

STRATEGIC PLAN FOR FISCAL YEARS 2006 - 2011



**FEDERAL ENERGY REGULATORY COMMISSION
SEPTEMBER 2006**

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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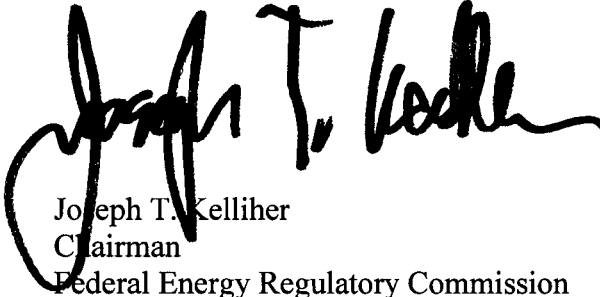
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Message from the Chairman

To the Speaker of the House of Representatives, the President of the Senate, the President pro tempore of the Senate and the Director of the Office of Management and Budget:

I am pleased to submit the Federal Energy Regulatory Commission's Strategic Plan for fiscal years 2006 – 2011. This plan describes how we intend to accomplish our mission: to regulate and oversee energy industries in the economic, environmental, and safety interests of the American public. In particular, it discusses the objectives and strategies we will follow to meet our three mission-oriented goals, and sets out performance goals and measures to gauge our progress. In addition, it discusses the primary management and other initiatives that support all three goals and their underlying objectives.

Our Strategic Plan responds to the needs of the times, charting a course to achieve abundant and reliable energy in a competitive market. The plan reflects ongoing dialog with customers, industry, tribes, and states, however, the plan is our own. It is a living document which we will adapt as necessary.



Joseph T. Kelliher
Chairman
Federal Energy Regulatory Commission

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

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 oversees the rates, terms and conditions of sales for resale of electric energy and transmission service in interstate commerce by public utilities. The Commission must ensure that those rates, terms and conditions are just, reasonable, and not unduly discriminatory or preferential. Under FPA section 203, as amended by the Energy Policy Act of 2005 (EPAct 2005), the Commission reviews

mergers 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, in large part, 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. EAct 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 EAct 2005 is oversight of the 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 as the ERO. All owners, users and operators of the bulk power system will be subject to mandatory reliability standards approved by the Commission.

The Commission's role 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 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 such 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.

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 criteria 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 market abuse,

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 parties 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. For example, in 2005 the Commission convened technical conferences with state regulators and industry officials to discuss regional electricity market design issues. The Commission also held regional conferences to identify infrastructure conditions, needs and investment, as well as environmental and landowner concerns. 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 proposed to use the same pre-filing process for resolution of certain 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.

Goal 1: ENERGY INFRASTRUCTURE

Promote the Development of a Strong Energy Infrastructure

A strong energy infrastructure is critical to the health of the U.S. economy, as evidenced by the immediate impact the 2005 hurricane season had on the Nation's economy. In addition, competitive and reliable energy markets require a strong infrastructure. A strong infrastructure helps make competitive markets work by:

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

The Commission has an important role in the development of a strong energy infrastructure that operates effectively and reliably. The Commission authorizes development of LNG facilities, certifies natural gas pipeline and storage projects, permits certain electric transmission lines, and licenses hydropower projects. Its work also directly affects the reliability of the interstate transmission grid. Moreover, nearly two-thirds of the energy consumed by the United States is transported by pipelines, many of which are regulated by the Commission.

Effective Commission regulation can help ensure the development of a strong energy infrastructure. Commission 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.

Objective A: Stimulate Appropriate Infrastructure Development

The Commission's timely identification and resolution of regulatory and other challenges will help stimulate appropriate infrastructure development. As mentioned above, the Commission is responsible for authorizing LNG facilities, certifying 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 approve projects without compromising its environmental protection and public participation responsibilities. The Commission also promotes, and sometimes requires, the use of the 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. The pre-filing process addresses issues early on in the application process and involves stakeholders from the beginning. This process has been validated and the Commission will continue to pursue this method as a way to stimulate infrastructure development.

The Commission will also stimulate infrastructure development by applying pricing policies that encourage investment and establishing and consistently applying policies that permit timely cost recovery. The Commission's rate policies, consistently applied to infrastructure projects, must give investors confidence that they will have an opportunity to recover their investments and provide certainty to customers. 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 support innovative rate designs that support competitive markets for electric power and natural gas and give companies incentives to build and efficiently operate key new projects. The Commission will undertake measures to provide timely cost recovery for infrastructure investors which will 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 ensure that terms and conditions of service promote reliable open access for all customers.

