

FEDERAL ENERGY REGULATORY COMMISSION

Fiscal Year 2003 Annual Financial Report

FEDERAL ENERGY REGULATORY COMMISSION

Fiscal Year 2003 Annual Financial Report

Table of Contents

	Page
Management's Discussion and Analysis:	
Introduction	1
Overview of the FERC	1
Full Cost Recovery	3
Organizational Structure	3
Strategic Plan	6
Business Plan	7
Making Markets Work	8
Program Performance	12
Financial Performance Overview	24
Systems, Controls, and Legal Compliance	28
Other Accompanying Information	31
Financial Statements:	
Independent Auditors' Report	44
Balance Sheets	48
Statements of Net Cost	49
Statements of Changes in Net Position	50
Statements of Budgetary Resources	51
Statements of Financing	52
Statements of Custodial Activity	53
Notes to Financial Statements	54

MANAGEMENT'S DISCUSSION and ANALYSIS

Introduction

As authorized by the Reports Consolidation Act of 2000, this report presents the Federal Energy Regulatory Commission's (FERC's, the Commission's) audited annual financial statements for fiscal year 2003 (FY 2003) and FY 2002. Included are a balance sheet; statements of: net cost; changes in financial position; budgetary resources; financing; and custodial activity; and notes to the financial statements. Additionally, an overview of the FERC, its mission and organizational structure, and performance information are provided. This report serves as a guide to key FERC initiatives and activities taking place during FY 2003, and planned for future years that demonstrate the breadth of the Commission's work.

Overview of the FERC

The FERC is an independent regulatory agency within the Department of Energy. Its function is to oversee America's electric utilities, natural gas industry, hydroelectric projects and oil pipeline transportation system.

Mission

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

The Commission was created through the Department of Energy Organization Act on October 1, 1977. At that time, the Federal Power Commission (FPC), the Commission's predecessor which was established in 1920, was abolished and the Commission inherited most of the FPC's regulatory mission.

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

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

Since 1935, the Commission and its predecessor have regulated certain electric utility activities under the Federal Power Act (FPA). Under FPA Sections 205 and 206, the Commission oversees the rates, terms and conditions of sales for resale of electric energy and transmission service in interstate commerce by public utilities. The Commission must ensure that those rates, terms and conditions are just and reasonable, and not unduly discriminatory or preferential. Under FPA Section 203, the Commission reviews mergers and other asset transfers involving public utilities. The utilities regulated under FPA sections 203, 205 and 206 are primarily investor-owned utilities; government-owned utilities (such as the Tennessee Valley Authority, the federal power marketing agencies, and municipal utilities) and most cooperatively-owned utilities are not subject to the Commission's regulation, with certain exceptions.

The Commission may not regulate retail sales or local distribution of electricity. These are matters left to the states by the FPA. Nor does the Commission have a role in authorizing the construction of new generation facilities (other than non-federal hydroelectric facilities) or transmission facilities. These too are state or local responsibilities.

The Commission's role in the natural gas industry is largely defined by the Natural Gas Act of 1938 (NGA). Under NGA, the Commission regulates the construction of new natural gas pipelines and related facilities and oversees the rates, terms and conditions of sales for resale and transportation of natural gas in interstate commerce. Pipeline siting and construction is authorized by the Commission if found to be required by the public convenience and necessity. As with hydropower licensing, the Commission's actions on pipeline projects typically require consideration of factors under the National Environmental Policy Act (NEPA), the Endangered Species Act, the Fish and Wildlife Coordination Act, the Coastal Zone Management Act and other such legislation. Regulation of retail sales and local distribution of natural gas are matters left to the states.

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

Full Cost Recovery

The Commission collects the full cost of its operations from annual charges and fees authorized by the FPA, Omnibus Budget Reconciliation Act of 1986 and other laws. Congress annually adopts a budget appropriation authorizing the Commission to use funds from the Treasury to meet operating expenses. The Commission returns to the Treasury all revenue from annual charges and fees; therefore, there is no direct taxpayer funding.

Organizational Structure

Approximately 1,214 full time equivalents carried out the Commission's mission in FY 2003 using a budget of \$192 million.

Below is a list of offices within the agency as well as a short description of the role each plays in the Commission's operations. An organizational chart for the FERC, as of September 30, 2003, is included at the end of this section.

Office of Energy Projects (OEP) – Fosters economic and environmental benefits for the nation through the approval and oversight of hydroelectric and natural gas pipeline energy projects that are in the public interest. Included in OEP are FERC's five regional offices located in Atlanta, Georgia; Chicago, Illinois; New York, New York; Portland, Oregon and San Francisco, California.

Office of Markets, Tariffs and Rates (OMTR) – Deals with matters involving markets, tariffs and rates relating to electric, natural gas and oil pipeline facilities and services.

Office of Market Oversight and Investigation (OMOI) – Oversees and assesses the operations of the nation's gas, oil pipeline and electricity markets.

Office of Administrative Law Judges (OALJ) – Resolves contested cases as directed by the Commission effectively, efficiently and expeditiously, either through impartial hearing and decision or through negotiated settlement, ensuring that the rights of all parties are preserved.

