FY 2007 CONGRESSIONAL PERFORMANCE BUDGET REQUEST

FEDERAL ENERGY REGULATORY COMMISSION
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Federal Energy Regulatory Commission
Strategic Plan FY 2005 – FY 2008

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Vision

Reliable, affordable energy through reliance on competition and effective regulation.

Mission

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

Goals and Objectives

Goal 1: Promote Development of a Robust Energy Infrastructure.

Objective 1.1: Expedite Development of Energy Infrastructure Projects.

- Implement the infrastructure provisions of the Energy Policy Act of 2005.
- Make final decisions on proposed projects in a timely manner, consistent with statutory mandates and due process, and continue to seek improvements in the Commission's processing of project applications.
- Enforce power plant interconnection rules.
- Implement integrated licensing and pre-filing processes and interagency agreements facilitating hydropower licensing, pipeline and storage certification and LNG facility authorization.
- Encourage regional electric system planning to meet reliability, security and market needs.

Objective 1.2: Encourage Investment in Energy Infrastructure.

- Maintain high level of regulatory certainty in Commission policies.
- Establish pricing policies that encourage investment in electric generation and transmission, natural gas pipelines, LNG import facilities, gas storage, and oil pipelines.
- Ensure that revenue levels and rate designs for regulated company services are just and reasonable and support long-term competitive markets.
- Encourage balanced innovative proposals that provide incentives for appropriate infrastructure investment.

Objective 1.3: Address Landowner and Environmental Concerns Fairly.

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

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

- Oversee the development and enforcement of mandatory grid-reliability standards to protect the bulk power supply.
- Regulate the safety of hydropower projects and LNG import facilities licensed by the Commission.
- Serve as lead Federal agency on siting and authorization of LNG import facilities, hydropower facilities, and interstate natural gas pipelines and storage facilities.
- Work with other agencies and industry to address and improve infrastructure security.
- Allow prompt recovery of prudently-incurred expenses to safeguard and enhance the reliability, security and safety of the energy infrastructure.

Goal 2: Prevent Exercise of Market Power by Reliance on Effective Competition.

Objective 2.1: Promote Effective Competition in Electric and Gas Markets.

- Promote effective competition in wholesale power markets in regions with and without voluntary, organized markets.
- Encourage the reduction or elimination of seams between organized markets.
- Support creation of regional state committees to advise RTOs and ISOs.
- Promote transparency of competitive electric and gas markets.
- Ensure that mergers and jurisdictional facility sales are consistent with the public interest.

Objective 2.2: Establish Clear Market Rules to Govern Electric Markets.

- Reform transmission open access policy to prevent undue discrimination and preference.
- Reform market-based ratemaking policy to prevent exercise of market power and provide regulatory certainty.
- Provide regulatory certainty through clear market rules and case specific decisions.
- Prevent undue preference and self dealing in affiliate transactions.
- Encourage the development of business rules and practices that maximize market efficiency, ease market entry and reduce transactions costs, relying on NAESB, NERC and the RTO/ISOs where appropriate.
- Promote development of policies that accommodate effective demand response programs.
- Remove unduly discriminatory barriers to entry affecting renewable energy.

Goal 3: Prevent Exercise of Market Power by Reliance on Effective Regulation.

Objective 3.1: Vigilant and Effective Oversight of Market Operations.

- Strengthen the Commission's ability to perform market monitoring.
- Encourage effective RTO and ISO market monitoring units, as permitted by law.
- Identify and remedy problems with market structure and operations, and periodically review market rules for consistency with long-term market development.
- Assess market and infrastructure conditions and incorporate analysis into Commission decisions.

Objective 3.2: Firm but Fair Enforcement of Commission Rules.

- Improve the Commission's enforcement capabilities.
- Implement the market power and enforcement provisions of the Energy Policy Act of 2005.
- Investigate statutory and rule violations, imposing penalties where appropriate and promptly terminating investigations when no violations are identified.
- Encourage settlements to resolve disputes in an expeditious manner.
- Act swiftly on complaints, using administrative litigation as needed to determine factual issues.
- Encourage self-reporting of violations by regulated entities and improve processes to allow regulated entities to seek clarifications of Commission rules.

Management Initiatives Supporting all Goals and Objectives

Human Capital

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

Information Technology

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

Agency Resources

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

Communication

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

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INTRODUCTION

Budget Request: $230,800,000 and 1,320 FTEs

The Federal Energy Regulatory Commission (FERC, the Commission) requests funding of $230,800,000 and 1,320 FTEs for FY 2007. This request includes the resources needed to implement the Commission's increased responsibilities under the Energy Policy Act of 2005 (EPAct 2005).

Resources by Program

(Dollars in Thousands)

Program	FY 2005 Actual	FY 2006 Estimate	FY 2007 Request	% (+/-) FY 2006 to FY 2007
Energy Infrastructure Funding FTEs	$144,910 874	$151,418 881	$158,003 892	4.3% 1.2%
Competitive Markets Funding FTEs	$32,444 204	$34,337 210	$35,731 215	4.1% 2.7%
Market Oversight Funding FTEs	$29,619 180	$34,645 204	$37,066 213	7.0% 4.4%
Total Budget Authority Funding FTEs	**$206,973 1,258**	**$220,400 1,295**	**$230,800 1,320**	**4.7% 2.0%**
Application of Prior Years' Authority	$3,027	$0	$0	n/a
Gross Budget Authority	$210,000	$220,400	$230,800	4.7%
Offsetting Collections	($210,000)	($220,400)	($230,800)	n/a
Net Budget Authority	**$0**	**$0**	**$0**	**n/a**

Overview of the Commission

The Commission is an independent regulatory agency within the U.S. Department of Energy (DOE) whose function is to oversee 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.

<u>Vision</u>

Reliable, affordable energy through reliance on competition and effective regulation.

<u>Mission</u>

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

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 and reasonable, and not unduly discriminatory or preferential. Under FPA section 203, as amended by 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 and independent power producers. 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).

The Commission may not regulate retail sales or local distribution of electricity, as the FPA leaves these matters to the states. In addition, the Commission does not have a role in authorizing the construction of new generation facilities (other than non-federal hydroelectric facilities) or transmission facilities as these activities are the responsibility of state and local governments. However, under EPAct 2005, the Commission now has the backstop authority to permit the construction or modification of national interest electric transmission corridors designated by the Secretary of Energy, if certain conditions are met. A permit holder may acquire right-of-way through the exercise of eminent domain

The Commission's role regulating the natural gas industry is largely defined by the Natural Gas Act (NGA). Under the NGA, the Commission regulates the construction of new on-shore liquefied natural gas (LNG) import terminals, and natural gas pipelines and related facilities and oversees the rates, terms and conditions of sales for resale and transportation of natural gas in interstate commerce. 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 the 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 production and gathering of 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.

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.

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. 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 discharging 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. Competitive markets are not completely unregulated, and public utilities are not completely free of rivalry. The notion that a regulatory entity 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.

Developing the best possible mixture between reliance on competition and regulation is exactly what the Commission has been doing over the past four years, 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.

> *"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*

Recognizing that competition is a means to an end – lower wholesale prices – not an end unto itself, the Commission did not make a break from regulation. Rather, public utilities authorized to make market-based sales, for example, continued to be subject to Commission regulation.

The Commission also promoted effective competition in wholesale power markets by requiring jurisdictional transmitting utilities to provide open access. Beginning in the 1980's, the Commission began to impose open access requirements in market-based rate cases and mergers, with Order No. 888 extending the open access requirements to all jurisdictional public utilities. The logic of the policy was that the open access transmission tariff would mitigate not only transmission market power, but also in many cases generation market power. That underlying logic has been called into question, and the Commission has recently reformed its generation market power test and begun the process of reforming Order No. 888 itself.

The Commission also promoted development of regional transmission organizations (RTOs) and independent transmission system operators (ISOs). Initially, the role of RTOs and ISOs was expected to be limited to running the transmission grid in a certain region, thereby eliminating rate pancaking and providing for regional planning. However, the role of RTOs and ISOs has evolved over time, to the point where most RTOs and ISOs now run markets. In some respects, they operate more like (and some say even resemble) securities and commodities exchanges like the New York Stock Exchange or the Chicago Board of Trade than a traditional public utility.

During this period, Commission policies resulted in significant entry and construction of new generation capacity by independent power producers, with some regions now overbuilt with generation capacity. Commission policies also encouraged development of RTOs in many regions, although progress has slowed considerably in other regions. 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 since transmission congestion acts like an import quota, resulting in higher energy prices. There are also concerns about the costs of RTOs and ISOs.

One reason the Commission developed these policies was the need to respond to the significant changes within the electricity and gas markets over the past 25 years. During this time, the Commission adopted orders establishing rules for open access gas transportation and electric transmission; and, on the natural gas side required pipelines to "unbundle" their gas sales from their transportation. The Commission increasingly used competitive market forces, to the extent possible, to benefit customers and to achieve just and reasonable rates. There has been a significant movement away from cost-based ratemaking and toward a reliance on market-based rates for suppliers. This allows them to take advantage of short and long term opportunities for setting prices for the commodities of natural gas and electricity.

Over time, the natural gas and electric industries have transformed from companies using their monopoly-owned transportation and transmission facilities to supply all the needs of their wholesale customers, to companies providing 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.

In many instances, the Commission needed to react to these changes and reform its policies. Accordingly, the Commission began changing the balance between competition and regulation in its electric market-based rate program. Since 2001, the Commission has steadily increased its reliance on regulatory tools to prevent the exercise of market power by focusing on its generation market power policies. In particular, the Commission has strengthened its reporting requirements (Orders No. 2001 and 652), acted to prohibit and sanction market manipulation through its Market Behavior Rules, bolstered its generation market power test by issuing interim market power screens in 2004, and initiated a rulemaking on all four prongs of its market power test (i.e., generation market power, transmission market power, affiliate abuse, and barriers to entry).

To continue this electric policy reform effort, the Commission is initiating an effort to reform its transmission open access policies to eliminate the remaining potential to engage in undue discrimination and preference in transmission service. The Commission will also begin taking steps to lower RTO costs by encouraging greater cost accountability at RTOs and ISOs.

In addition to these reforms, the Commission also has new regulatory tools to guard the consumer. EPAct 2005 provided the Commission significant new regulatory authority to prevent market manipulation and the exercise of market power. 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 historic duties to protect consumers against unjust and unreasonable rates and undue discrimination and preference.

In particular, EPAct 2005 established an express prohibition of market manipulation in electricity and gas markets, expanded the Commission's authority to review mergers and generation facility sales, and granted the

Commission authority to impose significant civil penalties. The Commission will judiciously exercise this new authority to prevent market manipulation and the exercise of market power.

Energy Infrastructure that Serves the Nation's Needs

A robust 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. With damage to offshore oil and gas production facilities leading to higher prices and the disruption to oil and petroleum product pipelines causing a surge in gasoline prices, public fears about the adequacy of the Nation's energy supply soared.

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 the 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 market.

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, now averages about 11½ 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; all of which help to open the communication earlier in the project review process so that problems can be averted later in the process.

As an example, the Commission recently considered a project in the Western United States consisting of 328 miles of 36 and 42-inch-diameter pipeline and three new compressor stations which crosses northern Colorado and south-central Wyoming. While not one of the Commission's largest projects, the environmental analysis for this project determined that it:

- would cross 104 miles of big game habitat;
- would affect about 5,371 acres, including the clearing of up to 224 acres of riparian woodland;
- would cross 43 perennial streams and rivers (four of which would be major crossings more than 100 feet wide) and 352 intermittent streams; and
- could occur in the vicinity of twenty federally listed or proposed endangered or threatened species and twenty-seven federal sensitive species of concern.

Additionally, the applicant identified 304 archaeological sites and historic features (such as trails, roads, and railroads). Of these, 149 were determined eligible for listing on, and one was already listed on, the National Register of Historic Places. In the end, Commission staff evaluated an alternative pipeline system, two major route alternatives, five minor route variations, a no-action alternative, and a postponed-action alternative, taking final action on the proposal within 11 months.

Although our 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 this 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, which provide natural gas during peak periods in order to reduce price volatility. Unfortunately, gas storage capacity additions have slowed in recent years with total U.S. capacity increasing only one percent between 1988 and 2003.

Fulfilling the obligations required by the Alaska Natural Gas Pipeline Act, the Commission issued a final rule in February 2005 establishing requirements governing the conduct of open seasons for capacity on proposals for Alaska natural gas pipeline projects. Designated Order No. 2005, the rule encourages the prudent development and delivery of a clean domestic natural gas resource and provides a stimulus for exploration, development and production of gas. The rule provides a 120-day window for an open season, special consideration for in-state transportation needs, adherence to broad standards of conduct among affiliates, presumption of rolled-in rates for subsequent expansions, and other accommodations for future capacity needs by producers with unproven reserves.

The Commission also has an important role in assuring a robust electricity infrastructure. In setting rates for both wholesale power sales and interstate transmission, the Commission intends its pricing policy to encourage investment in generation and transmission facilities. Per the Commission's 2004 State of the Markets Report, although transmission investment rose in dollar terms it remained much lower than generation investment. In capacity terms, the approximately 931 miles of new transmission lines of 230 kV or greater that were built in 2004, adding roughly 0.6 percent of installed capacity per mile, pales in comparison to the more than 20 gigawatts of new generation capacity that entered operation, adding 2.3 percent to the electric generating fleet.

EPAct 2005 granted the Commission new regulatory authority to promote an energy infrastructure that serves the Nation's needs. First, the new law grants the Commission – for the first time – the 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 lower the regulatory barriers to investment in the transmission grid. The Commission will work to implement this new authority in accordance with the specific criteria established in EPAct 2005.

In addition, EPAct 2005 adopts procedures that better coordinate the review process for natural gas infrastructure, allowing final decisions to be rendered in a timely manner. Specifically, the Commission is designated as the lead agency for the purpose of coordinating all applicable authorizations and in performing the environmental review. In its role as the lead agency, the Commission establishes a schedule that all other permitting agencies must adhere to, and maintains one consolidated record to be used for any judicial reviews of any actions taken. The U.S. Court of Appeals for the District of Columbia has exclusive jurisdiction over any action concerning the failure of an agency to act in accordance with the Commission's established schedule and will act in an expedited fashion. With regard to LNG import facilities, EPAct 2005 clarified the Commission's exclusive jurisdiction to authorize such facilities. This removes the pall cast over the Commission's jurisdiction by a California lawsuit that threatened to halt much-needed development of LNG import facilities. Subsequent to the passage of EPAct 2005, the lawsuit was dismissed.

In the area of hydropower, EPAct 2005 includes a tax provision for hydropower developed at dams existing prior to enactment of the law. This will have the potential to increase infrastructure through the construction of generating facilities at non-hydropower dams and the addition of new facilities at existing hydro projects. EPAct also authorizes licensees or other participants to offer cost or power-saving alternatives to mandatory license conditions of the U.S. Departments of the Interior, Commerce, or Agriculture. In considering any alternatives, the Departments must document that they 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. Should this result in significant cost and power savings, while maintaining resource protections as expected, it could promote interest in hydropower development.

Overview of the Document

The next three chapters contain a discussion of the objectives and projected performance measurements to meet each of the goals in the Commission's Strategic Plan. Our performance plan for FY 2007 is presented as an integral part of these chapters. Chapter 4 details the Commission's management initiative's that support all of our goals and objectives. A series of appendices provide further details.

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CHAPTER 1: ENERGY INFRASTRUCTURE

Promote Development of a Robust Energy Infrastructure

Energy Infrastructure Resources

(Dollars in Thousands)

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Request
Total FTEs	**874**	**881**	**892**
Program	714	718	730
Support	160	163	162
Total Funding	**$144,910**	**$151,418**	**$158,003**
Program	120,699	125,763	131,795
Support	24,211	25,655	26,208

Introduction

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

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

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

Our goal is to expedite needed infrastructure development through timely decision-making. The Commission has four main objectives to meet this goal:

- expedite development of energy infrastructure projects;
- encourage investment in energy infrastructure;
- address landowner and environmental concerns fairly; and
- protect the reliability, security, and safety of the energy infrastructure.

Objective 1.1: Expedite Development of Energy Infrastructure Projects

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

Although the Commission has no direct jurisdiction over the development of non-hydropower electric generation capacity, natural gas reserves, or siting of oil and petroleum products pipelines, it does have certain jurisdiction over how the wholesale markets for these products operate. Additionally, the implementation of EPAct 2005 expands the Commission's role in siting certain electric transmission facilities and other aspects of the reliability environment. To the extent we have authority, we will ensure that mechanisms exist for markets to develop sufficient supplies and avoid disruptions.

Many approaches to this issue are possible, and the Commission will explore and evaluate all relevant proposals from interested parties and adopt programs that work.

Objective 1.1 Strategies

Implement the Infrastructure Provisions of the Energy Policy Act of 2005.

Electric Transmission Siting. Section 1221 of EPAct 2005 provides electric transmission siting authority to the Commission when states fail to act or do not have the authority to act on transmission proposals to relieve congestion in corridors identified by DOE. Once DOE identifies congested corridors, states will have one year to act on siting proposals to relieve the congestion before the Commission may address the congestion.

In anticipation of these application filings, the Commission is in the process of establishing a transmission siting group to prepare rulemakings that define the content of an application. 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;
- economically feasible alternatives (e.g., distributed generation).

Interstate electric transmission siting cases will undoubtedly be very contentious and complex. 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 Pricing Reform. EPAct 2005 also requires the Commission to issue a rulemaking establishing incentive-based rates for the transmission of electric energy in interstate commerce. The rule must benefit consumers by reducing the cost of delivered power through mitigating transmission congestion and ensuring reliability. The Commission plans to accomplish this by providing the right pricing incentives, or other pricing mechanisms, so that existing infrastructure is improved through new technologies or so that much needed new infrastructure is added to the Nation's interstate transmission grid.

On November 17, 2005, the Commission issued a Notice of Proposed Rulemaking (NOPR) as a first step in developing incentive-based rate treatments for transmission of electric energy in interstate commerce. The Commission is proposing incentives for traditional utilities as well as additional incentives for stand-alone transmission companies. Included among the incentives proposed for all jurisdictional utilities are:

- allowing deferred cost recovery;
- accelerating recovery of depreciation expense;
- providing a rate of return on equity sufficient to attract new investment;
- providing a higher rate of return on equity for utilities that join transmission organizations;
- allowing hypothetical capital structures to provide the flexibility needed to maintain the viability of new capacity projects;
- recovery in rate base of 100 percent of prudent transmission-related construction work in progress, in order to increase cash flow;
- expensing prudent pre-commercial operation costs instead of capitalizing them, allowing for immediate cash flow for the utility; and
- recovering all prudent development costs in cases where construction of facilities may be abandoned or canceled due to circumstances beyond the control of the utility.

The Commission plans to issue a final rule in FY 2006 and expects to review and act upon a significant number of these rate proposals in FY 2007 and beyond.

Natural Gas Storage Pricing. As a possible means to provide additional incentives for appropriate storage development, the Commission is currently re-examining its rate-making and other approaches for storage service. This includes examining the Commission's market-based rate authority for new storage capacity under the new section 4(f) of the NGA, created by EPAct 2005. Under this new section, the Commission is expressly authorized 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 the enactment of EPAct 2005, subject to appropriate conditions.

On December 22, 2005, the Commission issued a NOPR for storage facilities that will ensure that market-based rates for these facilities are not denied because of an overly narrow definition of the relevant market. In addition, the NOPR proposed to permit new storage providers to charge market-based rates even when they cannot demonstrate a lack of market power.

Natural Gas Pipelines. Under EPAct 2005, the Commission has added responsibilities for coordinating pipeline project NEPA work. In section 313, the Commission is designated as the lead agency for coordinating all federal authorizations and for the purpose of complying with NEPA. The Commission must establish a schedule for all federal authorizations which insures expeditious completion of all such proceedings and which complies with all schedules established by federal laws. The Commission must also maintain a complete consolidated record of all decisions made under federal law in the event a case is appealed under the Coastal Zone Management Act or to the courts. EPAct 2005 also requires the Commission to submit a report to Congress on the progress made in licensing and constructing the 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 such report was issued on February 3, 2006.

LNG Facilities. EPAct 2005 requires the Commission, within 60 days of enactment, to issue regulations requiring the NEPA pre-filing process to commence at least six months prior to the filing of an LNG project application. The Commission met this deadline.

In addition to the NEPA rulemaking, the Commission is pursuing a memorandum of understanding with the U.S. Department of Defense to coordinate, consult, and authorize the siting, construction, expansion, and/or operation of LNG facilities that may affect an active military installation and to obtain concurrence prior to authorizing the facilities.

As lead agency for all NGA applications, the Commission will set a schedule for all federal LNG authorizations and approvals. This schedule will comply with all applicable federal laws and will establish an expeditious review timeline. The Commission will maintain a complete record of all federal decisions or actions for appeals or reviews under the Coastal Zone Management Act or for judicial review under the NGA. In any order authorizing an LNG terminal, the Commission will require the development of an emergency response plan (in consultation with the U.S. Coast Guard and state and local authorities). The Commission will review and approve the plans, which must include a cost-sharing framework for the applicant and state and local authorities.

Hydroelectric Facilities. In addition to the electric and LNG provisions, EPAct 2005 also provides financial provisions to promote the development of nonfederal hydropower at existing dams. 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. With the development of the Integrated Licensing Process (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.

Make Final Decisions on Proposed Projects in a Timely Manner, Consistent with Statutory Mandates and Due Process, and Continue to Seek Improvements in the Commission's Processing of Project Applications.

The Commission authorizes the construction of LNG import terminals, gas storage facilities, and interstate natural gas pipelines. We have moved aggressively to reduce the time it takes to approve projects without compromising our environmental protection and public participation responsibilities.

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 remove federal financial regulatory oversight and economic regulatory oversight barriers without affecting the jurisdiction of the facilities. In its preliminary determination on the Cameron LNG Project, the Commission stated that the proposed import terminal is similar to a gas production facility and is, therefore, exempt from open access requirements and rate and tariff filing requirements. As a result, the Commission has provided financial certainty for companies looking to invest the billions of dollars often required to develop LNG facilities.

