY 2006, the Commission completed 88 audits of energy companies, including natural gas pipelines and electric utilities. The audits focused on transmission market power, electric and gas tariff compliance, affiliate abuse, standards of conduct and code of conduct compliance, cash management programs, interlocking directorate rules for officers and directors of electric companies and other filing requirements of the Commission. The audits resulted in stringent compliance plans requiring the creation of robust compliance programs, organizational, procedural, and process remedies. Moreover, the Commission ordered refunds of $6 million to energy customers and directed a public utility to invest $23 million in construction to alleviate congestion on the transmission system as a result of these audits.

Audit staff also provided technical analysis on major investigations and played an integral role on several agenda items including: the ERO rulemaking and budget proposal, the open access transmission tariff reform notice of proposed rulemaking and final rule, and the PUHCA initiated Order No. 684 on accounting, reporting, and records retention requirements.

In 2005, the Commission's enforcement and audit staff received training in current forensic techniques and tools to assure that they are training in the latest investigations and auditing techniques. In 2006, staff received in-depth on-site training in deposition and interviewing skills. In June

2006, two new software products were added to provide enhanced ability to conduct electronic and audio discovery and research large databases of information obtained in discovery. The Commission will continue to provide additional forensics training along with acquiring appropriate information technology tools.

Objective B
Strategy 2

Conduct Investigations Promptly and Impose Penalties Where Appropriate

In competitive markets, participants constantly seek new profit opportunities, but some participants may violate rules or manipulate markets to reap unjust profits. To protect customers, the Commission seeks to detect statutory or rule violations by thoroughly investigating observed market anomalies, complaints, and referrals from RTOs and ISOs. The Commission's investigations focus on possible market manipulation, undue discrimination or affiliate abuses, violations of rules and tariffs, referrals of behavior in organized markets, and violations related to Commission rules and regulations. Investigations involve matters such as bidding practices by generators in organized markets, whether generation resources have been withheld in contravention of market rules, compliance with Commission Standards of Conduct requirements, unlawful sharing of transmission information with trading affiliates, trading intended to manipulate market prices, and compliance with hydroelectric project rules and license conditions

Once the Commission identifies violations, it applies remedies to mitigate the effects of market power, requires disgorgement of unjust profits where called for, imposes civil penalties or other sanctions when available under existing laws, and requires compliance plans to prevent future violations. Findings in particular cases can also serve as the basis for changes in regulations to address market power or manipulation issues. With the passage of EPAct 2005, the Commission was granted enhanced civil penalty authority and a clear mandate to prevent market manipulation. The Commission now has authority to impose civil penalties of up to $1 million per day per violation for violations of rules, regulations, and orders under the NGA and all of Part II of the FPA, and up to $1 million for any one violation of the NGPA.

The Commission's 22 completed investigations focused on possible instances of market power and manipulation, undue discrimination or affiliate abuses, violations of rules and tariffs, hydropower requirements, and license or certificate conditions. Notably, the Commission issued an order on October 2, 2006, completing action on an investigation concerning the breach of an upper reservoir of the Taum Sauk hydroelectric project in Missouri. The Commission approved a record hydropower settlement of $15 million, including a $10 million civil penalty and a $5 million fund to provide enhancements to the project area over and above remediation of the damages from the breach. On January 18, 2007, the Commission approved settlements in five matters that had been under investigation. The settlements imposed a total of $22.5 million in civil penalties, the first use of the expanded civil penalty authority provided to the Commission by EPAct 2005. The penalties ranged from $10 million for multiple violations by an electric utility of its open access transmission tariff and the Commission's Standards of Conduct to $500,000 for a violation of the Market Behavior Rules by an electric utility that misrepresented a generating unit's availability.

In addition, the Enforcement Hotline is a mechanism whereby industry participants provide information to the Commission that may result in investigations. During 2006, the Enforcement Hotline received 335 calls.

Finally, the Commission has increased its cooperation and sharing of information with federal agencies having responsibility for regulation of energy companies, including conducting joint investigations with other agencies, such as the CFTC and the U.S. Department of Justice. Pursuant to EPAct 2005, the Commission and the CFTC executed an MOU relating to sharing information on October 12, 2005 and are exchanging enforcement information on a regular basis pursuant to the MOU.

Objective B
Strategy 3

Encourage Self-policing and -reporting of Violations

Following industry comments at the Standards of Conduct and Market Behavior Rules conference in Chicago, Illinois, in May 2005, the Commission staff began taking various steps to improve the self-reporting of violations and the ability of companies to obtain clarification of their obligations under Commission rules and regulations. These initiatives involve providing more information and guidance on audit, investigation, and compliance matters, including compliance with the Standards of Conduct. As a result of these initiatives, from October 2005 to May 2006, the Commission:

- issued a *Policy Statement on Enforcement*, which set forth the considerations the Commission will take into account in assessing civil penalties, such as whether a company self-reported the violation and whether the company had a compliance program in effect;
- issued an order establishing a no-action letter process, whereby Commission staff will provide advice as to market participants upon request as to whether a proposed transaction, practice, or situation may raise compliance issues under certain of the Commission's statutes, rules, regulations or orders;
- issued Order No. 670 to implement the prohibition on market manipulation in EPAct 2005 as new Part 1c of the Commission's regulations;
- issued an order in Docket No. EL06-16-000 rescinding Market Behavior Rules 2 and 6 in light of the new anti-manipulation rule issued in Order No. 670;
- issued Order No. 673 to codify the remaining Market Behavior Rules in Part 35 of the Commission's regulations;

- issued Order No. 675 to provide additional due process to entities that are subject to operational audits in the event they contest any of the findings in the audit report under Parts 41, 158, 286, and 349 of the Commission's regulations;
- posted a comparison of rules and key enforcement documents to provide clarity to market participants; and
- made information available on its web page that explains the audit process, including answers to frequently asked questions regarding the Standards of Conduct.

Self-reports began immediately after the issuance of the Policy Statement on Enforcement. By January 2007, the Commission received 46 self-reports of violations of various Commission orders, rules, or regulations. In many cases companies took self-corrective action before making the self-report, and 28 self-reports involving less serious matters have been closed without further action by the Commission, upon a showing by the company that it is now in compliance. In more serious matters, the Commission has imposed civil penalties for the violations that were self-reported, but in doing so gave significant credit to the company for having self-reported in determining the penalty amount. The Commission encourages companies to instill a strong culture of compliance in their organizations, and to self-report violations promptly and fully.

It is incumbent upon the Commission to ensure that its market, reliability, and other regulatory rules are clear, enforceable and fully understood by the jurisdictional entities that we regulate. However, the obligation to comply with those regulations, rules and standards lies with the regulated entity. Therefore, it is important that regulated entities have a rigorous internal compliance program that provides them with the tools, processes, and high-level management support to identify problems or areas of non-compliance and to report such problems to the Commission. The Commission needs to work with its regulated entities to help them develop and maintain good compliance procedures such that any necessary enforcement actions by the Commission (including penalties or sanctions) are a regulatory tool of last resort – invoked only when the compliance process has failed.

Strategy		
Performance Measure	**Target**	**Data Source**
Establish clear and fair processes		
Apply current clear and fair processes to investigations during the fiscal year	Establish criteria and procedures for imposition of remedies, including penalties	Office of Enforcement
Timeliness of reporting to the Commission on operational audits	Within 120 days of the Commencement Letter	Office of Enforcement

Strategy		
Performance Measure	**Target**	**Data Source**
Percentage of operational audit recommendations issued and implemented	90% within 6 months	Office of Enforcement
Timeliness of reporting to the Commission on financial audits	Within 120 days of the Commencement Letter	Office of Enforcement
Percentage of financial audit recommendations issued and implemented	90% within 6 months	Office of Enforcement
Conduct investigations promptly and impose penalties where appropriate		
Timeliness of initiating or deciding action on MMU referrals	80% acted on within 30 days	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of enforcement investigations completed	75% within one year of initiation	Office of Enforcement
Percentage of Hotline calls resolved	70% within 2 weeks of initial contact	Office of Enforcement
Encourage self-policing and -reporting of violations		
Percentage of regulated entities audited to ensure internal compliance programs and processes are in place	85% of regulated entities included in annual audit plan	Office of Enforcement
Process requests for “No Action”	Within 60 days of receipt of final request	Office of Enforcement/ Office of the General Counsel
Timeliness of responses to regulated entities seeking guidance and clarification on compliance issues	Within 60 days	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of completing recommendations on compliance issues raised by regulated entities	Within 180 days, where Commission action is required	Office of the General Counsel/ Office of Enforcement / Office of Energy Markets and Reliability /
Timeliness of reporting on compliance issues raised by regulated entities	Reports completed monthly	Office of Enforcement

CHAPTER 4: Initiatives Supporting All Goals and Objectives

The Commission has initiatives underway and processes in place to support its three strategic goals and the President's Management Agenda. These activities, including alternative dispute resolution and litigation, human capital management, agency resources, and information technology help the Commission work more effectively both within and across program areas. The Commission also relies on various methods to communicate our policies and actions to the public. Open lines of communication with affected parties are critical for effective functioning of the Commission's operations.

Alternative Dispute Resolution and Litigation

The Commission encourages parties to use alternative dispute resolution (ADR) whenever appropriate to resolve conflicts. ADR supports the Commission's objective to be more citizen-centered, results-oriented, and market-driven. The Commission's Dispute Resolution Service (DRS) continues to be a ready and effective resource for facilitation and mediation of matters related to the Commission's mission. The Commission's experience with ADR demonstrates that it provides for effective public participation in government decisions, encourages respect for affected parties, averts future complaints so the Commission can direct its resources to critical matters, and avoids costs typically incurred during extensive litigation. The DRS consistently achieves over a 75 percent success rate for: (1) cases (full or partial settlement); and (2) customer satisfaction in its mediated and facilitated processes, and workshops and training in ADR skills.

In some cases, the formal litigation process is necessary. This is especially true when it is important to establish the exact facts of a case in open proceedings. The openness of the process can also promote credibility in important cases.

Since litigation can be costly and time-consuming, the Commission is always seeking to streamline the process. The Commission's litigation staff guides the efficient handling of the unique, complex issues that arise in a pro-competitive environment, and speed their resolution. In addition, the Commission's administrative law judges may serve as settlement judges or mediators, thereby offering another alternative to litigation that allows the parties to exercise greater control over the outcomes.

Performance Measure	Performance Target	Data Source
Percentage of transactional case assessments or convening sessions concluded	75% within 20 days	Dispute Resolution Service
Percentage of transactional ADR processes agreed to by parties concluded	75% within 120 days total (convening and process)	Dispute Resolution Service
Number of ADR requests and referrals to the Dispute Resolution Service	Increase number over FY 2004 (base year)	Dispute Resolution Service
Percentage of mediated or facilitated cases that achieve partial or complete consensual agreement	75%	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction for casework and outreach	80% customer satisfaction rate	Dispute Resolution Service
Number of outreach events (e.g., trainings, workshops, and presentations) to promote the use of dispute resolution skills	Increase number over FY 2004 (base year)	Dispute Resolution Service
Percentage of cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Litigation / Office of Administrative Law Judges

Communication

The Commission's policies and actions have a widespread effect on the industries we regulate as well as the general public. Therefore, it is imperative that the Commission provides clear and timely communications to all stakeholders, legislators, and regulators, federal and state alike, and any groups affected by agency actions.

Maintaining open communication lines with Congress, other federal agencies, states, industry, media and citizens groups, is an important part of the Commission's communications plan. This outreach initiative is supported through Senate and House liaisons, intergovernmental and public affairs specialists, a press corps, and staff that respond to Freedom of Information Act and CEII requests. In its outreach to industry, the Commission organizes technical conferences and workshops to explain and explore issues related to the development and implementation of its policies and rulemakings.

Traditional communication efforts to announce and reinforce the Commission's messages are very valuable. Also, the Commission recognizes the importance of the internet and continues to focus on improving the usability and speed with which it publishes content on its internet website (www.ferc.gov). These improvements will assist stakeholders to participate more effectively in the Commission's decision making processes.

In addition to these national efforts, the Commission routinely hosts delegations from over 50 countries each year, and staff will on occasion travel to participate in international conferences and meetings with foreign officials.

Performance Measurement	Performance Target	Data Source
Ensure timely and effective communication to all stakeholders	➢ Issue 95% of press releases for important agency actions on the same day as the underlining action ➢ Post 95% of important agency actions on the same day as the underlining action ➢ Provide an initial and complete response to 70% of inquiries at the time of the receipt of the request ➢ Develop webpages within the assigned timeframe to enhance and support the Commission's initiatives and goals	Office of External Affairs
Enhance communication with National and International groups	➢ Respond to 50% of Official Congressional correspondence within 10 business days ➢ Provide email notification of significant Commission actions to Congress within 1 to 2 business days of the underlining action along with briefing offers where appropriate ➢ Provide timely and effective briefings to members of Congress ➢ Provide email notification of significant Commission actions to effected State regulatory agencies within 1 to 2 business days of the underlining action ➢ Accommodate visitation requests from delegations from various countries and organizations	Office of External Affairs

Human Capital

The Commission's Human Capital Plan outlines workforce initiatives that will assist in achieving organizational excellence. The Plan includes recruiting and hiring, training, and retaining employees.

With high numbers of retirements anticipated over the next several years, along with new work requirements emanating from the EPAct 2005, an aggressive outreach and recruitment program continues to be a hallmark of the Commission's human resource activities.

It is essential that these new employees are trained to meet the emerging demands of the energy industry. The training opportunities provided will allow employees to review, understand, and enforce the new industry standards that are currently being written. Refresher training sessions are also available to ensure that employees maintain the necessary skills to accomplish the Commission's strategic goals.

The Commission recognizes the value of maintaining experienced, hard-working employees that contribute significantly to its mission. In FY 2005, the Commission was the first agency to receive provisional certification for its SES Pay for Performance plan. FERC will continue to link performance and accomplishments with strategic goals and objectives so that employees who make significant contributions towards achieving those goals are rewarded.

Performance Measurement	Performance Target	Data Source
Implement an aggressive entry level recruiting program	➢ Recruit at least 3 students each from at least 4 target universities ➢ Increase new hires from recruiting program by 10 over FY 2007 ➢ Hire 20% of interns into permanent positions	Office of the Executive Director
Implement employee development programs	➢ Launch leadership development program ➢ Develop competency based training for mainstream occupations	Office of the Executive Director
Maintain an effective performance management system	➢ All employees receive training annually ➢ Provide feedback to managers to ensure ratings reflect meaningful distinctions between performance ➢ High achievers are rewarded appropriately	Office of the Executive Director
Ensure appropriate representation of women and minorities at all levels within the organization	Increase over FY 2007 baseline	Office of the Executive Director

Agency Resources

The Commission continues to enhance its internal processes, improve financial performance, and further budget and performance integration. The Commission will achieve this by focusing, in part, on effective internal controls, aligning Commission activities and costs to strategic goals and objectives, and supporting the President's Management Agenda.

In November 2006, the Commission received its 13th consecutive unqualified audit opinion expressed on the principal financial statements. External auditors identified no material weaknesses during the course of their review, and the audit was completed earlier than any previous year since the Commission began issuing audited financial statements.

In September 2006, the Commission completed its review of internal controls over financial reporting in place as of June 30, 2006. As required by the revised OMB Circular A-123, *Management's Responsibility for Internal Control*, the Commission implemented an annual review of its general information technology, financial system application, and financial process controls. As a result of this review, the Commission was able to provide reasonable assurance that these controls prevented material misstatement of the balances purported in its financial statements. Moreover, through the course of this review, the Commission identified opportunities to improve the existing control environment and has developed action plans to implement various process improvements. The Commission will begin its FY 2007 review of these controls in April 2007.

The Commission continues to utilize its Business Plan to align all Commission activities to its strategic goals and objectives. The Business Plan provides the Commission with the capability to track actual full-time equivalent usage at an aggregate activity level by strategic goal and objective. In line with the President's Management Agenda initiative to improve budget and performance integration, this reporting capability provides a basis for the linkage of budget and performance information. The Commission will utilize this capability to allocate its budget dollars and related expenditures against its strategic objectives by the end of FY 2007.

In June 2006, in support of the President's Management Agenda eGovernment initiative, the Commission implemented GovTrip, a new web-based travel system. GovTrip streamlines and consolidates federal travel operations into a simplified, end-to-end travel management service. By June 2007, the Commission plans to further enhance GovTrip by integrating the electronic workflow with its financial management system to seamlessly integrate travel planning, authorization, and vouchering.

Performance Measurement	Performance Target	Data Source
Maintain reliable financial management systems which generate accurate and timely financial information to support operating, budget, and policy decisions	➢ Unqualified audit opinion on financial statements ➢ Unqualified assurance assertion on internal controls ➢ Commission costs aligned to strategic objectives by September 2007	Office of the Executive Director
Manage acquisitions in accordance with federal requirements and ensure process provides for the efficient use of Commission resources	➢ 25% of total procurement dollars awarded to small, women-owned, and minority businesses ➢ 100% of qualified procurements are performanced-based	Office of the Executive Director

Information Technology

The Commission continues to align its information technology (IT) to support the agencies goals more effectively and efficiently.

A competitive energy industry requires reliable and timely information in useful electronic formats. To meet this challenge, the Commission is constantly improving the stability, reliability, and security of its IT infrastructure and data repositories.

In FY 2006, the Commission added target-state and transition plan information to its Enterprise Architecture which improved its IT Capital Planning and Investment Control process. These changes will allow the Commission to continue the modernization of current systems and to direct IT investment dollars toward projects that will yield the greatest benefits. In FY 2006 the Commission used this approach to significantly improve its management of centralized data storage. In FY 2007 and 2008, the Commission will continue to transition to its target-state architecture, which describes the capability and structure of the Commission’s desired IT environment.

In support of the President’s Management Agenda, the FERC Online Project is reducing time and costs for customers to make filings and for the Commission to receive and process those filings. In FY 2007, the Commission will continue to extend FERC Online eFiling capabilities to cover all documents submitted in Commission proceedings – including complex documents, those containing CEII, privileged material, those with fee requirements, and tariffs and tariff-related documents. The most cost effective solution for eLibrary technology refreshment and/or outsourcing will be implemented in FY 2008. We will continue to actively participate in federal eGovernment initiatives.