Office of the General Counsel (OGC) – Provides legal services to the Commission. OGC represents the Commission before the courts and Congress and is responsible for the legal phases of the Commission's activities. Included in OGC is Dispute Resolution Service (DRS). DRS assists participants achieve resolution of disputes through consensual decision making.

Office of Administrative Litigation (OAL) – Represents the public interest in administrative proceedings at the Commission. OAL provides testimony, exhibits

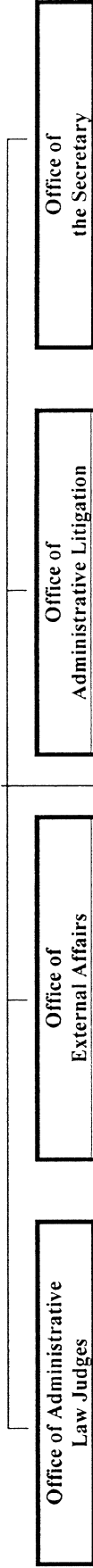
and studies on electric rate, transmission, open access and restructuring cases and in natural gas rate-design cases.

Office of External Affairs (OEA) – Responsible for all external communications with the public and media for the Commission.

Office of the Secretary (OSEC) – Serves as the official focal point through which all filings are made for proceedings before the Commission.

Office of the Executive Director (OED) – Provides administrative support services to the Commission including human resources, procurement, organizational management, financial, logistics, information technology and other.

Commissioners	
William L. Massey	Pat Wood III, Chairman
	Nora M. Brownell



Office of Administrative Law Judges
--

Office of External Affairs
Press Services
Congressional, Intergovernmental & Public Affairs

Office of Administrative Litigation
Technical Division
Legal Division

Office of the Secretary

Office of the General Counsel
Dispute Resolution Service
Markets, Tariffs & Rates
Energy Projects
Solicitor
General & Administrative Law

Office of Energy Projects
Management & Operations
Pipeline Certificates
Environmental & Engineering Review
Hydropower Administration & Compliance
Dam Safety & Inspections
Regional Offices

Office of the Executive Director
Chief Accountant
Logistics Management
Procurement
Financial Services
Financial Policy
Budget
Management, Admin. & Payroll Support
Regulatory Audits
Regulatory Accounting Policy
Deputy Executive Director
Human Resources Mgmt.
Organizational Mgmt.
Deputy Chief Information Officer

Office of Market Oversight & Investigation
Market Oversight & Assessment
Information Development
Energy Market Oversight
Financial Market Assessment
Integrated Market Assessment
Investigations & Enforcement
Operational Investigations
Technical Investigations
Enforcement

Office of Markets, Tariffs, & Rates
Administration & Data Support
Tariffs & Market Development - East
Tariffs & Market Development - South
Tariffs & Market Development - Central
Tariffs & Market Development - West
Policy Analysis & Rulemaking

Strategic Plan

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

- *Adequate infrastructure.* Promote a secure, high-quality, environmentally responsible infrastructure.
- *Competitive energy markets.* Create and maintain competitive energy markets by advancing competitive market institutions and establishing balanced, self-enforcing market rules.
- *Vigilant market oversight.* Protect customers and market participants through vigilant and fair oversight of energy markets.

Confidence in our Nation's energy markets has been affected by the problems in Western energy markets that occurred in 2000 and 2001 and, more recently, by high prices for natural gas. The Commission is making steady progress in resolving the Western energy crisis and has begun addressing the issues in natural gas markets that are within its authority. More remains to be done to restore confidence in energy markets so that necessary additions to infrastructure can be financed at reasonable prices. This will require balanced and fair market rules and vigilant oversight of energy markets in the future.

The Commission's primary emphasis must be to facilitate a full transition to competitive wholesale energy markets as soon as possible, and to address crucial issues that arise during the transition. The Commission's Strategic Plan lays out the goals of the Commission as follows:

- 1. Energy Infrastructure. Goal: Promote a Secure, High-quality, Environmentally Responsible Infrastructure Through Consistent Policies.** This goal encourages investment in the infrastructure needed to sustain energy markets by removing roadblocks, providing cost recovery clarity and welcoming innovative thinking about rates and use of new technology. By focusing on infrastructure, this goal covers many of the Commission's important traditional responsibilities, for example, pipeline certificates, hydropower licenses and preliminary permits, compliance activities, environmental and other licensing conditions, dam safety inspections and most rate determinations.
- 2. Competitive Markets. Goal: Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation.** This goal focuses on FERC's need to complete the transition to competitive energy markets as quickly and comprehensively as possible. This will require the growth of many new institutions, particularly clearly defined and independent regional transmission organizations (RTOs), to make electric markets work. The Commission also

needs to establish balanced, self-enforcing market rules in wholesale electric markets, and encourage continued efforts by industry groups to standardize reliability and business practice standards, promote the use of demand-side participation in energy markets, and establish regional transmission planning. Along with some traditional work in the area of rate determinations, this goal furthers work on initiatives begun in the last couple of years such as RTOs and new policies for natural gas.