Means and Strategies

Resolve Regulatory Challenges

Long-Term Transmission Rights. To facilitate the planning and expansion of transmission facilities, the Commission will provide increased certainty about the congestion cost risks of long-term transmission service in organized electricity markets and help load-serving entities and other market participants support new investments and other long-term power supply arrangements.

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 will employ a regulatory approach to the development of onshore sites that will reduce federal regulatory barriers without affecting the safety oversight of the facilities. By applying this policy, the Commission will provide financial certainty for companies looking to invest the billions of dollars often required to develop LNG facilities.

Natural Gas Pipelines. To meet the growing demand for natural gas, the Commission must respond quickly when companies propose to expand and construct needed pipelines and related facilities. The Commission

will strive to reduce the time it takes to approve projects without compromising its environmental protection and public participation responsibilities.

Storage Projects. 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. Over the next five years, 14 additional storage projects representing 4,380 MMcf of peak day deliverability and 125 Bcf of storage capacity are projected to be filed with the Commission.

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. The Commission will review these filings timely to support the need for additional capacity.

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 will process filings timely to support the role hydropower projects have in the Nation's energy portfolio.

Integrated Licensing Process. In an effort to increase the efficiency of the 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 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 will 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.

Pricing Policies

Natural Gas Storage Pricing. The Commission balances effective regulation of natural gas storage with incentives for infrastructure development, including the use of modified rate design, and deferred rate review. The Commission will encourage the development of new natural gas storage capacity and ensure access to storage at just and reasonable rates by providing two new approaches for developers of natural gas storage facilities to seek authority to charge market-based rates. The first approach includes a broadened definition of the relevant product market

for storage. The second approach would allow an applicant to charge market-based rates even if a lack of market power has not been demonstrated, under certain 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.

Electric Transmission Pricing Reform. To address the need for more investment in electric transmission capacity, the Commission will allow incentive-based rate treatments for the transmission of electric energy in interstate commerce by public utilities. The purpose is to benefit consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion. It will provide incentives to improve existing infrastructure and to add new infrastructure to the Nation's interstate transmission grid.

Cost Allocation for Transmission Upgrades. A major issue that the Commission faces is who will pay for needed electric transmission expansion and upgrades. The Commission will develop consistent policies 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 encourage investment in transmission infrastructure.

Merchant Transmission. The Commission supports the development of merchant transmission projects outside the traditional rate-making process. The Commission will review its policies to enable as many parties as possible to participate competitively in opportunities for merchant transmission projects.

Cost Recovery Policies

Natural Gas Pipelines. The Commission will use its declaratory order process to provide clear cost recovery processes to energy industry stakeholders. It will encourage pipelines to reach timely settlements in order to avoid costly and lengthy litigation of issues. The Commission will act expeditiously on proposals to ensure any reduced rates are implemented as quickly as possible. This will help achieve timely cost recovery and illustrates another way in which the Commission will stimulate infrastructure development.

Extraordinary Expenditures. The Commission will 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.

Relationship to Annual Performance Plan

| LONG TERM PERFORMANCE GOAL | |
|---|---|
| Performance Measure | Target |
| RESOLVE REGULATORY AND OTHER CHALLENGES TO NEEDED DEVELOPMENT | |
| Long Term Performance Measure 1 | |
| Ensure timeliness of Commission decisions on infrastructure projects to meet market demand | All projects reviews move forward because Commission timeframes are met |
| Selected Annual Performance Measures | |
| Percentage of pipeline certificate cases with no precedential issues completed | <ul style="list-style-type: none"> ➤ 90% of unprotested cases within 159 days of filing ➤ 90% of protested cases within 304 days of filing |
| Percentage of pipeline certificate cases of first impression or containing larger policy implications completed | 90% within 365 days of filing |
| Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed | 90% within 480 days of filing |
| Long Term Performance Measure 2 | |
| Advise on adequacy of energy infrastructure on regional or national basis as needed or directed | Mandated and other staff reports timely issued to address regulatory challenges |
| Selected Annual Performance Measures | |
| Issue Alaska Gas Pipeline Reports to Congress | Issue reports in February and August each year |
| Percentage of infrastructure studies completed | <ul style="list-style-type: none"> ➤ 100% for regional and issue-based infrastructure conferences ➤ 100% for Commission- and Congressional-directed studies |
| Long Term Performance Measure 3 | |
| Apply the most transparent, and stakeholder-inclusive, approaches possible for processing infrastructure proposals | All LNG projects participate in Pre-Filing processes, while the participation of pipeline and hydropower projects increases |
| Selected Annual Performance Measures | |
| 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 |
| Percentage of ILP pre-filing study plan determinations completed | 85% within 150 days of applicant's filing of the proposed study plan |
| ENCOURAGE INVESTMENT AND EFFECT TIMELY COST RECOVERY | |
| Long Term Performance Measure 1 | |
| Expand infrastructure | Infrastructure additions (generation in MWs; transmission in MW miles; pipeline in MCF miles) |
| Selected Annual Performance Measures | |
| Timeliness of filings processed containing amendments to non-independent electric transmission provider OATTs | Within 60 days of filing date or applicant's requested date, whichever is later |