Since issuing that policy decision, there has been a continued movement to develop LNG facilities. The Commission has issued orders either approving or denying eight LNG import projects since its Hackberry LNG decision in 2002. The average processing time for these major projects requiring an environmental impact statement, from filing date to Commission order, is about 13.5 months. Three projects – Vista Del Sol, Golden Pass, and Ingleside Energy – successfully used the Commission's pre-filing process and were acted on in 10, 10, and 9 months respectively. Moreover, the Commission is currently working on applications or pre-filing requests for 14 proposed LNG projects, with additional companies indicating their intention to develop new projects.

The wave of applications for LNG terminal projects has resulted in a significant increase in the Commission's need for technical and contractor support to conduct cryogenic and seismic design reviews, safety studies, and inspections. In FY 2005, about $900,000 was spent on contracts for cryogenic reviews and inspections. While the Commission anticipates that the pace of LNG terminal filings will begin to decline in FY 2006, the need for technical and contractor support will continue to increase as the

FY 2005 and FY 2006 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.

Storage Projects. In FY 2005, the Commission issued the "Current State and Issues Concerning Underground Natural Gas Storage" report and subsequently held a public conference to engage industry members and the public in a dialogue about policy issues facing the natural gas industry today.

On average, the Commission took about seven months to issue final orders for gas storage projects in FY 2005. This included expansions of existing storage reservoirs to new solution mined salt cavern storage facilities. The fastest action, an expansion of an existing reservoir by Freebird Gas Storage, took only five months to complete.

Natural Gas Pipelines. During FY 2005, the Commission issued guidelines for the natural gas industry on the processing of filings for projects resulting from the Pipeline Safety Improvement Act and the U.S. Department of Transportation's (DOT) Integrity Management Program. Although the scope of most of these projects is minor, their prompt review is crucial for maintaining the integrity and reliability of the Nation's pipeline infrastructure.

For major pipeline projects requiring an environmental impact statement (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 11.5 months in FY 2005. Our fastest completion time in this category was approximately 8.5 months for a major oil-to-natural gas pipeline conversion project by El Paso Natural Gas Company. A new process implemented in the gas certificate program, focusing on public education, involves sending gas certificate project managers into the field for site visits, technical conferences and scoping meetings on major projects, an activity traditionally limited primarily to the Commission's environmental staff.

In support of the Commission's policies and procedures, the Interstate Natural Gas Association of America's recent intergovernmental study did not identify any major issues with the Commission's certificate program, instead encouraging a wider participation in its existing training programs and pre-filing process.

Infrastructure Conferences and Studies. During FY 2005, the Commission participated in, held regional conferences for, and prepared studies on the status of the Nation's energy infrastructure. FERC Commissioners participated along with utility commissioners from various states and representatives for various state and federal elected officials. These conferences aimed to identify current infrastructure conditions, needs, and investment and other barriers to expansion, as well as environmental and landowner concerns.

The conferences and studies fostered informative discussions on how the Commission can facilitate and enhance a comprehensive, collaborative approach to energy infrastructure development and reliability. For example, the Commission held infrastructure conferences in Connecticut in late 2004 and early 2005 that focused on the electric transmission grid in the southwest part of the state. In May 2005, the Commission held a conference in West Virginia that focused on coal-fired electric generation and how to improve its utilization within the electric transmission grid. In June 2005, in San Francisco, California, the Commission conducted a conference on energy infrastructure and investment that focused on the state's increasing energy needs and the means, specifically electric generation and transmission, to deliver on those needs.

These efforts, which will expand under the EPAct 2005 mandate to utilize a joint board with state commissions to study security constrained economic dispatch for electric generation facilities, have allowed the Commission and all those affected by our infrastructure decisions to become better informed about energy segment interdependencies while working together to ensure an adequate supply of energy exists to meet varying market requirements.

Enforce Power Plant Interconnection Rules.

One potential major barrier to obtaining adequate generation supplies has been the lack of a standard, expeditious way to connect to the transmission system. 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 megawatts (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. In the last rehearing order, Order No. 2003-C, the Commission reaffirmed the 20-year date certain for the full reimbursement of the upfront payment made by generators and further clarified its jurisdiction under the FPA. Compliance filings are currently being filed 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 have been appealed.

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. In addition to settling or litigating a number of individual cases on the implementation of these rules, the Commission granted in part and denied in part several requests for rehearing in its November 22, 2005 order on rehearing.

Implement Integrated Licensing and Pre-Filing Processes and Interagency Agreements Facilitating Hydropower Licensing, Pipeline and Storage Certification and LNG Facility Authorization.

***Hydropower Licensing*.** 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. In addition, hydropower projects provide other public benefits such as increased water supply, recreation, economic development, and flood control, while minimizing adverse impacts on environmental resources.

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 ILP. The default licensing process as of July 2005, the ILP's ultimate goal is to establish an application development record sufficient for the Commission to take final action upon. In order to achieve the goals of the ILP, Commission staff must become fully engaged in the pre-filing portion of the process, in order to help stakeholders define the scope of the licensing process along with the type and number of studies that are undertaken.

During the ILP transitional period – between the issuance of Order 2002 establishing the ILP and the July 2005 default date – applicants could volunteer to undertake the new process. Almost one-third of eligible relicensing projects and one original license elected to use the ILP as a result of extensive outreach efforts by Commission staff while twelve licensees chose the traditional licensing process (TLP) and three chose the alternative licensing process (ALP). In FY 2006 and FY 2007, the Commission will be involved in the pre-filing process for a total of 14 relicense ILPs and 23 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.

In order to determine whether the ILP is accomplishing its goals and to determine what (if any) changes are required, the Commission conducted an effectiveness study in 2005 on the first steps of the process. Building upon the stakeholder outreach successes during the ILP's development, Commission staff conducted phone interviews with various stakeholder group representatives from the first seven ILP projects, led focus groups with sector representatives (licensees, agencies, non-governmental organizations), and held four regional workshops. Subsequent to these discussions, a multi-stakeholder technical conference was held in June 2005 to gather additional information on the process. The overall results of this study will help the Commission refine the ILP to better serve all stakeholder needs.

Expanding Hydropower Development. During 2005, 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). With the financial provisions included in EPAct 2005, the Commission expects to see an increase in the number of original license applications filed. While applications are currently being developed for a wave action facility in Makah Bay off the coast of the State of Washington and a tidal facility in the East River in New York City, additional information is needed to develop a complete license application record. As part of that record, the Commission is evaluating whether existing hydropower licensing regulations are adequate to address these non-conventional hydroelectric projects or whether new regulations are needed.

With so few prototypes in other regions of the world to study, the Commission has issued nine preliminary permits for similar developments in the coastal regions of the country. 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 being required in order to undertake the impacts and feasibility analyses of the project. The Commission believes that the requested relief should open the door for testing of similar facilities and, potentially, the expanding development of this technology.

Alaska Hydropower Development. Section 32 of the FPA provides for the Commission to discontinue its licensing and regulatory authority over small (less than 5 megawatts) 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 their proposed program and expects the state to apply for certification during the summer of 2006.

Tribal Relations. Pursuant to the Commission's Tribal Policy Statement, 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 2005, the Commission has undertaken consultation with over 21 tribes for nine projects that are up for relicensing. Since early stakeholder involvement increases the effectiveness of the licensing process, the Commission plans to invest additional resources in FY 2006 to ensure the early participation of tribes in the upcoming relicensing cases. In addition, the Commission's Tribal Liaison will continue to conduct outreach to tribes and to serve as both an external and internal resource on issues and cultural matters important to tribes.

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

The President's National Energy Plan recommended the formation of an Interagency Task Force to ensure swift processing of applications to construct and operate a pipeline to bring Alaskan natural gas to the Lower-48. The lead agencies are DOE and the U.S. Department of State, in coordination with the U.S. Department of Interior and the Commission, and in conjunction with Canada, Alaska, and other stakeholders. The Commission continued to meet regularly with these partners throughout FY 2005, building relationships and laying the groundwork necessary to implement the October 2004 Alaska Natural Gas Pipeline Act.

Pursuant to this Act, the Commission issued a final rule in February 2005 establishing requirements governing the conduct of open seasons for capacity on proposals for Alaska natural gas pipeline projects. The rule provides a 120-day window for an open season, special consideration for in-state transportation needs, adherence to broad standards of conduct among affiliates, presumption of rolled-in rates for subsequent expansions and other accommodations for future capacity needs by producers with unproven reserves. Designated as Order No. 2005, the rule is intended to encourage the prudent development and delivery of clean, domestic, natural gas resources and to provide a stimulus for exploration, development and production of natural gas. EPAct 2005 requires the Commission to report to Congress on progress made in licensing and constructing the Alaskan pipeline.

The Commission also actively works with other federal agencies on various interagency efforts, including:

> *Interstate Oil and Gas Compact Commission (IOGCC).* The Commission is an active member of this organization representing the governors of 37 oil and natural gas-producing states. In May 2005, the Commission took part in a discussion with IOGCC members about domestic gas supply, including Alaskan gas and imported LNG.
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> *Partnering with the U.S. Department of Transportation.* In FY 2005, the Commission continued to coordinate DOT's responsibility for natural gas facility safety with the Commission's siting authority. In addition, the Commission worked closely with DOT to develop and implement the Interagency Agreement required for the Pipeline Safety Improvement Act (PSIA). In April 2005, the Commission issued guidance on processes related to pipeline repairs under the PSIA. Furthermore, in February 2005 the Commission joined DOT in its LNG community outreach information session for invited public officials.

Interagency Agreement for the Safety and Security Review of LNG Facilities. In January 2004, the Commission, the U.S. Coast Guard, and DOT developed and signed an interagency agreement to address the review of safety and security issues at waterfront LNG import and export facilities. As a result of this agreement, the Commission has worked closely with the agencies on each of the LNG projects that have been approved. In addition, the Commission assisted the U.S. Coast Guard in the development of its May 2005 guidelines for U.S. Coast Guard staff and LNG applicants regarding the information needed to complete navigation, safety, and security reviews of pending projects.

Collaboration with Mexico and Canada. The Commission participates in six distinct working groups/partnerships with Mexican and/or Canadian agencies to work on electric, gas, and other energy cross-border issues. In February and April 2004, the Commission worked with representatives from Canadian federal and provincial governments on matters associated with siting LNG import facilities.

Memorandum of Understanding with the Federal Energy Commission of the Russian Federation. The memorandum expresses the participants' intent to share information on, and where feasible provide expertise related to, the technical-scientific methods and economic principles used in energy regulation. In FY 2005, the Commission participated in a Liquefied Natural Gas Seminar in Moscow, Russia.

Partnering with the U.S. Department of Energy and the U.S. Department of Homeland Security (DHS). In FY 2005, the Commission took part in establishing the charter and participating in meetings for the Energy Government Coordinating Council. The Council, created by a December 2003 Homeland Security Presidential Directive (HSPD-7), is tasked to work with Critical Infrastructure/Key Resource Sector Coordinating Councils to identify, prioritize and coordinate programs to protect critical infrastructure sectors and key resources; and to facilitate information sharing related to physical and cyber threats, vulnerabilities, incidents, potential protective measures and best practices.

Encourage Regional Electric System Planning to Meet Reliability, Security and Market Needs.

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

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

In February 2004, the Commission accepted the Southwest Power Pool's (SPP) proposal to establish an RTO covering all or parts of eight states. As part of its proposal, SPP included a transmission planning and expansion process; a 2-year planning cycle with the first year's focus on reliability; and the second year's focus on market needs. SPP became operational in February 2005 and its energy imbalance market is slated to start in 2006. The Commission supports SPP's efforts as a critical first step toward a regional assessment of transmission needs for this part of the country.

In February 2005, the Commission accepted for filing a restated and revised seams resolution agreement entered into by ISO New England, Inc. (ISO-NE) and the New York Independent System Operator (NYISO). As required by the Commission in its earlier 2004 orders conditionally accepting the establishment of ISO-NE as an RTO, the revised seams resolution agreement established specific milestones and timelines for resolution of each of the remaining inter-regional seams identified by the parties in their agreement.

The Commission also accepted a Joint Operating Agreement (JOA) between the PJM Regional Transmission Organization (PJM), the RTO operating the transmission grid in all or parts of 13 states and the District of Columbia, and Midwest Independent Transmission System Operator (Midwest ISO), the RTO operating the transmission grid in all or parts of 15 states and one Canadian province. This agreement enhances the RTOs' combined operational reliability, resolves seams issues, provides for long-term transmission planning, and facilitates the present and future integration of utilities into the PJM markets and the operations of both RTOs. In March 2005, the Commission accepted revisions to the JOA which institutes planning steps to further coordinate ancillary service markets, the allocation of transmission capacity and related financial rights, and continues development of a joint and common market covering the RTOs' combined regions.

In the aftermath of the August 2003 blackout that affected about 50 million people in the U.S. and Canada, the Commission issued a Policy Statement on Matters Related to Bulk Power System Reliability (April 2004). The statement supported the efforts of the North American Electric Reliability Council (NERC) to modify existing bulk power system reliability standards and translate them into clear and enforceable requirements. The Commission clarified that the term "Good Utility Practice" includes compliance with NERC reliability standards or more stringent regional standards. With the passage of EPAct 2005, the President signed into law legislation requiring the Commission to certify a national Electric Reliability Organization (ERO) that will propose mandatory reliability standards, which will be subject to Commission oversight for review, approval, remand or enforcement.

Objective 1.1 Performance Measures

Performance Measure	Performance Target	Data Source
Strategy		
Implement the Infrastructure Provisions of the Energy Policy Act of 2005		
Issue Alaska Gas Pipeline Reports to Congress	Issue Reports in February and August 2007	Office of Energy Projects / Office of the General Counsel
Timeliness of applications processed for incentive rates under section 219 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
Make Final Decisions on Proposed Projects in a Timely Manner, Consistent with Statutory Mandates and Due Process, and Continue to Seek Improvements in the Commission's Processing of Project Applications		
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 qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected every 8 weeks	Office of Energy Projects
Implement Integrated Licensing and Pre-Filing Processes and Interagency Agreements Facilitating Hydropower Licensing, Pipeline and Storage Certification and LNG Facility Authorization		
Percentage of ILP pre-filing study plan determinations completed	85% within 315 days of NOI/PAD filing	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 Regional Electric System Planning to Meet Reliability, Security and Market Needs		
Timeliness of responding to completed proposals for regional electric system planning	Processed by the statutory due date	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of regional entities with approved system expansion planning	Increase over FY 2006	Office of Energy Markets and Reliability / Office of the General Counsel

Objective 1.2: Encourage Investment in Energy Infrastructure

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

- give infrastructure owners the proper incentives to lower costs and to provide customers with better services;
- give transmission infrastructure investors confidence that they have a fair opportunity to recover their costs and make a fair return on their investment; and
- give transportation customers reasonable certainty about the costs they will bear for transmission services and about future terms and conditions that affect access to transmission facilities.

Developing strategies to meet these goals is particularly important to industries that are as capital-intensive as electric power and natural gas and oil pipelines.

Objective 1.2 Strategies

Maintain High Level of Regulatory Certainty in Commission Policies.

Without assurance that the Commission's policies will be consistently applied, investors would bear greater risks and require higher returns on their investments (thereby increasing customer costs), and industry participants would find it harder to obtain financing to build much needed infrastructure (thereby investing in fewer projects).

The Commission is committed to providing such assurances and has issued policy statements to that effect. For example, in May 2005, the Commission issued a policy statement to permit cost-of-service rates to reflect actual or potential income tax liability for all public utility assets, regardless of the form of ownership (e.g., corporations or partnerships). Under the policy, all entities or individuals owning public utility assets would be permitted income tax allowances on the income from those assets, provided they have an actual or potential income tax liability on that income. Other examples include:

- an April 2005 guidance order providing a structure in which flaws in RTO and ISO tariffs can be fixed promptly through an expedited tariff revision process;
- a June 2005 guidance order on how jurisdictional natural gas companies should account for costs associated with implementing new pipeline integrity management requirements of the U.S. Department of Transportation's Office of Pipeline Safety;
- a June 2005 policy statement to remove barriers to the formation of independent transmission companies in which the Commission explained that it would consider proposals to allow independent transmission companies to have market participants as passive minority equity owners; and

- a June 2005 guidance order on the Commission's ratemaking policy with respect to the American Jobs Creation Act of 2004 tax deduction for manufacturing activities, which provided a tax deduction for income attributable to, among other things, sales of electricity and natural gas produced in the United States.

Finally, the Commission promotes another form of regulatory certainty through its annual performance measures and targets. Those measures and targets, which are included throughout this document, require the Commission to complete a large percentage of its workload in expedited time frames.

Establish Pricing Policies that Encourage Investment in Electric Generation and Transmission, Natural Gas Pipelines, LNG Import Facilities, Gas Storage, and Oil Pipelines.

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 adequacy of supply – a prerequisite for reliable, reasonable energy markets.

The Commission's current pricing policies encourage needed investment in energy infrastructure. For example, since 1996 investment in natural gas transportation infrastructure has risen by 48 percent and investment in electric transmission has risen by 23 percent. To improve the disparity between the two industries, the Commission issued a November 2005 NOPR to reform its electric transmission pricing policies and offer incentives for potential investors to build more wholesale electric transmission facilities. In addition, the Commission initiated a NOPR to examine improvements in the regulation of market-based rates for natural gas storage. The Commission is also reviewing 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. The Commission expects to consider appropriate action on these efforts in during 2006.

Electric transmission and natural gas and oil pipelines' rates and cost recovery are set in rates and tariffs filed with the Commission. We are working to ensure that the cases are processed, settled, or litigated, with appropriate speed and results that meet both business needs and the public interest. For example, in 2005 the Commission issued a certificate authorizing Entrega Gas Pipeline Inc. to construct and operate a 328-mile pipeline to move gas from the coal-bed methane reserves in Wyoming to mid-continent markets. The order provided for recourse tariff rates and permitted Entrega to sell virtually all of its capacity under negotiated rates and contracts, giving customers a measure of certainty regarding the rates for service under long-term contracts. The entire process – including environmental review – was completed within 12 months from the date the application was filed.

The Commission has used its declaratory order process to provide clear cost recovery processes to energy industry stakeholders. In March 2005 the Commission approved a cost recovery methodology to allow the restart and reconfiguration of an idle pipeline system that permits the delivery of much needed crude oil supplies from Canadian sources to refineries in Oklahoma, Kansas, and Texas. The Spearhead Pipeline Project, proposed by Enbridge Energy Company, will be used to transport 125,000 barrels of crude oil per day and will offer a more varied grade mix of crude to meet the needs of the U.S. petroleum market.

Like other Commission regulatory objectives, understanding the role of transportation in energy markets requires accurate, complete, and timely financial information. These needs are met for jurisdictional companies through the Commission's Uniform System of Accounts and program of periodic public financial reporting. In FY 2004, the Commission significantly enhanced accounting and reporting requirements to improve the understanding of the financial condition of public utilities, natural gas companies, and oil pipeline companies.

Also in 2004, the Commission issued an order revising the methodology by which the Producer Price Index is calculated and used to establish oil pipeline transmission rates. Recently the U.S. Court of Appeals for the D.C. Circuit affirmed the Commission's index price mechanism for oil pipelines.

In FY 2005, the Commission proposed improvements to its RTO accounting and reporting requirements in order to provide better information about the role of RTOs in the market place, the functions they perform and the related costs and revenues.

As mentioned earlier, EPAct 2005 expressly authorizes the Commission to allow a natural gas company to charge market-based rates for providing storage and storage-related services at capacity placed into service after August 8, 2005. The Commission has previously granted market-based rates for storage facilities and is presently re-examining its rate-making approach for storage service. Thus, consistent with EPAct 2005 and the NGA, the Commission will be in the position, through its rules and pronouncements, to encourage investment in natural gas storage.

Similarly, the Commission will be issuing orders to address incentives for electric transmission infrastructure and mandatory purchase of energy from qualifying facilities. The decisions made in each of these instances will establish policies effecting investment.

Ensure that Revenue Levels and Rate Designs for Regulated Company Services are Just and Reasonable and Support Long-term Competitive Markets.

The same measures we are 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 of the transportation costs they can expect to face, that these costs will be fair, and that they will continue to have nondiscriminatory access to transportation services. We will continue to ensure that terms and conditions of service promote reliable open access for all customers. To the extent that disputes arise concerning rates or access, the Commission may address them directly or set them for hearing to be resolved through settlement or litigation.

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 settlements in order to avoid costly and lengthy litigation of issues. The order also indicated that the Commission will act expeditiously on the proposal to ensure any reduced rates are implemented as quickly as possible.

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

Traditional cost-of-service rate regulation provides few incentives for regulated companies to lower their costs or to provide better service. As a result, such regulation is not necessarily the best way to set rates for regulated services that support an overarching competitive energy market.

The Commission supports innovative rate proposals that promise reduced costs, improve service or remove trade barriers. It is important such proposals:

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

The Commission continues to support the development of merchant transmission projects, which calls for developers to assume the full market risk and users of adjacent grids to have no risk of assuming costs. Transmission service for the projects is provided under the terms of the open access tariff of an ISO or RTO. These projects encourage pro-competitive behavior and allow additional infrastructure to be built outside the traditional rate-making process. Currently, one merchant transmission project is operational, while a second is expected to be operational in 2007.

The Commission continues to review its policies to ensure that merchant transmission projects have a reasonable opportunity to compete for any necessary transmission upgrades. In this regard, the Commission acted quickly on a complaint filed by a merchant project against an RTO's interconnection policy, which the Commission found to be unduly discriminatory. The Commission also continues to review its policies to enable as many parties as possible to participate in the merchant transmission projects. For example, the Commission has approved proposals to expand the open-season requirement for selling transmission rights and has decreased the cost burdens on merchant transmission sponsors by eliminating certain reporting requirements.

In October 2004, the Commission held a technical conference to discuss how to facilitate the development of underground natural gas storage resources in areas that are currently under-served. Underground natural gas storage is a valuable resource that can ensure service reliability, increase service choices to customers, and moderate gas commodity price volatility through hedging. The Commission will continue to examine the extent to which its market-based rate authority for new storage capacity under the NGA and EPAct 2005 can be used to spur new storage development.

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. both of which involved the creation of independent transmission companies through the acquisition of transmission facilities from integrated utility owners, and involved incentives that facilitated ownership transfer.