In FY 2007 the Commission will implement the second phase of its agency-wide FERC Online Activity Tracking Management System for improved workload tracking and business planning. The phased implementation will continue into FY 2008.

To deal with the possibility of disruptions to agency operations, the Commission continues to improve its Continuity of Operations Planning and has tested its disaster recovery procedures. In addition, in FY 2007 and 2008 the Commission will be upgrading the technology at its Disaster Recovery Program Facility and FERC HQ to allow for a new tiered storage area network-base disk storage, enhanced data protection, data archiving, and quick restore of operational systems. To ensure the availability and reliability of office automation support systems, in FY 2007 and FY 2008, the Commission will continue to upgrade its operations and maintenance capabilities, configuration management procedures, and computer security program.

In carrying out all of these activities, the Commission will continue to improve and strengthen its compliance with the Federal Information Security Management Act and other applicable OMB and National Institute of Standards and Technology guidance.

Performance Measurement	Performance Target	Data Source
Full implementation of FERC's eGovernment initiatives	Completed by September 30, 2008	Office of the Executive Director

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APPENDIX A

ACRONYM GLOSSARY

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Acronym	Full Description
ADR	alternative dispute resolution
AFC	available flowgate capability
ATC	available transmission capability
Bcf	billion cubic feet
CAISO	California Independent Transmission System Operator
CFTC	Commodity Futures Trading Commission
CEII	critical energy infrastructure information
C.R.	Continuing Resolution
CWIP	construction work in progress
DHS	U.S. Department of Homeland Security
DOE	U.S. Department of Energy
DOT	U.S. Department of Transportation
DRS	Dispute Resolution Service
EIS	environmental impact statement
EPAct 2005	Energy Policy Act of 2005
EQR	Electric Quarterly Report
ERO	Electric Reliability Organization
EWG	exempt wholesale generator
FGT	Florida Gas Transmission Company
FPA	Federal Power Act
FPC	Federal Power Commission
FTE	full-time equivalent
FUCO	foreign utility company
ILP	integrated licensing process
ISO	independent transmission system operator
ISO-NE	Independent Transmission System Operator - New England, Inc
IT	information technology
kV	kilovolt
LNG	liquefied natural gas

Acronym	Full Description
MMC	Market Monitoring Center
MMcf	million cubic feet
MOU	memorandum of understanding
MW	megawatts
NAESB	North American Energy Standards Board
NEPA	National Environmental Policy Act of 1969
NERC[1]	North American Electric Reliability Council or North American Electric Reliability Corporation
NGA	Natural Gas Act
NGPA	Natural Gas Policy Act of 1978
NYISO	New York Independent Transmission System Operator
OASIS	Open Access Same-Time Information System
OEMR	Office of Energy Markets and Reliability
OE	Office of Enforcement
OMB	Office of Management and Budget
PJM	PJM Interconnection
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
ROE	return on equity
RPM	reliability pricing model
RTO	regional transmission organization
SEC	Securities and Exchange Commission
SPP	Southwest Power Pool
USTR	U.S. Trade Representative
WECC	Western Electricity Coordinating Council

[1] The North American Electric Reliability Corporation is the certified ERO. However, the entity is still in transition from the North American Electric Reliability Council to the North American Electric Reliability Corporation. Therefore, thus far, the Council has been filing documents with the Commission on behalf of the Corporation.

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APPENDIX B

STATUTORY AUTHORITY

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Statutory Authority

Below is a listing of federal statutes applicable to the Commission. Links to these statutes are available on the Commission's website at www.ferc.gov under Legal Resources.

General, Electric, Hydropower
Department of Energy Organization Act
Electric Consumers Protection Act (ECPA)
Electronic Freedom of Information Act of 1996
Energy Policy Act of 2005
Energy Policy Act of 1992
Federal Power Act
Information Technology Management Reform Act of 1996 (ITMRA/Clinger-Cohen Act)
Public Utility Holding Company Act of 1935 (PUHCA)
Public Utility Regulatory Policies Act of 1978 (PURPA)
Power Plant & Industrial Fuel Use Act
Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA)

Natural Gas
Alaska Natural Gas Pipeline Act of 2004
Alaska Natural Gas Transportation Act of 1976
Natural Gas Act
Natural Gas Policy Act of 1978
Natural Gas Wellhead Decontrol Act of 1989 (NGWDA)
Outer Continental Shelf Lands Act of 1978 (OCSLA)

Oil
Oil Pipeline Regulatory Reform
Interstate Commerce Act

Environmental and Other
Clean Air Act
Clean Water Act
Coastal Zone Management Act
Endangered Species Act
Fish and Wildlife Coordination Act
National Environmental Policy Act (NEPA)
National Historic Preservation Act
Rivers and Harbors Act
Wild and Scenic Rivers Act

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APPENDIX C

PROPOSED APPROPRIATION LANGUAGE

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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); *$255,425,000* to remain available until expended: *Provided*, That notwithstanding any other provision of law, not to exceed *$255,425,000* of revenues from fees and annual charges, and other services and collections in fiscal year *2008* 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 *2008* so as to result in a final fiscal year *2008* appropriation from the General Fund estimated at not more than $0.

Note.—A regular 2007 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 109–289, Division B, as amended). The amounts included for 2007 in this budget reflect the levels provided by the continuing resolution.

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APPENDIX D

WORKLOAD TABLES

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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 2005 Actual	FY 2006 Actual			FY 2007 Estimate			FY 2008 Estimate		
Pipeline Certificates	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Construction Activity	48	136	112	72	112	112	72	100	112	60
Prior Notice & Abandonments	6	41	43	4	50	48	6	50	50	6
Compliance Filings & Reports	64	266	248	82	272	254	100	272	254	118
Environmental Analysis	38	130	133	35	130	130	35	125	128	32
Compliance & Safety Inspections	0	300	167	133	300	300	133	300	300	133
LNG Inspections	0	11	4	7	11	11	7	11	11	7
Rehearings	8	12	20	0	10	8	2	15	12	5
Complaints	0	0	0	0	2	2	0	2	2	0
Declaratory Orders	0	4	0	4	2	6	0	2	2	0
Remands	0	0	0	0	1	1	0	1	1	0
Dispute Resolution Services	2	4	4	2	2	2	2	2	2	2

Hydropower Licensing	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Original Licenses	11	8	6	13	12	10	15	10	10	15
Relicenses	71	8	20	59	11	20	50	12	20	42
5 MW Exemptions	5	1	4	2	3	4	1	5	4	2
Rehearings	25	14	26	13	30	30	13	30	35	8
Declaratory Orders	0	2	1	1	2	2	1	2	3	0
Remands	0	0	0	0	1	1	0	0	0	0
Cases Set for Hearing	0	0	0	0	0	0	0	0	0	0
Dispute Resolution Services	6	2	2	6	7	6	7	8	8	7

Project Compliance and Administration	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Amendments	162	2,063	2,125	100	2,000	1,850	250	2,000	1,850	400
Jurisdiction	2	8	6	4	10	12	2	10	10	2
Federal Lands	0	76	76	0	45	45	0	45	45	0
Headwater Benefits	8	90	69	29	120	120	29	120	120	29
Compliance	134	585	592	127	325	325	127	325	325	127
Surrenders, Transfers	13	64	52	25	45	45	25	45	45	25
Conduit Exemptions	3	2	4	1	4	4	1	4	4	1
Environmental Inspections And Assistance	22	170	170	22	170	170	22	170	170	22
Preliminary Permits	37	121	66	92	30	90	32	30	30	32
Rehearings	0	19	11	8	25	25	8	25	25	8
Complaints	0	5	4	1	5	5	1	5	5	1
Dispute Resolution Services	2	6	5	3	5	5	3	5	5	3

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

COMMISSION WORKLOAD	FY 2005 Actual	FY 2006 Actual			FY 2007 Estimate			FY 2008 Estimate		
Dam Safety and Inspections	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Operations Inspections[2]	837	1,473	1,121	1,189	1,362	1,381	1,170	1,415	1,436	1149
Prelicense Inspections	6	7	7	6	9	8	7	7	7	7
Construction Inspections	39	197	169	67	195	200	62	175	175	62
Exemption Inspections	126	266	200	192	295	276	211	278	279	210
Special Inspections	37	165	118	84	102	102	84	105	105	84
Engineering Evaluation & Studies	671	5,624	5,320	975	6,126	6,124	977	6,116	6,131	962
Part 12 Reviews	112	165	125	152	243	229	166	226	233	159
Dam Safety Reviews	25	46	56	15	51	48	18	46	46	18
EAP Tests	17	38	20	35	50	49	36	53	53	36

Rates and Tariffs	P	R	C	P	R	C	P	R	C	P
Gas Certificates & Rate Evaluations	40	85	49	76	85	90	71	85	90	66
Market-Based Rates	1,002	1,647	2,111	538	1,600	1,800	338	1,600	1,800	138
Dispute Resolution Services (Electric)	5	40	39	6	40	40	6	42	42	6
Rehearings (Electric)	413	300	300	413	300	300	413	300	300	413
Complaints (Electric)	29	50	50	29	50	50	29	50	50	29
Declaratory Orders (Electric)	7	30	30	7	30	30	7	30	30	7
Remands (Electric)	18	6	6	18	6	6	18	6	6	18
Negotiated Rates	14	277	261	30	275	270	35	275	275	35
Cost-Based Rates	238	1,970	1,963	245	1,950	1,950	245	1,950	1,950	245
Service Terms and Conditions	31	361	348	44	350	350	44	350	350	44
Dispute Resolution Services (Gas)	3	8	9	2	9	8	3	8	8	3
Rehearings (Gas)	47	15	55	7	40	40	7	40	47	0
Complaints (Gas)	0	2	2	0	2	2	0	2	2	0
Declaratory Orders (Gas)	3	0	0	3	1	4	0	1	1	0
Remands (Gas)	2	3	4	1	2	3	0	2	2	0
RTO, ISO, & Transco Filings	39	144	150	33	140	145	28	140	145	23
Compliance Certificate Rat	617	818	929	506	800	900	406	800	925	281
Compliance Refund Reports	92	121	121	92	120	125	87	120	125	82
Dispute Resolution Services (Oil)	0	1	1	0	1	1	0	1	1	0
Rehearings (Oil)	8	56	20	44	7	47	4	10	12	2
Complaints (Oil)	9	4	5	8	4	12	0	5	5	0
Declaratory Orders (Oil)	0	0	0	0	2	2	0	2	2	0
Remands (Oil)	0	0	0	0	1	1	0	2	2	0

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

COMMISSION WORKLOAD	FY 2005 Actual	FY 2006 Actual			FY 2007 Estimate			FY 2008 Estimate		
Corporate Applications	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Interlocking Positions	58	1,011	914	155	475	525	105	475	525	55
Mergers	2	5	3	4	6	5	5	6	6	5
Asset Acquisitions or Dispositions	28	174	174	28	175	180	23	175	175	23
Cogeneration/Small Power Producers (QF)	0	642	223	419	500	650	269	500	650	119
Compliance & Other Corporate Filings	10	178	162	26	95	105	16	95	105	6
Dispute Resolution Services	0	0	0	0	1	1	0	1	1	0

Electric Grid Reliability	P	R	C	P	R	C	P	R	C	P
Reliability Standards	0	117	0	117	80	120	77	80	77	80
Commission-Directed Revised or New Standards	0	0	0	0	0	0	0	62	62	0
Reliability Filings by EOR/RE	0	2	1	1	18	10	9	1	9	1
Reliability Readiness Reviews	0	30	30	0	30	30	0	30	30	0
Standards Compliance Audits	0	0	0	0	25	23	2	25	25	2
Incident Investigations	0	1	0	1	12	10	3	12	13	2

Legal Matters	P	R	C	P	R	C	P	R	C	P
Cases Set for Hearing	101	103	115	89	100	100	89	100	100	89
Settlement Judge Proceedings	74	68	97	45	75	75	45	75	75	45
Dispute Resolution Services (Outreach)[3]	23	68	54	37	74	74	37	78	78	37
Appellate Review	145	110	105	150	115	110	155	120	115	160
Audits	77	26	88	15	33	32	16	30	30	16
Accounting	25	276	211	90	270	330	30	270	270	30

[3] In light of the value the Commission places on persistent and ongoing DRS outreach activities, it is likely that the workload figures in this category will either remain steady or increase over time.

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APPENDIX E

RESOURCE REQUEST BY INDUSTRY

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RESOURCE REQUEST BY INDUSTRY

Funding

(Dollars in Thousands)

Industry	FY 2006 Actual	FY 2007 C.R. Level	FY 2008 Request	% (+/-) FY 2007 to FY 2008
Electric Power	$109,434	$112,578	$127,930	13.6%
Natural Gas & Oil Pipelines	$55,735	$56,890	$63,409	11.5%
Hydropower	$58,417	$57,847	$64,086	10.8%
TOTAL	**$223,586**	**$227,315**	**$255,425**	**12.4%**

FTEs

Industry	FY 2006 Actual	FY 2007 C.R. Level	FY 2008 Request	% (+/-) FY 2007 to FY 2008
Electric Power	635	655	699	6.7%
Natural Gas & Oil Pipelines	317	325	341	4.9%
Hydropower	311	315	330	4.8%
TOTAL	**1,263**	**1,295**	**1,370**	**5.8%**

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APPENDIX F

OBJECT CLASS TABLE

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Object Class Summary

(Dollars in Thousands)

Obligations		FY 2006 Actual	FY 2007 C.R. Level	FY 2008 Request
11.9	Personnel Compensation	$121,395	$132,068	$143,539
12.1	Benefits	30,121	32,091	35,531
13.0	Benefits for Former Personnel	0	10	10
Total, Personnel Compensation & Benefits		$151,516	$164,169	$179,080
21.0	Travel and Transportation of Persons	3,134	3,255	3,692
22.0	Transportation of Things	115	1	1
23.1	Rental Payments to GSA	19,919	20,244	20,766
23.2	Rental Payments to Others	525	540	561
23.3	Communications, Utilities & Misc. Charges	1,759	1,807	2,255
24.0	Printing and Reproduction	3,062	3,084	3,149
25.0	Other Services	34,698	29,225	38,062
25.1	Advisory and Assistance	9,101	7,054	8,077
25.2	Non-Federal	4,088	2,759	4,087
25.3	Federal	871	729	785
25.4	Operation & Maintenance of Facilities	2,025	1,549	1,676
25.7	Operation & Maintenance of Equipment	18,613	17,134	23,437
26.0	Supplies and Materials	770	1,005	1,046
31.0	Equipment	8,091	3,915	6,743
41.0	Grants, Subsidies & Contributions	49	45	45
42.0	Insurance Claims and Indemnities	(52)	25	25
Total, Obligations		**$223,586**	**$227,315**	**$255,425**
Application of Prior Years' Budget Authority		(3,186)	0	0
Appropriation		$220,400	$227,315	$255,425
Offsetting Collections		(220,400)	(227,315)	(255,425)
Net Appropriation		**$0**	**$0**	**$0**

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APPENDIX G

COMPARATIVE PERFORMANCE MEASUREMENT DATA

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Performance Measurements for Energy Infrastructure, FY 2003 – FY 2008

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Statutory cases by workload category	All cases competed by statutory action date	Of the nearly 3,000 statutory items whose due date fell in FY 2003, 99.7% were completed by the statutory action date.
Percentage of natural gas pipelines with approved Order No. 637 compliance filings	100% of pipelines subject to Order No. 637	By the end of FY 2003, the Commission issued orders approving and establishing effective dates for 92 out of a total 94 (98%) pending Order No. 637 compliance filings. The two pipeline filings that were not completed were Northern Natural Gas Pipeline Company, Docket No. RP00-404, and El Paso Natural Gas Co., Docket No. RP00-336. The Northern Natural Order is scheduled for the October 22, 2003 Commission agenda. Action on the Order No. 637 compliance issues in El Paso are delayed pending resolution of pre-existing capacity allocation issues. Those allocation issues need to be resolved before the Commission can move forward on the Order No. 637 compliance issues.
Merger and qualifying facilities (QF) workload (regulatory cases)	80% of cases completed by regulatory deadline	Approximately 325 QF filings were received in FY 2003. Of these 325, 9 filings were applications for Commission QF certification or re-certification. The Commission completed 100% of the applications for certification or re-certification within 90 days specified in the Commission's regulations (18 C.F.R. § 202.207(b) (3) (2003)). Orders were issued in response to all 9 applications, 3 of which were issued pursuant to delegated authority and 6 of which were Commission issued orders. No merger applications were received in FY 2003.
Timely processing of filings seeking recovery of security and safety expenses in jurisdictional rates	Process filings: ➢ within 30 days for gas and oil rate filings ➢ within 60 days for electric filings	The following filings were acted on in FY 2003: <u>RP02-129-000, Southern LNG</u> ***Filed:*** December 21, 2001 ***Order Issued:*** January 31, 2002 (Suspension order setting case for hearing) ***Case settled:*** Letter order issued October 10, 2002, accepting a settlement and closing out the case. ***Target:*** While this case was not acted on within 30 days, action did meet our statutory guidelines as we acted prior to the proposed effective date of February 1, 2002. The suspension order was dated January 31, 2002; the case was settled in early FY 2003. <u>IS03-457, Plantation Pipe Line Co.</u> ***Filed:*** July 31, 2003 ***Order Issued:*** August 29, 2003 ***Target:*** Met <u>IS03-475, West Shore Pipe Line Co.</u> ***Filed:*** August 12, 2003 ***Order Issued:*** September 30, 2003 ***Target:*** While this case was not acted on within the 30-day target, it met our statutory guidelines as we acted prior to the proposed effective date of October 1, 2003.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Implement generic policy on Large Generator Interconnections and Small Generator Interconnections	Issue final rules on both policies in FY 2003	The Large Generator Interconnection final rule was issued on July 24, 2003, and became effective on October 20, 2003. The Small Generator Notice of Proposed Rulemaking was also issued on July 24, 2003. The final rule will be issued in FY 2004.
Number of cases requiring additional remedial action	Less than 20% of all cases processed in FY 2003 require additional remedial action	The Commission received no merger applications in FY 2003; therefore, we have no results to report for this performance measure.
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: ➢ unprotested cases that involve no precedential issues, 159 days ➢ protested cases that involve no precedential issues, 304 days ➢ cases of first impression or containing larger policy implications, 365 days ➢ cases requiring a major environmental assessment or environmental impact statement, 480 days	➢ 148 days for Category 1 ➢ 193 days for Category 2 ➢ 272 days for Category 3 ➢ 469 days for Category 4
Percentage of filings addressing the development of increased hydropower capacity	25% of all relicense cases using ALP	29% of licenses issued based on the collaborative process resulted in an increase in capacity.
Increase non-federal hydropower capacity	Complete license amendments proposing increased capacity/generation in less than 12 months	5 amendments authorizing an increase in capacity were processed in less than 8 months.
Percentage of hydropower licenses approved within specified time frames	75% of licenses approved within the following time frames: ➢ ALP median case, less than 16 months ➢ Traditional median case, less than 43 months	➢ 100% of the ALP, or collaboratively prepared license applications, were completed within 15 months when external factors (i.e., water quality certificate, Coastal Zone Management reviews) did not delay processing. Of the pending cases in which collaboratively prepared amendments to license applications were filed and were not delayed by external factors, 80% were completed within 16 months after receipt of the settlement. ➢ For traditionally prepared license applications for which no external factors contributed to the delay, 77% of the cases were processed in less than 43 months.
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	All 7 major onshore pipeline projects were inspected at least once every 4 weeks during ongoing construction activity.
Increase the percentage of hydropower licenses issued using ALP	2% increase over FY 2002	13% increase over FY 2002