| | |
|---|--|
| Process cost recovery cases within reasonable timeframes (including prudently-incurred expenses to safeguard and enhance the reliability, security and safety of the energy infrastructure) | <ul style="list-style-type: none"> ➤ 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 |
| Timeliness of applications processed for incentive rates under section 205 of the FPA | Processed by the statutory deadline for rate filings or applicant's requested date, whichever is later |
| Long Term Performance Measure 2 | |
| Decrease congestion in electric and gas markets | Establish price volatility and out of merit dispatch baselines and reduce annually |
| Selected Annual Performance Measures | |
| Establish price volatility baseline | By September 30, 2007 |
| Establish out-of-merit dispatch baseline | By September 30, 2007 |

Objective B: Maintain a Reliable and Safe Infrastructure

The Nation's energy infrastructure must be reliable and safe in order for customers to enjoy the benefits of competitive energy markets. Given the economy's dependence on a reliable supply of electricity, it is critical to have adequate communications and equipment technology. There also must exist clear, unambiguous, mandatory and enforceable operating rules, and a highly trained staff that understands the complexities of the bulk power system.

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.

The Commission works with the U.S. Coast Guard to ensure the safe siting, operations, and reliability of facilities. It also 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 Commission will take steps to ensure 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.

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.

Means and Strategies

Reliability of Interstate Transmission Grid

Electric Transmission. Historically, electric transmission system reliability has been primarily the responsibility of the local utility, which has been accountable to state and local regulators. However, EPAct 2005 expanded the Commission's charge to maintain a reliable and safe infrastructure by mandating the establishment of an ERO which will develop and enforce mandatory reliability standards, subject to the Commission's oversight and approval. The Commission will work to accomplish this by overseeing the development and enforcement of mandatory grid-reliability standards to protect the bulk power system and coordinating efforts with Canada and Mexico. The Commission will facilitate the industry's work in cyber security and improve reporting requirements and communication among market participants.

Safety at LNG and Hydropower Facilities

LNG Facilities. As part of its review, the Commission will perform 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, which has jurisdiction over onshore LNG facilities, related to the proposed site as well as any alternative sites that are under consideration.

Hydropower Facilities. The Commission will finish implementing its potential failure modes analysis and performance-monitoring program, and refine 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.

This program provides exceptional methods to better identify and solve dam safety issues, and improves 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. The Commission will transition from the initial work of identifying potential failure modes to an emphasis on performance monitoring and the assessment of resulting data. In addition, the Commission will work with federal and state agencies on earthquake analyses and additional guidance on state-of-the-practice safety issues.

The Commission has developed an aggressive security program that helps protect hydropower projects and safeguards this portion of the nation's infrastructure. 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.

Environmental Considerations

Natural Gas. The Commission will promote the use of the third-party compliance monitoring program for environmental compliance in natural gas projects. 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 will provide substantial benefits for the Commission and the natural gas industry, and will increase 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. In many cases, such measures are proposed in settlement agreements filed with the Commission. The Commission will encourage 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.

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 will hold land resources management and development workshops in the affected regions of the country.

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 will ensure effective license compliance and resource protection.

*Relationship to Annual
Performance Plan*

| LONG TERM PERFORMANCE GOALS | |
|------------------------------------|---------------|
| Performance Measure | Target |

| ASSURE RELIABILITY OF INTERSTATE TRANSMISSION GRID | |
|--|---|
| Long Term Performance Measure 1 | |
| Process in place to monitor industry enforcement of reliability standards | By December 2008 |
| Selected Annual Performance Measures | |
| Percentage of proposed reliability standards reviewed | 100% |
| Finalize and review cyber security vulnerabilities report | By December 2008 |
| Review and process cyber reliability standards submitted by the ERO | By December 2008 |
| Establish current adequacy of critical electric grid equipment | By December 2008 |
| Long Term Performance Measure 2 | |
| Effective Electric Reliability Organization in place | ERO review procedures are followed and penalty actions reviewed before effective date |
| Selected Annual Performance Measures | |
| Develop ERO review procedures | March 31, 2007 |
| Percentage of ERO penalty action rulings reviewed to prevent inappropriate rulings from going into effect by default | 100% |