In two other cases, the Commission approved the expansion and enhancement of existing transmission systems by adding infrastructure directly. The Commission encouraged the development of the Path 15 expansion project in California by accepting the letter agreement that established incentive rate principles. This innovative project pooled the resources of an investor-owned utility (Pacific Gas & Electric Company), a merchant developer (TransElect), and a federal power marketing administration (Western Area Power Administration), and was designed to eliminate transmission constraints on a critical transmission corridor. In the case of TransEnergie, U.S., Ltd, a merchant transmission project, the Commission approved of TransEnergie's use of negotiated rates in return for assuming all of the market risks and associated stranded costs of the project and providing access on a non-discriminatory basis. The TransEnergie project enhances competition and market integration by expanding transmission and trading opportunities between regions.

The Commission, in Saltville Gas Storage, departed from long standing precedent on natural gas storage rate design. To address customer needs and the unique features of this 8.2 Bcf rapid response storage field, the Commission granted the use of modified methodology, allowing Saltville to design a rate that apportions its fixed costs to capture an additional service provided, injection capacity. The Commission also, in response to concerns about the requirements for a three year rate review given an expected four year phased development period, deferred the rate review until four years after the project commences operation. The Commission's actions balanced effective regulation with incentives for infrastructure development.

Objective 1.2 Performance Measures

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Maintain High Level of Regulatory Certainty in Commission Policies		
Process cost recovery cases within reasonable timeframes	➢ 100% of statutory cases within statutory deadlines ➢ 90% of cases set for hearing within 12 months of briefs opposing exceptions	Office of Energy Markets and Reliability / Office of the General Counsel
Encourage Balanced Innovative Proposals that Provide Incentives for Appropriate Infrastructure Investment		
Number of innovative or flexible rate designs in effect to encourage energy infrastructure development	Increase over FY 2006	Office of Energy Markets and Reliability / Office of the General Counsel

Objective 1.3: Address Landowner and Environmental Concerns Fairly

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

Objective 1.3 Strategies

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

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

Hydropower Licensing. For hydropower licensing cases, settlement agreements continue to increase in number. The Commission's practice of approving comprehensive settlements and incorporating the settlement terms into the license has encouraged stakeholders to formulate such agreements. The agreements contain protection and enhancement measures that encompass a full spectrum of environmental issues.

In FY 2005, the Commission issued several licenses that included measures agreed to by the signatories and set forth in the agreements, including:

- a settlement signed by 21 stakeholder groups for the three-development, 367 MW Pelton Round Butte hydroelectric project, located on the Deschutes River near Madras, Oregon, which included significant measures designed to protect and enhance anadromous fish;
- a settlement signed by eight stakeholder groups for the three-development, 18.05 MW Oswego River project, located on the Oswego River in New York, which contained provisions that provided for run-of-river operation designed to enhance fish and wildlife habitat in the downstream reach;
- a settlement signed by 27 stakeholder groups for the 44 MW Lake Wallenpaupack project, located on Wallenpaupack Creek and the Lackawaxen River in Pennsylvania, which included provisions for maintaining target reservoir elevations to enhance fish and wildlife habitat, and plans for improving water quality and whitewater boating;
- a settlement signed by 22 stakeholder groups for the 380 MW Tapoco Hydroelectric project, located on the Cheoah and Little Tennessee Rivers in western North Carolina and eastern Tennessee, which provides for the conservation of over 10,000 acres of undeveloped land in the vicinity of the Great Smoky Mountain National Park and

flows for whitewater boating opportunities on 9-miles of the Cheoah River.

In addition to the settlements that are incorporated into the license, the Commission continues to receive a large number of settlement agreements for pending proceedings. To ensure that agreements are promulgated in a manner consistent with Commission practice, the Commission has 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 2005, the Commission assisted in developing several settlement agreements, including:

- a comprehensive settlement agreement signed by eight groups for the 176.2 MW Osage project which impounds the Lake of the Ozarks in Missouri and includes fish stocking measures as well as shoreline protection;
- a comprehensive settlement agreement signed by eight groups for the 8.25 MW Conecuh River project, located on the Conecuh River in Covington County, Alabama, which included provisions for flow releases below the project as well as measures to protect and enhance water quality and recreation;
- a comprehensive settlement agreement signed by 23 groups for the 162 MW Baker River project, located near Concrete, Washington, which included a full range of measures designed to address anadromous fish passage, enhancement of recreation, as well as the construction of a new powerhouse; and
- two comprehensive settlement agreements signed by 22 parties for the multi-development 580 MW Lewis River projects located on the North Fork Lewis River in Washington, which addressed a range of environmental issues including anadromous fish passage, fish hatchery operation, and flood management.

Natural Gas Pipelines and LNG Projects. The natural gas industry has significantly increased its use of the Commission’s natural gas pre-filing process, which involves completing a substantial portion of the environmental review and identifying significant non-environmental issues prior to the filing of an application. In FY 2005, over 90 percent of the major projects, including both large gas pipelines and LNG projects, used the pre-filing process with the majority of the projects having the environmental review completed within eight months of filing a completed application.

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

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

Natural Gas Projects. The Commission requires environmental measures in certificates, 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 August 2005 in the Entrega pipeline project, the Commission issued an order eleven months after filing. The order imposed 48 environmental mitigation conditions on the project, which will reduce the impact on bald eagles, cultural resources, and water bodies along the route, establish a landowner hotline for complaints, and require two route variations, among other things.

In the Capacity Restoration Project proposed by Northwest Pipeline to address needed integrity management repairs on their system, the Commission issued a September 2005 order that included 27 environmental mitigation conditions. These conditions addressed landowner concerns in residential subdivisions crossed by the Northwest system, cultural resources, Coastal Zone Management Act consistency, erosion control and other resource issues.

In FY 2005, the Commission continued to offer training sessions on compliance with Commission regulations and certificate conditions. In addition to helping certificate applicants, the well-attended sessions are also valuable to Commission staff. The comments and questions from the sessions help us monitor the clarity and effectiveness of certificate conditions.

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

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

On June 1, 2005 the Commission issued a new license to Midwest Hydro, Inc for the 3.68 MW Dayton Hydroelectric Project. Midwest Hydro Inc. proposed to operate the project in a run-of-river mode and maintain a 20 cubic-foot-per-second minimum flow in the project's bypassed reach. Midwest Hydro also proposed to install flashboards to maintain a uniform flow over the spillway, consult with agencies regarding threatened and endangered species prior to land disturbing activities, re-develop an existing canoe trail with directional signs, and explore the need to connect hiking areas at the project with existing or planned trail systems in the project area. Based on the Commission's analysis and recommendations, the license order required additional measures including plans to monitor water quality, project operation, manage woody debris fish habitat, and protect historic properties.

The Commission required two hydropower projects in Maine, the Burnham project and the Benton Falls project, to assist the state for their expenses in passing fish upstream. Because of the delay in constructing the passage facilities, the state had to pass fish upstream by trapping and then trucking the fish upstream in order to meet the state's fish management objectives. The Commission also required the licensees to undertake an aggressive schedule to install the facilities for use during next year's fish migration season.

In FY 2005, the Commission approved five license amendments that reflected the provisions of the Penobscot River Basin Settlement Agreement and was the first step toward the restoration of approximately 500 miles of river in Maine for migration and increased generating capacity in the basin. For the Priest Rapids project in Washington, the Commission approved the operating and testing of a new advanced turbine which increase efficiency, power output, and include design features to improve survival of juvenile salmon and steelhead passing through the turbines.

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

We will continue to monitor compliance through our environmental inspection program to ensure that resource protection measures, designed to maintain environmental quality at hydropower projects, are constructed and implemented according to license requirements. To ensure effective compliance, we have instituted a compliance assistance program consisting of: conducting environmental inspections, building partnerships, engaging in collaborative problem solving, and delivering guidance. This program is designed to ensure that licensees understand their responsibilities and the steps necessary to achieve compliance. In FY 2005, we inspected 170 projects and completed over 200 investigations into allegations of environmental non-compliance. We expect to conduct a similar number of inspections and investigations in FY 2006 and FY 2007.

In December 2005, the Commission issued guidance explaining the information required to evaluate and certify efficiency improvements and development of additional hydropower capacity at existing facilities. Under EPAct 2005, this certification would allow licensees to apply to the Internal Revenue Service for a renewable energy tax credit. The 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.

Objective 1.3 Performance Measures

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Encourage Potential Applicants for Licenses or Certificates to Utilize the Commission's Collaborative Pre-Filing Process		
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 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
Incorporate Reasonable Environmental Conditions into Permits, Licenses, and Certificates and Regulate Compliance with Conditions		
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

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

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

Adequacy is the ability of the electric and natural gas system to supply the aggregate requirements of all consumers most of the time. Security is the ability of the system to withstand sudden disturbances for a short time and means ensuring that such infrastructure is as safe as possible from attack or sabotage.

Objective 1.4 Strategies

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

The Nation's transmission grid is an extremely complex network operated by some 130-balancing authorities delivering more than 850,000 megawatts of power. It includes over 150,000 miles of power lines that cross the boundaries of different utilities, states, and our neighbors to the north and south. When a generator or transmission line fails, the failure 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 our economy's dependence on a reliable supply of electricity, it is critical to have the latest communications and equipment technology, strong operating rules, and a specially trained staff.

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

To help ensure the reliability of the transmission grid, in the aftermath of the 1965 Northeast power blackout, the industry has relied upon ten regional reliability councils under the auspices of the NERC. These reliability organizations have depended upon the *voluntary* cooperation of their members to maintain grid reliability.

Even with the presence of the reliability councils for the last 40 years, transmission capital investments and maintenance expenditures, adjusted for inflation, declined steadily from 1975 through 1999. Although recent years have shown a slight increase, the decline over the entire period has been 5 percent per year. The resulting congestion on the grid has both reliability and economic consequences.

The Commission's concerns regarding grid reliability are not new. Even though there was no direct Commission authority or responsibility for the reliability of the transmission grid prior to the enactment of EPAct 2005, the Commission maintained a close relationship with NERC, including interacting with NERC committees and its Board of Directors. The U.S.-Canada Bilateral Electric Reliability Working Group, which now includes representatives from Mexico as observers, held public conferences in FY 2005 on the transition to an international ERO and the cross-border implications of reliability standards, development, recognition, and enforcement. In addition, the Commission recognized the importance of reliability through its emphasis on regional planning and operation of the transmission system, such as planning of new facilities, greater investment in infrastructure, and better methods of monitoring and managing transmission flow in order to relieve congestion.

On February 9, 2005, the Commission issued a Supplement to its Policy Statement on Matters Related to Bulk Power System Reliability to clarify that the newly adopted NERC Version 0 Reliability Standards were to be included in the meaning of "Good Utility Practice" as used in the *pro forma* open access transmission tariff.

On August 8, 2005, the President signed into law legislation requiring the Commission to certify a national ERO that will propose mandatory reliability standards for Commission review and approval, and enforce those standards subject to Commission oversight. Three weeks later, on September 1, 2005, the Commission issued a NOPR to establish an ERO and implement the reliability provisions of the bill, including:

- regulations on funding the ERO;
- procedures governing enforcement actions by the ERO and the Commission;
- regulations for issuing periodic reports by the ERO on reliability assessment and adequacy;
- procedures under which the ERO may delegate authority to a regional entity to enforce reliability standards; and
- procedures for the establishment of regional advisory bodies that may advise the Commission, the ERO, or a regional entity on governance and reliability standards, and propose fees within a region, or undertake other responsibilities designated by the Commission.

The Commission issued the final rule to implement the reliability provisions on February 2, 2006.

Regulate the Safety of Hydropower Projects and LNG Import Facilities Licensed by the Commission.

LNG Facilities. To ensure compliance with its authorization, the Commission reviews and approves the final design, and inspects LNG facilities during their construction and over their operational life, ensuring that operators take corrective action on any identified deficiencies. In addition, in accordance with the February 2004 Interagency Agreement signed by the three agencies, the Commission works with the U.S. Coast Guard and DOT (via the authorization process) to enhance the safety of LNG facilities by developing recommendations that are based upon good engineering practices and prior knowledge gained at existing domestic and foreign facilities.

For example, in July 2005 the Commission issued an order on Weaver's Cove Energy with 33 specific conditions concerning engineering plant design features attached to the approval. There were an additional fourteen conditions concerning emergency response planning, reporting, and operations of the facility, and even more environmental mitigation conditions. After careful review of the facts surrounding the case, the Commission denied the Keyspan LNG project because it did not meet federal safety standards.

Hydroelectric Facilities. To protect life, health, and property, the Commission works to protect the safety of the approximately 2,500 non-federal hydropower dams we license. During FY 2005, the Commission continued implementing its potential failure modes analysis and performance-monitoring program, and developed technical resource groups to apply the best dam safety expertise to the toughest dam safety issues.

The goal of performance monitoring is to detect and measure physical changes in the structure through appropriate instrumentation, 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;
- uncover data that may be significant to failure modes analysis;
- develop operating procedures to assure there are no weak links that could lead to dam failure caused by improper operation of the dam; 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 tremendously improved coordination, abilities, and trust among all stakeholders. While full rollout of this program will continue in FY 2007, potential failure modes analyses are being conducted by the dam owner, independent consultant, and Commission staff at the next-scheduled independent consultant inspection. By the end of FY 2005, approximately 40 percent of the required dams will have undergone this new analysis. In FY 2006 and FY 2007, we will transition 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, and develop a training workshop on instrumentation and monitoring.

The Commission also oversees construction and remediation to correct deficiencies in project structures. During FY 2005, the Commission worked with the licensee and independent engineering consultants on the remediation of the Saluda Dam in Columbia, South Carolina. Engineers determined that the dam would fail if subjected to a repeat of the 1886 Charleston earthquake, threatening over 120,000 downstream residents. To alleviate this potential hazard, a massive rock fill and concrete structure was constructed at the existing dam, which was completed in

June 2005. Throughout the three-year and $275 million project, the Commission worked with the licensee, engineering consultants, state and federal agencies, and the public to fix the dam as quickly as possible, while minimizing the associated disruption to the local area.

Serve as Lead Federal Agency on Siting and Authorization of LNG Import Facilities, Hydropower Facilities, and Interstate Natural Gas Pipelines and Storage Facilities.

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

In May 2004, the Commission released its modeling study entitled *Consequence Assessment Methods for Incidents Involving Releases from LNG Carriers*. The Commission has used the methodology in the report to calculate site-specific flammable vapor and thermal radiation hazards for each LNG import facility application. In addition, the Commission has incorporated the results of the Sandia National Laboratory study of LNG spills on water to enhance the review and mitigation of potential LNG spills. In addition to the studies, the Commission coordinated with the National Association of State Fire Marshals and DOT to develop a training module and film designed for first responders dealing with LNG-related safety issues. Lastly, the Commission retained an engineering consultant firm to review on its entire LNG program and to make recommendations that could enhance the program. The final report, Evaluation of the Cryogenic Design Review Process and Inspection Program, was submitted to the Commission for review in September 2005.

In FY 2005, the Commission staff started the process of producing guidelines for its engineering and cryogenic review of LNG facilities, drafting guidelines on the content and level of engineering detail required for LNG applications. Final versions of the guidelines for the program are scheduled to be completed and fully implemented by May 2007, with guidance on all facets of the Commission's LNG program scheduled to be issued throughout FY 2006 and FY 2007.

Hydroelectric Facilities. The Commission has authorized construction and operation of over 1,600 hydropower projects, encompassing approximately 2,600 dams and impoundments and the associated lakes and reservoirs. Our workload in these areas is increasing due to the number of relicense applications that will be filed through FY 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.

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. We have no jurisdiction over pipeline security, but we actively work with agencies with 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 sale of gas in interstate commerce. The Commission also approves the expansion, acquisition, or abandonment of these facilities.

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

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

Critical Energy Infrastructure Information (CEII). The Commission continues the efforts it began in Order No. 630 to restrict access to CEII. From April 2003 through May 2005, the Commission has received over 700 CEII requests. This figure does not include processing of hundreds of additional requests from owners and operators seeking CEII regarding their own facilities, as well as responding to numerous inquiries regarding the Commission's CEII regulations. In August 2004, the Commission issued Order No. 649, which made minor changes to the regulations but generally maintained the approach of protecting CEII as set forth in Order No. 630. The Commission revised its regulations on federal agency requests and clarified its definition of non-internet public information in Order No. 662, issued in June 2005.

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

As an outgrowth of the February 2004 interagency agreement, the Commission began working closely with the U.S. Coast Guard in 2005 to help it develop guidance for both the industry and Coast Guard staff regarding the procedures for the preparation of a Waterway Suitability Assessment (WSA) that takes into account both navigation and safety and security issues. The resultant guidance, Navigation and Vessel Inspection Circular 05-05, defines the content and timing of the WSA and subsequent interactions between the Coast Guard and the Commission relative to the preparation of the Commission's environmental impact statements for LNG terminals.

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

During FY 2005, the Commission focused closely on security issues and further developed the hydropower security program by:

- conducting two 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
- reviewing the results of 1,050 required vulnerability and security assessments of dams and how licensees are implementing security upgrades.

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 2006 and FY 2007, we will further improve the Commission's security program by ensuring that jurisdictional dam owners/operators have proper cyber and supervisory control and data acquisition (SCADA) security, continuity of operations (disaster recovery) plans, and emergency action plans (EAP).

Electric Facilities. The Commission works with other agencies and industry on a number of fronts to address and improve infrastructure security. The Commission has worked with and continues to be in communication and collaborate with DHS, DOE, and NERC, among others. The scope and confidentiality of our work with other agencies varies, from undertaking studies to assessing risk on several of these items:

- Operator training – a review of the current state of grid operator training;
- Cyber security – an evaluation of the latest threats to SCADA systems in the U.S.;
- Spare equipment – identification of long lead-time and critical spare parts for control centers, substations, and generators designated as must run.

Natural Gas Pipelines and Storage Facilities. When security issues are raised with respect to the natural gas pipeline or underground storage facility permitting process, we consult and/or coordinate with the DOT for the long term operational safety of the pipelines, the appropriate state agency for the safety of developing and operating underground storage reservoirs, and the Federal Bureau of Investigation, DHS, and state and local law enforcement agencies for issues relating to terrorist or criminal acts.

Further, for underground gas storage facilities, the Commission historically has played a limited role regarding the safety of developing 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.

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

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.

To date twelve oil pipelines and one electric company have filed applications to recover security related costs. In 2005, the oil pipelines with security cost recovery provisions filed to adjust the surcharges we have permitted in order to provide for further expenses necessary to protect pipeline infrastructure. Under the Commission approved settlement of Florida Gas Transmission Company's (FGT) general rate case, FGT is permitted to seek recovery of security-related costs exceeding $20 million through a capital surcharge to its reservation rates.

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

Objective 1.4 Performance Measures

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Oversee the Development and Enforcement of Mandatory Grid-Reliability Standards to Protect the Bulk Power Supply		
Percentage of proposed reliability standards reviewed	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Develop audit procedures to implement the post-EPAct 2005 ERO processes	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
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 enforcement rulings reviewed to prevent inappropriate rulings from going into effect by default	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Regulate the Safety of Hydropower Projects and LNG Import Facilities Licensed by the Commission		
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
Serve as Lead Federal Agency on Siting and Authorization of LNG Import Facilities, Hydropower Facilities, and Interstate Natural Gas Pipelines and Storage Facilities		
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

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Work with Other Agencies and Industry to Address and Improve Infrastructure Security		
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
Allow Prompt Recovery of Prudently-Incurred Expenses to Safeguard and Enhance the Reliability, Security and Safety of the Energy Infrastructure		
Percentage of complete proposals resolved on merits	➢ 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

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CHAPTER 2: COMPETITIVE MARKETS

Prevent Exercise of Market Power by Reliance on Effective Competition

Competitive Markets Resources
(Dollars in Thousands)

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Request
Total FTEs	**204**	**210**	**215**
Program	167	171	176
Support	37	39	39
Total Funding	**$32,444**	**$34,337**	**$35,731**
Program	26,799	28,237	29,412
Support	5,645	6,100	6,319

Introduction

One of the Commission's primary goals is to prevent the exercise of market power by wholesale power sellers, electric transmission companies, and natural gas and oil pipelines. This is accomplished by striking the right balance between competition and regulation. Achieving this balance has been particularly challenging for electricity where Congress has not deregulated the underlying commodity, as it did for natural gas, and where siting authority and retail regulation remain with the states. The Commission has been steadily reforming its electricity policies to find this balance in its regulation of wholesale power sales and transmission. The Commission will continue its generation policy reforms, as appropriate, and will also undertake reforms to transmission open access and pricing policies. The Commission still believes competition is the right national policy for wholesale power markets – when combined with effective regulation. Meeting this goal includes two objectives:

- *Promote Effective Competition in Electric and Gas Markets.* Commission policies must recognize the differences in regional power markets, prevent the exercise of market power, and improve transparency. The Commission also needs to take steps to lower trade barriers among regions.
- *Establish Clear Market Rules to Govern Electric Markets.* Reforming transmission open access policies to prevent undue discrimination and providing regulatory certainty through our rules and case-specific decisions will provide the first line of customer protection in competitive wholesale energy markets.

Objective 2.1: Promote Effective Competition in Electric and Gas Markets

Commission policy reforms must recognize the essential nature of U.S. electricity markets. The U.S. does not have a national electricity market, but rather a series of regional electricity markets. Some of these regional markets are organized and operated by an RTO or ISO, while others are traditional bilateral markets. Since RTOs and ISOs may be established in all regions of the country, the Commission must adapt its policies so that they succeed in all regional markets, regardless of their structure.

Competitive markets are subject to rules, either those imposed by an economic regulatory body or those under antitrust law. For that reason, competitive markets cannot succeed without effective regulation.

Non-discriminatory open access to transmission is the foundation for competitive wholesale power markets. Order No. 888, the Commission's landmark order to assure non-discriminatory access to the interstate transmission grid, has proven to be a great success, spurring competition in wholesale power markets. However, it appears that Order No. 888 has not eliminated all potential to engage in undue discrimination or preference in the provision of transmission service. There are also concerns that Order No. 888 is not clear in some respects, making it difficult to identify violations, and difficult for the industry to comply. For that reason, the Commission began a process to re-examine and, where necessary, reform its open access policy by issuing a Notice of Inquiry in September 2005 on how *pro forma* open access tariffs should be reformed. Commission policy and rules must recognize that it is in the economic self-interest of vertically integrated companies, particularly those with high-cost generation assets, to deny transmission access or offer service on a basis that is inferior to that which they provide themselves. It is the Commission's goal to eliminate opportunities for such undue discrimination.