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Evaluate and improve the effectiveness of required environmental enhancement and mitigation measures in hydropower licenses	Conduct 5 site visits	Conducted 5 site visits and evaluated the effectiveness of the targeted environmental mitigation measures.
	Hold 2 regional meetings with stakeholders	Held 3 regional outreach meetings with stakeholders, i.e., 2 shoreline management outreach meetings in Wisconsin and South Carolina, and a water quality mitigation effectiveness outreach meeting in New York.
	Disseminate 2 environmental effectiveness reports	Disseminated 2 environmental effectiveness reports: "Mitigation Effectiveness Studies at the Federal Energy Regulatory Commission: Final Water Quality Report"; and "Mitigation Effectiveness Studies at the Federal Energy Regulatory Commission: Draft Fish Passage Report".
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams were inspected.
Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	95% of high- and significant-hazard-potential dams met all current structural safety standards
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	100% of qualifying dams were in compliance with EAP requirements
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	Developed and issued a new Engineering Guidelines chapter on the Dam Safety Performance Monitoring Program.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	All three major onshore projects were inspected at least once every four weeks.
Percentage of relicense filings based upon ALP's	25% of all relicense cases using ALP	45% of the relicense applications filed during FY 2004 used ALP.
Complete implementation process of Large Generator Interconnection Policies	By year end, process 90% of all compliance tariff filings submitted by July 31	89% of the 87 compliance tariff filings were completed by the end of FY 2004. The remainder involve cases where additional time was needed to evaluate protests and unique compliance issues, and will be completed by the end of first quarter of FY 2005. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Implement generic policy on Small Generator Interconnection	Issue final rule	Although the Commission expected to issue a final rule by the end of FY 2004, we delayed development and issuance in response to ongoing stakeholder activity to reach a consensus on important technical and legal issues. The extension for stakeholders to submit additional comments will ensure broad industry consensus on the final rule. This, in turn, will speed the ability to implement the requirements of the final rule we now plan to issue in FY 2005. These procedures and agreements, when issued, will provide certainty about the costs market participants will bear and the terms and conditions that will affect interconnection to the electric transmission system thereby hastening the interconnection process.
Percentage of pipeline certificate cases completed in specified time frames	85% of cases completed within the following time frames: ➢ unprotested cases that involve no precedential issues, 159 days ➢ protested cases that involve no precedential issues, 304 days ➢ cases of first impression or containing larger policy implications, 365 days ➢ cases requiring a major environmental assessment or environmental impact statement, 480 days	85% of the cases were completed in: ➢ 111 days for unprotested cases that involve no precedential issues; ➢ 190 days for protested cases that involve no precedential issues; ➢ 217 days for cases of first impression or containing larger policy implications; ➢ 448 days for cases requiring a major environmental assessment or environmental impact statement.
Percentage of final NEPA documents, required for hydropower license applications filed after FY 2002, completed within specified time frames	75% of final NEPA documents prepared for licenses approved within the following time frames: ➢ ALP case, less than 16 months ➢ TLP case, less than 24 months	➢ 83% of final NEPA documents were issued within 16 months of the date ALP license applications were deemed complete. ➢ 100% of final NEPA documents were issued within 24 months of the date TLP license applications were deemed complete.
Percent of final NEPA documents based upon comprehensive settlement agreements completed within specified time frames	75% of final NEPA documents prepared for final comprehensive license settlement agreements are completed within 12 months	100% of final NEPA documents were issued within 12 months of the date final settlement agreements were filed with the Commission.
Statutory cases by workload category	All cases competed by statutory action date	Over 99.6% of the 2,900 statutory cases were completed by the required date. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Establish clear cost recovery process for transmission investment in each region	Allow flexibility to ensure utilities or pipelines have sufficient revenue stream to recover investment costs and provide rate certainty for customers	The Commission approved over 100 applications, including 42 in the Western U.S. alone, that ensured rate recovery for utilities and provided additional rate certainty to customers. The Commission also approved 11 applications filed under NGA section 311 to establish rates for interstate gas transportation services provided over intrastate and Hinshaw pipeline systems and another 11 applications by Western U.S. interstate pipelines to establish rate recovery for additional gas infrastructure investment. In the liquefied natural gas (LNG) industry, the Commission provided significant investment recovery certainty by issuing orders establishing initial rates for three proposed LNG import terminal facility projects: ➢ Tractebel Calypso; ➢ AES Ocean Express; and ➢ Trunkline LNG.
Process qualifying facilities workload (regulatory cases)	100% of cases processed by regulatory deadline	100% of QF certification or re-certification applications were completed within the regulatory 90-day time frame prescribed in 18 CFR § 292.207(b)(3)(i).
Evaluate and improve the effectiveness of required environmental enhancement and mitigation measures in hydropower licenses	➢ Conduct 5 site visits ➢ Hold 2 outreach meetings with stakeholders ➢ Disseminate 2 environmental effectiveness reports	➢ 100% completed ➢ 100% completed ➢ Disseminated two reports
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	Although no updates or new chapters were added, the Commission developed substantial portions of two new chapters that will be issued in FY 2005: ➢ Seismicity; and ➢ Penstock and Water Conveyance Facilities.
Update the FERC Security Program for Hydropower projects as appropriate	Make program changes as appropriate	Although no security program changes were made, the Commission continued to coordinate with DHS and other Federal dam owners to ensure the adequacy of the current program.
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard potential dams were inspected.
Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	95% of high- and significant-hazard-potential dams met all current structural safety standards.
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	99.8% of qualifying dams were in compliance with EAP requirements. The two dams that were not in compliance (because of overdue EAP filings) were promptly issued non-compliance letters and are being closely monitored to bring them back into compliance as soon as possible.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Recovery of companies' prudently incurred costs to safeguard the reliability and security of energy transportation and supply infrastructure	Timely processing of filings seeking recovery of security and safety costs in jurisdictional rates by statutory action date	All 17 oil pipeline applications to either establish or revise security cost recovery mechanisms or charges were processed within the 30-day statutory period. In addition, both of the gas pipeline applications to recover security-related costs as part of a general rate increase were processed by statutory action date.
	Encourage innovative proposals to recover prudently incurred security costs	Commission staff has met, and continues to meet, with industry representatives, such as the Association of Oil Pipe Lines, to develop innovative recovery methods that reflect the diversity of rate designs, services and system configurations of companies that have identified a need for additional security measures.

FY 2005		
Performance Measurement	**Performance Target**	**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	Target Met. During FY 2005, the following percentages of cases were completed within the stated targets: ➢ 93% ➢ 100% ➢ 100% ➢ 89%.
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	Target Met. During FY 2005, 100% of qualifying projects were inspected per the established schedule.
Time to complete NEPA Prefiling Process	8 months after a complete application is filed	Target Met. During FY 2005, 100% of applications completed the NEPA Prefiling Process within the stated target.
Percentage of relicense filings based upon alternative licensing process (ALP)	25% of all relicense cases using ALP	Target Met. During FY 2005, 39% of relicense cases used the ALP.
Yearly increase in the percentage of hydropower projects using the ILP pre-filing process	25%	Target Met. Due in large part to staff outreach efforts, the percentage of hydropower projects using the ILP increased by 450% during FY 2005.
Average processing times for hydropower relicensing	Additional 5% reduction each year	Target Met. During FY 2005, the average processing time for hydropower relicensing reduced by 5.5%.
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	Target Met. 100% of final NEPA documents were prepared within the stated targets for both the ALP and TLP cases during FY 2005.
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	Target Met. 92% of final NEPA documents were completed within 12 months during FY 2005.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Reduction in the number of barriers to entry for new generators and reduction in the potential for undue discrimination against new generators, by streamlining and standardizing interconnection terms and conditions in non-independent transmission provider tariffs	75% of all open access transmission tariffs will have standard generator interconnection procedures in compliance with Order No. 2003 (and small generator final rule) by the end of FY 2005	Target Met. During FY 2005, the Commission completed 96.9% (31 of 32) of the open access transmission tariff compliance filings received, which also have standard generator interconnection procedures that comply with Order No. 2003. _Note:_ Filings required under Order No. 2006 (small generator final rule) were not reflected in these results since they are contingent upon the issuance of the final rule on electronic tariff filing, which was not completed by the end of FY 2005.
Effectiveness of regional planning processes in each region of the country	Establish benchmarks assessing how well each region is meeting the necessary criteria for regional planning, which includes: ➢ an open and inclusive process for stakeholder involvement ➢ objective cost allocation criteria ➢ equal opportunity for a variety of technologies ➢ a process to reduce congestion	Target Met. In March 2005, benchmarks that meet the stated targets were developed and presented to the RTO and ISO Boards of Directors during a meeting at the Commission.
Timeliness of processing requests for cost recovery, new services, or changes to existing services	100% of all cases processed by statutory action date	Target Not Met. Almost 99.9% of the more than 3,000 statutory cases were completed by the statutory action date. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Timeliness of Commission Opinions, to provide ratepayers with regulatory certainty with respect to rates set for hearing	85% of all Commission Opinions issued within 12 months of Briefs Opposing Exceptions to Initial Decisions on rates set for hearing	Target Met. During FY 2005, 100% of Commission Opinions were issued within 12 months of the Briefs Opposing Exceptions to Initial Decisions on rates set for hearing.
Timeliness of resolving cost recovery proposals for new infrastructure, to provide investors with regulatory certainty	85% of all merits orders accepting, modifying, or rejecting timely filed proposals, including time for hearing, ADR, or settlement judge participation, issued by date requested by applicant to meet its construction/financing schedule	Target Met. During FY 2005, The Commission issued 95% of the 224 merits orders to resolve cost recovery proposals for new infrastructure by requested date or, in the case of gas pipeline certificate applications, contributed rate inserts to allow timely completion.
Implementation of rate flexibility or incentives to encourage needed additions to energy infrastructure	Increase in the number of innovative or flexible rate designs in effect, by approving rate proposals or issuing policy statements providing rate flexibility or incentives needed for infrastructure additions	Target Met. During FY 2005, the Commission approved several rate proposals and issued a policy statement on independent transmission companies, which collectively accomplished the stated targets.
Enhance reliability oversight by creating a new reliability division	Division operational by end of fiscal year	Target met. The Commission's Reliability Division was operational in October 2004.
Timeliness of processing proposals to recover prudently incurred costs to safeguard the security and safety of energy transportation and supply infrastructure	100% of all filings, including innovative proposals, seeking recovery of security and safety costs in jurisdictional rates processed by statutory action date	Target Met. The Commission processed 100% of the fourteen oil pipeline and three gas pipeline filings by the statutory action date.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Participation with NERC in reliability readiness reviews over next 3 years to ensure grid reliability	One-third of the Nation's control areas reviewed with NERC annually	Target Met. During FY 2005, the Commission participated in 35 of the 44 NERC scheduled control area audits, which exceeds one-third of the Nation's approximately 100 control areas. This result is based on an estimate since NERC continues to re-define what constitutes a "control area." In future years, the Commission is no longer basing its performance on the number of "control areas," but rather on "load capacity."
Timeliness of processing proposals to recover prudently incurred costs to improve the reliability of the transmission grid	100% of all filings, including innovative proposals, seeking recovery of reliability costs in transmission rates processed by the statutory action date	Target Not Met. The Commission processed 99.7% (313 out of 314) of these filings by the statutory action date during FY 2005. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Clarity and enforceability of reliability rules, with effective penalties for non-compliance	Assess each region's reliability rules and penalties to determine whether they specify reliability violations and include enforceable and effective penalties	Target met. After assessing the reliability rules of the six existing RTOs/ISOs in various regions of the country, the Commission determined that the rules specify reliability violations and include enforceable and effective penalties.
	Require each new RTO or ISO to address reliability considerations prior to becoming operational	Target Met. Prior to becoming operational, each of the six existing RTOs/ISOs addressed reliability considerations.
Evaluate the effectiveness of Commission required resources protection measures, and disseminate information on the results.	Conduct a workshop and disseminate one report on the results of the evaluation.	Target Met. During FY 2005, the Commission conducted a workshop on shoreline management and issued a report on its evaluation of recreation mitigation effectiveness.
Maintain environmental quality at hydropower projects.	Resource protection measures constructed and implemented according to license requirements.	Target Met. Environmental inspections during FY 2005 indicated that all resource protection measures at inspected projects were constructed and implemented according to license articles.
Enhance dam safety	100% of high- and significant-hazard-potential dams inspected annually	Target Met. During FY 2005, the following percentage of dams met the stated targets: ➢ 100% ➢ 95% ➢ 100%
	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	
	100% of qualifying dams in compliance with EAP requirements	

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Number of instances of improved regulation to facilitate security and emergency response	Number of specific measures (e.g., number of security surcharge requests approved and gas allocation principles set)	Target Met. During FY 2005, the Commission improved regulation to facilitate security and emergency responses by: ➢ approving all security surcharge requests received from oil pipelines; ➢ approving recovery of software costs to meet security requirements for an electric public utility; ➢ approving surcharges to recover capital costs (including costs to enhance security) for two natural gas pipelines; and ➢ issuing notices in response to Hurricanes Katrina and Rita, waiving certain reporting requirements and non-statutory deadlines for specified periods.
Timely handling of CEII without disrupting requesters' participation rights in other proceedings	No requester's failure to obtain CEII in a timely manner will affect requester's ability to participate effectively in a proceeding	Target Met. The Commission received no complaints from requesters regarding their ability to participate effectively in a proceeding during FY 2005.
Prevent unauthorized access to security-related documents	No instances of unauthorized access to security-related documents	Target Met. During FY 2005, the Commission did not have an instance of unauthorized access to security-related documents reported.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Develop strategic plan and timeline for transmission line siting group	By August 31, 2006	Target Met. The strategic plan and timeline were in place by August 31, 2006. Steps have been taken to establish a transmission line siting group including: the issuance of a Notice of Proposed Rulemaking to establish the necessary rules and regulations to process applications filed with the Commission and posting openings to fill these essential positions.
Issue final rules on mandatory pre-filing process for LNG terminal proposals	Within 60 days of enactment of EPAct 2005	Target Met. The Commission issued regulations on the mandatory pre-filing process for LNG terminal proposals within 60 days of the enactment of EPAct 2005. The Pre-Filing Rule was issued on October 7, 2005 in Docket No. RM 05-31-000, Order 665; the effective date of the rule was November 17, 2005.
Complete MOU with Secretary of Defense on coordination of LNG facilities affecting active military installations	By March 31, 2006	Target Not Met. Both DoD contacts retired or were transferred during negotiations. A new DoD contact was assigned in July 2006 and negotiations are underway again. This did not impact operations.
Issue reports to Congress on Alaska Natural Gas Pipeline	Reports issued in February 2006 and August 2006	Target Met. Reports issued February 1 and July 10, 2006.
Establish rules for transmission infrastructure incentives	Issue rules by August 8, 2006	Target Met. Docket No. RM06-4-000; Final Rule, Order No. 679, "Promoting Transmission Investment through Pricing Reform," issued July 20, 2006.
Identify requirements for establishing a communications system with transmission owners and RTOs on status of transmission lines	Issue report to Congress by February 4, 2006	Target Met. Report entitled "Steps to Establish a Transmission Monitoring System for Transmission Owners and Operators within the Eastern and Western Interconnections," submitted to Congress on February 2, 2006.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Establish process to review ERO proposed initial reliability standards	By March 31, 2006	Target Met. Developed a rulemaking process and timeline for addressing the initial reliability standards; the process and timeline were approved by the Commission in March 2006.
Issue report to Congress on operator training	By December 31, 2005	Target Not Met. Although a comprehensive study of the current state of control room operator training across the bulk power system of the United States was completed in early December, the report has not yet been sent to Congress. The Commission is currently involved in a comprehensive rulemaking related to ERO reliability standards which will include standards related to operator training. This did not negatively impact operations.y
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	100%
Percentage of pipeline certificate cases with no precedential issues completed	➢ 90% of unprotested cases within 159 days of filing ➢ 90% of protested cases within 304 days of filing	➢ 94% ➢ 100%
Percentage of pipeline certificate cases of first impression or containing larger policy implications completed	90% within one year of filing	100%
Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed	90% within 18 months of filing	100%
Percentage of qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected at least once every eight weeks	100%
Percentage of LNG import terminals inspected	100% inspected annually	100%
Percentage of LNG peak-shaving terminals inspected	50% inspected annually	50%
Percentage of ILP pre-filing notices for NOI/PAD and initial scoping document issued	85% within 60 days of NOI/PAD filing	100%
Percentage of ILP pre-filing scoping meetings and site visits completed	85% within 90 days of NOI/PAD filing	100%
Percentage of ILP pre-filing study plan determinations completed	85% within 315 days of NOI/PAD filing	100%
Percentage of final NEPA documents issued for ALP/TLP cases with settlement agreements	85% within 12 months	94%
Percentage of final NEPA documents issued for ALP/TLP cases without settlement agreements	85% within 24 months	94%