| PROTECT SAFETY AT LNG AND HYDROPOWER FACILITIES | |
|---|--|
| Long Term Performance Measure 1 | |
| Increase effectiveness of Commission's Safety Programs | Commission's safety practices and procedures reflect "best practices." |
| Selected Annual Performance Measures | |
| Percentage of high- and significant-hazard-potential dams inspected annually | 100% |
| Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation | 100% |
| Percentage inspected annually: ➤ LNG import terminals ➤ LNG peak-shaving facilities | ➤ 100% ➤ 50% |
| Percentage of LNG facilities that meet all current safety standards or are subject of a compliance letter | 100% |

| | |
|---|--|
| Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s) | 100% |
| Control access to critical energy infrastructure information | No instances of improper access or improper denial affecting national security or Commission proceedings |

| INCORPORATE ENVIRONMENTAL CONSIDERATIONS INTO COMMISSION DECISIONS | |
|---|---|
| Long Term Performance Measure 1 | |
| Jurisdictional facilities are authorized to operate consistent with NEPA requirements. | All jurisdictional facilities are required to be constructed and operated in accordance with license or certificate requirements. |
| Selected Annual Performance Measures | |
| Timeliness of issuing environmental licensing requirements | Licensing responsibility letters sent within 45 business days of license issuance date |
| Percentage of final NEPA documents issued for ALP/TLP cases: ➤ with settlement agreements ➤ without settlement agreements | ➤ 85% within 12 months ➤ 85% within 24 months |
| Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity | 100% of projects inspected at least once every four weeks |
| Percentage of qualifying LNG plants inspected during ongoing construction activity | 100% of plants inspected every 8 weeks |

Goal 2: COMPETITIVE MARKETS

Support Competitive Markets

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

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 can do this is to preserve and expand the transparency of information and operations in energy markets. 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; and
- EAct 2005 amendments to the FPA and NGA related to market operations, including new transparency provisions and anti-manipulation provisions.

To help accomplish 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 enforcement.

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

In exercising its jurisdiction over wholesale markets and transportation in interstate commerce, the Commission strives to reduce barriers in gas and electric intra- and inter-market trade. The operations of jurisdictional energy providers in the United States must work together as seamlessly as possible to reduce transaction costs and help ensure that rates are reasonable. Furthermore, the Commission will seek to adopt approaches that are complementary to those of the states in their regulation of retail markets.

Means and Strategies

Best Practices

The Commission will look for best practices in organized markets that it can build into future policies. For example, the Commission has recently

proposed changes to its open access transmission tariff to incorporate elements of transmission planning features presently used by some utilities and underway in some regions of the country. The organized markets often share common features, reflecting some of the best practices and lessons learned.

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), North American Electric Reliability Council, regional transmission organizations (RTOs) and independent transmission system operators (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.

Reduce Barriers

Barriers to entry can be caused by differences between federal and 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 these types of 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 will seek to increase the consistency and transparency of the rules governing jurisdictional transmission service. A lack of real-time pricing can be a barrier to increased use of demand response in both wholesale and retail markets. Commission efforts to support or promote demand response will rely on coordination with the states and development of complementary policies, where appropriate.

Inter-market barriers, such as seams, also are a primary focus of the Commission. Seams refer to the 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 and thus create inefficiencies. 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 will facilitate discussions between industry and states to address the seams issues that occur at boundaries between organized markets to resolve these issues.

Relationship to Annual Performance Plan

| LONG TERM PERFORMANCE GOALS | |
|-----------------------------|--------|
| Performance Measure | Target |

| EMPLOY BEST PRACTICES IN MARKET RULES | |
|--|---|
| Long Term Performance Measure 1 | |
| Improve market design | Market rules reflect best practices |
| Selected Annual Performance Measures | |
| Timeliness of review of proposed market rules | By the statutory due date or the applicants' requested date, whichever is later |
| Percentage of proposed NAESB business practice standards rulemakings completed | <ul style="list-style-type: none"> ➤ 100% of unopposed rulemakings within 9 months ➤ 100% of all rulemakings within 12 months |
| Timeliness of applications processed on requests to encourage demand response in organized markets | Within 60 days of filing date or applicant's requested date, whichever is later |

| REDUCE BARRIERS TO TRADE BETWEEN MARKETS AND AMONG REGIONS | |
|--|---|
| Long Term Performance Measure 1 | |
| Reduce seams issues | Identify and address "border" utility issues |
| Selected Annual Performance Measures | |
| 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 |

Objective B: Prevent Accumulation and Exercise of Market Power

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.