While the transmission grid operates like one large machine, ownership of the grid is strikingly disaggregated. While many countries have one transmission owner, or at most a handful, the U.S. has nearly 500. That disaggregation makes it difficult to relieve transmission congestion on an interstate system. Additionally, nearly a third of the transmission grid is owned by entities over which the Commission has relatively little jurisdiction, with this third operating under different rules than those under full Commission jurisdiction. EPAct 2005, however, has given the Commission discretionary authority to order otherwise non-jurisdictional transmission owners and operators to provide non-discriminatory, comparable open access transmission services. The Commission may act by rule or order under the new law and the Commission has sought public comment on how to implement the provision.

The existence of many transmission owners with differing rules and practices within regional markets makes it cumbersome and costly for transmission customers to do business over a wide area. This can balkanize markets, prevent trade, limit the number of competitors who can offer service to customers, and result in higher prices. Although RTOs and ISOs have great potential to make wholesale markets more competitive, institutions can fail, and it is not predestined that RTOs and ISOs will achieve their promise. RTOs and ISOs are voluntary organizations, and it is incumbent on voluntary organizations to demonstrate success to their existing and potential membership.

While the Commission remains committed to the continued voluntary development of independent RTOs and competitive electric wholesale markets, it also intends to evaluate other business models that can provide consumers competitive market benefits for electric service. This includes, (1) encouraging new business models as well as the use of new technologies, (2) creating a regulatory climate that allows businesses to evolve and grow to serve the Nation's bulk power system, and (3) ensuring that sound wholesale market competition develops in regional markets to improve grid reliability and reduce delivered electricity costs for customers.

Objective 2.1 Strategies

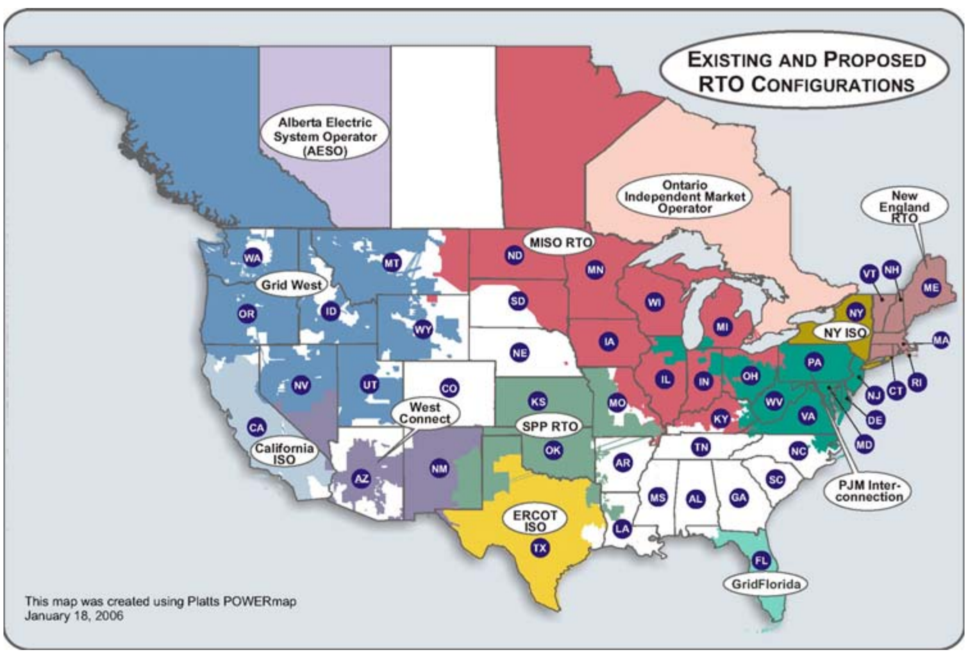
Promote Effective Competition in Wholesale Power Markets in Regions With and Without Voluntary, Organized Markets.

The U.S. does not have a national electricity market, but rather a series of regional electricity markets. Among these regional markets, there are significant differences, one of which is structural. Some regions include organized markets administered by RTOs or ISOs, while others rely on bilateral contracts to effectuate trade.

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, as evidenced by the Commission's July 2005 order terminating the proposed Standard Market Design rule. The key to expansion of organized markets is whether the existing RTOs and ISOs prove to be a success and deliver on their promised benefits. Today, existing RTOs and ISOs are in various stages of development throughout the United States:

- 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 will be most valued.
- PJM is working with the Midwest ISO to create a joint and common market that will span from the Atlantic Ocean to the Rocky Mountains.

- NYISO and ISO-NE have working groups that are striving to make the two organizations act as if they were a single operator, and dispatch across seams in a manner that would be more consistent with dispatch over internal constraints. The order granting RTO status to ISO-NE required it to submit a seams resolution agreement with NYISO. In November 2004, the Commission accepted a Seams Resolution Agreement between the two organizations that resolved the previously identified seams issues, with two clarifications. First, a Virtual Regional Dispatch must be made (NYISO's Virtual Regional Dispatch Testing Program was accepted by the Commission in November 2004 while ISO-NE's Intra-Hour Transaction Scheduling pilot was accepted by the Commission in February 2005), and second, for each remaining seams issue a proposal must be filed with the Commission 60 days prior to the implementation date of the proposal.
- The SPP, approved to operate an RTO covering an eight-state region, began operations 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 has conditionally accepted SPP's transmission cost allocation plan, which is intended to encourage investment in transmission expansion throughout SPP. In addition, SPP plans to implement its energy imbalance market in 2006.
- 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 February 2007.



Regions that fall outside the scope of a Commission-approved RTO or ISO should share in many of the wholesale competition benefits that were furthered with the Commission's open access transmission policies. Like the participants in organized markets, Commission jurisdictional participants outside of organized markets are subject to, and benefit from, the Commission's policies to promote competitive wholesale markets.

Over the last several years, the Commission has reformed its screens for detecting generation market power and has taken appropriate steps in safeguarding customers. The Commission has imposed conditions on sellers of power, revised and streamlined reporting of sales of power, taken steps to remove any remaining vestiges of unduly discriminatory practices in open access transmission tariffs, and has worked with industry to improve the depth and liquidity of natural gas price reporting.

Additionally, during FY 2005 the Commission gave preliminary positive guidance to new forms of regional entities in the Southeast and Northwest. While these entities are not seeking RTO or ISO status, they are proposed as independent entities that will oversee and/or provide regional transmission service, thereby providing an added assurance of non-discriminatory treatment and greater customer access to low cost power in a region.

Encourage the Reduction or Elimination of Seams Between Organized Markets.

The Commission will continue to facilitate discussions between industry and states in addressing 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 transactions for capacity and energy that cross regional boundaries. Power products and pricing and market rules can differ significantly between organized markets and result in reduced competition between suppliers across regional boundaries. Thus, resolving seams differences between regions could lower the cost of transacting power sales between regions, permit dispatch of lower cost power and, ultimately, lower costs to customers. Some examples follow of actions taken during FY 2005 that will result in eliminating or reducing seams issues at RTO and ISO boundaries.

PJM expanded through successful integration of two new members: American Electric Power in October 2004 and Duquesne in January 2005. The Commission also issued an order in October 2004 establishing PJM South, subject to certain conditions, in response to a PJM and Virginia Electric and Power Company (VEPCO) application. In May 2005, VEPCO successfully integrated into PJM South.

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.

Similarly, the Midwest ISO and PJM executed a JOA to work toward seamless operations covering 22 states, the District of Columbia, and parts of Canada. The JOA covers inter-regional coordination with a focus on real time communications, emergency protocols, and operational data exchange – all important developments after the August 2003 blackout. The Midwest ISO has also entered into a JOA with SPP, although the JOA with SPP is not as extensive as the one it has with PJM. The Commission, through its orders, has encouraged SPP and the Midwest ISO to develop improvements to the JOA.

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

The federal-state split of jurisdiction is defined in the FPA. While states have legal responsibilities for retail sales, wholesale power sales in virtually all areas of the country are in interstate commerce, subject to the Commission's exclusive jurisdiction. While this jurisdictional split works neatly as a legal matter, there is a relationship between retail and wholesale markets. For that reason, the Commission and the states must develop complementary approaches.

The United States does not have a national electricity market, but rather a series of regional markets some of which are organized and operated by RTOs and ISOs. The Commission has encouraged the establishment of regional state committees because it is very interested in the views of states on the development of regional market rules.

In 2005, the Commission convened technical conferences between the Commission, state regulators, and industry officials to discuss regional market design issues. The Commission met in Dallas, Texas, with members of SPP and representatives of the states covered by the newly approved SPP RTO, and in New Orleans, Louisiana, and Jackson, Mississippi, with representatives from Entergy Corporation, its state regulators, and other electric industry market participants, to discuss Entergy's ICT proposal.

Commission staff located at the Midwest ISO continued to work with the Midwest stakeholders on issues regarding pre-filing, tariff implementation, and market protocol implementation. They have met with state regulatory commissions and staffs to discuss seams issues, cost control, financial transmission right allocations, and the treatment of grandfathered agreements.

The Commission placed staff early on at the CAISO, the Commission's first regional outpost. At the CAISO, staff meets with state regulatory commission staffs and other state governmental entities on a variety of market design, reliability, and operational issues.

The Commission also encouraged the development of a regional state committee at the recently formed SPP RTO and deployed Commission staff at the SPP RTO offices to work with state regulators and regional stakeholders. The SPP and Midwest ISO regional state committees have both proved to be effective organizations.

To further its outreach efforts, the Commission worked with ISO-NE, NYISO, and PJM to establish Virtual Teams where Commission staff work with their assigned RTO or ISO on stakeholder issues and attend board meetings.

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

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

Promote Transparency of Competitive Electric and Gas Markets.

In order to assure well-functioning competitive wholesale energy markets, in 2003 the Commission adopted Market Behavior Rules to prevent manipulation in wholesale power and natural gas markets. In addition to the central purpose of providing guidance on the conduct of market-based rate electricity sellers and natural gas pipelines and companies engaged in transactions under blanket certificate authority, the Market Behavior Rules also required that companies voluntarily reporting transaction information to price index publishers provide accurate and complete transaction information in accordance with the guidelines of the Commission's 2003 Policy Statement on Natural Gas and Electric Price Indices.

In EPAct 2005, Congress prohibited 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. On January 19, 2006, the Commission issued a Final Rule adopting new regulations to implement the statutory anti-manipulation authority. The new rules are modeled on Rule 10b-5 of the Securities and Exchange Commission, 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.

The new regulations became effective January 26, 2006, and apply to a wider group of entities than are subject to the Market Behavior Rules. The Commission is in the process of reviewing the Market Behavior Rules in light of the new anti-manipulation regulations. The Commission has proposed to eliminate the prohibition on manipulation in the Market Behavior Rules in light of the new regulations implementing the statutory prohibition on manipulation. The Commission will also consider whether to retain or rescind other aspects of the Market Behavior Rules (adhering to organized market rules, providing complete and accurate information, following the Commission's guidelines in voluntary price reporting, and retaining critical records).

EPAct 2005 also gave the Commission expanded civil penalty authority. The Commission can now impose a penalty of up to $1 million per day per violation for conduct that violates the Natural Gas Act or Part II of the Federal Power Act or the Commission's rules, regulations, or orders thereunder. The Commission has provided guidance to the industry on how the Commission intends to use this 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.

The Commission has continued closely to monitor activity in wholesale energy markets and the accuracy, reliability, and transparency of wholesale price formation. The combination of actions taken by the Commission over the past three years—issuing a Policy Statement and related orders, holding public conferences, and conducting industry surveys—has significantly increased both the information provided by price index developers in published indices and in the level of confidence market participants have in price indices. The combination of steps taken to prohibit false price reporting and to improve the quality of the processes by which market participants provide information to price index developers has resulted in greater transparency at most trading locations. In addition, EPAct 2005 directed the Commission to facilitate price transparency in wholesale commodity and transmission and transportation markets, and authorized the Commission to issue rules to assure timely dissemination of price information to market participants and the public. The Commission continues to monitor industry progress on market transparency and stands ready to use its statutory transparency authority as necessary.

Congress has taken the lead on the importance of transparency. EPAct 2005, in its provisions addressing price transparency in electric and natural gas markets, requires the Commission to sign a MOU with the Commodities Futures Trading Commission on market transparency. EPAct 2005 also permits the Commission to issue rules establishing an electronic information system that would provide public access to wholesale power prices and available transmission. The Commission's internet-based Open Access Same-Time Information System (OASIS) was designed to provide this transparency by making information about electric transmission capacity and requests for, and awards of, capacity available to utility customers and the public. The Commission continues to improve upon OASIS and in May 2005 issued a NOPR to address, among other things, ways for industry to make business easier through greater transparency and use of OASIS.

The Commission also proposed in June 2005 to update its Uniform System of Accounts and its quarterly and annual financial reporting requirements for public utilities and hydropower licensees, including RTOs and ISOs. The Commission proposed these changes to add visibility and uniformity to accounting and financial reporting for the cost of utility assets and the expenses utilities incur in providing services along with revenues collected from RTO members. The proposed revisions will allow the Commission and the public to better understand transactions and events that affect RTOs and ISOs, and their members.

Ensure that Mergers and Jurisdictional Facility Sales Are Consistent with the Public Interest.

Most industries that transition toward 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 can also 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 continue to examine section 203 transactions under its jurisdiction to ensure that they are consistent with the public interest.

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

- In March 2005, the Commission authorized the acquisition of TNP Enterprises, Inc. and Texas-New Mexico Power Company by PNM Resources. In doing so, the Commission accepted several commitments of PNM Resources, including the commitment to continue to participate in regional transmission planning.
- 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.
- In December 2005, the Commission approved the merger of Duke Energy Corp. and Cinergy Corp., creating a company with operations in two-thirds of the United States and parts of Canada. The merged companies own more than 45,000 megawatts 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 an exempt 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 going public, International Transmission will still be considered independent of market participants and thus will still qualify for favorable rate treatment. The Commission approved the transaction and made the finding. This will encourage independent transmission companies, which are likely to build badly needed transmission infrastructure and to operate their transmission facilities in a non-discriminatory and efficient manner.
- The Commission authorized the request that Trans-Elect, Inc., which owns Michigan Electric Transmission Company, an independent transmission-only company, and NTD Path 15 (the California Path 15 Upgrade Project), be permitted to sell its stock to a holding company. The Commission found that the transaction would not affect the independence of applicants, enabling them to continue to qualify for incentive transmission rates.

Prior to EPAct 2005, the Commission did not have jurisdiction, except as specifically provided, over facilities used solely for the generation of electric energy. Despite this, the Commission received and approved many applications for the disposition and acquisition of facilities that included generation assets. Many of these were for significant levels of generation, including for example, the sale by Duke Energy North America of approximately 5,325 MW to KGen partners, LLC. Another transaction involved the sale of roughly 1,800 MW from Pinnacle West to Arizona Public Service.

EPAct 2005 reinforces the Commission's corporate review authority, particularly with regard to generation-only transactions, which will strengthen the Commission's ability to prevent the exercise of market power. It also expands the Commission's authority by requiring review of certain corporate transactions involving public utility holding companies.

Objective 2.1 Performance Measures

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Promote Effective Competition in Wholesale Power Markets in Regions With and Without Voluntary, Organized Markets		
Issue rules or orders requiring open access by non-public utilities	By June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel
Issue rules or orders requiring RTO and ISO cost accountability	By June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of review of RTO and ISO 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

Performance Measure	Performance Target	Data Source
Strategy		
Encourage the Reduction or Elimination of Seams Between Organized Markets		
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
Support Creation of Regional State Committees to Advise RTOs and ISOs		
Timeliness of review of filings to recognize regional state committees	100% addressed by Commission order within 180 days or by the applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Promote Transparency of Competitive Electric and Gas Markets		
Timeliness of review of filings to promote transparency in 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
Ensure that Mergers and Jurisdictional Facility Sales Are Consistent with the Public Interest		
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)	100% within 180 days	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing section 203 applications that raise issues of cross subsidization or encumbrances of utility assets	100% within 180 days	Office of Energy Markets and Reliability / Office of the General Counsel
Implement EPAct 2005 section 1289 regulations reflecting amended section 203 of the FPA	By February 3, 2006	Office of Energy Markets and Reliability / Office of the General Counsel

Objective 2.2: Establish Clear Market Rules To Govern Electric Markets

As noted, all competitive markets are subject to rules, either those established by an economic regulatory body or those under antitrust law. A market can only be as good as the rules that govern it. Therefore, rules for wholesale electricity markets must balance the interests of all market participants – ensuring they are fair and equitable, prevent abuse, and build the market's credibility – while being as self-enforcing as possible. Otherwise, endless disputes could arise preventing the market from operating efficiently which could invite or even require continued regulatory intervention to address market distortions.

Objective 2.2 Strategies

Reform Transmission Open Access Policy to Prevent Undue Discrimination and Preference.

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 (OATT). 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 OATTs 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 attain competitive electric markets, 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. It has evolved from an industry characterized by large, vertically integrated utilities to one with increasing wholesale trade and increasing numbers of independent buyers and sellers of wholesale power. Public utilities today purchase significantly more wholesale power to meet their loads than in the past and seek non-discriminatory access to transmission facilities to gain access to sources of such power. These transactions have become less localized, with trade occurring on a more regionalized basis. The Commission has approved the formation of a number of RTOs and ISOs, and new generation resources are being developed in areas that previously experienced generation shortages.

Questions have arisen concerning the continued reasonableness of various non-rate terms and conditions of the OATTs. Public utilities may still have the discretion and the incentive to interpret and apply the provisions of their OATTs 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 may also have ways to use the OATTs to their own advantage, particularly in the scheduling and queuing processes. Moreover, OATT provisions have been modified in numerous ways on a company-by-company basis, possibly leading to uncertainties within the industry as to the proper interpretation of those provisions and to unnecessarily inconsistent treatment of customers across public utilities.

To address these issues, the Commission issued a notice of inquiry in September 2005 to seek comments on what reforms are necessary to the Order No. 888 *pro forma* OATT and to the individual public utility OATTs. The inquiry asks commenters to focus on OATT reforms necessary to prevent undue discrimination and preference in the provision of transmission service. In addition, the Commission recognized that there are areas where the transmission provider’s obligation under Order No. 888 may not be sufficiently clear in some respects. This can be a source of uncertainty regarding the transmission provider’s compliance obligation and ultimately makes it difficult to determine whether the terms and conditions of the OATT have been violated. The inquiry asks numerous questions to explore this issue. For example, it seeks comment on whether the OATT needs to better define how public utility transmission providers must respond to a request for transmission service. Similarly, the Commission seeks comment on whether more specific rules, standards, and business practices need to be incorporated into individual public utility tariffs. It is important that jurisdictional entities fully understand their compliance obligations under the OATT. This, in turn, raises the issue of what types of remedies and/or penalties should apply for violations of the OATT – an issue which takes on added significance given the new civil penalty authorities conferred upon the Commission in EPAct 2005.

Reform Market-Based Ratemaking Policy to Prevent Exercise of Market Power and Provide Regulatory Certainty.

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

In April 2004, the Commission adopted new indicative screens for analyzing generation market power, designed to identify entities that have the potential to exercise generation market power and to impose appropriate mitigation measures to address that potential. All entities seeking to obtain or retain market-based rate authority are required to apply the new screens, and entities with pending market-based rate triennial review filings will be required to apply the new screens in accordance with the schedule adopted in a May 2004 order. Since the issuance of these orders, the Commission has applied the new screens in orders granting entities initial market-based rate authority and in orders acting on market-based rate triennial review filings.

In addition, the Commission issued a subsequent order in May 2005 directing companies which were delinquent in filing their market-based rate triennial review to demonstrate that they continue to qualify to charge market-based rates under the new indicative screening process. In November 2005, the Commission revoked the market-based rate authority of more than 100 companies for failing to comply with past Commission orders requiring updated market analyses.

Concurrent with the announcement of the new approach, the Commission initiated a generic rulemaking proceeding to analyze and update the four factors relied upon when granting market-based rate authority. This proceeding began with a June 2004 technical conference to consult industry experts and frame the issues upon which the rulemaking will be based. Additional conferences have been held on affiliate abuse issues, competitive procurement, generation market power, transmission market power, and other barriers to entry.

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

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

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

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

Prevent Undue Preference and Self Dealing in Affiliate Transactions.

Over the last two 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.

In its continuing effort to address the affiliate abuse problem between electricity sellers and their transmission provider affiliates (referring to both interstate natural gas pipelines and public utilities), the Commission issued Order No. 2004 on Standards of Conduct. The Standards of Conduct order, which took effect in September 2004, applies to all transmission providers 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, the Commission hosted a technical conference to work with the industry to promote compliance. During the conference, Commissioners and Commission staff provided informal guidance to industry participants regarding implementation of the Standards of Conduct. In December 2005, the Commission also announced a new process by which market participants could obtain "No-Action Letters," i.e., a determination by Commission staff that the participant's proposed action would not lead staff to recommend enforcement action with respect to the Standards of Conduct, among other items.

Similar efforts are underway with regard to Order No. 889 OASIS requirements. In its initial compliance review of 190 transmission providers' internet and OASIS web sites, the Commission found that only 58 transmission providers posted all the required elements. That number has dramatically improved, as all of the companies have followed the mandate and come into compliance. In Phase 2 of its effort, the Commission began on-site operational audits of specific transmission providers 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. The Commission completed four of these audits in FY 2005, and expects to complete six additional audits by the end of the first quarter of 2006.

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

Absent consistent, non-discriminatory rules for all transmission customers, there can be substantial competitive consequences and higher costs to all customers.

As competitive wholesale electricity markets grow, we need to ensure that business rules and practices are developed which maximize market efficiency and protect reliability. If standards are not developed fairly, they could benefit some market players at the expense of others.

Based on our experience in the natural gas industry with the North American Energy Standards Board (NAESB), the best way to develop business practice standards is for them to be developed by industry experts, with the Commission resolving issues those experts cannot agree on and then codifying the standards through the Commission's notice and comment procedures. The Commission was instrumental in the formation of the Wholesale Electric Quadrant of NAESB as the group responsible for addressing business practices in this area. While we are also working closely with the NERC on reliability standards, the Commission's new authority over reliability under EPAct 2005 grants it authority to approve (and where necessary to remand) reliability standards.