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of non-independent transmission provider open access transmission tariffs that have standard generator interconnection procedures in compliance with Order No. 2003 and small generator final rule	75% by September 30, 2006	Target Met. 100% compliance with Order No. 2006, "Standardization of Small Generator Interconnection Agreements and Procedures," issued May 12, 2005, was established through language contained in paragraph 544 of the Final Rule, as follows: "On the effective date of this Final Rule…the OATTs [open access transmission tariffs] of all non-independent Transmission Providers are deemed revised to include the Final Rule SGIP [Standard Generator Interconnection Procedures] and SGIA [Standard Generator Interconnection Agreement]." In accordance with other language in the same paragraph, no further amendment to include the SGIP and SGIA in a Transmission Provider's OATT is required until compliance is due in the Commission's pending rulemaking on Electronic Tariff Filings. Compliance with Order No. 2003 (large generator rule) was completed and reported on during FY 2005 (see previous results).
Percentage of cases for cost recovery, new services, or changes to existing services processed	➢ 100% of NGA section 4 cases in 30 days ➢ 100% of FPA section 205 cases in 60 days	Target Met. 100% of the more than 3,350 statutory cases were completed by the statutory action date.
Percentage of rate cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	➢ There were no Track I cases ➢ 90% of Track II cases in 47 weeks ➢ 94% of Track III cases in 63 weeks
Percentage of rate cases set for hearing that achieve partial or complete consensual agreement	75%	78%
Percentage of Commission Opinions issued once Briefs Opposing Exceptions to Initial Decisions are filed	90% within 12 months	Target met. 100% (10 of 10) Initial Decisions processed within 12 months of Briefs Opposing Exceptions.
Percentage of merit orders accepting, modifying, or rejecting timely filed cost recovery proposals for new infrastructure submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Target Met. 96% of the 120 merit orders to resolve cost recovery proposals for new infrastructure were issued by statutory or requested date as applicable. In the case of gas pipeline certificate applications, contributed rate inserts to allow timely completion.
Timeliness of issuing environmental licensing requirements	Licensing responsibility letters sent within 45 business days of license issuance date	Target Met. All licensing responsibility letters were issued within 45 days of license issuances.
Percentage of NEPA documents completed for projects utilizing the pre-filing processes	85% within 8 months of determining a pipeline or LNG facility application complete	100%
Participation in NERC / industry reliability readiness reviews	➢ 100% of the Reliability Coordinators ➢ Large entities which represent 80% of the load served by all entities reviewed by NERC	Target Met. FERC participated in 100% of NERC's Reliability Coordinator reviews (5 of 5), and participated in 22 readiness reviews of large entities which represent 94.5% (125,503 MW) of the load served by all entities reviewed by NERC (132,796 MW).

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Issue final rule on Electric Reliability Organization (ERO) certification and mandatory reliability standards enforcement	Rules issued by February 4, 2006	Target Met. Docket No. RM05-30-000; Final Rule, Order No. 672, "Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards," issued February 3, 2006.
Percentage of new RTOs or ISOs performing reliability functions included in Orders No. 2000 or No. 888, respectively	100%	No new RTOs or ISOs were established during the performance period.
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred reliability costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Target Met. 100% of the 394 merit orders to resolve cost recovery proposals for reliability were issued by statutory or requested date, as applicable.
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred safety and security costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Target Met. 100% of the 20 relevant filings (i.e., oil pipelines) were completed by the statutory action date.
Percentage of high- and significant-hazard-potential dams inspected annually	100%	100%
Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation	100%	100%
Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s)	100%	100%
Number of instances of unauthorized access to Critical Energy Infrastructure Information (CEII)	No instances	Target met. No instances.
Number of complaints from CEII requesters on inability to participate in a proceeding due to failure to obtain CEII in a timely manner	None	Target met. None.

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Resolve Regulatory and Other Challenges to Needed Development		
Issue Alaska Gas Pipeline Reports to Congress	Issue Reports in February and August 2007	Office of Energy Projects / Office of the General Counsel
Percentage of pipeline certificate cases with no precedential issues completed	➢ 90% of unprotested cases within 159 days of filing ➢ 90% of protested cases within 304 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of pipeline certificate cases of first impression or containing larger policy implications completed	90% within 365 days of filing	Office of Energy Projects / Office of the General Counsel

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed	90% within 480 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected every 8 weeks	Office of Energy Projects
Percentage of ILP pre-filing study plan determinations completed	85% within 150 days of applicant's filing of the proposed study plan	Office of Energy Projects / Office of the General Counsel
Percentage of infrastructure studies completed	➢ 100% for regional and issue-based infrastructure conferences ➢ 100% for Commission- and Congressional-directed studies	Office of Energy Projects
Percentage of NEPA documents completed for projects utilizing the pre-filing processes	85% within 8 months of determining a pipeline or LNG facility application complete	Office of Energy Projects / Office of the General Counsel
Timeliness of filings processed containing amendments to non-independent electric transmission provider OATTs	Within 60 days of filing date or applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Encourage Investment and Effect Timely Cost Recovery		
Timeliness of applications processed for incentive rates under section 205 of the FPA	Processed by the statutory deadline for rate filings or the applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Process cost recovery cases within reasonable timeframes (including prudently-incurred expenses to safeguard and enhance the reliability, security and safety of the energy infrastructure)	➢ 100% of statutory cases addressed by Commission order within statutory deadlines ➢ 95% of certificate cases within 12 months or applicants' requested date, whichever is later ➢ 90% of cases set for hearing within 12 months of briefs opposing exceptions	Office of Energy Markets and Reliability / Office of Energy Projects / Office of the General Counsel
Establish price volatility baseline	By September 30, 2007	Office of Energy Markets and Reliability
Establish out-of-merit dispatch baseline	By September 30, 2007	Office of Energy Markets and Reliability
Assure Reliability of Interstate Transmission Grid		
Percentage of proposed reliability standards reviewed	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Develop procedures to review the performance of the ERO	Complete by March 31, 2007	Office of Energy Markets and Reliability
Percentage of NERC / industry reliability readiness reviews of Reliability Coordinators in which FERC participates	100%	Office of Energy Markets and Reliability

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of load served, included in NERC / industry reliability readiness reviews, in which FERC participates	50%	Office of Energy Markets and Reliability
Percentage of ERO penalty action rulings reviewed to prevent inappropriate rulings from going into effect by default	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Protect Safety at LNG and Hydropower Facilities		
Percentage of high- and significant-hazard-potential dams inspected annually	100%	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation	100%	Office of Energy Projects
Percentage inspected annually: ➢ LNG import terminals ➢ LNG peak-shaving facilities	➢ 100% ➢ 50%	Office of Energy Projects
Percentage of LNG facilities that meet all current safety standards or are subject of a compliance letter	100%	Office of Energy Projects
Percentage of EIS documents that contain sections addressing safety for Hydropower Projects, LNG Facilities, Gas Pipeline Projects and Storage Facilities	100%	Office of Energy Projects
Control access to Critical Energy Infrastructure Information	No instances of improper access or improper denial affecting national security or Commission proceedings	Office of the General Counsel
Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s)	100%	Office of Energy Projects
Percentage of LNG facility authorizations that incorporate consultation with all appropriate agencies on security related matters	100%	Office of Energy Projects
Incorporate Environmental Considerations into Commission Decisions		
Percentage of final NEPA documents issued for ALP/TLP cases: ➢ with settlement agreements ➢ without settlement agreements	➢ 85% within 12 months ➢ 85% within 24 months	Office of Energy Projects / Office of the General Counsel
Timeliness of issuing environmental licensing requirements	Licensing responsibility letters sent within 45 business days of license issuance date	Office of Energy Projects / Office of the General Counsel
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	Office of Energy Projects

FY 2008		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Resolve Regulatory and Other Challenges to Needed Development		
Timeliness of processing complete filings containing amendments to non-independent electric transmission provider OATTs	By statutory due date or applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Issue Alaska Gas Pipeline Reports to Congress	Issue Reports in February and August 2008	Office of Energy Projects / Office of the General Counsel
Percentage of pipeline certificate cases with no precedential issues completed	➢ 90% of unprotested cases within 159 days of filing ➢ 90% of protested cases within 304 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of pipeline certificate cases of first impression or containing larger policy implications completed	90% within 365 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed	90% within 480 days of filing	Office of Energy Projects / Office of the General Counsel
Percentage of NEPA documents completed for projects utilizing the pre-filing processes	85% within 8 months of determining a pipeline or LNG facility application complete	Office of Energy Projects / Office of the General Counsel
Percentage of qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected every 8 weeks	Office of Energy Projects
Percentage of ILP pre-filing study plan determinations completed	85% within 150 days of applicant's filing of the proposed study plan	Office of Energy Projects / Office of the General Counsel
Percentage of infrastructure studies completed	➢ 100% for regional and issue-based infrastructure conferences ➢ 100% for Commission- and Congressional-directed studies	Office of Energy Projects
Encourage Investment and Effect Timely Cost Recovery		
Timeliness of processing complete applications for incentive rates	➢ 100% of statutory cases processed within statutory deadlines ➢ 100% of declaratory orders processed within 120 days of filing date or by applicant's date, whichever is later.	Office of Energy Markets and Reliability / Office of the General Counsel

FY 2008		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of processing cost recovery cases for new infrastructure (including prudently-incurred expenses to safeguard and enhance the reliability, security and safety of the energy infrastructure)	➢ 100% of statutory cases processed within statutory deadlines ➢ 95% of certificate cases processed within 12 months or applicants' requested date, whichever is later ➢ 90% of cases that were set for hearing processed within 12 months of briefs opposing exceptions	Office of Energy Markets and Reliability / Office of Energy Projects / Office of the General Counsel
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Enforcement
Percentage of Accounting Inserts completed for inclusion in merit orders on cost recovery proposals for new gas pipeline infrastructure	95%	Office of Enforcement
Percentage of financial accounting filings completed timely	75% within 60 days of filing date	Office of Enforcement
Percentage of reporting requirement filings completed timely	75% within 60 days of filing date	Office of Enforcement
Assure Reliability of Interstate Transmission Grid		
Timely approval of ERO/RE budgets and business plans	Complete by November 1, 2008	Office of Energy Markets and Reliability
Timeliness of processing proposed reliability standards	100% of filed proposed reliability standards are remanded or approved within 18 months, unless found incomplete	Office of Energy Markets and Reliability / Office of the General Counsel
Review the performance of the ERO	Implement the procedures developed in FY 2007	Office of Energy Markets and Reliability
Percentage of ERO / industry reliability readiness reviews of Reliability Coordinators in which FERC participates	100%	Office of Energy Markets and Reliability
Percentage of load served, included in ERO / industry reliability readiness reviews, in which FERC participates	50%	Office of Energy Markets and Reliability
Percentage of ERO penalty action rulings reviewed to prevent inappropriate rulings from going into effect by default	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Protect Safety at LNG and Hydropower Facilities		
Percentage of high- and significant-hazard-potential dams inspected annually	100%	Office of Energy Projects

FY 2008		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation	100%	Office of Energy Projects
Percentage inspected annually: ➢ LNG import terminals ➢ LNG peak-shaving facilities	➢ 100% ➢ 50%	Office of Energy Projects
Percentage of LNG facilities that meet all current safety standards or are subject of a compliance letter	100%	Office of Energy Projects
Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s)	100%	Office of Energy Projects
Control access to Critical Energy Infrastructure Information	No instances of improper access or improper denial affecting national security or Commission proceedings	Office of the General Counsel
Incorporate Environmental Considerations into Commission Decisions		
Timeliness of issuing environmental licensing requirements	Licensing responsibility letters sent within 45 business days of license issuance date	Office of Energy Projects / Office of the General Counsel
Percentage of final NEPA documents issued for ALP/TLP cases: ➢ with settlement agreements ➢ without settlement agreements	➢ 85% within 12 months ➢ 85% within 24 months	Office of Energy Projects / Office of the General Counsel
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	Office of Energy Projects

Performance Measurements for Competitive Markets, FY 2003 – FY 2008

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timely processing of RTO filings	Benchmarks to be established in FY 2003	Upon review, we have concluded that it is impractical to put to put into effect an average processing time for filings as dissimilar in scope, complexity, and number of issues needing resolution as are RTO filings. For example, it took 26 months to grant RTO status to PJM (Pennsylvania-New Jersey-Maryland); 11 months for Midwest ISO. A sampling of other RTO filings or petitions for declaratory orders also revealed significant variances in processing times, as shown below: ➢ SeTrans – Filed on 6/27/02; Commission issued initial order on 10/9/02 (less than 4 months). (SeTrans has not yet formally requested authority to form, or to operate an RTO.) ➢ RTO West – filed on 10/16/00; first order was issued on 4/26/01 (over 6 months); order on Stage 2 issued on 9/18/02 (23 months). ➢ WestConnect – filed on 10/16/01; order issued on 10/10/02 (12 months) (Neither RTO West nor WestConnect has filed a Section 205 requesting RTO status). ➢ Cal ISO – filed on 6/1/01; no order has been issued in this proceeding.
Percentage of country covered by approved RTOs or ISOs (percentage of electricity load)	70% of electricity load in regions where we have jurisdiction	59% of load in jurisdictional areas under an RTO/ISO.
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Benchmarks to be established in FY 2003	Target is established for FY 2004 as follows: Non-controversial rulemakings completed within 9 months/controversial rulemakings completed within 12 months of external party action. ➢ During October 2002, NAESB filed natural gas industry standards with the Commission. The Commission codified the standards, on which all segments of the natural gas industry had reached consensus, in its Regulations in a Final Rule issued in March 2003, five months after submission. ➢ In June 2003, NAESB filed creditworthiness standards on which all segments of the natural gas industry participants were able to reach consensus; NAESB also reported additional proposed creditworthiness standards on which consensus was not reached. Action is pending on the creditworthiness standards.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Establish RTOs/ISOs with sufficient market monitoring and mitigation measures in place	Fewer complaints about rates in RTOs filed with the Commission	➢ In FY 2002, 19 complaints were filed against ISO/RTOs (ISO-NE 10, NYISO 5, and CAISO 4). ➢ In FY 2003, 6 complaints were filed against ISO/RTOs (ISO-NE/NEPOOL 3, NYISO 1, CAISO 1, and PJM 1). While complaints are fewer when comparing FY 2002 and 2003, we do not expect this to be the case in the future; rather, we anticipate more complaints as numbers of participants increase, and as RTOs mature beyond current stages. We will review this performance target for appropriateness. Focusing on the number of complaints about rates in RTOs does not highlight the fact that market monitoring units exist in all RTOs/ISOs and that they work together with the Commission to evaluate market performance and identify problems with proposed and existing market rules, market operations, and individual participant behavior.
RTO/ISO wholesale market design includes demand-response features	Measure increasing percentage of operating RTOs and ISOs with demand response programs	During FY 2003, four ISOs/RTOs (Cal ISO, NYISO, PJM, and ISO New England) operated demand response programs, and one RTO which does not yet run any energy market (Midwest ISO) did not. Since these four RTOs/ISOs operated demand response programs in FY 2002, there was no increase in the percentage of operating RTOs and ISOs during FY 2003. Nevertheless, throughout the year, FERC has encouraged and approved improvements in both the number and design of demand response in PJM, NYISO and ISO-NE. For example, FERC supported the New England Demand Response Initiative, a broad stakeholder process in New England, to provide a detailed assessment of ISO demand response programs and to develop recommended improvements.
Adopt market design standards for wholesale electric markets	Issue final Standard Market Design rule	In April 2003, the Commission issued a White Paper in the Standard Market Design proceeding that emphasized its strong commitment to customer-based, competitive wholesale power markets, while underscoring an increasingly flexible approach to regional needs and outlining step-by-step elaborations of its key market design proposal. The Commission intends to focus on the formation of RTOs and on ensuring that all independent transmission organizations have sound wholesale market rules. The final rule will allow implementation schedules to vary depending on local needs and will allow for regional differences. During the remainder of FY 2003, the Commission continued its dialogue on market design by holding a number of regional conferences to exchange ideas with stakeholders.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Enhanced regulatory support for market institutions	Creation of OMOI	OMOI established
	Creation of market performance indicators	Market performance indicators created with an ongoing process to add or delete metrics as appropriate.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timely processing of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs)	All filings processed within 6 months of filing, or before applicants' proposed effective date (whichever is later)	All three proposals to establish or expand an RTO that were filed in FY 2004 were processed within six months. In addition, three more electric utilities (First Energy, Ameren, and Northern Indiana Public Service) were added to the Midwest ISO in advance of the requested action dates.
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Non-controversial rulemakings completed within 9 months and controversial rulemakings completed within 12 months	In February 2004, the Commission issued a Notice of Proposed Rulemaking to adopt creditworthiness business practice standards developed by NAESB, as well as other standards developed by the Commission. The final rule for this controversial rulemaking is scheduled to be issued within the target 12-month time frame.
Establish cost-effective elements of the wholesale electric market platform within 3 years of RTO/ISO approval	For each approved RTO or ISO, additional wholesale market platform elements will be added: ➢ Regional independent grid operation; ➢ Regional transmission planning process; ➢ Fair cost allocation for existing and new transmission; ➢ Market monitoring and market power mitigation; ➢ Spot markets to meet customers' real-time energy needs; ➢ Transparency and efficiency in congestion management; ➢ Firm transmission rights; and ➢ Resource adequacy approaches.	The Commission approved new, or redesigned, cost-effective market elements for each of the six approved RTOs or ISOs, enhancing market operations efficiency.
Facilitate construction of electric infrastructure by providing investor confidence of probable cost recovery	Issue Final Policy Statement, "Pricing Policy for Efficient Operation and Expansion of Transmission Grid"	As the Commission considers whether additional incentives may induce a more effective infrastructure response, a final policy statement has not been issued. However, the Commission in effect accomplished this measure by approving incentives – similar to those suggested in the proposed policy statement – in individual cases where companies have formed RTOs.
Encourage State representatives to establish multi-state regional organizations (e.g., Regional State Committees (RSCs))	Meet at least annually with state representatives in each region	The Commission hosted and/or participated in numerous meetings with state representatives from each region with existing RTOs or ISOs.
Advance well-functioning markets that deliver the benefits of competition	Complete revisions to interim market-based ratemaking policy	In orders issued in AEP Power Marketing, Inc., et al., 107 FERC & 61,018 (2004), order on rehearing 108 FERC 61,026 (2004), the Commission adopted a new interim generation market power analysis to be applied to market-based rate applications.