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.

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

The FPA and the NGA 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.

Means and Strategies

Merger and Acquisition Review

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. Assurances of consumer protection will continue as the Commission implements amended section 203 and utilizes its enhanced access to holding company books and records under the Public Utility Holding Company Act of 2005.

Market Power

To address market power in jurisdictional wholesale markets, the Commission will review applications for market-based rates for power sales and for natural gas storage to make sure that applicants do not have the ability to exercise market power or to provide for mitigation to prevent them from exercising market power. The Commission will also review tariff filings made by natural gas pipelines and public utilities providing electric transmission service to ensure that they do not permit undue discrimination.

Open Access Transmission Tariff Reform. The Commission seeks to increase transparency and clarity in the planning and use of the transmission system while addressing ambiguities in the original *pro forma* open access transmission tariff. The reforms will ensure that the open access transmission tariff achieves its original purpose – remedying undue discrimination in the provision of transmission service.

Market Power in Wholesale Power Sales. The Commission will authorize market-based rates if the seller and its affiliates either do not have an ability to exercise market power over the price and supply of the electric energy they are selling in the relevant market, or if the Commission can condition the authorization in a way that will mitigate the market power they may have. The Commission will also consider 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 screens in recent years. Under the May 2006 Market Based Rates notice of proposed rulemaking, the Commission's review would be reformed into a more traditional horizontal and vertical market power analysis. 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 proposes 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 proposes to codify code of conduct restrictions in its regulations.

The Commission will also prevent the accumulation and exercise of market power through bolstered reporting requirements, a modified generation market power threshold, and a revised and clarified change-of-status reporting requirement.

Industry Compliance through Audits. The Commission will combat market power through audits that focus on compliance matters associated with the open access transmission tariff, natural gas tariff, market-based rates, standards of conduct, Open Access Same-Time Information Systems, certain reporting requirements, and financial accounting matters. To remedy areas of noncompliance, the Commission will impose stringent compliance plans on jurisdictional companies. Jurisdictional companies will have to demonstrate compliance with remedial actions stemming from the Commission audit report.

Market Power in Gas Storage Operations. As discussed in more detail in Goal 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 even if the seller cannot demonstrate that it lacks market power. The Commission will review 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.

Relationship to Annual Performance Plan

| LONG TERM PERFORMANCE GOALS | |
|---|-----------------|
| Performance Measure | Target |
| ASSURE PROPOSED MERGERS AND ACQUISITIONS ARE IN THE PUBLIC INTEREST | |
| Long Term Performance Measure 1 | |
| Merger/acquisition filings are in compliance with applicable laws | Full compliance |
| Selected Annual Performance Measures | |
| Percentage of merger authorizations upheld by the courts | 90% |
| Percentage of companies, including those previously exempted by the SEC under the 1935 law, and centralized service companies comply with record retention and accounting requirements by December 2008 | 100% |

| | |
|--|------|
| Percentage of merged applicants reporting on compliance with merger conditions imposed by the Commission | 100% |
|--|------|

| ADDRESS MARKET POWER IN JURISDICTIONAL WHOLESALE MARKETS | |
|---|--|
| Long Term Performance Measure 1 | |
| Improve transmission transparency and reduce opportunities for discrimination | Instances of exercise of market power reduced |
| Selected Annual Performance Measures | |
| Timeliness of processing initial market-based rate filings | Within 60 days of filing date or by applicant's requested date, whichever is later |
| Revise open access transmission tariff | By June 30, 2007 |
| Act timely on complaints | 80% within 60 days or, for fast-track cases only, within the designated timeframe |

Goal 3: ENFORCEMENT

Prevent Market Manipulation

Competitive energy markets can succeed only when competition is combined with effective regulation. The Commission has adjusted its regulatory policies to 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 permits market-based rates and increasingly sets rules of general applicability that govern an entire market. As a result of this regulatory approach, it is even more important for the Commission to promote compliance with and enforce the statutes it is responsible for implementing and the regulations it issues under those statutes.

The Commission seeks to detect violations quickly, publicize misconduct where appropriate, and take prompt action to prevent future misconduct. It is important that the Commission understand market dynamics, detect problems or issues in energy markets early, prevent violations of its rules, and enforce 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 Commission's rules, regulations, and statutory requirements.

The Commission's enforcement efforts were greatly reinforced by the expanded authority conferred by EPAct 2005, which provided for the first time penalty authority for violations of the NGA and all of Part II of the FPA. Penalties also are applicable to any entity (not just companies traditionally subject to the Commission's jurisdiction) who manipulates the gas or electric markets by committing fraud in connection with jurisdictional transactions. Armed with this expanded authority, the Commission will create an even stronger and more effective compliance and enforcement program to protect the public interest.