At the urging of the Commission, NAESB and NERC have developed procedures to coordinate development of business practice and reliability standards, and to coordinate their efforts closely with the RTOs and ISOs that manage and operate the grid day-to-day.

The Commission is now reviewing the first set of wholesale electric standards promulgated by NAESB. These standards deal with, among other things:

- OASIS business practice standards and 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 has also been working 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.

Among other things, the Wholesale Gas Quadrant's Version 1.7 standards include business practice standards dealing with creditworthiness. In June 2005, the Commission issued a policy statement on credit issues relating to transportation on natural gas pipelines.

The Commission is working 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 and December 2005, 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.

Following issuance of a report by the National Petroleum Council and a Commission conference on natural gas quality and interchangeability issues, the natural gas industry initiated an industry-wide collaborative effort to examine the need for, and the possible scope of, industry-wide consensus on these issues. The results of this collaborative effort, two white papers that addressed interchangeability and liquid hydrocarbon drop out, were filed with the Commission in February 2005. The Commission held a technical conference in May 2005 to discuss the white papers. The Natural Gas Supply Association, which participated in the collaborative effort, filed a petition for rulemaking to adopt national standards for gas quality and interchangeability. The Commission solicited comments on this proposal and will consider the need for further action to develop appropriate policies on natural gas quality and interchangeability.

Meanwhile, the Commission continues to process cases with gas quality and interchangeability issues. Where possible, cases are resolved through settlement or on the merits; however, in some cases natural gas pipeline tariff language addressing gas quality and interchangeability standards has been accepted subject to the outcome of the Commission's generic policy initiative.

In addition, in the final rule adopting the Wholesale Gas Quadrant's latest standards, the Commission adopted several standards requiring posting of gas quality information. These standards require a pipeline to provide a link on its informational posting web site to its gas quality tariff provisions, or a simple reference guide to such information. In addition, a pipeline is required to provide on its website, in a downloadable format, daily average gas quality information for prior day(s) to the extent available for location(s) that are representative of mainline gas flow for the most recent three-month period.

Promote Development of Policies that Accommodate Effective Demand Response Programs.

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

States have direct jurisdiction over retail electricity sales and demand side measures. For that reason, Commission efforts to promote demand response rely on collaboration with the states and Commission policies must complement state conservation and demand response policies. While the Commission believes that demand response programs can reduce electric price volatility and balance supply and demand at lower price levels, we must defer to the states regarding such programs.

Commission efforts to promote demand response and develop collaborative approaches with the states have included outreach on demand response, distributed generation, and advanced metering, and supporting regional efforts (i.e., the New England Demand Response Initiative and Mid-Atlantic Distributed Resources Initiative) to develop demand response and distributed generation resources in both competitive and traditionally regulated retail and wholesale markets. In addition, the Commission is working with DOE to develop and implement a demand response research program.

Consistent with EPAct 2005, the Commission is preparing a report that assesses regional demand response resources, including the contribution of demand response resources, the potential for demand response, and regulatory barriers to demand response.

Remove Unduly Discriminatory Barriers to Entry Affecting Renewable Energy.

The Commission, in response to the growth of non-traditional generating resources spurred in part by state renewable portfolio standards and production tax credits, 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.

Objective 2.2 Performance Measures

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Reform Transmission Open Access Policy to Prevent Undue Discrimination and Preference		
Revise Open Access Transmission Tariff	Issue final rule by June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Reform Market-Based Ratemaking Policy to Prevent Exercise of Market Power and Provide Regulatory Certainty		
Finalize 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
Percentage of market-based rate filings processed	100% of new filings within 60 days of filing date or by the applicant's requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Provide Regulatory Certainty Through Clear Market Rules and Case-Specific Decisions		
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
Prevent Undue Preference and Self Dealing in Affiliate Transactions		
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
Encourage the Development of Business Rules and Practices that Maximize Market Efficiency, Ease Market Entry and Reduce Transactions Costs, relying on NAESB, NERC and the RTO/ISOs where Appropriate		
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of non-controversial rulemakings within 9 months ➢ 100% of controversial rulemakings within 12 months	Office of Energy Markets and Reliability / Office of the General Counsel
Promote Development of Policies that Accommodate Effective Demand Response Programs		
Timeliness of applications processed on requests by RTOs and ISOs to encourage demand response in organized markets	100% within 60 days of filing date or applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Remove Unduly Discriminatory Barriers to Entry Affecting Renewable Energy		
Percentage of filings processed containing amendments to non-independent electric transmission provider OATTs (including Appendix G provisions for the interconnection of large wind generators, per Order 661)	100% within 60 days of filing date or applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel

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CHAPTER 3: MARKET OVERSIGHT

Prevent Exercise of Market Power by Reliance on Effective Regulation

Market Oversight Resources (Dollars in Thousands)	FY 2005 Actual	FY 2006 Estimate	FY 2007 Request
Total FTEs	**180**	**204**	**213**
Program	147	167	174
Support	33	37	39
Total Funding	**$29,619**	**$34,645**	**$37,066**
Program	24,639	28,695	30,812
Support	4,980	5,950	6,254

Introduction

Competitive markets can only succeed 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 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 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. The Commission can identify violations by many methods, including review of market information required to be filed by market participants, investigation of significant price or market anomalies, periodic audits of compliance with Commission tariffs, rules, and regulations, referrals from RTO and ISO market monitors, and tips and complaints from the public and market participants. 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 entities 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 entity are adequate, and to periodically audit compliance with the Commission's rules, regulations and statutory requirements. Our two main objectives in meeting our goal of effective market oversight are:

- Vigilant and effective oversight of market operations; and
- Firm but fair enforcement of Commission rules.

Each year, the Commission conducts investigations and 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, we will work with stakeholders to explain the intent and requirements of our rules and the laws we administer.

In recognition of its changing enforcement role, the Commission requested additional enforcement power from Congress. In EPAct 2005, Congress granted the Commission's request and substantially increased our civil penalty authority. The Commission intends to create an even stronger and more effective compliance and enforcement program by building upon and invoking this strengthened penalty authority, which is comparable to other federal regulatory bodies.

Objective 3.1: Vigilant and Effective Oversight of Market Operations

The Commission has established market rules to provide a framework for evolving markets. To ensure that they provide the needed framework, our aim is to discern the difference between superficial market problems and significant market problems and which require regulatory intervention. The Commission needs to distinguish when high prices or limited supplies reflect scarcity rather than market problems or market manipulation, and which market problems are due to faulty market rules or structural flaws. The Commission also needs to recognize when particular market power mitigation is helping or harming markets.

Objective 3.1 Strategies

Strengthen the Commission's Ability to Perform Market Monitoring.

In order for the Commission to provide timely analyses based on strong empirical evidence and make fair decisions, the Commission must strengthen its ability to perform market monitoring. This requires access to relevant and timely information about electric and natural gas markets.

To do this we have maintained, updated, and expanded data systems, largely consisting of the resources available through our Market Monitoring Center (MMC). One of the Commission's notable improvements to the timeliness and quality of our MMC information is the establishment of 17 automated market alerts. These automated alerts notify staff when certain natural gas or electric prices fluctuate beyond a set parameter, and are extremely beneficial to analysts who would normally need to sift through and analyze large quantities of raw data for price anomalies. As a result, staff is able to concentrate on other oversight activities and analysis.

In addition, the Commission has continued to develop and enhance the Electric Quarterly Report (EQR), a publicly accessible database that collects historical contract and transaction information via quarterly electronic filings from electric public utilities and power marketers. The EQR allows the Commission to fulfill its statutory obligation to have electric rates on file, and it also provides a useful window into electric markets. Enhancements to the EQR database include automated processes that screen out erroneous data, notify late EQR filers, and summarize information for EQR filers using a standard report. In addition to these processes, the Commission is currently developing a process to analyze EQR data to identify potential market manipulation.

Encourage Effective RTO and ISO Market Monitoring Units, as Permitted by Law.

Each established RTO and ISO has a Market Monitoring Unit (MMU) with six MMUs in place today. The May 2005 Policy Statement on Market Monitoring Units provided guidance to the MMUs on their critical roles in evaluating market rules and performance, recommending market improvements, and referring potential violations to the Commission. Since MMUs have detailed knowledge of the markets they monitor and can tailor their monitoring programs to deal with specific characteristics of their own markets as well as generic issues, they can identify developing problems rapidly and are an important line of defense against market problems. However, the MMUs may have limited understanding of markets outside their area of operations, and may know relatively little about other markets (including financial and gas) that affect their market areas. The Commission must adopt a broader view of how markets interact, and has statutory responsibilities that cannot be delegated to the MMUs.

The Commission works closely with the MMUs through monthly conference calls and semi-annual conferences, and Commission staff dedicated to specific regions communicate frequently with their MMU contacts. In addition to RTO and ISO site visits and meetings with the MMUs, Commission staff directly monitor market development activities such as the start-up of the Midwest ISO and the rollout of NYISO's new real-time market software. Also, Commission staff are working with the RTO and ISO MMUs to enhance performance metrics that will enable the MMUs to measure themselves against other MMUs, strengthening their market monitoring abilities.

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

An important Commission function is to identify market problems as they develop, so that appropriate compliance or enforcement action can be taken. Included in our task of overseeing energy markets is analyzing apparent market anomalies such as high prices or abnormal volumes in unexpected places. Such anomalies can indicate problems with data, new patterns of market trading, or gaming of market rules. While information for these reports largely comes from the MMC, we supplement the data with information from industry contacts and by following up on audit and investigation results.

An example of our market anomaly analysis is the investigation into the November 2004 natural gas storage reporting error by the Energy Information Administration (EIA). In one of its Weekly Natural Gas Storage Report, the EIA showed a net withdrawal much higher than anticipated by market observers. The higher than expected report caused prices for expiring New York Mercantile Exchange contracts to rise by more than $1/MMBtu in December 2004 and January 2005. The Commission sent a data request to the ten largest storage operators to determine if an error had been made in compiling data reported to the EIA. We determined that an erroneous report had been submitted by Dominion Transmission, causing the market prices to jump. Further investigation showed that the reporting error was inadvertent and that Dominion did not profit from it. Subsequent to this investigation, the EIA proposed and adopted changes to its Weekly Natural Gas Storage Report.

Assess Market and Infrastructure Conditions and Incorporate Analysis into Commission Decisions.

The Commission has developed benchmarks to monitor natural gas, electric, associated fuel, financial, and equity market conditions and developments, to show systematically how well markets are operating. The Commission systematically reviews data to help identify anomalous behavior or patterns that reflect potential market manipulation.
Market analysis is regularly incorporated into Commission decisions such as orders on tariffs for organized markets and actions taken to improve the accuracy, reliability, and transparency of wholesale price indices. For example, orders on the organization and operation of the CAISO, ISO-NE,

PJM, and NYISO have been influenced by observations and information gleaned from oversight of these markets. Many decisions regarding the start-up of the Midwest ISO market were shaped by the insights provided by the Commission's market analysis.

Objective 3.1 Performance Measures

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Strengthen the Commission's Ability to Perform Market Monitoring		
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Review EQR submissions for completeness and contact companies that make up at least 80% of reported revenue for incomplete submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Conduct follow-up reviews of companies that make up at least 80% of reported revenue on exercise of market power or market manipulation	Within 60 days of final submission	Office of Market Oversight and Investigations
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 Market Oversight and Investigations
Number of "non-public utilities" filing EQRs	Increase by 50% over FY 2006	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel
Encourage Effective RTO and ISO Market Monitoring Units, as Permitted by Law		
Number of RTO and ISO MMU performance metrics	Increase over FY 2006	Office of Market Oversight and Investigations
Timeliness of initiating or deciding action on MMU referrals	80% acted on within 30 days	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel
Identify and Remedy Problems with Market Structure and Operations, and Periodically Review Market Rules for Consistency with Long-term Market Development		
Percentage of organized markets surveyed and market structure and operations problems or deficiencies identified	100% surveyed and reports completed identifying market problems or deficiencies, if any, and recommended solutions	Office of Market Oversight and Investigations
Timeliness of actions on problems or discrepancies identified in surveys of organized markets	With 6 months of completed report	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel
Complete comprehensive market rules audit of one RTO for consistency with long-term market development	Complete preliminary analysis/status report by June 30, 2007	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Assess Market and Infrastructure Conditions and Incorporate Analysis into Commission Decisions		
Publish annual assessment of infrastructure and market conditions for each region	Complete by June 30, 2007	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel

Objective 3.2: Firm but Fair Enforcement of Commission Rules

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

Objective 3.2 Strategies

Implement the Market Power and Enforcement Provisions of the Energy Policy Act of 2005.

With the passage of EPAct 2005 on August 8, 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 Natural Gas Policy Act of 1978 (NGPA).

In November 2003, the Commission adopted market behavior rules to prevent manipulation in wholesale electricity and gas markets. EPAct 2005 specifically amended both the NGA and FPA to make it unlawful for any entity to use or employ any manipulative or deceptive device or contrivance (as those terms are used in the Securities Exchange Act of 1934) in connection with the purchase or sale of the gas or electric commodity or jurisdictional transmission services.

Improve the Commission's Enforcement Capabilities.

EPAct 2005 gave the Commission substantial new enforcement responsibilities. First, the law provides for Commission enforcement of the express prohibition of manipulation of electricity and gas markets. The new law allows the Commission to issue rules to implement this provision, and enforcement will require making swift decisions on potentially manipulative practices. The Commission has proposed rules to implement this provision, and has issued a policy statement on enforcement practices in order to provide regulatory certainty to market participants. In addition, the Commission will need the capability to distinguish practices that are not manipulative.

> *"I see no reason why manipulation in electricity markets should be subject to a lesser penalty than manipulation in securities and commodities markets."*
>
> *Joseph T. Kelliher*
> *Chairman, FERC*

The second enforcement responsibility under EPAct 2005 is the Commission's authority to enforce reliability standards. Under the law, the Commission is responsible for reviewing preliminary 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 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. We will continue to provide additional forensics training along with acquiring appropriate information technology tools.

Investigate Statutory and Rule Violations, Imposing Penalties Where Appropriate and Promptly Terminating Investigations When no Violations are Identified.

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

During FY 2005, the Commission completed twenty-six operational audits, eighteen financial audits and twenty-nine investigations of energy companies, including natural gas pipelines and electric utilities. These enforcement efforts resulted in refunds, penalties, and payments of more than $52 million, and in some cases adherence to rigorous compliance plans consisting of multiple corrective and monitoring actions. These efforts include the settlement with American Electric Power Company in which they agreed to pay a $21 million civil penalty under the NGPA, the largest civil penalty ever collected by the Commission.

The twenty-six operational audits the Commission completed focused on transmission market power, tariff compliance, affiliate abuse, standards of conduct and code of conduct compliance, and filing requirements. These operational audits resulted in stringent compliance plans containing 87 corrective actions involving organizational, procedural, and process remedies. In addition, the Commission ordered refunds of $10.5 million to energy customers as a result of its operational audits. Our current and future audit efforts will focus on ensuring that public utilities and natural gas pipelines are (1) complying with their tariffs and other Commission precedents and (2) operating their transmission and transportation systems in a way that is fair to all customers.

The eighteen financial audits the Commission completed during FY 2005 covered a wide range of financial accounting and reporting topics, including cash management compliance filings, data reported by gas pipelines in FERC Form No. 2 reports, RTO and ISO operations, and formula rate billings. Currently, audits are underway to examine EQR data submissions and compliance under the Commission's interlocking directorate rules for officers and directors of electric companies, operating expense data reported by electric companies in FERC Form No. 1 reports, and nuclear decommissioning trust fund accounting for a nuclear generating unit undergoing decommissioning.

The Commission's twenty-nine investigations focused on possible instances of market power and manipulation, undue discrimination or affiliate abuses, violations of rules and tariffs and the Enron-related manipulation of short-term prices in the electric or natural gas markets or undue influence over wholesale prices during the western energy market crisis of 2000 and 2001.

Additionally, the Commission has investigated the communication of non-public storage inventory information in violation of the Commission's Standards of Conduct rule. We found that employees of Dominion Resources, Northern Illinois Gas Company, Columbia Gas Transmission Corporation, and Transcontinental Gas Pipeline Corporation released such information to one or more of their customers, which may have resulted in undue preference when dealing with transactions involving the purchase and sale of natural gas in the wholesale market. These four companies have settled with the Commission and have agreed to pay $15.6 million in civil penalties and refunds, and in addition will undertake prospective measures to deter similar conduct in the future.

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 Commodity Futures Trading Commission (CFTC) and the U.S. Department of Justice. Pursuant to EPAct 2005, the Commission and the CFTC executed a Memorandum of Understanding relating to sharing information on October 12, 2005.

Encourage Settlements to Resolve Disputes in an Expeditious Manner.

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

The Commission's Dispute Resolution Service (DRS) continues to be a great resource for facilitation and mediation, and offers consultation and training in effective facilitation and negotiation skills to individuals and organizations that do business with the Commission, state agency personnel, and Commission staff. To help achieve the objective of increased use of ADR, the DRS is implementing the Commission's Conflict Resolution Training Program, which emphasizes training staff in negotiation and facilitation skills, as well as conflict assessment, early neutral evaluation, and the design and maintenance of a successful collaborative process. This effort has further increased exposure for the Commission's DRS and consistently results in successful mediation of at least 75 percent of the cases referred to it.

In addition to being a source for enforcement investigations, the Enforcement Hotline continues to be a quick and effective resource for addressing informal market-related disputes and questions. Between June 2004 and May 2005, the Enforcement Hotline received 82 market-related calls.

Act Swiftly on Complaints, Using Administrative Litigation as Needed to Determine Factual Issues.

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

Since litigation can be costly and time-consuming, we are always seeking to streamline the process as much as possible. 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. During FY 2004, approximately 75 percent of the cases referred to litigation before an administrative law judge were resolved through some means of ADR.

By way of example, Commission trial staff achieved settlements in four significant cases in 2004. Two of the cases involved highly contested massive transmission rate increases, one with novel financing issues. The cases, Commonwealth Edison and American Transmission Company, were settled with staff within thirteen and five months of being set for hearing, respectively. Trial staff also settled two natural gas pipeline cases, one an $85 million rate increase with cost allocation issues and the other involved a system expansion to accommodate new LNG supplies.

Encourage Self-Reporting of Violations by Regulated Entities and Improve Processes to Allow Regulated Entities to Seek Clarifications of Commission Rules.

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 to December 2005 the Commission:

- made information available on its web page that explains the audit process, including answers to frequently asked questions regarding the Standards of Conduct;
- issued a NOPR that provides additional due process to entities that are subject to operational audits in the event they contest any of the findings in the audit report;
- 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; and
- 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 the Commission’s statutes, rules, regulations or orders.

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.

Objective 3.2 Performance Measures

Strategy		
Performance Measure	**Performance Target**	**Data Source**
Implement the Market Power and Enforcement Provisions of the Energy Policy Act of 2005		
Promulgate anti-manipulation rule	Issue final rule in 2006	Office of Market Oversight and Investigations / Office of the General Counsel
Improve the Commission's Enforcement Capabilities		
Improve Forensic Audits and Investigations information technology tools	Implement capability to search e-mails and voice recordings by June 30, 2007	Office of Market Oversight and Investigations
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 Market Oversight and Investigations
Investigate Statutory and Rule Violations, Imposing Penalties Where Appropriate and Promptly Terminating Investigations When no Violations are Identified		
Percentage of enforcement investigations completed	75% within one year of initiation	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on operational audits	100% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of operational audit recommendations issued and implemented	90%	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on financial audits	100% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of financial audit recommendations issued and implemented	90%	Office of Market Oversight and Investigations
Encourage Settlements to Resolve Disputes in an Expeditious Manner		
Percentage of non-environmental and non-tribal case assessments or convening sessions concluded	75% within 20 days	Dispute Resolution Service
Percentage of non-environmental, non-tribal 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	Minimum number of requests and referrals equal to the FY 2004 base year	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction	80% customer satisfaction rate	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
Percentage of Hotline calls resolved	70% within 2 weeks of initial contact	Office of Market Oversight and Investigations

Strategy		
Performance Measure	**Performance Target**	**Data Source**

Act Swiftly on Complaints, Using Administrative Litigation as Needed to Determine Factual Issues		
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

Encourage Self-Reporting of Violations by Regulated Entities and Improve Processes to Allow Regulated Entities to Seek Clarifications of Commission Rules		
Percentage of regulated entities audited to ensure internal compliance programs and processes are in place	20% annually	Office of Market Oversight and Investigations
Timeliness of responses to regulated entities seeking guidance and clarification on compliance issues	Within 60 days	Office of Market Oversight and Investigations / 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 Market Oversight and Investigations / 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 Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel

CHAPTER 4: MANAGEMENT INITIATIVES SUPPORTING ALL GOALS AND OBJECTIVES

Human Capital

For the last several years, the Commission's Human Capital Plan (Plan) has focused on targeted recruiting and hiring, as well as a redirected employee training and development program. These initiatives supported the Commission's transition to a more competitive, market-based regulatory environment, which required the acquisition of staff with new skills and the retraining of current staff in those skills.

With the recent passage of EPAct 2005, the Commission must now meet significantly increased requirements, including new rulemakings and reports to Congress with statutory deadlines. Continued focus on targeted hiring and training of staff will be even more critical in order to meet these new requirements and resultant workload at a time of already significant Commission workload.

These new requirements dictate additional resources with very specialized expertise. The targeted hiring program in our Plan – focused on entry, mid, and senior level positions – will serve to address these human capital needs. The Commission's highly successful entry level recruiting program (intended in part to help change the aging demographic of its staff) will focus on those disciplines which fit the new requirements. Continued use of early out retirement authority will facilitate controlled attrition, making room for the needed entry level hires.

Additionally, the Commission will continue its successful markets-oriented curriculum to properly orient both its entry level and experienced staff to the new workload. The Commission will supplement this focused hiring/training program with an employee retention program to protect its human capital investment and ensure continuity. Overlaying these training programs will be the Commission's continued emphasis on leadership development, reflected in the establishment of three new programs.