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

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Establishment of cost-effective elements of market design	Within 3 years of commencement of operation, approved RTO or ISO will implement, if cost effective: ➢ regional independent grid operation ➢ regional transmission planning process ➢ fair cost allocation for existing and new transmission ➢ market monitoring and market power mitigation ➢ spot markets to meet customers' real-time energy needs ➢ transparency and efficiency in congestion management ➢ firm transmission rights ➢ resource adequacy approaches	Target Not Met. Although Midwest ISO planned to start its energy markets on December 1, 2004 (within three years of receiving RTO status), the Commission approved a four-month delay to permit additional time for software testing and market participant training. The updated April 1, 2005 date was met.
Elimination of multiple, or "pancaked," transmission rates through the implementation of new rate designs to promote efficient trade across RTO and utility boundaries	The elimination of multiple charges for transmission service between PJM and Midwest ISO	Target Met. Effective December 1, 2004, the Commission established hearing procedures and accepted filings to eliminate through and out rates from the combined Midwest ISO and PJM regions for service commencing on or after April 1, 2004. In addition, the Commission established a December 1, 2004 through April 1, 2006 transition period for the collection of lost revenues resulting from the elimination of the regional through and out rates based on the Seams Elimination Charge Adjustment (SECA) methodology. At the end of the transition period, the through and out rates will be eliminated for all transactions under the open access transmission tariffs.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Transition existing regulatory constructs into competitive markets	Approval of an energy market that minimizes cost shifts while preserving existing contractual rights and creating efficiency gains	Target Met. As mentioned in the previous performance result, Midwest ISO commenced operation of its regional energy markets on April 1, 2005, in accordance with the terms of its recently approved Transmission and Energy Markets Tariff. The markets are designed to provide for an optimal dispatch of all generation resources within the region based on a security constrained economic dispatch which will enable Midwest ISO to ensure that all load requirements in its region are met reliably and efficiently. In addition, the Commission approved a California ISO proposal to resolve existing transmission contract rights. The proposal removed a major impediment to completion and implementation of California ISO's market redesign by specifying scheduling rights under the contracts and holding the contract holders financially harmless from congestion costs.
Timeliness of processing filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs)	75% of all filings processed within 6 months of filing, or before applicant's proposed effective date (whichever is later)	Target Met. The initial applications for both Southwest Power Pool (SPP) and ISO-New England (ISO-NE) were processed within six months of filing. These were the only applications processed in FY 2005.
Existence of RTO/ISO rules that encourage qualified demand response participation on an equal basis with supply options	All RTOs and ISOs have rules that do not inhibit demand response participation in RTO/ISO-controlled markets within 1 year of commencing day-ahead markets	Not applicable. During FY 2005, no RTO/ISO-controlled market was within one-year of its day-ahead markets commencing date.
Demonstrable improvements in regional competitive market structures	In any region of the country at least one of the following will occur: ➢ addition of a new or expansion of an existing RTO ➢ adoption by an RTO of additional market-oriented features, programs or rules ➢ in regions primarily without RTOs, an increase in the degree of transmission independence (ownership or control) from generation ➢ increase in the amount of competitive solicitation for supply ➢ improvement of open access tariff to reduce entry barriers of foster competition	Target Met. During FY 2005, the Commission accomplished several of the stated targets, including: ➢ the expansion of PJM; ➢ adding SPP and ISO-NE as RTOs; ➢ accepting new ISO-NE operating agreements; and ➢ the adoption of multiple rule and/or tariff revisions within several RTOs/ISOs.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Movement toward competitive markets in each region, including greater interregional coordination of broader, more efficient, and non-discriminatory energy markets	Increase in: ➢ coordination of joint operating agreements between RTOs or an RTO and neighboring non-member utilities ➢ new, independent regional transmission providers ➢ new product markets within RTOs or ISOs ➢ RTO membership through the integration of the transmission facilities of additional transmission owners	Target Met. During FY 2005, Midwest ISO and PJM entered into a Joint Operating Agreement (JOA) to coordinate the market-to-market operations between the entities pending implementation of the joint and common market which is under development. In addition to the JOA, the Commission conditionally accepted a utility-to-utility interconnection agreement between Indiana Michigan Power Company, a PJM transmission owner, and Northern Indiana Public Service Company, a Midwest ISO transmission owner. Lastly, Midwest ISO also entered into joint operating and/or coordination agreements with Southwest Power Pool (SPP), Mid-Continent Area Power Pool (MAPP), Tennessee Valley Authority (TVA), and Manitoba-Hydro to coordinate market-to-nonmarket seams resulting from the start of its energy markets. In New England, the Commission accepted a transmission operating agreement between ISO-NE and Maine Electric Power Company (MEPCO) in which MEPCO granted ISO-NE authority to operate its 345 kV intertie between Central Maine Power Company and Bangor Hydro Electric Company, thus integrating MEPCO into the New England Control Area.
Timeliness of processing market-based rate filings to advance well-functioning markets that deliver the benefits of competition	100% of all market-based ratemaking filings processed within statutory deadline	Target Met. During FY 2005, 100% of the 434 market-based ratemaking filings were completed by the statutory deadline.
Percentage of market-based rates triennial review cases resolved	Resolve 80% of triennial review cases using the new generation market power screens within 1 year of the order on rehearing on the new screens	Target Met. During FY 2005, over 98% (342 out of 346) of market-based rates triennial review cases were completed.
Timeliness of corporate application orders	100% of all section 203 applications processed within 90 days of the date comments are filed	Target Not Met. During FY 2005, over 99% (124 out of 125) of the section 203 corporate applications were processed by the target completion date. The remaining application was completed in 93 days with the delay due to the applicant's failure to file the required concurrent petition for declaratory order. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Frequency of meetings with multi-state regional organizations (Regional State Committees) to resolve regional policy and planning issues	Participate in at least one meeting annually with multi-state organizations established for each approved RTO/ISO	Target Met. The Commission hosted and/or participated in numerous meetings with state representatives from each region.
Frequency of meetings to support development of robust customer demand-side participation in energy markets	In areas where there is no opportunity for robust customer demand-side participation in energy markets, meet with appropriate state commission officials at least annually to discuss demand response issues	Target Met. In June 2005, the Commission co-sponsored a National Town Meeting on Demand Response, which included state participation and live web casts to state commissions throughout the U.S. In addition, the Commission conducted a September 2005 technical conference with California state officials.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Timeliness of processing proposed rulemakings adopting industry-wide business practice standards (North American Energy Standards Board (NAESB)) and proposed rulemakings related to reliability	Non-controversial rulemakings completed within 9 months of receipt of NAESB proposal, and controversial rulemakings completed within 12 months	Target Met. During FY 2005, the Commission completed three important actions that met the stated targets, including: ➢ issuing a final rule adopting the Wholesale Gas Quadrant's Version 1.7 business practice standards (within 4½ months of being proposed); ➢ issuing a NOPR which proposes criteria for the establishment of an Electric Reliability Organization (ERO) to enforce reliability standards under the regulatory review and oversight of the Commission; and ➢ issuing a policy statement on creditworthiness standards that reiterates policies articulated in recent cases decided by the Commission.
Removal of barriers to entry into wholesale power markets for renewable energy resources	Approval of tariff provisions, both for transmission and generator interconnection, that grant all energy sources an opportunity to compete in the wholesale market	Target Met. During FY 2005, both the Small Generator Interconnection and the Wind Generation final rules were issued. In addition, the wind tariff services NOPR (Imbalance Provisions for Intermittent Resources) was issued.
Provide timely resolution of third-party complaints	Issue initial order on 80% of all third-party complaints within 60 days of filing and 90% of all requests meeting fast-track requirements within prescribed time frame	Target Not Met. During FY 2005, 50% (30 of 60) of initial orders were issued within 60 days. The reasons for the difference include: ➢ extension requests by the parties; ➢ complainants withdrawal of complaints; ➢ deferral requests by the parties to pursue settlement; and ➢ the 60th day falling on a weekend or holiday. This performance target was set at an approximate level, and the deviation from that level, while not slight, had no effect on overall program performance.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Review and propose revisions to OASIS standards	By June 30, 2006	Target Met. Docket No. RM05-5-000; Final Rule, Order No. 676, "Standards for Business Practices and Communication Protocols for Public Utilities," issued April 25, 2006.
Assess demand response	Issue annual report by August 8, 2006	Target Met. Staff report, "Assessment of Demand Response & Advanced Metering" (Docket No. AD-06-2-000) was delivered to Congress on August 4, 2006.
Issue final rule to implement PUHCA provisions of EPAct 2005	By January 31, 2006	Target Met. Final rule was issued on December 8, 2005.
Issue rules governing market manipulation in electricity and gas markets	By September 30, 2006	Target Met. The final rule (Order 670) was issued January 19, 2006 and an order denying rehearing was issued March 22, 2006 in Docket Nos. RM06-3, et al., Final Rule Prohibiting Energy Market Manipulation.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Movement toward competitive markets in each region, including greater interregional coordination of broader, more efficient, and non-discriminatory energy markets	Increase in: ➢ new, independent regional transmission providers ➢ coordination between RTOs or between RTOs and neighboring non-member utilities	Target Met. Some examples: ➢ In order to create a more seamless administration between the tariffs of the Midwest ISO's energy markets and the non-market operations of Mid-Continent Area Power Pool's (MAPP) members that do not belong to the Midwest ISO, the Commission approved MAPP's proposal to conform its Available Transfer Capability (ATC) calculation methodologies to provisions of the Seams Operating Agreement between MAPP and the Midwest ISO. ➢ The Commission approved proposed revisions to the SPP/Midwest ISO Joint Operating Agreement (JOA) and to the Congestion Management Process (CMP) which is incorporated in the JOA to align them more closely with the JOA and CMP of the Midwest ISO/PJM. ➢ Action was taken on Midwest ISO and PJM and their respective transmission owners' proposed revisions to the JOA for allocating to customers in each RTO the cost of new transmission facilities that are built in one RTO but provide benefits to customers in the other RTO (the so-called cross-border facilities).
Increased presence at RTOs, to improve relationships with and knowledge of existing RTOs	Creation and staffing of an office at any new RTO within 6 months of commencement of operations (including establishment of virtual office processes)	No new RTOs were established during the performance period. All existing RTOs have either staff on location or a virtual office process in effect.
Percentage of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs) processed	100% completed within 6 months of filing or before applicants' proposed effective date (whichever is later)	No filings were received to establish new RTOs, ISOs, or ITCs during the performance period.
RTO / ISO establishment of cost-effective market design elements per Order No. 2000	Within three years of commencement of operation, each approved RTO or ISO will implement (if cost effective): ➢ firm transmission rights ➢ resource adequacy approaches ➢ regional independent grid operation ➢ regional transmission planning process ➢ appropriate market monitoring and market power mitigation ➢ transparency and efficiency in congestion management ➢ spot markets to meet customers' real-time energy needs ➢ fair cost allocation for existing and new transmission	Target Met. With the exception of Southwest Power Pool (SPP), all RTOs/ISOs (PJM, ISO-NE, NY-ISO, Midwest ISO, and CAISO) have been operational over 3 years and all have implemented cost-effective market design elements. SPP has been operating as an RTO since November 1, 2004, and has received authorization during FY 2006 to commence a real-time energy imbalance market, as well as having received approvals for its market monitoring and mitigation plans.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Demonstrable improvements in regional competitive market transparency and independence	In each region of the country, there will be: ➢ RTO adoption of additional market-oriented features, programs or rules ➢ improvement of open access tariff to reduce entry barriers or eliminate undue discrimination ➢ increase in the degree of transmission independence (ownership or control) from generation in regions primarily without RTOs	Target Met. During FY 2006, the Commission acted on a number of proceedings related to improving competitive market transparency and independence. Some actions by the Commission will have nationwide impact. In May 2006, the Commission issued a notice of proposed rulemaking (NOPR) proposing amendments to its regulations and the *pro forma* OATT to ensure that transmission services are provided on a basis that is just, reasonable and not unduly discriminatory or preferential. The NOPR aims to strengthen the OATT and address deficiencies that have become apparent since its adoption 10 years ago, particularly in the areas of available transfer capability calculation and transmission planning. In addition, the Commission approved four proposals by vertically integrated utilities (Duke, MidAmerican, Entergy, and Louisville Gas & Electric) to contract with an independent entity to serve as the independent coordinator of transmission (ICT). The ICT performs oversight over these utilities' transmission systems, including authority to administer utilities' OATT. Other actions taken on proceedings related to establishing new or revised market rules, rule changes in RTOs, and increased transmission independence were region-specific. For example: <u>East</u> In the New England area, the Commission issued an order accepting a proposal filed by ISO-NE and NEPOOL which included, most significantly, the addition of a locational component to the existing Forward Reserve Market and the coordination and optimization of pricing of energy and reserves in real time to be effective October 1, 2006, or later date. In addition, the Commission approved a contested settlement that provided an alternative to the Locational Installed Capacity mechanism called the Forward Capacity Market (FCM). The Commission found that the FCM, in conjunction with an interim mechanism, will provide the revenues needed by generators to preserve reliability in New England. The Commission also found that the forward looking nature of the FCM will provide appropriate price signals to investors when new infrastructure resources are necessary with sufficient lead time to allow that infrastructure to be put in place before reliability is sacrificed. (Continue on next page)

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
(continued from previous page) Demonstrable improvements in regional competitive market transparency and independence	(continued from previous page) In each region of the country, there will be: ➢ RTO adoption of additional market-oriented features, programs or rules ➢ improvement of open access tariff to reduce entry barriers or eliminate undue discrimination ➢ increase in the degree of transmission independence (ownership or control) from generation in regions primarily without RTOs	(Continued from previous page) With respect to the PJM area, the Commission issued an initial order on PJM's proposed reliability pricing model (RPM) designed to replace its existing capacity obligation rules. The Commission found the existing capacity rules to be unjust and unreasonable to ensure energy resources to meet reliability responsibilities, and established further procedures to resolve the remaining issues. At the same time, the Commission encouraged the parties to continue to seek a negotiated resolution, and offered the Commission's settlement judge procedures to facilitate these discussions. <u>Central</u> For the Midwest ISO region, the Commission approved the continuation of mitigation in Broad Constrained Areas; action on proposed revisions to real-time revenues sufficiency guarantee (RSG) payments; approval of revised rules defining less-than-seasonal financial transmission right (FTR) entitlements for network resources; approval of contractual arrangements related to the market monitor and balancing authorities; as well as offering guidance on Midwest ISO's future plans to implement ancillary service markets and an energy-only market. For the SPP region, the Commission provided guidance and approvals related to SPP's proposal to establish a real-time energy imbalance market. Regarding revisions to the OATT, the Commission approved various revisions to the Midwest ISO's creditworthiness provisions, reactive power requirements, as well as changes to the Midwest ISO *pro forma* interconnection agreement which reflect improvements or regional variations needed based upon its operational experience, including new pricing provisions. <u>West</u> In September 2006, the Commission conditionally approved the CAISO Market Redesign and Technology Upgrade (MRTU) market reforms and enhancements, such as a financially binding day-ahead market and more effective congestion management system. Elements of MRTU are intended to fix market design flaws, enhance reliability, better protect wholesale customers from price volatility and gaming, incorporate price-responsive demand in the markets, and encourage construction of new resources.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of section 203 applications processed	98% completed within 90 days of the comments filing date	Target Met. 100% of the 145 section 203 corporate filings were processed by target completion dates in FY 2006.
Issue final rule on RTO and ISO accounting to improve oversight of RTO and ISO costs	By January 31, 2006	Target met. A final order on RTO accounting and financial reporting was issued on December 16, 2005 in Docket RM04-12-000, Order No. 668.
Percentage of market-based rate filings processed	100% of new filings within 60 days of filing date	Target Met. 100% of the 534 market-based rate filings were completed by the targeted deadline in FY 2006.
Percentage of competitive energy markets and market institution cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	➢ There were no Track I cases ➢ 87% of Track II cases in 47 weeks ➢ There were no Track III cases
Percentage of competitive energy markets and market institution cases set for hearing that achieve partial or complete consensual agreement	75%	100%
Percentage of applications filed by RTOs and ISOs to revise market rules to not inhibit demand response processed	100% within statutory deadlines	Target Met. The Commission processed all 5 filings involving demand response enhancements within the statutory deadlines: ➢ PJM submitted agreements to enhance demand response in the PJM region in a number of ways, including allowing demand resources to participate in PJM's ancillary services market by bidding into the PJM reserve markets. ➢ ISO-NE's Ancillary Services Market (ASM) Phase II will include measures allowing the owners of demand resources to bid their resources directly into the energy and reserve markets on an equal footing with generating resources. This change will establish the supporting market infrastructure that is needed to develop fully the potential for demand participation in the wholesale markets. ➢ NYISO's filing eliminated the sunset dates for NYISO's Day-Ahead Demand Response Program and its Emergency Demand Response Program. ➢ ISO-NE's proposal to establish a demand response reserve pilot program to test whether certain resources can reliably provide 30-minute and 10-minute Operating Reserve services. ➢ CAISO's MRTU tariff provides loads with demand response capability the opportunity to participate in the CAISO day-ahead, real-time, and ancillary services markets under comparable terms as supply.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Support development of robust customer demand-side participation in energy markets in areas where it does not exist	Meet at least annually to discuss demand response issues with appropriate state commission officials	Target Met. Held technical conference on demand response in January 2006, where state representatives, including several state commissioners from all regions of the U.S., participated on panels. Met with NARUC officials in January 2006 to discuss Commission demand response report and seek their assistance in the FERC demand response and advanced metering survey. Met in April 2006 with Midwestern state officials, primarily Illinois Commissioners, on the development of a regional demand response initiative. Discussed demand response report with state officials and Commissioners at various events including the NARUC Winter Meeting in February 2006 and an EPRI Summer Seminar on Energy Efficiency and End-Use Technologies in August 2006.
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of non-controversial rulemakings within 9 months ➢ 100% of controversial rulemakings within 12 months	Target Met. During FY 2006, the Commission issued a final rule adopting the Wholesale Electric Quadrant's controversial first set of business practice and communication standards within 12 months of receiving NAESB's complete proposal. Docket No. RM05-5-000; Final Rule, Order No. 676, "Standards for Business Practices and Communication Protocols for Public Utilities," was issued April 25, 2006.
Percentage of initial orders completed on third-party complaints	➢ 80% within 60 days ➢ 95% within 180 days	➢ 60-day target not met. 49% (28 of 57 {1 projected}) issued within 60 days. This was an internal deadline, not statutorily based, and did not have a negative impact on operations. 180-day target met. 95% (49 {1 projected} of 51 {1 projected}) issued within 180 days.
Percentage of initial orders completed on fast track third-party complaints	90% within prescribed time frame	Target Met. One filing was received and completed on time.