To better meet the changing needs of the marketplace, the Commission reorganized and established the Office of Enforcement. Within this new Office, the Division of Energy Market Oversight was reorganized to include a Market Monitor Affairs 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.

Objective A: Provide Vigilant Oversight

Energy markets are complex and change rapidly. 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.

Means and Strategies

Identify and Address Potential Problems

To accomplish this objective, the Commission will employ a comprehensive energy market oversight program. The energy market oversight program will review all key markets daily to detect both suspicious behavior by individual market participants and problems with market rules or operations that significantly affect outcomes. The program will use a real-time information capability to address rapidly developing situations and emergencies. The Commission's Market Monitoring Center will collect such data from fourteen sources of market information. The information includes data for prices (for example from RTOs and trade press sources), for physical flows on the pipeline and electric transmission systems (largely from data aggregators), for the operating status of some generating units (for example, from the Nuclear Regulatory Commission) and for some aspects of individual transactions on some trading platforms. It acts as a nerve center where analysts will quickly examine market conditions, exchange insights, and develop shared understanding of the information observed.

The market oversight program focuses on wholesale physical markets for natural gas and electric power and associated transmission markets. The Commission's market oversight program will also examine detailed interactions between the two industries to detect any possible problems as soon as possible.

Because many other markets affect the operation of the physical electric power and natural gas markets, the market oversight program will also review related markets every day, including: financial markets for electric power and natural gas (overseen by the Commodity Futures Trading Commission (CFTC)), generation inputs and emissions credits, long-term financial markets, and international markets.

Relationship to Annual Performance Plan

| LONG TERM PERFORMANCE GOALS | |
|--|---|
| Performance Measure | Target |
| IDENTIFY AND REMEDY PROBLEMS WITH STRUCTURE AND OPERATIONS IN ENERGY MARKETS | |
| Long Term Performance Measure 1 | |
| Develop comprehensive system of monitoring electric and natural gas markets for all time periods. | Report daily, weekly, monthly, and in emergency situations, including posting of relevant information on ferc.gov, significant issues of market structure and operations. |
| Selected Annual Performance Measures | |
| 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 |
| Complete transition of consolidated reporting to a web strategy | Complete by September 30, 2008 |
| Long Term Performance Measure 2 | |
| Develop referral system within OE and the Commission program offices to support timely resolution of significant market issues | Develop and firmly establish referral system to support resolution of significant market issues. |
| Selected Annual Performance Measures | |
| Timeliness of actions on significant issues identified by regular monitoring of natural gas and electric markets | Within 6 months of report |

Objective B: Provide Firm but Fair Enforcement

In EAct 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 light of the new authorities granted the Commission by EAct 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 Commission will use 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.

Means and Strategies

Establish Clear and Fair Processes

The Commission issued *Policy Statement on Enforcement* to clearly establish the Commission’s intent to be firm, but fair, in enforcement actions. This *Policy Statement* will guide the Commission’s enforcement role. The Commission will provide 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 will also provide more transparency about the rules it enforces and greater opportunities for entities to seek guidance about how the rules apply to them.

Investigations and Enforcement

Another enforcement responsibility under new section 215 of the FPA is the Commission's authority to enforce reliability standards. The Commission will review enforcement actions taken by the ERO, and if necessary, initiate enforcement action on its own motion.

In competitive markets, participants constantly seek new profit opportunities, but some participants may violate rules or manipulate markets to reap unjustified 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 will 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.

The Commission will also use the Enforcement Hotline, a mechanism whereby industry participants provide information to the Commission, to identify other potential investigations. In addition to identifying possible investigations, the Enforcement Hotline will be used by the Commission to encourage self-policing and –reporting of violations.

Once the Commission identifies violations, it will apply remedies to mitigate the effects of market power, require disgorgement of unjust profits where appropriate, impose civil penalties or other sanctions when available under existing laws, and require compliance plans to prevent future violations.

Internal Compliance

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 will 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.