Information Technology

The Commission is aligning 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 those challenges, the Commission is constantly improving the stability, reliability, and security of its IT infrastructure and data repositories.

In FY 2006, we completed adding target-state and transition plan information to our Enterprise Architecture to continue to improve our IT Capital Planning and Investment Control process. These changes will allow the Commission to continue to support the modernization of its current systems and to direct IT investment dollars toward projects that will yield the greatest benefits. In FY 2006 we used this approach to significantly improve our management of centralized data storage, and in FY 2007 we will continue to transition to our 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, we will continue extending FERC Online eFiling capabilities to cover all documents submitted in Commission proceedings – including complex documents, those containing CEII and those with fee requirements. In FY 2006, we implemented electronic filing of tariffs with our eTariff initiative. We will continue to actively participate in federal eGovernment initiatives.

In FY 2006, the Commission implemented the second phase of its agency-wide FERC Online Activity Tracking Management System for improved workload tracking, business planning, and budgeting and will continue our phased implementation in FY 2007.

To deal with the possibility of disruptions in agency operations, we continue to improve our Continuity of Operations Planning and have tested our disaster recovery procedures. To ensure the availability and reliability of our office automation support systems, in FY 2007 we will continue to upgrade our operations and maintenance capabilities, configuration management procedures, contingency preparedness and computer security program.

In carrying out all of these activities, we will continue to improve and strengthen our compliance with the Federal Information Security Management Act and other applicable Office of Management and Budget (OMB) and National Institute of Standards and Technology guidance.

Agency Resources

During FY 2005, the Commission made significant improvements to its internal processes that will both improve internal accountability (in the short-term) and budget and performance integration (in the long-term).

In October 2004, the Commission implemented new time and labor codes based on the structure of its Business Plan, which aligns all of the Commission's activities to a strategic goal and objective. Using the Business Plan as the basis for tracking employee's time, the Commission is now able to track actual full-time equivalent (FTE) usage at an aggregate activity level within our strategic goals and objectives. In line with the President's Management Agenda goal to improve budget and performance integration, this new reporting capability will:

- provide a direct link to our strategic goals and objectives;
- improve the accountability and accuracy of our time reporting;
- identify potential problem areas by comparing actual and projected FTE usage against specific workload items; and
- identify potential time reporting discrepancies by comparing actual FTE usage against planned or projected FTE usage.

The Commission plans to use this new reporting capability to allocate its budget dollars against its strategic objectives by the end of FY 2007.

In April 2005, as a result of two recommendations from the FY 2004 financial statements audit, the Commission re-established its Internal Audits Division and implemented stricter controls on maintaining obligations. While both initiatives will improve the Commission's ability to proactively address program and funding related issues, the new Internal Audits Division will also help the Commission prepare for implementing the revised OMB Circular A-123 guidance on Management's Responsibility for Internal Control.

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.

Chapter 4 Performance Measures

Performance Measure	Performance Target	Data Source
Strategy		
Implement the Human Capital Plan to Meet Challenges of New Commission Roles and Changing Workforce Demographics		
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
Use the Right Mix of Internal Workforce and Contracted Services from the Private Sector to Meet the Agency's Statutory Mandates Efficiently and Effectively		
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
Complete the Implementation of e-government Initiatives to Expedite Interactions with Customers		
Customers are satisfied with the use of eGovernment initiatives to interact with FERC	90%	Office of the Executive Director
Build Effective Electronic Workload/time-management and Case-processing Systems to Expedite Work Processes		
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
Integrate Budget, Business Plan, and Performance Measurement to Improve Performance and Accountability		
Align Commission costs to strategic objectives	Complete by September 2007	Office of the Executive Director
Generate Accurate and Timely Financial Information to Support Operating, Budget, and Policy Decisions		
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

Strategy		
Performance Measure	**Performance Target**	**Data Source**
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
Reach Out to Groups Affected by Agency Actions in a Timely Manner		
Ensure timely and effective communications to all stakeholders	➢ Issue 95% of press releases for important agency actions within 1 hour of action being taken ➢ Post 95% of important and time-sensitive agency actions on the Commission's internet website within 1 hour of issuance ➢ Respond to 60% of public inquiries within 3 business days, and 100% within 5 business days	Office of External Affairs
Build Strong Partnerships with all Stakeholders, Legislators and Regulators		
Enhance communication with National and International groups	➢ Respond to Congressional inquiries and briefing requests within 5 business days ➢ Respond to Official Congressional correspondence within 10 business days ➢ Provide email notification of regional hearings or conferences to State officials and Governors within 5 business days of decision ➢ Respond to 60% of international delegation meeting requests within 3 business days and 100% within 5 business days	Office of External Affairs

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APPENDIX A

ACRONYM GLOSSARY

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Acronym	Full Description
ADR	alternative dispute resolution
ALP	alternative licensing process
CAISO	California Independent Transmission System Operator
CEII	critical energy infrastructure information
DHS	U.S. Department of Homeland Security
DOE	U.S. Department of Energy
DOT	U.S. Department of Transportation
DRS	Dispute Resolution Service
EAP	Emergency Action Plan
EIA	Energy Information Administration
EPAct	Energy Policy Act of 2005
EQR	Electric Quarterly Report
ERO	Electric Reliability Organization
FGT	Florida Gas Transmission Company
FPA	Federal Power Act
FPC	Federal Power Commission
FTE	full-time equivalent
HSPD-7	Homeland Security Presidential Directive
ICT	Independent Coordinator of Transmission
ILP	integrated licensing process
IOGCC	Interstate Oil and Gas Compact Commission
ISO	Independent Transmission System Operator
ISO-NE	Independent Transmission System Operator - New England, Inc
IT	information technology
JOA	Joint Operating Agreement
LNG	liquefied natural gas
Midwest ISO	Midwest Independent Transmission System Operator
MMC	Market Monitoring Center
MMU	Market Monitoring Unit
MOU	Memorandum of Understanding
MW	megawatts
NAESB	North American Energy Standards Board
NEPA	National Environmental Policy Act of 1969
NERC	North American Electric Reliability Council
NGA	Natural Gas Act of 1938
NGPA	Natural Gas Policy Act of 1978

Acronym	Full Description
NOI	Notice of Intent
NOPR	Notice of Proposed Rulemaking
NRC	Nuclear Regulatory Commission
NYISO	New York Independent Transmission System Operator
OASIS	Open Access Same-time Information System
OATT	Open Access Transmission Tariff
OMB	Office of Management and Budget
PAD	pre-application document
PJM	PJM Regional Transmission Organization
RTO	Regional Transmission Organization
SCADA	supervisory control and data acquisition
SPP	Southwest Power Pool
TLP	traditional licensing process
VEPCO	Virginia Electric and Power Company
WSA	Waterway Suitability Assessment

APPENDIX B

STATUTORY AUTHORITY

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Statutory Authority

As mentioned in the introduction, 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, Hydro
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
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); [$220,400,000] *$230,800,000* to remain available until expended: *Provided*, That notwithstanding any other provision of law, not to exceed [$220,400,000] *$230,800,000* of revenues from fees and annual charges, and other services and collections in fiscal year [2006] *2007* 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 [2006] *2007* so as to result in a final fiscal year [2006] *2007* appropriation from the General Fund estimated at not more than $0.

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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 2004 Actual	FY 2005 Actual			FY 2006 Estimate			FY 2007 Estimate		
Pipeline Certificates	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Construction Activity	52	68	72	48	70	70	48	70	90	28
Prior Notice & Abandonments	11	32	37	6	45	45	6	45	45	6
Compliance Filings & Reports	81	257	274	64	245	245	64	250	250	64
Environmental Analysis	45	104	111	38	100	100	38	95	100	33
Compliance & Safety Inspections	0	233	233	0	250	250	0	250	250	0
Rehearings	7	16	15	8	14	18	4	10	8	6
Complaints	2	1	3	0	2	2	0	2	2	0
Declaratory Orders	2	1	3	0	2	2	0	2	2	0
Remands	1	1	2	0	1	1	0	1	1	0
Dispute Resolution Services	1	3	2	2	5	5	2	6	6	2

Hydropower Licensing	P	R	C	P	R	C	P	R	C	P
Original Licenses	18	7	6	19	12	9	22	12	10	24
Relicenses	78	8	35	51	11	25	37	10	20	27
5 MW Exemptions	2	1	2	1	3	2	2	3	3	2
Rehearings	47	88	110	25	30	30	25	30	30	25
Declaratory Orders	0	1	1	0	2	2	0	2	2	0
Remands	3	0	3	0	1	1	0	1	1	0
Cases Set for Hearing	0	0	0	0	0	0	0	0	0	0
Dispute Resolution Services	7	5	6	6	7	7	6	7	7	6

Project Compliance and Administration	P	R	C	P	R	C	P	R	C	P
Amendments	204	1,924	1,966	162	1,850	1,800	212	1,850	1,800	262
Jurisdiction	2	5	5	2	10	10	2	10	10	2
Federal Lands	0	53	53	0	45	45	0	45	45	0
Headwater Benefits	8	120	120	8	120	120	8	120	120	8
Compliance	77	514	457	134	325	325	134	325	325	134
Surrenders, Transfers	20	31	38	13	45	45	13	45	45	13
Conduit Exemptions	0	4	1	3	4	7	0	4	4	0
Environmental Inspections And Assistance	22	170	170	22	170	170	22	170	170	22
Preliminary Permits	100	53	116	37	30	30	37	30	30	37
Rehearings	34	20	54	0	25	25	0	25	25	0
Complaints	0	7	7	0	8	8	0	8	8	0
Dispute Resolution Services	2	2	2	2	2	2	2	2	2	2

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

COMMISSION WORKLOAD	FY 2004 Actual	FY 2005 Actual			FY 2006 Estimate			FY 2007 Estimate		
Dam Safety and Inspections	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Operations Inspections[2]	811	1,427	1,414	824	1,489	1,553	760	1,365	1,381	744
Prelicense Inspections	11	13	18	6	8	8	6	9	8	7
Construction Inspections	50	144	155	39	145	148	36	160	160	36
Exemption Inspections	134	274	283	125	313	299	139	291	276	154
Special Inspections	47	184	200	31	107	111	27	92	92	27
Engineering Evaluation & Studies	708	6,204	6,241	671	6,336	6,362	645	6,336	6,356	625
Part 12 Reviews	184	201	274	111	208	228	91	245	237	99
Dam Safety Reviews	26	88	89	25	62	59	28	71	68	31
EAP Tests	18	42	43	17	51	51	17	49	49	17

Rates and Tariffs	P	R	C	P	R	C	P	R	C	P
Gas Certificates & Rate Evaluations	33	54	38	49	50	55	44	50	55	39
Market-Based Rates	618	2,154	1,742	1,030	1,900	2,400	530	1,900	2,100	330
Dispute Resolution Services (Electric)	4	33	32	5	35	35	5	37	37	5
Rehearings (Electric)	414	492	493	413	250	300	363	250	300	313
Complaints (Electric)	29	46	46	29	25	30	24	25	30	19
Declaratory Orders (Electric)	15	15	23	7	12	12	7	12	12	7
Remands (Electric)	11	18	11	18	6	6	18	6	6	18
Negotiated Rates	25	295	302	18	295	300	13	295	300	8
Cost-Based Rates	208	1,941	1,891	258	2,050	2,100	208	2,050	2,100	158
Service Terms and Conditions & Order 637	44	302	312	34	300	300	34	300	300	34
Dispute Resolution Services (Gas)	2	8	7	3	10	10	3	10	10	3
Rehearings (Gas)	62	64	79	47	40	80	7	40	40	7
Complaints (Gas)	2	1	3	0	2	2	0	2	2	0
Declaratory Orders (Gas)	0	3	0	3	1	3	1	1	1	0
Remands (Gas)	2	3	3	2	2	4	0	2	2	0
RTO & ISO Filings	110	209	280	39	200	200	39	200	200	39
Compliance Certificate & Rate Filings	450	1,379	1,168	661	900	1,000	561	850	950	461
Compliance Refund Reports	61	158	125	94	150	160	84	150	160	74
Dispute Resolution Services (Oil)	0	1	1	0	1	1	0	1	1	0
Rehearings (Oil)	23	3	18	8	20	26	2	7	5	4
Complaints (Oil)	4	6	1	9	4	11	2	4	6	0
Declaratory Orders (Oil)	0	1	1	0	2	2	0	2	2	0
Remands (Oil)	1	8	9	0	8	5	3	1	4	0

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

COMMISSION WORKLOAD	FY 2004 Actual	FY 2005 Actual			FY 2006 Estimate			FY 2007 Estimate		
Corporate Applications	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Interlocking Positions	7	445	249	103	450	520	33	450	480	3
Mergers	0	4	2	2	8	8	2	8	8	2
Asset Acquisition or Disposition	24	138	134	28	130	130	28	130	130	28
Cogen, Small Power Producer & QF	65	559	566	58	550	560	48	550	560	38
Compliance & Other Corporate Filings	18	49	57	10	80	80	10	80	80	10
Dispute Resolution Services	0	0	0	0	1	1	0	1	1	0

Legal Matters	P	R	C	P	R	C	P	R	C	P
Cases Set for Hearing	79	147	125	101	135	135	101	135	135	101
Settlement Judge Proceedings	75	103	104	74	100	100	74	100	100	74
Dispute Resolution Services (Outreach)[3]	15	66	58	23	68	68	23	68	68	23
Appellate Review	140	105	100	145	110	105	150	115	110	155
Audits	49	91	48	92	32	99	25	33	32	26
Accounting	45	76	89	25	80	85	20	80	85	20

[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 2005 Actual	FY 2006 Estimate	FY 2007 Request	% (+/-) FY 2006 to FY 2007
Electric Power	$98,005	$105,715	$111,409	5.4%
Natural Gas & Oil Pipelines	$51,851	$55,434	$57,696	4.1%
Hydropower	$57,117	$59,251	$61,695	4.1%
TOTAL	**$206,973**	**$220,400**	**$230,800**	**4.7%**

FTEs

Industry	FY 2005 Actual	FY 2006 Estimate	FY 2007 Request	% (+/-) FY 2006 to FY 2007
Electric Power	605	634	653	3.0%
Natural Gas & Oil Pipelines	318	328	332	1.2%
Hydropower	335	333	335	0.6%
TOTAL	**1,258**	**1,295**	**1,320**	**1.9%**

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APPENDIX F

OBJECT CLASS TABLE

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Object Class Summary
(Dollars in Thousands)

OBLIGATIONS		FY 2005 Actual	FY 2006 Estimate	FY 2007 Request
11.9	Personnel Compensation	$118,849	$126,886	$132,938
12.1	Benefits	27,718	28,395	30,985
13.0	Benefits for Former Personnel	1,643	10	10
Total, Personnel Compensation & Benefits		$148,210	$155,291	$163,933
21.0	Travel and Transportation of Persons	2,770	3,164	3,430
22.0	Transportation of Things	(28)	1	1
23.1	Rental Payments to GSA	19,043	19,919	20,817
23.2	Rental Payments to Others	426	477	497
23.3	Communications, Utilities & Misc. Charges	1,523	1,983	1,982
24.0	Printing and Reproduction	2,611	2,735	3,125
25.0	Other Services	28,037	31,438	31,618
25.1	Advisory and Assistance	5,781	6,672	7,391
25.2	Non-Federal	1,826	2,913	2,780
25.3	Federal	886	660	706
25.4	Operation & Maintenance of Facilities	1,662	2,089	1,774
25.7	Operation & Maintenance of Equipment	17,882	19,104	18,967
26.0	Supplies and Materials	776	1,020	1,030
31.0	Equipment	3,379	4,302	4,297
41.0	Grants, Subsidies & Contributions	39	45	45
42.0	Insurance Claims and Indemnities	187	25	25
TOTAL, OBLIGATIONS		**$206,973**	**$220,400**	**$230,800**
Application of Prior Years' Budget Authority		3,027	0	0
GROSS BUDGET AUTHORITY		$210,000	$220,400	$230,800
Offsetting Receipts		(210,000)	(220,400)	(230,800)
NET BUDGET AUTHORITY		**$0**	**$0**	**$0**

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APPENDIX G

COMPARATIVE PERFORMANCE MEASUREMENT DATA

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Performance Measurements for Energy Infrastructure, FY 2002 – FY 2007

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

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Statutory cases by workload category	All cases competed by statutory action date	Of the nearly 3,000 statutory items whose due date fell in FY 2003, 99.7% were completed by the statutory action date.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
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: RP02-129-000, Southern LNG ***Filed:*** December 21, 2001 ***Order Issued:*** January 31, 2002 (Suspension order setting case for hearing) ***Case settled:*** Letter order issued October 10, 2002, accepting a settlement and closing out the case. ***Target:*** While this case was not acted on within 30 days, action did meet our statutory guidelines as we acted prior to the proposed effective date of February 1, 2002. The suspension order was dated January 31, 2002; the case was settled in early FY 2003. IS03-457, Plantation Pipe Line Co. ***Filed:*** July 31, 2003 ***Order Issued:*** August 29, 2003 ***Target:*** Met IS03-475, West Shore Pipe Line Co. ***Filed:*** August 12, 2003 ***Order Issued:*** September 30, 2003 ***Target:*** While this case was not acted on within the 30-day target, it met our statutory guidelines as we acted prior to the proposed effective date of October 1, 2003.
Implement generic policy on Large Generator Interconnections and Small Generator Interconnections	Issue final rules on both policies in FY 2003	The Large Generator Interconnection final rule was issued on July 24, 2003, and became effective on October 20, 2003. The Small Generator Notice of Proposed Rulemaking was also issued on July 24, 2003. The final rule will be issued in FY 2004.

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

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

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Percentage of final NEPA documents, required for hydropower license applications filed after FY 2002, completed within specified time frames	75% of final NEPA documents prepared for licenses approved within the following time frames: ➢ ALP case, less than 16 months ➢ TLP case, less than 24 months	➢ 83% of final NEPA documents were issued within 16 months of the date ALP license applications were deemed complete. ➢ 100% of final NEPA documents were issued within 24 months of the date TLP license applications were deemed complete.
Percent of final NEPA documents based upon comprehensive settlement agreements completed within specified time frames	75% of final NEPA documents prepared for final comprehensive license settlement agreements are completed within 12 months	100% of final NEPA documents were issued within 12 months of the date final settlement agreements were filed with the Commission.
Statutory cases by workload category	All cases competed by statutory action date	Over 99.6% of the 2,900 statutory cases were completed by the required date. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Establish clear cost recovery process for transmission investment in each region	Allow flexibility to ensure utilities or pipelines have sufficient revenue stream to recover investment costs and provide rate certainty for customers	The Commission approved over 100 applications, including 42 in the Western U.S. alone, that ensured rate recovery for utilities and provided additional rate certainty to customers. The Commission also approved 11 applications filed under NGA section 311 to establish rates for interstate gas transportation services provided over intrastate and Hinshaw pipeline systems and another 11 applications by Western U.S. interstate pipelines to establish rate recovery for additional gas infrastructure investment. In the liquefied natural gas (LNG) industry, the Commission provided significant investment recovery certainty by issuing orders establishing initial rates for three proposed LNG import terminal facility projects: ➢ Tractebel Calypso; ➢ AES Ocean Express; and ➢ Trunkline LNG.
Process qualifying facilities workload (regulatory cases)	100% of cases processed by regulatory deadline	100% of QF certification or re-certification applications were completed within the regulatory 90-day time frame prescribed in 18 CFR § 292.207(b)(3)(i).
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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard potential dams were inspected.
Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	95% of high- and significant-hazard-potential dams met all current structural safety standards.
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	99.8% of qualifying dams were in compliance with EAP requirements. The two dams that were not in compliance (because of overdue EAP filings) were promptly issued non-compliance letters and are being closely monitored to bring them back into compliance as soon as possible.
Recovery of companies' prudently incurred costs to safeguard the reliability and security of energy transportation and supply infrastructure	Timely processing of filings seeking recovery of security and safety costs in jurisdictional rates by statutory action date	All 17 oil pipeline applications to either establish or revise security cost recovery mechanisms or charges were processed within the 30-day statutory period. In addition, both of the gas pipeline applications to recover security-related costs as part of a general rate increase were processed by statutory action date.
	Encourage innovative proposals to recover prudently incurred security costs	Commission staff has met, and continues to meet, with industry representatives, such as the Association of Oil Pipe Lines, to develop innovative recovery methods that reflect the diversity of rate designs, services and system configurations of companies that have identified a need for additional security measures.

FY 2005		
Performance Measurement	**Performance Target**	**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%.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
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.
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.