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**

Employ Best Practices In Market Rules		
Timeliness of review of proposed market rules	By the statutory due date or the applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of unopposed rulemakings within 9 months ➢ 100% of all rulemakings within 12 months	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of applications processed on requests to encourage demand response in organized markets	Within 60 days of filing date or applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel

Reduce Barriers to Trade Between Markets and Among Regions		
Timeliness of review of filings to reduce or eliminate seams between organized markets	By the statutory due date or the applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Assure Proposed Mergers and Acquisition Are in the Public Interest		
Percentage of merger authorizations upheld by the courts	90%	Office of the General Counsel \ Office of Energy Markets and Reliability
Percentage of merged applicants reporting on compliance with merger conditions imposed by the Commission	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing applications for the disposition, consolidation, or acquisition under section 203 of the FPA, of jurisdictional facilities (including transactions involving certain transfers of generation facilities and public utility holding company transactions, and issues of cross subsidization or encumbrances of utility assets)	➢ Within 180 days for non-major mergers ➢ Within 360 days for major mergers	Office of Energy Markets and Reliability / Office of the General Counsel
Address Market Power in Jurisdictional Wholesale Markets		
Revise open access transmission tariff	Issue final rule by June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing initial market-based rate filings	Within 60 days of filing date or by applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Develop generation market power screens for electric market based rates	Issue final rule by June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel
Act timely on complaints	80% within 60 days or, for fast-track cases only, within the designated timeframe	Office of the General Counsel / Office of Energy Markets and Reliability

FY 2008		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Employ Best Practices in Rules		
Percentage of initial orders completed on third-party complaints	➢ 75% of complaints filed with the Commission are processed within 90 days ➢ 90% of the complaints filed with the Commission are processed within 180 days, or by complainant's requested date, whichever is later	Office of the General Council / Office of Energy Markets and Reliability
Timeliness of processing proposed market rules	By the statutory due date or applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of unopposed rulemakings within 9 months ➢ 100% of all rulemakings within 12 months	Office of Energy Markets and Reliability / Office of the General Counsel

FY 2008		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of processing complete applications to encourage demand response in organized markets	➢ 100% of statutory cases processed within the statutory deadlines ➢ 100% of declaratory orders processed within 120 days of filing date or by applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Reduce Barriers to Trade Between Markets and Among Regions		
Timeliness of processing complete filings to reduce or eliminate seams between organized markets	By the statutory due date or applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Assure Proposed Mergers and Acquisitions are in the Public Interest		
Percentage of final orders in merger cases not reversed by the courts	90%	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of merger applicants reporting on compliance with merger conditions imposed by the Commission	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing complete filings for the disposition, consolidation, or acquisition, under section 203 of the FPA, of jurisdictional facilities (including transactions involving certain transfers of generation facilities and public utility holding company transactions, and issues of cross subsidization or encumbrances of utility assets)	➢ Within 180 days for non-major dispositions ➢ Within 360 days for major dispositions	Office of Energy Markets and Reliability / Office of the General Counsel
Address Market Power in Jurisdictional Wholesale Markets		
Timeliness of processing complete initial electric market-based rate filings	Within 60 days of the filing date or by applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Reform analysis for determining electric market-based rate authority	Complete final rule implementation	Office of Energy Markets and Reliability / Office of the General Counsel
Update Frequently Asked Questions on the ferc.gov website related to Standards of Conduct	Semi-annually	Office of Enforcement
Staff will sponsor an industry-wide (gas & electric) Standards of Conduct conference to assure clear and enforceable rules	Once Annually	Office of Enforcement

Performance Measurements for Enforcement, FY 2003 – FY 2008

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

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timeliness of Hotline calls resolutions	Resolve 80% within 1 week of initial contact	74% of Hotline calls were closed by the end of the two-week period in which they were received during FY 2003.
Timeliness of formal complaints resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	**OALJ/OAL:** Issued six initial decisions on complaints set for hearing. 84% were completed within expected targets (4 out of 6). OALJ also handled 17 additional complaints; 12 settled; 5 were either returned to the Commission for further action or set for hearing before a judge (no targets were set for those cases while in settlement mode).
Percentage of customers satisfied with ADR processes	85%	**DRS:** 14 of 20 cases (70%) that were completed in FY 2003 achieved settlement.
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	**DRS:** 38 requests or active cases were initiated in FY 2003. This number includes simple inquiries about ADR, cases in which persons eventually indicated that they were not interested in using ADR, cases referred to Enforcement Hotline, and cases that are ongoing into FY 2004. Note: There were 51 requests in FY 2002, and 38 requests in FY 2003. While this represents a decrease in cases, the DRS efforts devoted to outreach projects have increased dramatically by comparison.
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	**OALJ/OAL:** 112 cases were closed in OALJ. Out of the 112 cases, 16 cases were terminated by initial decision, leaving 94 cases where ADR was used. Of the 94 cases, settlement was achieved in 76 cases (81% success). Settlement was not successful in 18 of the 94 cases. **DRS:** 14 of 20 cases (70%) that were completed in FY 2003 achieved settlement. Note: This includes 7 cases that were begun prior to FY 2003 but completed in FY 2003. It does not include simple inquires about ADR (1), cases in which persons eventually said they were not interested in trying ADR or ADR was determined to be inappropriate (11), cases referred to Enforcement Hotline (3), or cases that were ongoing into FY 2004 (14).

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

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

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

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timeliness of formal complaint resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	➢ Issued three initial decisions on complaints set for hearing, all within the established deadlines. ➢ The Commission also handled eight additional complaints, though no targets were set for their completion due to their complexity. Of those eight: ➢ four were settled; ➢ two were returned to the Commission for further action or set for hearing before a judge; ➢ one was dismissed; and ➢ one was withdrawn.
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	**OALJ/OAL:** Of the 113 cases closed in FY 2004, 29 cases were terminated by initial decision, leaving 84 cases where ADR was used. Of those 84 cases, settlement was achieved in 90% (76) of the cases. This was greater than the 80% rate achieved in FY 2001. **DRS:** Of the 24 cases[1] that were completed in FY 2004, 86% (21) of the cases achieved settlement. This was slightly less than the 90% rate achieved in FY 2001. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	There were 54 requests or active cases in FY 2004, 2 more than in FY 2001. This number includes simple inquiries about ADR, cases in which persons eventually indicated that they were not interested in using ADR or ADR was deemed inappropriate, and cases that are ongoing into FY 2005.
Percentage of customers satisfied with ADR processes	85%	86% of the cases (21 out of 24) that were completed in FY 2004 achieved settlement.

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

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Percentage of cases in time frames ➢ ADR processes completed ➢ litigated cases reaching initial decision	➢ 20% of ADR cases within 60 days ➢ 30% of ADR cases within 100 days ➢ 75% of ADR cases within 150 days ➢ 100% of ADR cases within 200 days ➢ 95% of simple litigated cases within 206 days ➢ 95% of complex litigated cases within 329 days ➢ 95% of exceptionally complex cases within 441 days ➢ 95% of regular complaints within 60 days	**ADR Cases[2] – OALJ/OAL:** 76 cases were successfully completed through the use of ADR: ➢ 4 of the 76 cases (5%) were completed in < 60 days; ➢ 13 of the 76 cases (17%) were completed in < 100 days; ➢ 20 of the 76 cases (26%) were completed in < 150 days; ➢ 36 of the 76 cases (47%) were completed in < 200 days; and ➢ 40 cases (53%) were completed in > 200 days. **ADR Cases[2] - DRS:** 24 cases were successfully completed through the use of ADR: ➢ 9 of the 24 cases (37%) were completed in < 60 days; ➢ 12 of the 24 cases (50%) were completed in < 100 days; ➢ 14 of the 24 cases (58%) were completed in < 150 days; ➢ 16 of the 24 cases (67%) were completed in < 200 days; and ➢ 8 cases (37%) were completed in > 200 days. **Litigated Cases – OALJ/OAL:** ➢ Track I Cases: No Track I cases during FY 2004. ➢ Track II Cases: FY 2004 Average processing time was 324 days. ➢ Track III Cases: FY 2004 Average processing time was 448 days. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance. **Regular Complaints – OGC:** 95%

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Enhance institutional capability for overseeing energy markets	The Electronic Quarterly Report of electric transactions will be fully functional.	Target Met. In addition to the fully functional Electric Quarterly Report (EQR) for electric transactions, the Commission also identified several key data requirements to analyze energy markets via its Market Monitoring Center (e.g. Dow Jones' real time data, Genscape's alert system data, U.S. Waterborne LNG Report, NE Power Data, CERA's energy advisory service, CoalDat, and AirDaily).
	The Commission will identify further key data requirements needed to analyze energy markets.	

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

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Development of market expertise	MMUs will produce standardized market metrics. The Commission will use standard metrics developed by the MMUs to develop a balanced scorecard to determine how well energy markets are working	Target Met. During FY 2005, the Commission completed the development of 13 standardized market metrics and used those metrics to analyze and report on how well the energy markets are working in the State of the Markets report and the MMU Metrics paper.
Enhance the Commission's and public's understanding of energy markets	Issue Market Surveillance Reports to the Commission in conjunction with the Commission's public meeting schedule. Publish Market Assessments, State of the Market Reports, and other reports as conditions warrant.	Target Met. In conjunction with the Commission's public meeting schedule, fifteen Market Surveillance Reports were completed in FY 2005. In addition, the Commission published a Winter and Summer Seasonal Assessment Report (November 2004 and May 2005, respectively) along with its June 2005 State of the Markets report.
Identify and remedy market problems	Provide analysis and recommendations on major market problems.	Target Met. During FY 2005, analysis and recommendations on major market problems were provided at Closed Commission meetings via Market Surveillance Reports. The problems included EIA's storage reporting process, major weather disturbances (e.g., Hurricanes Katrina and Rita), and pre-summer markets issues in California and the West.
Timeliness of industry wide financial audits	Complete 90% of audits within 120 days	Target Not Met. During FY 2005, none of the financial audits were completed within the 120 day targeted timeframe. This was due to the increasing complexities and management oversight of the audits, and due to a stricter interpretation of the audit timeframe (e.g., total days under audit as opposed to audit field-work days). In future years, this target has been narrowed to require a report to the Commission within 120 days of the audit Commencement Letter.
Timeliness of Hotline call resolutions	Close 60% within 2 weeks of initial contact	Target Met. During FY 2005, 74% of Hotline calls were closed within 2 weeks of initial contact.
Timely resolution of allegations of market misconduct	Resolution within established timeframes for FERC investigations and litigation, as posted on the Commission internet site	Target Met. Of the 5 cases under this performance measure in FY 2005, three cases were settled; one case is pending Commission consideration of the global Enron proceeding; and one case terminated by initial decision within the established timeframe, which varies from case-to-case based on the outlook of the Chief Judge and the Commission.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Number of major rule violations for a particular set of business practices	None or Few	Target Not Met. During FY 2005, the Commission conducted 29 investigations, eight of which were settled. Although this result did not meet the "None or few" target, the performance measure and target do not reflect the true goal of the Commission's enforcement function, which is to investigate and remedy violations of the Commission's statutes, orders, and regulations. While the Commission acknowledges that "deterrence" is an important part of enforcement, we do not believe it is reasonable to assume that no violations will occur. In future years, this measure has been removed and replaced with better performance measures and targets to evaluate the enforcement function.
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2004	Target Met. The 65 requests or active cases in FY 2005 represented a 20.4% increase over the 54 logged in FY 2004.
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2004	Target Met. The Administrative Law area maintained their FY 2004 success rate as 90.2% of cases achieved settlement in FY 2005. DRS increased their FY 2004 success rate as 95.8% of cases achieved settlement in FY 2005.
Timeliness of formal complaint resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	Target Met. During FY 2005, all three of the Commission's initial decisions on complaints were completed within the specified deadlines, which vary from case-to-case based on the outlook of the Chief Judge and the Commission. Of the six additional complaints the Commission handled during FY 2005, three were settled, two were withdrawn, and one was returned to the Commission for further action.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Reduce duplicative information requests through coordination with CFTC	50% reduction by September 30, 2006	Target met. Investigations coordinated with CFTC on all known cases of joint interest and there were no known duplicative information requests.
Timeliness of verification of EQR submissions	Within 10 business days of submission	Target met. Verified within 10 business days.
Review EQR submissions for completeness and contact companies that make up at least 80% of reported revenue for incomplete submissions	Within 10 business days of submission	Target met. Contacted 100% of companies in the EQR database that had filed incomplete submissions within 10 business days of filing deadline.
Conduct follow up reviews of companies that make up at least 80% of reported revenue on exercise of market power or market manipulation	Within 60 days of final submission	Target Met. Conducted follow-up reviews of EQR filers that make up at least 80% of reported revenue for the third quarter of 2005 for market manipulation or exercise of market power within 60 days of final submission.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of reporting to Commission on important market events	Analysis complete within 60 days of event	Target Met. Provided the Commission with seven presentations at open Commission meetings, 26 Weekly Market Reviews beginning in April 2006 reviewing weekly market developments and performance, and seven end-of-day summaries on market conditions during heat waves in the summer of 2006.
Percentage of Hotline calls resolved	60% within 2 weeks of initial contact	Target Met. Since October 1, 2005, 80% of hotline calls were resolved within two weeks of initial contact.
Percentage of non-environmental, non-tribal ADR processes (agreed to by parties) concluded	75% within 120 days (convening and process)	Target Met. The DRS completed 25 cases in FY 2006 that were non-environmental and non-tribal, and in which the parties agreed to pursue an ADR process. Of these, 22 were completed within 120 days after being referred the DRS (88%)
Number of ADR requests and referrals to the Dispute Resolution Service	Minimum number of requests and referrals equal to FY 2004	Target Met. The DRS addressed 70 new requests or ongoing cases from a previous year, involving gas, electric, hydroelectric, oil, and pipeline matters. This represents a 29.6% increase over FY 2004
Favorable Dispute Resolution Service customer satisfaction	80% customer satisfaction rate	Target Met. For training given by DRS, customer satisfaction rate was 89%. For casework concluded in FY 2006, all participants who completed evaluations gave the DRS staff favorable comments, for a satisfaction rate of 100%.
Percentage of market manipulation cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	There were no Track I, II, or III cases
Percentage of market manipulation cases set for hearing that achieve partial or complete consensual agreement	75%	100%
Timeliness of reporting to the Commission on operational audits	85% reported to the Commission within 120 days of Commencement Letter	Target Met. Since the beginning of the rating year, 100% of operational audits were reported to the Commission within 120 days of Commencement Letters.
Percentage of operational audit recommendations issued and implemented	85%	Target Met. 100% of operational audit recommendations have been issued and implemented.
Timeliness of reporting to the Commission on financial audits	85% reported to the Commission within 120 days of Commencement Letter	Target Met. Since the beginning of the rating year, 100% of financial audits were reported to the Commission within 120 days of Commencement Letters.
Percentage of financial audit recommendations issued and implemented	85%	Target Met. 100% of financial audit recommendations have been issued and implemented.
Timeliness of reporting to the Commission on Standards of Conduct compliance audits	85% reported to the Commission within 120 days of Commencement Letter	No Standards of Conduct compliance audits were initiated during FY 2006.
Percentage of Enforcement investigations completed	75% within one year	Target Met. From October 1, 2005 to the present, 88% of cases were closed within one year (84% within 9 months and 60% within 6 months).