Relationship to Annual Performance Plan

| LONG TERM PERFORMANCE GOALS | |
|------------------------------------|---------------|
| Performance Measure | Target |

| ESTABLISH CLEAR AND FAIR PROCESSES | |
|---|---|
| Long Term Performance Measure 1 | |
| Apply existing clear and fair processes, including Commission Policy on Enforcement, PL06-1-000 where applicable to every investigation | Establish criteria and procedures for imposition of remedies including penalties |
| Selected Annual Performance Measures | |
| Apply current clear and fair processes to investigations during the fiscal year | Establish criteria and procedures for imposition of remedies, including penalties |

| CONDUCT INVESTIGATIONS PROMPTLY AND IMPOSE PENALTIES WHERE APPROPRIATE | |
|--|---|
| Long Term Performance Measure 1 | |
| Develop and implement a system to conduct investigations promptly and impose penalties appropriately | Establish and maintain internal tracking systems to monitor and report on status of matters and develop criteria for imposition of penalties consistent with Enforcement Policy Statement |
| Selected Annual Performance Measures | |
| Timeliness of initiating or deciding action on MMU referrals | 80% acted on within 30 days |
| Percentage of enforcement investigations completed | 75% within one year of initiation |
| Percentage of Hotline calls resolved | 70% within 2 weeks of initial contact |

| ENCOURAGE SELF-POLICING AND –REPORTING OF VIOLATIONS | |
|--|--|
| Long Term Performance Measure 1 | |
| Develop a system to encourage, track and assess self-policing and –reporting of violations | Use orders and speeches at industry conferences to reaffirm the importance of self-policing and self-reporting of violations |
| Selected Annual Performance Measures | |
| Percentage of regulated entities audited to ensure internal compliance programs and processes are in place | 85% of regulated entities included in annual audit plan |
| Process requests for “No Action” | Within 60 days of receipt of final request |
| Timeliness of responses to regulated entities seeking guidance and clarification on compliance issues | Within 60 days |
| Timeliness of completing recommendations on compliance issues raised by regulated entities | Within 180 days, where Commission action is required |
| Timeliness of reporting on compliance issues raised by regulated entities | Reports completed monthly |

Initiatives Supporting All Goals and Objectives

The Commission has initiatives underway and processes in place to support its three strategic goals. These activities, including alternative dispute resolution and litigation, human capital management, agency resources, and information technology will 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 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 Commission's Dispute Resolution Service will be a ready and effective resource for facilitation and mediation of matters related to the Commission's mission.

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 will seek to streamline this process. In addition, the Commission's administrative law judges will be available to serve as settlement judges or mediators, thereby offering another alternative to litigation that allows the parties to exercise greater control over the outcomes.

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.

The Commission will maintain open communication lines with Congress, other federal agencies, states, industry, media and citizens groups. 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 critical energy infrastructure information requests. In its outreach to industry, the Commission will organize 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. The Commission also recognizes the importance of the internet and will 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.

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, the Commission will employ an aggressive outreach and recruitment program.

In addition, the Commission will provide training opportunities that allow employees to review, understand, and enforce the new industry standards that are currently being written. Refresher training sessions will also be 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. The Commission will employ performance systems that link performance and accomplishments with strategic goals and objectives so employees who make significant contributions towards achieving those goals are rewarded.

Agency Resources

The Commission will enhance its internal processes, improve financial performance, and further budget and performance integration. The Commission will focus on effective internal controls, aligning Commission activities and costs to strategic goals and objectives in support of the President's Management Agenda.

The Commission will finish implementing the enhanced assessment requirements prescribed by the revised Office of Management and Budget

(OMB) Circular A-123, Management's Responsibility for Internal Control. As required by the Circular, general information technology controls, specific application controls, and financial process related controls are included in the scope of the review.

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. The Commission will use its Business Plan to align all Commission activities as well as budget dollars to its strategic goals and objectives.

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. The Commission will further enhance GovTrip by integrating the application's electronic workflow with its financial management system. This will seamlessly integrate travel planning, authorization, and vouchering with the Commission's core financial and accounting and reporting processes.

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.

Recently, 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. 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.

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. The Commission will continue to upgrade its operations and maintenance capabilities, configuration management procedures, and computer security program.

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APPENDIX A

Key Factors

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Key Factors

The Commission faces a number of external challenges in its efforts to meet its strategic goals. This section identifies the most significant of these external challenges.

The Commission's ability to meet its strategic goals also depends on using its limited resources productively and efficiently. The Commission's most valuable resource is its staff, which includes highly qualified economists, attorneys, engineers, industry analysts, information technology experts, administrative staff and other experts. The Commission's ability to recruit, hire, train, motivate and retain qualified staff in a competitive job market is critical to its ability to meet its strategic goals.

Goal 1 – Energy Infrastructure

As previously discussed, the Commission encourages the development of a strong, safe and reliable energy infrastructure in several ways including: (1) timely reviewing and, if appropriate, authorizing new energy infrastructure projects, (2) applying pricing policies that encourage investment in needed energy infrastructure, and (3) reviewing and, if appropriate, approving the reliability, safety, security and environmental acceptability of certain energy infrastructure projects. Several external factors could affect the Commission's ability to meet these goals, including:

Other Laws on Land Use, Resource Management and the Environment.