<table>
<tr><th colspan="3">FY 2005</th></tr>
<tr><th>Performance Measurement</th><th>Performance Target</th><th>Result</th></tr>
<tr><td>Participation with NERC in reliability readiness reviews over next 3 years to ensure grid reliability</td><td>One-third of the Nation’s control areas reviewed with NERC annually</td><td>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.”</td></tr>
<tr><td>Timeliness of processing proposals to recover prudently incurred costs to improve the reliability of the transmission grid</td><td>100% of all filings, including innovative proposals, seeking recovery of reliability costs in transmission rates processed by the statutory action date</td><td>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.</td></tr>
<tr><td rowspan="2">Clarity and enforceability of reliability rules, with effective penalties for non-compliance</td><td>Assess each region’s reliability rules and penalties to determine whether they specify reliability violations and include enforceable and effective penalties</td><td>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.</td></tr>
<tr><td>Require each new RTO or ISO to address reliability considerations prior to becoming operational</td><td>Target Met. Prior to becoming operational, each of the six existing RTOs/ISOs addressed reliability considerations.</td></tr>
<tr><td>Evaluate the effectiveness of Commission required resources protection measures, and disseminate information on the results.</td><td>Conduct a workshop and disseminate one report on the results of the evaluation.</td><td>Target Met. During FY 2005, the Commission conducted a workshop on shoreline management and issued a report on its evaluation of recreation mitigation effectiveness.</td></tr>
<tr><td>Maintain environmental quality at hydropower projects.</td><td>Resource protection measures constructed and implemented according to license requirements.</td><td>Target Met. Environmental inspections during FY 2005 indicated that all resource protection measures at inspected projects were constructed and implemented according to license articles.</td></tr>
<tr><td rowspan="3">Enhance dam safety</td><td>100% of high- and significant-hazard-potential dams inspected annually</td><td rowspan="3">Target Met. During FY 2005, the following percentage of dams met the stated targets:
➢ 100%
➢ 95%
➢ 100%</td></tr>
<tr><td>Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high</td></tr>
<tr><td>100% of qualifying dams in compliance with EAP requirements</td></tr>
</table>

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	Office of Energy Projects / Office of the General Counsel
Issue final rules on mandatory pre-filing process for LNG terminal proposals	Within 60 days of enactment of EPAct 2005	Office of Energy Projects / Office of the General Counsel
Complete MOU with Secretary of Defense on coordination of LNG facilities affecting active military installations	By March 31, 2006	Office of Energy Projects / Office of the General Counsel
Issue reports to Congress on Alaska Natural Gas Pipeline	Reports issued in February 2006 and August 2006	Office of Energy Projects
Establish rules for transmission infrastructure incentives	Issue rules by August 8, 2006	Office of Energy Markets and Reliability / Office of the General Counsel
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	Office of Energy Markets and Reliability / Office of the General Counsel
Establish process to review ERO proposed initial reliability standards	By March 31, 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Issue report to Congress on operator training	By December 31, 2005	Office of Energy Markets and Reliability
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	Office of Energy Projects
Percentage of pipeline certificate cases with no precedential issues completed	➢ 90% of 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 one year of filing	Office of Energy Projects / Office of the General Counsel

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of pipeline certificate cases requiring a major environmental assessment or environmental impact statement completed	90% within 18 months 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 at least once every eight weeks	Office of Energy Projects
Percentage of LNG import terminals inspected	100% inspected annually	Office of Energy Projects
Percentage of LNG peak-shaving terminals inspected	50% inspected annually	Office of Energy Projects
Percentage of ILP pre-filing notices for NOI/PAD and initial scoping document issued	85% within 60 days of NOI/PAD filing	Office of Energy Projects / Office of the General Counsel
Percentage of ILP pre-filing scoping meetings and site visits completed	85% within 90 days of NOI/PAD filing	Office of Energy Projects / Office of the General Counsel
Percentage of ILP pre-filing study plan determinations completed	85% within 315 days of NOI/PAD filing	Office of Energy Projects / Office of the General Counsel
Percentage of final NEPA documents issued for ALP/TLP cases with settlement agreements	85% within 12 months	Office of Energy Projects / Office of the General Counsel
Percentage of final NEPA documents issued for ALP/TLP cases without settlement agreements	85% within 24 months	Office of Energy Projects / Office of the General Counsel
Percentage of non-independent transmission provider open access transmission tariffs that have standard generator interconnection procedures in compliance with Order No. 2003 and small generator final rule	75% by September 30, 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of cases for cost recovery, new services, or changes to existing services processed	➢ 100% of NGA section 4 cases in 30 days ➢ 100% of FPA section 205 cases in 60 days	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of rate cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of rate cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of Commission Opinions issued once Briefs Opposing Exceptions to Initial Decisions are filed	90% within 12 months	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of merit orders accepting, modifying, or rejecting timely filed cost recovery proposals for new infrastructure submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Energy Markets and Reliability / 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
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

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
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	Office of Energy Markets and Reliability / Office of the General Counsel
Issue final rule on Electric Reliability Organization (ERO) certification and mandatory reliability standards enforcement	Rules issued by February 4, 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of new RTOs or ISOs performing reliability functions included in Orders No. 2000 or No. 888, respectively	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred reliability costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of merit orders accepting, modifying, or rejecting timely filed proposals to recover prudently incurred safety and security costs submitted (including time for hearing, ADR, or settlement judge participation)	95% by applicant request date	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of high- and significant-hazard-potential dams inspected annually	100%	Office of Energy Projects
Percentage of high- and significant-hazard-potential dams that either meet all current structural safety standards or are undergoing investigation or remediation	100%	Office of Energy Projects
Percentage of qualifying dams that either comply with EAP requirements or are conducting follow-up action(s) on outstanding item(s)	100%	Office of Energy Projects
Number of instances of unauthorized access to Critical Energy Infrastructure Information (CEII)	No instances	Office of the General Counsel
Number of complaints from CEII requesters on inability to participate in a proceeding due to failure to obtain CEII in a timely manner	None	Office of the General Counsel

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Implement the Infrastructure Provisions of the Energy Policy Act of 2005		
Issue Alaska Gas Pipeline Reports to Congress	Issue Reports in February and August 2007	Office of Energy Projects / Office of the General Counsel
Timeliness of applications processed for incentive rates under section 219 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
Make Final Decisions on Proposed Projects in a Timely Manner, Consistent with Statutory Mandates and Due Process, and Continue to Seek Improvements in the Commission's Processing of Project Applications		
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

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
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 qualifying LNG plants inspected during ongoing construction activity	100% of plants inspected every 8 weeks	Office of Energy Projects
Implement Integrated Licensing and Pre-Filing Processes and Interagency Agreements Facilitating Hydropower Licensing, Pipeline and Storage Certification and LNG Facility Authorization		
Percentage of ILP pre-filing study plan determinations completed	85% within 315 days of NOI/PAD filing	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 Regional Electric System Planning to Meet Reliability, Security and Market Needs		
Timeliness of responding to completed proposals for regional electric system planning	Processed by the statutory due date	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of regional entities with approved system expansion planning	Increase over FY 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Maintain High Level of Regulatory Certainty in Commission Policies		
Process cost recovery cases within reasonable timeframes	➢ 100% of statutory cases within statutory deadlines ➢ 90% of cases set for hearing within 12 months of briefs opposing exceptions	Office of Energy Markets and Reliability / Office of the General Counsel
Encourage Balanced Innovative Proposals that Provide Incentives for Appropriate Infrastructure Investment		
Number of innovative or flexible rate designs in effect to encourage energy infrastructure development	Increase over FY 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Encourage Potential Applicants for Licenses or Certificates to Utilize the Commission's Collaborative Pre-Filing Process		
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 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
Incorporate Reasonable Environmental Conditions into Permits, Licenses, and Certificates and Regulate Compliance with Conditions		
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

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of qualifying, major, onshore-pipeline projects inspected during ongoing construction activity	100% of projects inspected at least once every four weeks	Office of Energy Projects
Oversee the Development and Enforcement of Mandatory Grid-Reliability Standards to Protect the Bulk Power Supply		
Percentage of proposed reliability standards reviewed	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Develop audit procedures to implement the post-EPAct 2005 ERO processes	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
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 enforcement rulings reviewed to prevent inappropriate rulings from going into effect by default	100%	Office of Energy Markets and Reliability / Office of the General Counsel
Regulate the Safety of Hydropower Projects and LNG Import Facilities Licensed by the Commission		
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
Serve as Lead Federal Agency on Siting and Authorization of LNG Import Facilities, Hydropower Facilities, and Interstate Natural Gas Pipelines and Storage Facilities		
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
Work with Other Agencies and Industry to Address and Improve Infrastructure Security		
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

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Allow Prompt Recovery of Prudently-Incurred Expenses to Safeguard and Enhance the Reliability, Security and Safety of the Energy Infrastructure		
Percentage of complete proposals resolved on merits	➢ 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

Performance Measurements for Competitive Markets, FY 2002 – FY 2007

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

FY 2002		
Performance Measurement	**Performance Target**	**Result**
➢ Number and size of capacity holders by market ➢ Number and size of natural gas and electric secondary market participants ➢ Number and size of pipeline suppliers by region and major customer ➢ Number and size of electric power marketers	➢ Reasonable range of suppliers should lead to competitive pricing ➢ Participation indicates confidence in market rules and oversight	Several significant energy marketers have announced either plans to exit the energy trading business, or consideration of exit. Generally sited reasons include financial underperformance and credit concerns. The resulting contraction can have negative effects on liquidity in energy markets. Companies that have announced complete or partial exits from energy trading in recent months include large players like: ➢ American Electric Power ➢ Aquila ➢ Dynegy ➢ El Paso Companies considering exit include ➢ Allegheny ➢ CMS Some players have announced interest in entering as well, including the Bank of America.
Response of prices to external conditions in natural gas and electricity (e.g., events, weather, plant outages)	Large price changes should normally be associated with some clear external event	Price differences that have been associated with external events in 2002 included: ➢ The Leona fire in California in September 2002 caused a key transmission path to be taken out of service, and caused price differences between Northern and Southern California. ➢ Hurricanes in the Gulf (Isidore and Lilli) caused temporary price increases in natural gas prices in September, but prices returned to normal levels after the storms. ➢ Natural gas pipeline capacity into New York City is sometimes constrained, causing significant price increases. Price increases occurred at the end of July 2002 and early in August, with prices rising to a daily midpoint price of $7.65. Although these price increases were related to capacity constraints on the pipeline system, they were nevertheless unusual for the season and are still being investigated to assess their cause. ➢ Natural gas prices in Florida have spiked due to capacity problems that are exacerbated by lack of storage capacity. These price increases have occurred under higher load conditions or when Operational Flow Orders have limited pipeline capacity.
Level of price volatility and changes in price volatility in electricity and gas	Changes in price patterns over time can reveal underlying market conditions	Futures price information indicates a slight lowering of price volatility for natural gas since June 2002, in comparison to 2001. From June to September, 30-day volatilities for the near-month contract have ranged from 40 to 70, compared with 80 to 100 during the last quarter of 2001. Without futures prices, similar calculations cannot be made for electricity; however, volatility has clearly dropped from pre 2002 levels.

<table>
<tr><th colspan="3">FY 2002</th></tr>
<tr><th>Performance Measurement</th><th>Performance Target</th><th>Result</th></tr>
<tr><td>Correlation of commodity prices across regions; narrowing of commodity price differences in the absence of transmission constraints</td><td>Correlations should be near 1.0, except when transmission constraints bind and prevent free flow of commodities</td><td>This performance measure is intended to gauge the extent to which arbitrage is causing prices to clear across regions – if arbitrage is effective, price difference should narrow. For 2002, this measure was studied by examining price difference identifying causes that were preventing arbitrage from being effective, or conducting further study to identify causes. These analyses of external conditions are described above under the performance measure for the responsiveness of prices to external conditions.</td></tr>
<tr><td>Increased use of market hub services in natural gas and electricity</td><td rowspan="3">➢ Increased usage of market infrastructure indicates market depth and liquidity
➢ Increased electronic commerce reduces transactions costs and allows broader market participation</td><td>Use has been affected negatively by contraction in the industry (see performance measure 1 of this section).</td></tr>
<tr><td>Growth of electronic services for the commodity and/or transportation</td><td>Higher quality options have replaced lower quality options and are showing some strength (see performance measure 3 of this section).</td></tr>
<tr><td>Increased economic transmission distance</td><td>Growth in RTOs and the associated development of regional markets in the Midwest (MISO) and through additions to Pennsylvania-New Jersey-Maryland (PJM) have begun to provide the basis for the needed market infrastructure. PJM has added one additional utility as part of PJM west and is beginning the process of adding AEP and other utilities. MISO has begun operation and is planning the development of markets along the lines of the Commission's Standard Market Design (SMD.) In addition, there are designs being discussed among MISO and PJM for the operation of a joint market. These developments will begin to reduce the transactions costs of participation in a broader power market.</td></tr>
<tr><td>Investment in generation and transmission</td><td>Investment should be adequate to meet market needs</td><td>There has been substantial growth of generation capacity in 2002. Nationwide, approximately 71,000 megawatts of electricity capacity is expected to be added in 2002, on top of around 42,000 megawatts added in 2001. The total capacity added in these two years (113,000 MW) is greater than the total capacity added from 1990 to 1999 (87,000 MW.) At the same time, many future projects have been cancelled or tabled as a result of lower prices in forward markets and the financial problems of many companies. The current outlook is for adequate generation supplies in the near term, but an uncertain outlook in the longer term that will require continued assessment.

Transmission investment increased in 2002 compared with previous years, roughly in proportion to the growth in generation. Thus, transmission capacity remains adequate for basic reliability and to accommodate the basic needs of interconnecting new generation capacity. However, there has been no evidence that transmission capacity has been expanded to address the needs of a changing market structure.</td></tr>
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FY 2002		
Performance Measurement	**Performance Target**	**Result**
Number and type of reliability-related incidents (emergencies, involuntary load reductions, TLRs)	'Emergencies' should be infrequent; routine market rules should be able to handle most situations	TLR events have not decreased in 2002. This is one of the issues that the Commission is addressing in the Standard Market Design rulemaking.
Amount of load covered by regional institutions	20% increase over FY 2001	Performance target achieved.
Amount of load with congestion management systems	20% increase over FY 2001	Performance target achieved.
Number of wholesale service options available	Increase	Prior to FY 2002, the Commission believed tracking the number of wholesale service options available would provide a measure for increased pricing efficiency. This indicator became invalid once the Commission began advancing competitive markets through development of a standard market design. When a standard market design (SMD) is implemented, electric markets will have a strong long-term basis for providing customers with the very real and significant benefits that come from competition. After the country is required to adopt some form of SMD, new measurements will be developed to track its success (e.g., lowering costs through standardized features, etc.).

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

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Benchmarks to be established in FY 2003	Target is established for FY 2004 as follows: Non-controversial rulemakings completed within 9 months/controversial rulemakings completed within 12 months of external party action. ➢ During October 2002, NAESB filed natural gas industry standards with the Commission. The Commission codified the standards, on which all segments of the natural gas industry had reached consensus, in its Regulations in a Final Rule issued in March 2003, five months after submission. ➢ In June 2003, NAESB filed creditworthiness standards on which all segments of the natural gas industry participants were able to reach consensus; NAESB also reported additional proposed creditworthiness standards on which consensus was not reached. Action is pending on the creditworthiness standards.
Establish RTOs/ISOs with sufficient market monitoring and mitigation measures in place	Fewer complaints about rates in RTOs filed with the Commission	➢ In FY 2002, 19 complaints were filed against ISO/RTOs (ISO-NE 10, NYISO 5, and CAISO 4). ➢ In FY 2003, 6 complaints were filed against ISO/RTOs (ISO-NE/NEPOOL 3, NYISO 1, CAISO 1, and PJM 1). While complaints are fewer when comparing FY 2002 and 2003, we do not expect this to be the case in the future; rather, we anticipate more complaints as numbers of participants increase, and as RTOs mature beyond current stages. We will review this performance target for appropriateness. Focusing on the number of complaints about rates in RTOs does not highlight the fact that market monitoring units exist in all RTOs/ISOs and that they work together with the Commission to evaluate market performance and identify problems with proposed and existing market rules, market operations, and individual participant behavior.
RTO/ISO wholesale market design includes demand-response features	Measure increasing percentage of operating RTOs and ISOs with demand response programs	During FY 2003, four ISOs/RTOs (Cal ISO, NYISO, PJM, and ISO New England) operated demand response programs, and one RTO which does not yet run any energy market (Midwest ISO) did not. Since these four RTOs/ISOs operated demand response programs in FY 2002, there was no increase in the percentage of operating RTOs and ISOs during FY 2003. Nevertheless, throughout the year, FERC has encouraged and approved improvements in both the number and design of demand response in PJM, NYISO and ISO-NE. For example, FERC supported the New England Demand Response Initiative, a broad stakeholder process in New England, to provide a detailed assessment of ISO demand response programs and to develop recommended improvements.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Adopt market design standards for wholesale electric markets	Issue final Standard Market Design rule	In April 2003, the Commission issued a White Paper in the Standard Market Design proceeding that emphasized its strong commitment to customer-based, competitive wholesale power markets, while underscoring an increasingly flexible approach to regional needs and outlining step-by-step elaborations of its key market design proposal. The Commission intends to focus on the formation of RTOs and on ensuring that all independent transmission organizations have sound wholesale market rules. The final rule will allow implementation schedules to vary depending on local needs and will allow for regional differences. During the remainder of FY 2003, the Commission continued its dialogue on market design by holding a number of regional conferences to exchange ideas with stakeholders.
Enhanced regulatory support for market institutions	Creation of OMOI	OMOI established
	Creation of market performance indicators	Market performance indicators created with an ongoing process to add or delete metrics as appropriate.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Timely processing of filings to establish RTOs, ISOs, or Independent Transmission Companies (ITCs)	All filings processed within 6 months of filing, or before 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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Facilitate construction of electric infrastructure by providing investor confidence of probable cost recovery	Issue Final Policy Statement, "Pricing Policy for Efficient Operation and Expansion of Transmission Grid"	As the Commission considers whether additional incentives may induce a more effective infrastructure response, a final policy statement has not been issued. However, the Commission in effect accomplished this measure by approving incentives – similar to those suggested in the proposed policy statement – in individual cases where companies have formed RTOs.
Encourage State representatives to establish multi-state regional organizations (e.g., Regional State Committees (RSCs))	Meet at least annually with state representatives in each region	The Commission hosted and/or participated in numerous meetings with state representatives from each region with existing RTOs or ISOs.
Advance well-functioning markets that deliver the benefits of competition	Complete revisions to interim market-based ratemaking policy	In orders issued in AEP Power Marketing, Inc., et al., 107 FERC & 61,018 (2004), order on rehearing 108 FERC 61,026 (2004), the Commission adopted a new interim generation market power analysis to be applied to market-based rate applications.
All markets have in place rules that permit and encourage qualified demand response participation on an equal basis with supply	All RTOs and ISOs have rules, permitting demand response participation in RTO/ISO-controlled markets, in place and approved by the Commission within 1 year of commencing day-ahead markets	ISO NE, NY ISO and PJM RTO have market rules permitting, and operate, demand response programs that allow customers and load serving entities to participate (bid) in energy and capacity markets. In addition, enhancements to the market rules and demand response programs are in development or have already been filed with the Commission. On August 6, 2004, the Commission accepted a demand response mechanism framework as part of the Midwest ISO's open access transmission tariff. Although the Commission required further specification of certain aspects of the mechanism, the revisions will be filed well in advance of the March 1, 2005, date the Midwest ISO is scheduled to commence its day-ahead market. The CA ISO, through its Participating Load Program (Supplemental and Ancillary Services), manages a demand response program that allows loads to participate as price-responsive demand in the CA ISO Non-Spinning Reserves, Replacement Reserves, and Supplemental Energy markets.

FY 2005		
Performance Measurement	**Performance Target**	**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.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
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.
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	Office of Energy Markets and Reliability / Office of the General Counsel
Assess demand response	Issue annual report by August 8, 2006	Office of Energy Markets and Reliability / Office of the General Counsel / Office of Market Oversight and Investigations
Issue final rule to implement PUHCA provisions of EPAct 2005	By January 31, 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Issue rules governing market manipulation in electricity and gas markets	By September 30, 2006	Office of Markets, Tariffs and Rates / Office of the General Counsel
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	Office of Energy Markets and Reliability / Office of the General Counsel
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)	Office of Energy Markets and Reliability

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
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)	Office of Energy Markets and Reliability / Office of the General Counsel
RTO / ISO establishment of cost-effective market design elements per Order No. 2000	Within three years of commencement of operation, each approved RTO or ISO will implement (if cost effective): ➢ firm transmission rights ➢ resource adequacy approaches ➢ regional independent grid operation ➢ regional transmission planning process ➢ 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	Office of Energy Markets and Reliability / Office of the General Counsel
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	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of section 203 applications processed	98% completed within 90 days of the comments filing date	Office of Energy Markets and Reliability / Office of the General Counsel
Issue final rule on RTO and ISO accounting to improve oversight of RTO and ISO costs	By January 31, 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of market-based rate filings processed	100% of new filings within 60 days of filing date	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of competitive energy markets and market institution cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of competitive energy markets and market institution cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of applications filed by RTOs and ISOs to revise market rules to not inhibit demand response processed	100% within statutory deadlines	Office of Energy Markets and Reliability / Office of the General Counsel
Support development of robust customer demand-side participation in energy markets in areas where it does not exist	Meet at least annually to discuss demand response issues with appropriate state commission officials	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of non-controversial rulemakings within 9 months ➢ 100% of controversial rulemakings within 12 months	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of initial orders completed on third-party complaints	➢ 80% within 60 days ➢ 95% within 180 days	Office of Energy Markets and Reliability / Office of the General Counsel
Percentage of initial orders completed on fast track third-party complaints	90% within prescribed time frame	Office of Energy Markets and Reliability / Office of the General Counsel

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Promote Effective Competition in Wholesale Power Markets in Regions With and Without Voluntary, Organized Markets		
Issue rules or orders requiring open access by non-public utilities	By June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel
Issue rules or orders requiring RTO and ISO cost accountability	By June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of review of RTO and ISO 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
Encourage the Reduction or Elimination of Seams Between Organized Markets		
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
Support Creation of Regional State Committees to Advise RTOs and ISOs		
Timeliness of review of filings to recognize regional state committees	100% addressed by Commission order within 180 days or by the applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Promote Transparency of Competitive Electric and Gas Markets		
Timeliness of review of filings to promote transparency in 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
Ensure that Mergers and Jurisdictional Facility Sales Are Consistent with the Public Interest		
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)	100% within 180 days	Office of Energy Markets and Reliability / Office of the General Counsel
Timeliness of processing section 203 applications that raise issues of cross subsidization or encumbrances of utility assets	100% within 180 days	Office of Energy Markets and Reliability / Office of the General Counsel
Implement EPAct 2005 section 1289 regulations reflecting amended section 203 of the FPA	By February 3, 2006	Office of Energy Markets and Reliability / Office of the General Counsel
Reform Transmission Open Access Policy to Prevent Undue Discrimination and Preference		
Revise Open Access Transmission Tariff	Issue final rule by June 30, 2007	Office of Energy Markets and Reliability / Office of the General Counsel
Reform Market-Based Ratemaking Policy to Prevent Exercise of Market Power and Provide Regulatory Certainty		
Percentage of market-based rate filings processed	100% of new filings within 60 days of filing date or by the applicant's 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**
Finalize 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
Provide Regulatory Certainty Through Clear Market Rules and Case-Specific Decisions		
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
Prevent Undue Preference and Self Dealing in Affiliate Transactions		
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
Encourage the Development of Business Rules and Practices that Maximize Market Efficiency, Ease Market Entry and Reduce Transactions Costs, relying on NAESB, NERC and the RTO/ISOs where Appropriate		
Percentage of proposed NAESB business practice standards rulemakings completed	➢ 100% of non-controversial rulemakings within 9 months ➢ 100% of controversial rulemakings within 12 months	Office of Energy Markets and Reliability / Office of the General Counsel
Promote Development of Policies that Accommodate Effective Demand Response Programs		
Timeliness of applications processed on requests by RTOs and ISOs to encourage demand response in organized markets	100% within 60 days of filing date or applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel
Remove Unduly Discriminatory Barriers to Entry Affecting Renewable Energy		
Percentage of filings processed containing amendments to non-independent electric transmission provider OATTs (including Appendix G provisions for the interconnection of large wind generators, per Order 661)	100% within 60 days of filing date or applicants' requested date, whichever is later	Office of Energy Markets and Reliability / Office of the General Counsel

Performance Measurements for Market Oversight, FY 2002 – FY 2007

FY 2002		
Performance Measurement	**Performance Target**	**Result**
Number of market monitoring institutions and systems	Increase over FY 2001	Performance target achieved.
Number of public utilities separating ownership or operation of transmission facilities from generation	Increase over FY 2001	Performance target achieved.
Number of requests and referrals for ADR services	25% increase over FY 2001	**DRS:** There were 52 requests in FY 2001, and 51 requests in FY 2002. This represents a slight decrease. However, this amount also reflects an increase in the DRS non-case projects and development of stakeholder programs. The 51 requests or active cases include simple inquiries about ADR, cases in which persons eventually indicated that they were not interested in using ADR, cases referred to Enforcement Hotline, and ongoing cases.
Percentage of customers satisfied with ADR processes	85%	**OALJ/OAL:** Participants report near 100% satisfaction with ADR procedures. Satisfaction is indicated by calls from participants and by the increase in ADR procedures. **DRS:** 90% (21 out of 23 completed cases). Note: This includes 10 cases that were begun prior to FY 2002 but completed in FY 2002. It does not include simple inquiries about ADR (6), cases in which persons eventually said they were not interested in using ADR (7), cases referred to Enforcement Hotline (1), or cases that were ongoing into FY 2003 (14).
Percentage of processes that achieve consensual agreements ➢ ADR processes ➢ Cases set for litigation resolved, at least in part, through consensual agreement	➢ 25% increase over FY 2001 ➢ 5% increase over FY 2001	**OALJ/OAL**: Settlements were achieved in 69 out of 79 cases through ADR procedures. **During FY-2002:** 69 out of 79 cases (86.3%) were completed through ADR. **In FY-2001:** 62 out of 77 cases were completed through ADR (80.5%) **DRS:** 20 of 23 cases (87%) that were completed in FY 2002 achieved settlement. Note: This includes 10 cases that were begun prior to FY 2002 but completed in FY 2002. It does not include simple inquiries about ADR (6), cases in which persons eventually said they were not interested in using ADR (7), cases referred to Enforcement Hotline (1), or cases that were ongoing into FY 2003 (14).