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Identify and Remedy Problems with Structure and Operations In Energy Markets		
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Enforcement
Evaluate and improve the usefulness of EQR data	➢ Issue a data dictionary for all undefined fields with restricted entries ➢ Review the current EQR data structure and develop written recommendations for improvements	Office of Enforcement
Number of RTO and ISO MMU performance metrics	Increase over FY 2006	Office of Enforcement
Timeliness of initiating or deciding action on MMU referrals	80% acted on within 30 days	Office of Enforcement / Office of the General Counsel
Percentage of organized markets reviewed and market structure and operations problems or deficiencies identified	100% reviewed and reports completed identifying market problems or deficiencies, if any, and recommended solutions	Office of Enforcement
Timeliness of actions on problems or discrepancies identified in reviews of organized markets	With 6 months of completed report	Office of Enforcement / Office of the General Counsel
Publish annual assessment of infrastructure and market conditions for each region	Complete by June 30, 2007	Office of Enforcement / Office of the General Counsel
Establish Clear and Fair Processes		
Improve Forensic Audits and Investigations information technology tools	Implement capability to search e-mails and voice recordings by June 30, 2007	Office of Enforcement
Improve Forensic Audits and Investigations capabilities	90% of enforcement and compliance staff participate in forensics training and interviewing skills by June 30, 2007	Office of Enforcement
Timeliness of reporting to the Commission on operational audits	100% reported to the Commission within 120 days of Commencement Letter	Office of Enforcement
Percentage of operational audit recommendations issued and implemented	90%	Office of Enforcement
Timeliness of reporting to the Commission on financial audits	100% reported to the Commission within 120 days of Commencement Letter	Office of Enforcement
Percentage of financial audit recommendations issued and implemented	90%	Office of Enforcement
Conduct Investigations Promptly and Impose Penalties Where Appropriate		
Percentage of enforcement investigations completed	75% within one year of initiation	Office of Enforcement
Percentage of Hotline calls resolved	70% within 2 weeks of initial contact	Office of Enforcement

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Encourage Self-Policing and –Reporting of Violations		
Percentage of regulated entities audited to ensure internal compliance programs and processes are in place	85% of regulated entities included in annual audit plan	Office of Enforcement
Timeliness of responses to regulated entities seeking guidance and clarification on compliance issues	Within 60 days	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of completing recommendations on compliance issues raised by regulated entities	Within 180 days, where Commission action is required	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of reporting on compliance issues raised by regulated entities	Reports completed monthly	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel

FY 2008		
Strategy		
Performance Measure	**Target**	**Data Source**
Identify and remedy problems with structure and operations in energy markets		
Regular monitoring of natural gas and electric markets with significant issues of market structure and operations identified	Weekly reporting of significant issues of market structure and operations	Office of Enforcement
Timeliness of actions on significant issues identified by regular monitoring of natural gas and electric markets	With 6 months of completed report	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Complete transition of consolidated reporting to a web strategy	Complete by June 30, 2008	Office of Enforcement
Establish clear and fair processes		
Apply current clear and fair processes to investigations during the fiscal year	Establish criteria and procedures for imposition of remedies, including penalties	Office of Enforcement
Timeliness of reporting to the Commission on operational audits	Within 120 days of the Commencement Letter	Office of Enforcement
Percentage of operational audit recommendations issued and implemented	90% within 6 months	Office of Enforcement
Timeliness of reporting to the Commission on financial audits	Within 120 days of the Commencement Letter	Office of Enforcement
Percentage of financial audit recommendations issued and implemented	90% within 6 months	Office of Enforcement

FY 2008		
Strategy		
Performance Measure	**Target**	**Data Source**
Conduct investigations promptly and impose penalties where appropriate		
Timeliness of initiating or deciding action on MMU referrals	80% acted on within 30 days	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of enforcement investigations completed	75% within one year of initiation	Office of Enforcement
Percentage of Hotline calls resolved	70% within 2 weeks of initial contact	Office of Enforcement
Encourage self-policing and -reporting of violations		
Percentage of regulated entities audited to ensure internal compliance programs and processes are in place	85% of regulated entities included in annual audit plan	Office of Enforcement
Process requests for "No Action"	Within 60 days of receipt of final request	Office of Enforcement/ Office of the General Counsel
Timeliness of responses to regulated entities seeking guidance and clarification on compliance issues	Within 60 days	Office of Enforcement / Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of completing recommendations on compliance issues raised by regulated entities	Within 180 days, where Commission action is required	Office of the General Counsel/ Office of Enforcement / Office of Energy Markets and Reliability /
Timeliness of reporting on compliance issues raised by regulated entities	Reports completed monthly	Office of Enforcement

Performance Measurements for Supporting Initiatives, FY 2003 – FY 2008

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	Exceeded target level by 2%. Of the 60 permanent hires in targeted positions in FY 2003, 31 were entry level recruits. Met the Commission's need for new talent through targeted recruitment.
New staff from summer intern program	Hire 30% of participants into permanent positions	Exceeded target level by 3%. Of the 33 summer interns eligible to be hired, 11 were hired into permanent positions.
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	Increased the number of women and minorities in GS-14, GS-15 and SES positions by 35 (18%). Of the 35, 13 (37%) were minorities.
Encourage knowledge sharing	Conduct informal training workshops	Conducted 184 informal training workshops in 5 offices.
Improved executive performance	Implement 360 degree assessment of senior staff	Completed 360 degree assessments for 129 supervisors and managers, including senior staff. Completed targeted individual executive coaching sessions.
Percentage of transactions accepted electronically	95% of transactions accepted electronically	57% of all documents received were eligible to be e-filed; 53% of the documents eligible to be e-filed were actually e-filed; 33% of all documents received (paper and electronic) were e-filed. We expect to have 95% of transactions eligible to be accepted electronically in December 2003.
Percentage of e-issuance versus paper	90% of Commission documents issued electronically	100%
Improved Web site	Redesigned Web site	The redesigned web site, sponsored by the Office of External Affairs, was deployed in August, 2003.
	99% availability	The site was 99% available in FY 2003 based on contract performance evaluation server availability reporting by FERC IT Support Services contractor.
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	➢ 99% of FERC issuances are available online within 24 hours or less. ➢ 99% of electronic submissions to FERC are published within 24 hours of review by the Office of the Secretary. ➢ 99% of paper submissions to FERC are published within 48 hours.
Network availability	99%	File and Printer servers (where all Office Automation applications and network drives reside) were available for use 99.93% of the Prime Period of Maintenance (PPM). The PPM is defined as the 11 hour period from 7:00 a.m. to 6:00 p.m. on all days the FERC is open for business.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Standard office automation platform and PC rate of refresh	33%	During this performance period, in an effort to reduce costs, the replace cycle has been changed from 3 years to 3.5 years. During this period 335 CPUs were replaced that were 3.5 years or older. All primary FERC workstations are now newer than 3.5 years old. The performance measure should reflect the new 28.5% target.
Timeliness of virus definition files updates on servers and workstations	Updates within 24 hours from release by vendors	The performance target has been met. We currently have our servers set up to Auto Update each morning at 1 a.m. for any Virus Engine Updates and at 2 a.m. for any DAT (virus definition file) Updates. They are set to update daily and to scan local drives 'On Access' and boot sectors and floppy drives on shutdown. Updates are received via the internal FERC 'McAfee/NetShield' FTP server which in turn is getting the updates straight from the secure Network Associates, Inc. (NAI) site. We update to this server and use it as an internal update point for security and ease of configuration. All workstations are configured to check virus update from FTP server hourly.
IT system changes to comply with enterprise IT architecture and configuration management practices	Implement 98% reviews	Although an Enterprise IT Architecture has not been completed for FERC, 100% of configuration changes are reviewed and approved or rejected by the FERC DCIO Configuration Control Board. All change requests and approvals are documented in the FERC configuration management library.
Improved integration of work processes and electronic filing	Refresh integrated filing, docket, and document management system	Software releases of the FERC eFiling system were deployed in FY 2003 that increased the types of documents accepted electronically, improved the interface used by stakeholders to submit documents electronically, and improved the integration with the FERC document management system, eLibrary, and the FERC Online eRegistration system. A business case for the Activity Management Tracking System (ATMS) is under review by the FERC Online Executive Steering Committee. ATMS will allow FERC to align FTE time reporting with business planning goals and objectives. Two releases of the FERC document management system, eLibrary, were deployed that improved systems availability, reliability, and usability as documented in weekly reporting by the FERC IT Support Services Contractor and reflected in comments received through customer surveys. eSubscription, a facility that allows stakeholders to receive email notifications and document links whenever a document is received or issued in a case to which they subscribe, was deployed and has improved the work processes of external and internal stakeholders.

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

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	66% of all hires were at entry-levels
New staff from summer intern program	Hire 30% of participants into permanent positions	25% of summer interns were hired into permanent positions This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	The net increase of 21 staff into high grade positions included 3 minorities (14%) and 7 women (33%).
Improved executive performance	➢ Implement 360 degree assessment of senior staff ➢ Expand training in leadership and management skills	➢ Completed 360 degree assessments & feedback; ➢ Implemented and completed FERC-wide training for all new supervisors; ➢ Developed a Leadership & Management Development Program; and ➢ Initiated an Executive coaching pilot program.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Mentoring program	Implement FERC-wide mentoring program for all employees	Although still being developed, the program's scheduled completion date is November 2004. This performance target was set for an approximate date, and the deviation from that date is slight. This difference had no effect on overall program performance.
Average IT costs per FTE	Below industry average for Federal agencies	Performance target achieved
Improved Internet Website	99% availability	Performance target achieved
Improved reliability and availability of FERRIS	Increase customer satisfaction 25% over FY 2003	87.5% customer satisfaction rate
Percentage of transactions accepted electronically	95% of transactions accepted electronically	The Commission received 75.7% of qualified documents (25,343 out of 33,469) electronically. Qualified documents represent 57% of the total documents (33,469 out of 59,114) submitted to the Commission in FY 2004. Although we did not meet the target level, the deviation had no effect on overall program performance. Besides submitting transactions electronically, parties have the option to submit transactions via digital media (i.e. CD). In addition, the percentage represents an increase over the FY 2003 result of 53%.
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	97.3% of public documents were available online within 24 hours of receipt or issuance. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Network availability	99%	Performance target achieved
Desktop reliability	Increase reliability by 5% per year	Performance target achieved
Standard office automation platform and PC rate of refresh	33%	Performance target achieved
Timeliness of virus file updates on servers and workstations	Updates within 24 hours from release by vendors	92% of updates were completed within 24 hours of release. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	Overall, the Commission had a 93% performance rating according to the FISMA OMB metric. According to the Putman scorecard, the Commission had an 84% performance rating and moved from an F to a solid B. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	Increased the number of Press releases by 16%, the number of briefings with Elected Officials (i.e. Senate and House of Representatives) by 1%, but decreased the number of Industry interactions by 38%. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Redesign Internet Website	Make internet site more useful and user-friendly	Implemented new features (i.e. Public Event Calendar and Energy Projects Database) that are extremely popular with users.
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	The Commission made a total of 94 presentations – in a variety of forums – to numerous stakeholders throughout FY 2004.
Report Market Conditions	Publish regular summer and winter Seasonal Market Assessments, and other reports as conditions warrant	➢ The Winter Energy Market Assessment, published in November 2003, reported on the upcoming winter heating season. ➢ The State of the Markets Report, published in January 2004, analyzed the state of the energy markets for an 18-month span. ➢ The Summer Energy Market Assessment, published in June 2004, reported on the upcoming summer cooling season. ➢ The Commission also published, in May 2004, the results of an investigation into the January 2004 New England gas price spike.
Discussions with State regulatory bodies on Commission policies and actions	Formal, effective interactions between FERC and state officials on policy issues	The Commission held 23 different meetings with State regulators.
Expand discussions with Canada and Mexico	Formal interaction with Canadian and Mexican regulators on policy issues	The Commission held or participated in 10 different meetings with Canadian and/or Mexican officials on issues related to infrastructure, reliability, and other policy initiatives.
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	The Commission held one infrastructure conference in the Northeast.
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	Commission staff meets regularly with market monitors early in the winter heating season (usually in December) and the summer cooling season (usually in June) and also participates in monthly conference calls with RTO/ISO market monitors.
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	The 64 outreach opportunities during FY 2004 represent an 8% increase over FY 2003.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	Manage-to-budget (MTB) information was tracked and provided to office contacts on a bi-weekly basis. However, ongoing reviews and discussions between the Budget Division, individual office MTB contacts, and the Chief Financial Officer did not necessitate the need for quarterly reviews with Office Directors.
Monitoring of business plan	➢ Clarity of fit between projects, activities, and objectives ➢ Periodic monitoring of completions and adjustments to plan and related resources	➢ In order to better align work and resources between the various goals and objectives of the Commission, several changes were made to the Business Plan in FY 2004. This increased the logical arrangement and clarity of projects and activities within the Commission's goals and objectives. ➢ The Business Plan was updated twice during FY 2004 to adjust workload completions and reflect resource reallocations based on workload priority changes.
Timeliness of annual charges collections	Collect 98% of outstanding receivables within 45 days of billing	97% of annual charge collections were made within 45 days of billing. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Invoices paid by electronic funds transfer	98%	Over 99% of invoices were paid by electronic funds transfer.
Percentage of payments accomplished without error	98%	Over 99% of payments were accomplished without error.
Accuracy and completeness of annual financial statements	Unqualified opinion	Performance target achieved
Percentage of contracts performance-based	100%	Performance target achieved
Percentage of contracts advertised online	100%	76% of contracts were advertised on-line. The deviation from the performance target is not significant and had no effect on overall program performance. The contracts that were not advertised on-line were sole source contracts for highly technical and specialized personnel primarily in the reliability and dam safety program areas.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Number of new hires from recruitment program	Attract new talent in mainstream occupations through targeted recruitment, with 50% at entry levels	Target Met. 57% of new employees (42 of 74) were hired into mainstream occupations at the entry-level.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
New staff from summer intern program	Hire 30% of participants into permanent positions	Target Not Met. 20% (6 0f 29) of interns eligible for conversion were hired into permanent positions. This performance target was set at an approximate level, and the deviation from that level is slight. In light of the increase in the number of entry-level new hires during FY 2005, this difference had no effect on overall program performance.
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	Target Met. Overall diversity in grades GS-14 and -15, SES, and equivalent level positions increased from 93 to 95 during FY 2005. This figure includes both women and minorities.
Improved executive/managerial development	Expand training in leadership and management skills by implementing an experienced supervisors leadership program	Target Met. Beginning in June 2005, the Commission launched a Business Acumen Course that was designed for supervisors. The curriculum, which was developed through a series of focus group meetings with SES managers, addresses the linkage between strategic plans, budgets, human capital plans, and operational plans in order to manage performance at both the organizational and individual levels. In August 2005, the first of four Business Acumen Courses were taught. Out of a target audience of 133 non-SES supervisors, 81 or 61% have completed or are enrolled to complete this course.
Improved technical development	Implement second phase of “markets curriculum” for experienced staff	Target Met. From March 2005 to June 2005, a second markets curriculum titled “FERC’s Role in the Energy Markets and Infrastructure” was implemented through a series of four separate modules.
Mentoring program	Implement FERC-wide mentoring programs	Target Not Met. Although a draft mentoring program was prepared in late January 2005, a decision was made to merge the mentoring program with a larger training/developmental program that is being developed in FY 2006. This difference had no effect on overall program performance.
Improved human capital processes	Implement selected human resources flexibilities provided by new SES Pay-for-Performance legislation	Target Met. On April 7, 2005, the Commission received provisional certification to implement SES Pay-for-Performance for calendar year 2005 by demonstrating that our SES performance appraisal system made meaningful distinctions in pay and performance, demonstrated clear alignment to strategic goals, and included good measures of performance for each executive.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Improved employee morale	Conduct baseline FERC-wide employee survey; identify issues and conduct follow-up survey; set improvement targets for follow-up survey in FY 2006	Target Met. Based on the analysis of a baseline Commission-wide employee survey conducted in early FY 2005, specific survey issues were identified and addressed (through action plans) by the Commission and each office. In accordance with a FY 2006 NDAA requirement, a follow-up survey is planned that will address and include those issues identified in the FY 2005 baseline survey (including improvement targets).
Improved services to employees	Successful implementation of payroll services and integration with HR services	Target Met. In March 2005, the Commission successfully migrated its processing of payroll distributions to the National Finance Center. Also in March 2005, the Commission's Employee Maintenance Helpdesk was established to provide a central point of contact for all human resources and payroll related inquiries.
Average IT costs per FTE	Below industry average for federal agencies	Target Met. The Commission's FY 2005 average IT cost per FTE of $12,154 is below the FY 2005 industry average for federal agencies of $14,590.
Percentage of transactions accepted electronically	95% of transactions accepted electronically	Target Not Met. The Commission received 80.2% of qualified documents (27,934 out of 34,817) electronically. Qualified documents represented about 56% of the total documents submitted to the Commission in FY 2005. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance since parties have the option to submit transactions via digital media (i.e. CD) rather than hard-copy form. In addition, the percentage represents an increase over the FY 2004 result of 75.7%.
Improved reliability and availability of FERRIS	Increase customer satisfaction 25% over FY 2003	Target Met. During FY 2005, customer feedback from the eLibrary Helpdesk showed that 100% of customers felt they received a high quality of service.
Improved Internet Website	99% availability	Target Met. The Commission did not experience a major Internet outage in FY 2005, with average uptime reported at 100% (per contractor FY 2005 self-evaluation reports).
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	Target Not Met. During FY 2005, 96.6% of all documents presented to the Commission's eLibrary operations staff were published within 24 hours. Of the documents the Commission receives or issues electronically, 99.88% were published within 24 hours. As the volume of electronic filings increases, the current 96.6% will rise. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Network availability	99%	Target Met. The Commission did not experience a major network outage in FY 2005, with average uptime reported at 100% (per contractor FY 2005 self-evaluation reports).
Desktop reliability	Increase reliability by 5% per year	Target Met. Compared to FY 2004, the number of PC breakdowns (or re-images) during FY 2005 reduced by 9.2% from 54 re-images to 49 re-images. With no means to capture positive reliability data (e.g. reliability increases from FY 2004 to FY 2005), the current performance measure and target do not appear in future performance plans.
Standard office automation platform and PC rate of refresh	33%	Target Met. The Commission's FY 2005 upgrade percentage was 37%.
Timeliness of virus file updates on servers and workstations	Updates within 24 hours from release by vendors	Target Met
Implementation of Federal Information Security Management Act (FISMA) for small agencies	95%	Target Met. According to the Putnam scorecard, the measurement used to grade implementation of FISMA, the Commission earned a 100% (or A) rating for FY 2005.
Development of initial enterprise architecture	Complete by October 30, 2004	Target Met. The Commission's IT Enterprise Architecture was completed and in place by October 31, 2004.
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	Target Met. In FY 2005, the total number of proactive interactions increased by 27.6%.
Redesign Internet Website	Make internet site more useful and user-friendly	Target Met. In addition to several new user-friendly features, the Commission added eleven new project- / initiative-targeted web pages during FY 2005.
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	Target Met. The Commission provided over 70 presentations to government and/or other stakeholder groups during FY 2005.
Discussions with State regulatory bodies on Commission policies and actions	Formal, effective interactions between FERC and state officials on policy issues	Target Met. The Commission participated in 61 different meetings with state officials during FY 2005.
Maintain liaison with market monitors in RTOs and ISOs	Meet at least twice annually with RTO and ISO market monitors	Target Met. The Commission met with RTO and ISO market monitors twice during FY 2005, both at Commission-hosted conferences (December 2004 and July 2005).
Outreach to stakeholder groups to encourage use of conflict resolution mechanisms	Increase number of outreach opportunities with stakeholders by 25%	Target Met. The 83 active projects in FY 2005 represent a 29.7% increase over the 64 projects in FY 2004.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Foster communication with States and Governors on infrastructure	Hold infrastructure conferences in each region	Target Not Met. The Commission held a total of seven infrastructure related conferences during FY 2005 in the Northeast, Western, Appalachian, and Rocky Mountain regions. This performance target was set at an approximate level, and the deviation from that level is slight. The Commission's inability to hold a conference in each region did not have an effect on overall program performance.
Support further discussions with Canada and Mexico	Formal interaction with Canadian and Mexican regulators on policy issues	Target Met. The Commission held or participated in 20 different meetings with Canadian and/or Mexican officials on issues related to infrastructure, reliability, and other policy initiatives during FY 2005.
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	Target Not Met. Due to the National Finance Center processing of payroll distributions migration in March 2005, bi-weekly tracking information was briefly delayed. In addition, ongoing reviews and discussions between the Budget Division, individual office contacts, and the Chief Financial Officer did not necessitate the need for quarterly reviews with Office Directors. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Monitoring of business plan	➢ Clarity of fit between projects, activities, and objectives ➢ Periodic monitoring of completions and adjustments to plan and related resources	Target Met. Both of the business plan updates that took place during FY 2005 accomplished the stated targets. A final FY 2005 update will be completed during the first week in November.
Timeliness of annual charges collections	Collect 98% of outstanding receivables within 45 days of billing	Target Not Met. The Commission received 92.7% of its annual charge collections within 45 days of billing. This performance target was set at an approximate level, and the deviation from that level is slight. Since the collections during the 45-day period off-set the Commission's FY 2005 appropriation and the Commission received 97.3% of its annual charge collections prior to the end of FY 2005, this difference had no effect on overall program performance,
Invoices paid by electronic funds transfer	98%	Target Met. The Commission paid 99% of its invoices via electronic funds transfer during FY 2005.
Percentage of payments accomplished without error	98%	Target Not Met. The Commission made 97% of its payments without error during FY 2005. This performance target was set at an approximate level, and the deviation from that level is slight. Since all incorrect payments were recovered via internal or Department of Treasury collection actions, this difference had no effect on overall program performance.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Accuracy and completeness of annual financial statements	Unqualified opinion	Target Met. The Commission received an unqualified opinion on its FY 2004 financial statement audit.
Percentage of contracts performance-based	85%	Target Met. Of the 118 procurement actions that required a performance-based statement of work, 100% were awarded as performance-based.
Percentage of contracts advertised online	85%	Target Met. Of the 3 procurement actions eligible for advertising, 100% were advertised online.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of summer interns hired into permanent positions	30%	Target Not Met. 14.3% of summer interns eligible to be rehired accepted offers of permanent employment. Conversions of summer interns have steadily declined since its high in 2003 with 33%. As EPAct of 2005 requirements have evolved, the need for skill sets not represented in the summer intern population has dictated hiring from other sources. This measure is omitted in 2007 and reduced in 2008 to 20%.
Implement entry-level Professional Development Program	Complete by September 30, 2006	Target Met. FERC Entry-Level Retention Program distributed to Program Offices in September 2006.
Percentage of minorities among senior-level positions (GS-14, GS-15, SL, and SES positions)	Increase over FY 2005	Target Met. Percentage of minorities among senior-level positions increased by 1% over FY 2005.
Implement Commission-wide Business Requirements guidelines	Complete by September 30, 2006	Target Met. Commission-wide Business Requirements Guidelines distributed to the Training Council in September 2006
Reliability of IT infrastructure	99% network availability rate	Target Met.
FISMA compliance according to the Putnam scorecard	Grade of “A”	Target Met. FERC received a grade of an "A" based on the Putnam scorecard for its most recent FISMA report which ended September 30, 2006.
Integrate the Business Plan, CPIC process, and IT architecture into the Commission’s Enterprise Architecture	Complete by September 30, 2006	Target Met. DCIO's current CPIC process requires all requests to map to the FERC Business Plan. Pursuant to the CPIC process Information Technology (IT) projects are approved or denied based on a number of criteria one being whether or not it supports the Commission's mission. Approved IT projects generate a Control Board action producing document. The data from the approved CCN is used to update the IT architecture which is entered into the Commission's Enterprise Architecture through the use of the Metis tool.
Percentage of approved IT initiatives with supporting documentation per the Commission's CPIC process	100%	Target Met. The CPIC Investment Review Board approved 21 projects of which all 21 went through the CPIC review process. Therefore, 100% of the approved IT projects went through the CPIC approval process.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Establish earned value management schedule and cost performance indices for all major projects	Complete by September 30, 2006	Target Met. As implemented in FERC Capability Maturity Model Integration level 2 (CMMI-2) policies and procedures, EVM is used to measure progress on major projects and major phases of multi-phased projects.
Develop and implement automated Business plan	Complete by September 30, 2006	Target Not Met. Though Software development for Phase 2 of the Activity and Tracking Management System (ATMS) has been completed, the target was not met because extensive testing of Phase 2 due to integration with other eGovernment systems will push deployment to February 2007. Though Phase 2 will support business plan reporting that is integrated with the HR time reporting system (MAPS), that reporting will depend on requisite information (e.g. proper use of time reporting codes, MAPS data, etc.) input by FERC's program and other offices. And since full automation will require Commission-wide deployment (Phases 3 and 4) and additional reporting requirements definition and software development, the target will not be fully met until ATMS Phase 4. Since manual processes for business planning will remain in place until they are replaced by an automated Business plan, there is no impact on operations or program performance.
Percentage of qualified-procurements that are performance-based	100%	Target Met. Of the 676 actions awarded during the period, a total of 78 actions were identified as performance-based. All 78 of these actions were awarded under performance-based contracts.
Percentage of qualified-procurements that are advertised on-line	100%	Target Met. Of the 676 actions awarded during the period, a total of 4 actions qualified for on-line advertisement, and all 4 actions were advertised on-line with Federal Business Opportunities (fedbizops.)
Percentage of total procurement dollars awarded to small, women-owned, and minority businesses	5% increase over FY 2005	Target Met. In FY 2005, the Commission awarded 22% of its total procurement dollars to small, women-owned and minority businesses. In FY 2006, the Commission awarded 34% of its total procurement dollars to these entities which constitutes a 12% increase over the FY 2005 performance level.
Percentage of invoices paid via electronic funds transfer	99%	Target Met. During FY 2006, the Commission paid 99% of its invoices via EFT.
Percentage of payments in compliance with Prompt Payment Act deadlines	100%	Target Not Met. During FY 2006, the Commission processed 94% of its payments in compliance with Prompt Payment Act deadlines. The primary cause was the Commission's acceptance of invoices during the FY 2006 Continuing Resolution (October - December) which could not be paid. Since January, the Commission has processed 98% of its payments in compliance with Prompt Payment Act deadlines.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of payments made without error	100%	Target Not Met. During FY 2006, the Commission made 99% of its payments without error. The failure to meet this target did not have an adverse affect on overall program performance.
Timeliness of collecting accounts receivable	90% of invoices collected by due dates	Target Met. During FY 2006, the Commission collected 94% of its invoice balances by the stated due date.
Complete and accurate annual financial statements	Unqualified opinion on audited financial statements	Target Met.
Percentage of filings capable of being received electronically	95%	Target Not Met. 42% of all document types are currently capable of being received electronically. Meeting the target has been delayed because of two primary factors: 1) The Commission has been responsive to industry feedback regarding the most efficient way for tariff filings to be filed electronically and has extended the prototyping and discussion of proposed solutions; and 2) The Commission has delayed to improve infrastructure (supporting database, storage, server, and disaster recovery infrastructure). To mitigate the effects of the delay the Commission encourages the filing of non-eFiling-capable documents on digital media (CD, DVD); routinely accepts non-eFiling-capable documents electronically on an exception basis when requested by filers; and performs OCR and full-text indexing on documents submitted on paper. In addition, the Commission is actively planning and gathering requirements for an eFiling system release that will meet the target. Given the mitigation efforts, there have been no negative impacts on program performance or operations.
Percentage of Commission orders approved during open meetings issued	99% within 5 business days	Target Met. 321 agenda items were approved in open meeting during the rating period. All but 2 were issued within 5 business days.
Percentage of Commission orders approved by notational vote issued	99% within 1 business day of adoption date	Target Not Met. 933 agenda items were approved through the notational process. 40 items were issued after one day of adoption date; these were all issued on the following business day. Percentage is 96%. This is a remarkable accomplishment considering the significant increase in notational items during this appraisal period and the target did not change from last appraisal period. This did not have a negative impact on operations.
Percentage of legally required notices issued	95% within 3 business days of being posted on eLibrary	Target Not Met. This measure includes notices for electric rate filings prepared by the Secretary; notices for other industries are prepared by program offices. Number of electric rate notices during the appraisal period is 2,667. Of these, 632, or 76%, were issued three days after filing was posted on eLibrary. This target was not met due to staff shortages. However, no Commission proceeding or action was negatively affected.