A range of laws enforced by other federal agencies or state and local governments address issues of land use, resource management and the environment. These laws sometimes can hinder or block the development of energy infrastructure projects. For example, while the Commission could approve a pricing mechanism that would encourage the development of a needed electric transmission facility, state and/or local zoning or environmental laws could prevent the facility from being built.

Competition for Capital. While the Commission seeks to provide incentives for investment in energy infrastructure, the financial community may decide that other investments nonetheless would be a better use of available capital.

Other Risks. Several environmental factors, such as severe weather, can damage existing energy infrastructure (for example: Hurricane Katrina). Acts of vandalism or terrorism can also impede the development of a strong energy infrastructure

Goal 2 – Competitive Markets

The Commission encourages the development of competitive markets by approving efficient market rules, reducing inter-market barriers and preventing the exercise of market power. However, the Commission does

not mandate one-size-fits-all market rules, and instead allows regional flexibility on such rules. As a result, regional markets may develop in different ways and at a different pace, depending on the views of market participants. This regional flexibility also can lead to inter-market seams – the barriers and inefficiencies that result from differences in, among other things, market rules and designs. The seams issues can hamper the success of competitive markets.

Goal 3 – Enforcement

The Commission prevents market manipulation by vigilantly monitoring the natural gas and electric power industries to identify problems before they become severe. The Commission also seeks to provide firm but fair enforcement of its rules and regulations. Regardless, of the Commission’s efforts to prevent market manipulation, several external factors could affect the Commission’s ability to meet these goals, including:

Market Manipulation Detection. As previously stated, energy markets are complicated and change rapidly. Sellers continually develop new and more complex products and services in an effort to serve their customers better. The Commission’s ability to effectively monitor such new products and services to detect market manipulation depends on a number of external factors including: (1) sellers seeking to create new products that may be manipulative, but are difficult to detect and (2) the difficulty of obtaining reliable information through which the Commission can detect fraud.

Agency Coordination. Generally, the Commission regulates wholesale transactions involving the sale and delivery of natural gas and electricity and the CFTC regulates “futures” transactions involving such commodities. However, the distinction between FERC-regulated “physical” transactions and CFTC-regulated “futures” transactions is not always clear. In addition, information from the futures markets may be helpful in discerning inappropriate behavior in the physical markets. To allow the two agencies to coordinate in such situations, the Commission and the CFTC entered into a Memorandum of Understanding in October 2005 allowing them to exchange necessary information. Continued coordination between the Commission and the CFTC is important to the Commission’s ongoing ability to detect and prevent market manipulation. Similarly, the Commission has coordinated its investigative efforts at times with the U.S. Department of Justice, to avoid harm to their criminal prosecutions.

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APPENDIX B

Program Evaluations

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Program Evaluations

To prepare for the update of the Commission's Strategic Plan, the Office of the Executive Director worked with the Chairman and his Chief of Staff to organize a team to evaluate the existing Strategic Plan and develop recommendations for the Chairman's strategic direction. This team was comprised of individuals with a breadth of knowledge of the Commission, the Chairman's policy direction, and the energy industry as a whole.

The draft Strategic Plan was submitted to the Office of Management and Budget for comment. The Chairman was involved with the development and review processes. The Chairman approved the final Strategic Plan.

The Commission is committed to high-quality management practices and internal controls to ensure that all resources are used effectively and efficiently, and in accordance with established laws and regulations. Currently, the Commission is implementing the enhanced assessment requirements prescribed by the revised OMB Circular A-123 – Management's Responsibility for Internal Control. The Commission will also continue to undergo an annual financial audit, conducted by independent auditors. Further, the Commission recently established the Division of Internal Audits that has been involved in the review of each office's performance measures, some of which are included in the Strategic Plan. The Division of Internal Audits will continue to review and make recommendations on performance measures, data collection methodologies, and reporting of results.

The update of the Strategic Plan allowed the Commission to step back and reevaluate its strategic goals and objectives. During this process, the team identified new long term performance goals and created new long term and annual performance measures. Each year during the Congressional Performance Budget cycle, results are gathered for the annual performance measures. The Commission will take advantage of this opportunity to track the success of each measure and evaluate if the actual results will lead to the accomplishment of each long term performance measure, thus leading the achievement of the Commission's long term performance goals. Through this annual evaluation process, the Commission will be able to quickly identify when means and strategies must be adapted to changing circumstances. Only through consistent evaluation and monitoring can the Commission stay on course to achieve its strategic goals.