FY 2002		
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 ➢ 95% of 'fast track' complaints, 8 days	**ADR Cases – OALJ/OAL**: 69 cases were completed by settlement: 4 out of 69 cases were settled within 60 days (5.8%). 11 out of 69 cases sere settled within 100 days (15.9%). 18 out of 69 cases were settled within 150 days (26%). 11 out of 69 cases were settled within 200 days (16%). 25 out of 69 cases were settled after 200 days (36%). **ADR Cases - DRS :** Of 23 completed cases: 5 were completed within 60 days (21% total). 7 more were completed within 100 days (52% total). 1 more was completed within 150 days (57% total). 2 more were completed within 200 days (60% total). The remaining 8 were completed in over 200 days. **Litigated Cases – OALJ/OAL:** **Track I Cases** – Standard processing Time = 29.5 weeks – None during FY-2002. **Track II Cases** – Standard Processing time = 47 weeks – FY-2002 average Processing Time 32.5 weeks **Track III Cases** – Standard Processing Time = 63 weeks – FY-2002 Average 39.42 weeks **Complaint Cases** – FY-2002 Complaints All took > 60 days to resolve.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Enhance institutional capability for overseeing energy markets	Establish the Office of Market Oversight and Investigations	Complete
	Publish regular summer and winter Seasonal Market Assessments	Reported winter 2002-2003 and summer 2003 assessments in formal presentations to the Commission and published on Commission's website.
	Develop metrics/indicators of gas and electric market performance measures	Developed 5 standard metrics for electric markets that agreed with market monitoring units.
Top to bottom review of all existing information systems to monitor markets	Complete entire review	The complete review has been delayed until FY 2004.
Development or acquisition of usable electronic baselines and databases to support market oversight objectives	Complete development of all baselines and databases by end of FY 2003	Complete
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.

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

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

FY 2004		
Performance Measurement	**Performance Target**	**Result**
Development of market expertise	30% of OMOI staff have energy market experience gained through direct activity in those markets.	30% of OMOI staff have gained energy market expertise by engaging in energy market activities such as: ➢ attending RTO/ISO conferences and workshops; ➢ participating in monthly conference calls with MMUs; ➢ attending weekly OMOI oversight meetings on energy markets; and ➢ attending training sessions.
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.

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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.
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[4] 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.

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

FY 2005		
Performance Measurement	**Performance Target**	**Result**
Enhance institutional capability for overseeing energy markets	The Electronic Quarterly Report of electric transactions will be fully functional. The Commission will identify further key data requirements needed to analyze energy markets.	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).
Development of market expertise	MMUs will produce standardized market metrics.	Target Met. During FY 2005, the Commission completed the development

5 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**
	The Commission will use standard metrics developed by the MMUs to develop a balanced scorecard to determine how well energy markets are working	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.	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.
	Publish Market Assessments, State of the Market Reports, and other reports as conditions warrant.	
Identify and remedy market problems	Provide analysis and recommendations on major market problems.	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	Office of Market Oversight and Investigations
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Review EQR submissions for completeness and contact companies that make up at least 80% of reported revenue for incomplete submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Conduct follow up reviews of companies that make up at least 80% of reported revenue on exercise of market power or market manipulation	Within 60 days of final submission	Office of Market Oversight and Investigations
Timeliness of reporting to Commission on important market events	Analysis complete within 60 days of event	Office of Market Oversight and Investigations
Percentage of Hotline calls resolved	60% within 2 weeks of initial contact	Office of Market Oversight and Investigations

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Percentage of non-environmental, non-tribal ADR processes (agreed to by parties) concluded	75% within 120 days (convening and process)	Dispute Resolution Service
Number of ADR requests and referrals to the Dispute Resolution Service	Minimum number of requests and referrals equal to FY 2004	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction	80% customer satisfaction rate	Dispute Resolution Service
Percentage of market manipulation cases set for hearing completed according to the established schedule	➢ 75% of Track I cases in 29.5 weeks ➢ 75% of Track II cases in 47 weeks ➢ 75% of Track III cases in 63 weeks	Office of Administrative Law Judges / Office of Administrative Litigation
Percentage of market manipulation cases set for hearing that achieve partial or complete consensual agreement	75%	Office of Administrative Law Judges / Office of Administrative Litigation
Timeliness of reporting to the Commission on operational audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of operational audit recommendations issued and implemented	85%	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on financial audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of financial audit recommendations issued and implemented	85%	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on Standards of Conduct compliance audits	85% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of Enforcement investigations completed	75% within one year	Office of Market Oversight and Investigations

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Strengthen the Commission's Ability to Perform Market Monitoring		
Timeliness of verification of EQR submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Review EQR submissions for completeness and contact companies that make up at least 80% of reported revenue for incomplete submissions	Within 10 business days of submission	Office of Market Oversight and Investigations
Conduct follow-up reviews of companies that make up at least 80% of reported revenue on exercise of market power or market manipulation	Within 60 days of final submission	Office of Market Oversight and Investigations
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 Market Oversight and Investigations
Number of "non-public utilities" filing EQRs	Increase by 50% over FY 2006	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Encourage Effective RTO and ISO Market Monitoring Units, as Permitted by Law		
Number of RTO and ISO MMU performance metrics	Increase over FY 2006	Office of Market Oversight and Investigations
Timeliness of initiating or deciding action on MMU referrals	80% acted on within 30 days	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel
Identify and Remedy Problems with Market Structure and Operations, and Periodically Review Market Rules for Consistency with Long-term Market Development		
Percentage of organized markets surveyed and market structure and operations problems or deficiencies identified	100% surveyed and reports completed identifying market problems or deficiencies, if any, and recommended solutions	Office of Market Oversight and Investigations
Timeliness of actions on problems or discrepancies identified in surveys of organized markets	With 6 months of completed report	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel
Complete comprehensive market rules audit of one RTO for consistency with long-term market development	Complete preliminary analysis/status report by June 30, 2007	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability
Assess Market and Infrastructure Conditions and Incorporate Analysis into Commission Decisions		
Publish annual assessment of infrastructure and market conditions for each region	Complete by June 30, 2007	Office of Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel
Implement the Market Power and Enforcement Provisions of the Energy Policy Act of 2005		
Promulgate anti-manipulation rule	Issue final rule in 2006	Office of Market Oversight and Investigations / Office of the General Counsel
Improve the Commission's Enforcement Capabilities		
Improve Forensic Audits and Investigations information technology tools	Implement capability to search e-mails and voice recordings by June 30, 2007	Office of Market Oversight and Investigations
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 Market Oversight and Investigations
Investigate Statutory and Rule Violations, Imposing Penalties Where Appropriate and Promptly Terminating Investigations When no Violations are Identified		
Percentage of enforcement investigations completed	75% within one year of initiation	Office of Market Oversight and Investigations
Timeliness of reporting to the Commission on operational audits	100% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of operational audit recommendations issued and implemented	90%	Office of Market Oversight and Investigations

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Timeliness of reporting to the Commission on financial audits	100% reported to the Commission within 120 days of Commencement Letter	Office of Market Oversight and Investigations
Percentage of financial audit recommendations issued and implemented	90%	Office of Market Oversight and Investigations
Encourage Settlements to Resolve Disputes in an Expeditious Manner		
Percentage of non-environmental and non-tribal case assessments or convening sessions concluded	75% within 20 days	Dispute Resolution Service
Percentage of non-environmental, non-tribal 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	Minimum number of requests and referrals equal to the FY 2004 base year	Dispute Resolution Service
Favorable Dispute Resolution Service customer satisfaction	80% customer satisfaction rate	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
Percentage of Hotline calls resolved	70% within 2 weeks of initial contact	Office of Market Oversight and Investigations
Act Swiftly on Complaints, Using Administrative Litigation as Needed to Determine Factual Issues		
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
Encourage Self-Reporting of Violations by Regulated Entities and Improve Processes to Allow Regulated Entities to Seek Clarifications of Commission Rules		
Percentage of regulated entities audited to ensure internal compliance programs and processes are in place	20% annually	Office of Market Oversight and Investigations
Timeliness of responses to regulated entities seeking guidance and clarification on compliance issues	Within 60 days	Office of Market Oversight and Investigations / 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 Market Oversight and Investigations / 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 Market Oversight and Investigations / Office of Energy Markets and Reliability / Office of the General Counsel

Performance Measurements for Resource Management, FY 2002 – FY 2007

FY 2002		
Performance Measurement	**Performance Target**	**Result**
Number of documents and filings available and received electronically	10% increase over FY 2001	➢ The percent of qualified documents received electronically increased from 11.6% to 34.38% ➢ Number of filings received in FY 2001 was 1,968; in FY 2002 we reach 8,903.
Reliability of IT infrastructure services	➢ 98% network availability ➢ 33% annual PC replacement ➢ 98% Internet site availability	➢ 98.5% network availability ➢ 33% annual PC replacement ➢ 99.5% Internet site availability
Percentage of agenda items issued within 5 working days of a Commission meeting	100%	100%
Percentage of electric notices issued within 5 working days of receipt of filing	95%	95%
Unqualified opinion on annual financial statements	Unqualified opinion	Commission received an unqualified opinion on its FY 2001 financial statements
Monitor manage-to-budget concept	Track biweekly; review quarterly	Performed bi-weekly updates to manage-to-budget spreadsheets used by managers to track spending, and reviewed status quarterly
Effective and efficient financial and administrative support	➢ Collect annual charges within 45 days of billing ➢ 98% of invoices paid by electronic funds transfer ➢ 1% increase in contract awards and purchase orders to small, minority, and women-owned businesses ➢ All contracts advertised online ➢ All contracts performance-based	➢ Collected 98% of the annual charges assessed in FY 2002 within 45 days of billing ➢ Processed 100% of payments electronically ➢ 92% increase ➢ All contracts were advertised online ➢ All contracts were performance-based
Increase diversity of staff in high grades	Increase diversity in GS-14, GS-15, and SES positions by 10% over current baseline	Increased the number of minorities in GS-14, GS-15 and SES positions by five (or 6 percent).
Number of new hires from recruitment program	Meet the Commission's need for new talent through targeted recruitment, with 50% at entry levels	Exceeded 50% target level by 2%. Of the 103 permanent hires in FY 2002, 54 were entry level recruits. Met the Commission's need for new talent through targeted recruitment.
Staff participation in learning and development programs	➢ Expand leadership development program ➢ Implement development plans for 20% of staff ➢ Initiate employee rotational development program	➢ Completed 360-degree feedbacks with senior staff ➢ Developmental plans for all new Federal Career Intern Program (FCIP) interns ➢ Draft proposal for a pilot rotational development program in OED
Periodic manager-staff discussions about performance accomplishments and improvements	Expand to 3 major offices the program for quarterly discussions on performance objectives	Made available to major offices the program for quarterly discussions on performance objectives. Completed the program in two offices.
Percentage of awards presented for helping accomplish specific Commission goals	More than 50% of awards for quality service based on accomplishments supporting strategic objectives	The target level was met. Based on the responses regarding FY 2002 incentive awards more than 50% of awards were given for quality service based on accomplishments supporting strategic objectives.

FY 2003		
Performance Measurement	**Performance Target**	**Result**
Number of new hires from recruitment program	Attract new talent through targeted recruitment, with 50% at entry levels	Exceeded target level by 2%. Of the 60 permanent hires in targeted positions in FY 2003, 31 were entry level recruits. Met the Commission's need for new talent through targeted recruitment.
New staff from summer intern program	Hire 30% of participants into permanent positions	Exceeded target level by 3%. Of the 33 summer interns eligible to be hired, 11 were hired into permanent positions.
Increase diversity of staff in high grades	Continue increasing diversity in GS-14, GS-15 and SES positions	Increased the number of women and minorities in GS-14, GS-15 and SES positions by 35 (18%). Of the 35, 13 (37%) were minorities.
Encourage knowledge sharing	Conduct informal training workshops	Conducted 184 informal training workshops in 5 offices.
Improved executive performance	Implement 360 degree assessment of senior staff	Completed 360 degree assessments for 129 supervisors and managers, including senior staff. Completed targeted individual executive coaching sessions.
Percentage of transactions accepted electronically	95% of transactions accepted electronically	57% of all documents received were eligible to be e-filed; 53% of the documents eligible to be e-filed were actually e-filed; 33% of all documents received (paper and electronic) were e-filed. We expect to have 95% of transactions eligible to be accepted electronically in December 2003.
Percentage of e-issuance versus paper	90% of Commission documents issued electronically	100%
Improved Web site	Redesigned Web site	The redesigned web site, sponsored by the Office of External Affairs, was deployed in August, 2003.
	99% availability	The site was 99% available in FY 2003 based on contract performance evaluation server availability reporting by FERC IT Support Services contractor.
Timeliness of getting public documents online	99% within 24 hours of receipt or issuance	➢ 99% of FERC issuances are available online within 24 hours or less. ➢ 99% of electronic submissions to FERC are published within 24 hours of review by the Office of the Secretary. ➢ 99% of paper submissions to FERC are published within 48 hours.
Network availability	99%	File and Printer servers (where all Office Automation applications and network drives reside) were available for use 99.93% of the Prime Period of Maintenance (PPM). The PPM is defined as the 11 hour period from 7:00 a.m. to 6:00 p.m. on all days the FERC is open for business.
Standard office automation platform and PC rate of refresh	33%	During this performance period, in an effort to reduce costs, the replace cycle has been changed from 3 years to 3.5 years. During this period 335 CPUs were replaced that were 3.5 years or older. All primary FERC workstations are now newer than 3.5 years old. The performance measure should reflect the new 28.5% target.

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

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

FY 2004		
Performance Measurement	**Performance Target**	**Result**
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.
Develop Communications Plan	Increase number of proactive interactions with the Press, Elected Officials, and Industry by 25%	Increased the number of Press releases by 16%, the number of briefings with Elected Officials (i.e. Senate and House of Representatives) by 1%, but decreased the number of Industry interactions by 38%. This performance target was set at an approximate level, and the deviation from that level is slight. This difference had no effect on overall program performance.
Redesign Internet Website	Make internet site more useful and user-friendly	Implemented new features (i.e. Public Event Calendar and Energy Projects Database) that are extremely popular with users.
Engage Stakeholders	Provide 50 presentations to government or other groups of stakeholders	The Commission made a total of 94 presentations – in a variety of forums – to numerous stakeholders throughout FY 2004.

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

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

FY 2005		
Performance Measurement	**Performance Target**	**Result**
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.
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).

FY 2005		
Performance Measurement	**Performance Target**	**Result**
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.
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.
Accuracy and completeness of annual financial statements	Unqualified opinion	Target Met. The Commission received an unqualified opinion on its FY 2004 financial statement audit.

FY 2005		
Performance Measurement	**Performance Target**	**Result**
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%	Office of Executive Director
Implement entry-level Professional Development Program	Complete by September 30, 2006	Office of Executive Director
Percentage of minorities among senior-level positions (GS-14, GS-15, SL, and SES positions)	Increase over FY 2005	Office of Executive Director
Implement Commission-wide Business Requirements guidelines	Complete by September 30, 2006	Office of Executive Director
Reliability of IT infrastructure	99% network availability rate	Office of Executive Director
FISMA compliance according to the Putnam scorecard	Grade of “A”	Office of Executive Director
Integrate the Business Plan, CPIC process, and IT architecture into the Commission’s Enterprise Architecture	Complete by September 30, 2006	Office of Executive Director
Percentage of approved IT initiatives with supporting documentation per the Commission's CPIC process	100%	Office of Executive Director
Establish earned value management schedule and cost performance indices for all major projects	Complete by September 30, 2006	Office of Executive Director
Develop and implement automated Business plan	Complete by September 30, 2006	Office of Executive Director
Percentage of qualified-procurements that are performance-based	100%	Office of Executive Director
Percentage of qualified-procurements that are advertised on-line	100%	Office of Executive Director
Percentage of total procurement dollars awarded to small, women-owned, and minority businesses	5% increase over FY 2005	Office of Executive Director
Percentage of invoices paid via electronic funds transfer	99%	Office of Executive Director
Percentage of payments in compliance with Prompt Payment Act deadlines	100%	Office of Executive Director
Percentage of payments made without error	100%	Office of Executive Director
Timeliness of collecting accounts receivable	90% of invoices collected by due dates	Office of Executive Director

FY 2006		
Performance Measurement	**Performance Target**	**Data Source**
Complete and accurate annual financial statements	Unqualified opinion on audited financial statements	Office of Executive Director
Percentage of filings capable of being received electronically	95%	Office of Executive Director
Percentage of Commission orders approved during open meetings issued	99% within 5 business days	Office of Executive Director
Percentage of Commission orders approved by notational vote issued	99% within 1 business day of adoption date	Office of Executive Director
Percentage of legally required notices issued	95% within 3 business days of being posted on eLibrary	Office of Executive Director
Percentage of press releases on important agency actions issued	95% within 1 hour of order being issued	Office of External Affairs
Percentage of responses to public inquiries	➢ 60% within 3 business days ➢ 100% within 5 business days	Office of External Affairs
Percentage of agency actions and time-sensitive content posted on the FERC Internet Website	95% within 1 hour of order being issued	Office of External Affairs
Timeliness of notices to NEB (Canada) and CRE (Mexico) of FERC activities pursuant to Memorandum of Understanding	Within 1 business day	Office of External Affairs
Timeliness of regional hearings or conferences email notifications sent to State officials and Governors	Within 1 business day	Office of External Affairs
Submit FY 2005 Annual Report to Congress	Complete by June 30, 2006	Office of External Affairs / Office of the General Counsel
Submit FY 2005 international exchange and training activity data to U.S. Department of State	Complete by April 1, 2006	Office of External Affairs
Submit FY 2005 FOIA Annual Report to Department of Justice	Complete by February 1, 2006	Office of External Affairs / Office of the General Counsel
Submit FY 2005 Information Quality Agency Annual Report to OMB	Complete by January 1, 2006	Office of External Affairs / Office of the Executive Director

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Implement the Human Capital Plan to Meet Challenges of New Commission Roles and Changing Workforce Demographics		
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		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Use the Right Mix of Internal Workforce and Contracted Services from the Private Sector to Meet the Agency's Statutory Mandates Efficiently and Effectively		
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
Complete the Implementation of e-government Initiatives to Expedite Interactions with Customers		
Customers are satisfied with the use of eGovernment initiatives to interact with FERC	90%	Office of the Executive Director
Build Effective Electronic Workload/time-management and Case-processing Systems to Expedite Work Processes		
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
Integrate Budget, Business Plan, and Performance Measurement to Improve Performance and Accountability		
Align Commission costs to strategic objectives	Complete by September 2007	Office of the Executive Director
Generate Accurate and Timely Financial Information to Support Operating, Budget, and Policy Decisions		
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
Reach Out to Groups Affected by Agency Actions in a Timely Manner		
Ensure timely and effective communications to all stakeholders	➢ Issue 95% of press releases for important agency actions within 1 hour of action being taken ➢ Post 95% of important and time-sensitive agency actions on the Commission's internet website within 1 hour of issuance ➢ Respond to 60% of public inquiries within 3 business days, and 100% within 5 business days	Office of External Affairs

FY 2007		
Strategy		
Performance Measurement	**Performance Target**	**Data Source**
Build Strong Partnerships with all Stakeholders, Legislators and Regulators		
Enhance communication with National and International groups	➢ Respond to Congressional inquiries and briefing requests within 5 business days ➢ Respond to Official Congressional correspondence within 10 business days ➢ Provide email notification of regional hearings or conferences to State officials and Governors within 5 business days of decision ➢ Respond to 60% of international delegation meeting requests within 3 business days and 100% within 5 business days	Office of External Affairs