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of press releases on important agency actions issued	95% within 1 hour of order being issued	Target Met. In FY 2006, 90 out of 92 or 97.8% of press releases were issued within 1 hour of action being taken.
Percentage of responses to public inquiries	➢ 60% within 3 business days ➢ 100% within 5 business days	Target Met. In FY 2006, OEA responded to approximately 2,800 public inquiries. Over 90% of these inquiries were responded to within 1 business day of receipt. All public inquiries were responded to within 5 business days.
Percentage of agency actions and time-sensitive content posted on the FERC Internet Website	95% within 1 hour of order being issued	Target Met. In FY 2006, 3,159 of 3,201 or 98.7% of important agency actions were posted on the Commission's internet website within 1 hour of issuance.
Timeliness of notices to NEB (Canada) and CRE (Mexico) of FERC activities pursuant to Memorandum of Understanding	Within 1 business day	Target Met. The NEB and CRE are routinely notified of significant Commission activities that impact their respective countries through emails with summaries and links to these orders within one business day of the order being issued.
Timeliness of regional hearings or conferences email notifications sent to State officials and Governors	Within 1 business day	No regional hearings/conferences took place during the review period.
Submit FY 2005 Annual Report to Congress	Complete by June 30, 2006	Target Not Met. FY 2005 Annual Report has not been sent to Congress. The target was not met due to a significant change in the format of the Annual Report to improve the overall product by making it more targeted to the audience groups. The decision to re-format the Annual Report to track the agency's Strategic Plan resulted in a significantly more time-consuming review process and an extended period for obtaining the content for the Annual Report. There were no negative impacts on operations. The process for the FY 2006 Annual Report has already been initiated and the expectation is that the target will be met.
Submit FY 2005 international exchange and training activity data to U.S. Department of State	Complete by April 1, 2006	Target Met. FY 2005 international exchange and training activity data was sent to the U.S. Department of State in March 2006.
Submit FY 2005 FOIA Annual Report to Department of Justice	Complete by February 1, 2006	Target Met. FY 2005 FOIA Annual Report to the Department of Justice was submitted on January 27, 2006.
Submit FY 2005 Information Quality Agency Annual Report to OMB	Complete by January 1, 2006	Target Met. FY 2005 Information Quality Agency Annual Report was submitted to OMB prior to January 1, 2006.

FY 2007		
Performance Measurement	**Performance Target**	**Data Source**
Develop and implement a competency-based requirements framework	Complete by January 31, 2007	Office of the Executive Director
Percentage of women and/or minorities among all positions	Increase over FY 2006	Office of the Executive Director
Improve retention ratio of entry-level new hires	Increase FY 2006 ratio by 10%	Office of the Executive Director

FY 2007		
Performance Measurement	**Performance Target**	**Data Source**
Implement workforce planning tools	Complete by September 30, 2007	Office of the Executive Director
Timeliness of submitting Fair Act Inventory to OMB per Circular A-76 requirements	Complete by June 30, 2007	Office of the Executive Director
Customers are satisfied with the use of eGovernment initiatives to interact with FERC	90%	Office of the Executive Director
Federal FTE time is mapped through systems to workload and strategic goals and objectives	Fully implemented by September 30, 2007	Office of the Executive Director
Align Commission costs to strategic objectives	Complete by September 2007	Office of the Executive Director
Percentage of vendor payments made by established due dates	99%	Office of Executive Director
Percentage of payments made without error	100%	Office of Executive Director
Timeliness of collecting accounts receivable that offset the Commission's appropriation	95% collected by due dates	Office of Executive Director
Financial statements that present fairly, in all material aspects, the Commission's financial position	Unqualified audit opinion on FY 2006 financial statements	Office of Executive Director
Percentage of transactional case assessments or convening sessions concluded	75% within 20 days	Dispute Resolution Service
Percentage of transactional ADR processes agreed to by parties concluded	75% within 120 days total (convening and process)	Dispute Resolution Service
Number of ADR requests and referrals to the Dispute Resolution Service	Increase number over FY 2004 (base year)	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction for casework and outreach	80% customer satisfaction rate	Dispute Resolution Service
Number of outreach events (e.g., trainings, workshops, and presentations) to promote the use of dispute resolution skills	Increase number over FY 2004 (base year)	Dispute Resolution Service
Ensure timely and effective communication to all stakeholders	➢ Issue 95% of press releases for important agency actions on the same day as the underlining action ➢ Post 95% of important agency actions on the same day as the underlining action ➢ Provide an initial and complete response to 70% of inquiries at the time of the receipt of the request ➢ Develop webpages within the assigned timeframe to enhance and support the Commission's initiatives and goals	Office of External Affairs

FY 2007		
Performance Measurement	**Performance Target**	**Data Source**
Enhance communication with National and International groups	➢ Respond to 50% of Official Congressional correspondence within 10 business days ➢ Provide email notification of significant Commission actions to Congress within 1 to 2 business days of the underlining action along with briefing offers where appropriate ➢ Provide timely and effective briefings to members of Congress ➢ Provide email notification of significant Commission actions to effected State regulatory agencies within 1 to 2 business days of the underlining action ➢ Accommodate visitation requests from delegations from various countries and organizations	Office of External Affairs
Percentage of cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Litigation / Office of Administrative Law Judges
Percentage of cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Litigation / Office of Administrative Law Judges
Issue well-reasoned initial decisions, based on facts, law, and Commission policies which are upheld in whole or in part	80% of initial decisions upheld in whole or in part	Office of Administrative Litigation / Office of Administrative Law Judges

FY 2008		
Performance Measure	**Performance Target**	**Data Source**
Percentage of transactional case assessments or convening sessions concluded	75% within 20 days	Dispute Resolution Service
Percentage of transactional ADR processes agreed to by parties concluded	75% within 120 days total (convening and process)	Dispute Resolution Service
Number of ADR requests and referrals to the Dispute Resolution Service	Increase number over FY 2004 (base year)	Dispute Resolution Service
Percentage of mediated or facilitated case that achieve partial or complete consensual agreement	75%	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction for casework and outreach	80% customer satisfaction rate	Dispute Resolution Service
Number of outreach events (e.g., trainings, workshops, and presentations) to promote the use of dispute resolution skills	Increase number over FY 2004 (base year)	Dispute Resolution Service
Percentage of cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Litigation / Office of Administrative Law Judges

FY 2008		
Performance Measure	**Performance Target**	**Data Source**
Ensure timely and effective communication to all stakeholders	➢ Issue 95% of press releases for important agency actions on the same day as the underlining action ➢ Post 95% of important agency actions on the same day as the underlining action ➢ Provide an initial and complete response to 70% of inquiries at the time of the receipt of the request ➢ Develop webpages within the assigned timeframe to enhance and support the Commission's initiatives and goals	Office of External Affairs
Enhance communication with National and International groups	➢ Respond to 50% of Official Congressional correspondence within 10 business days ➢ Provide email notification of significant Commission actions to Congress within 1 to 2 business days of the underlining action along with briefing offers where appropriate ➢ Provide timely and effective briefings to members of Congress ➢ Provide email notification of significant Commission actions to effected State regulatory agencies within 1 to 2 business days of the underlining action ➢ Accommodate visitation requests from delegations from various countries and organizations	Office of External Affairs
Performance Measurement	Performance Target	Data Source
Implement an aggressive entry level recruiting program	➢ Recruit at least 3 students each from at least 4 target universities ➢ Increase new hires from recruiting program by 10 over FY 2007 ➢ Hire 20% of interns into permanent positions	Office of the Executive Director
Implement employee development programs	➢ Launch leadership development program ➢ Develop competency based training for mainstream occupations	Office of the Executive Director
Maintain an effective performance management system	➢ All employees receive training annually ➢ Provide feedback to managers to ensure ratings reflect meaningful distinctions between performance ➢ High achievers are rewarded appropriately	Office of the Executive Director
Ensure appropriate representation of women and minorities at all levels within the organization	Increase over FY 2007 baseline	Office of the Executive Director
Maintain reliable financial management systems which generate accurate and timely financial information to support operating, budget, and policy decisions	➢ Unqualified audit opinion on financial statements ➢ Unqualified assurance assertion on internal controls ➢ Commission costs aligned to strategic objectives by September 2007	Office of the Executive Director
Manage acquisitions in accordance with federal requirements and ensure process provides for the efficient use of Commission resources	➢ 25% of total procurement dollars awarded to small, women-owned, and minority businesses ➢ 100% of qualified procurements are performanced-based	Office of the Executive Director

FY 2008		
Performance Measure	**Performance Target**	**Data Source**
Full implementation of FERC's eGovernment initiatives	Completed by September 30, 2008	Office of the Executive Director