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

This goal ensures that competitive energy markets benefit the Nation over the long run. FERC must offer the public and market participants credible assurance that FERC will identify and remedy energy market problems to maintain just and reasonable rates. At the systemic level, FERC needs to recognize problems when, or before, they develop and craft solutions quickly. The Commission must also be able to police individual behavior in markets much more effectively than in the past. Work toward this goal also includes more traditional work, such as some aspects of litigation, dispute resolution, complaints, mergers and auditing.

The Commission has restructured its Strategic Plan by reclassifying its Resource Management program from a Commission goal to management initiatives supporting all goals and objectives. The Commission's budget request has followed suit by allocating its funding requests among the three programs listed above, with funding for management initiatives allocated among these programs. Management initiatives include functions such as enhancing the talents and skills of the staff through recruitment and training, building effective, customer-friendly information technology (IT) services, supporting the Commission with logistics and financial services and strengthening strategic management processes. Management initiatives also include the Commission's communication, outreach and collaboration efforts.

Business Plan

FERC adopted its first annual Business Plan in September, 2001, detailing the Commission's activities and resource allocations to meet the Strategic Plan's goals and objectives. Developing the Business Plan is an iterative process; it is helping to identify which activities move the Commission toward particular goals and objectives. The Business Plan enables management to tie budget resources to Commission activities. To build in accountability, the Business Plan also identifies responsible offices, due dates and priorities. Future iterations will better refine priorities, identify gaps in implementation, organize resource allocation, and ensure the results the Commission wants to see by allowing FERC to more accurately compare estimated to actual resource use by strategic goals.

Making Markets Work

Immediate Responses

The Commission responded to the crisis in Western energy markets by mitigating unjustifiably high electric prices and ensuring that power sellers did not withhold supplies to drive prices up. These measures provided customers with relief from extreme spot market prices. Several of the Commission's efforts in this regard are not yet completed and require additional work in the future.

For example, the Commission has taken important steps to provide refunds to customers for purchases made in the organized spot power markets in California from October 2, 2000 through June 20, 2001. In an order issued in March 2003, the Commission adopted many findings proposed by a Commission Administrative Law Judge (ALJ) regarding refunds, and also revised the formula for calculating the refunds, which will increase refunds significantly compared to the ALJ's recommendation. While most of the Commission's work on the refund issues has been completed, certain steps are still pending and are planned for completion soon.

The Commission responded to allegations of market manipulation by Enron and others by directing its staff to undertake an exhaustive, year-long investigation, not only of Enron but also of all other market participants in the West. The initial phase of the investigation culminated in March 2003 with staff's Final Report on Price Manipulation in Western Markets. In the Final Report, staff found clear evidence of market manipulation in the Western markets.

Based on staff's Final Report, the Commission has taken measures to prevent such behavior in the future. For instance, in June 2003, the Commission took the unprecedented step of revoking Enron companies' authorization to trade in electric and gas markets at market-based rates. The Commission also directed over 60 power trading companies to explain why their trading practices were not manipulative and submit all relevant information pertaining to specific actions and transactions during the California energy crisis. This litigation will take time to complete, unless settlements are reached.

Also in June 2003, the Commission proposed to amend electric power sellers' market-based rate tariffs and gas sellers' blanket certificate authority to include clear "rules of the road" that prohibit anticompetitive behavior. These proposals identify more precisely the transactions and practices that would be prohibited. Under the proposed rules, if a seller engages in prohibited behavior, the seller could be required to disgorge its unjust profits and could lose its market-based rate authority or blanket certificate authority. These rules will help restore confidence in the Nation's energy markets. The Commission is awaiting public comment on these proposals before final action.

In addition, we uncovered instances in which unregulated companies took loans from regulated subsidiaries to the detriment of ratepayers. We are currently examining ways to ensure that customers do not suffer from such behavior. For example, in June 2003, we implemented an Interim Rule requiring Commission-regulated companies to maintain documentation when they share their cash with affiliates. We also proposed new quarterly financial reporting rules to help the Commission meet its goal of vigilant oversight in energy markets by providing the Commission and the financial community with more timely, relevant and transparent financial information. Further Commission action is needed to conclude both matters.

Long-Term Responses

Infrastructure

A robust natural gas pipeline infrastructure is critical for the reliability of the Nation's energy supply and for competitive market development. To meet growing demand for natural gas, the Commission must respond quickly to the need to expand and construct pipelines and related facilities. The Commission's rate policies, consistently applied to transportation infrastructure projects, must give investors confidence that they will have an opportunity to recover their investments, and provide rate certainty to customers as well.

For example, in 2003, we issued a certificate authorizing the "Grasslands" project proposed by Williston Basin Interstate Pipeline Company to provide much needed pipeline capacity for transporting gas produced in the Rocky Mountain supply area. The Commission continues to receive and expeditiously process similar applications for all parts of the country.

Another way our Nation can meet its growing need for natural gas is by importing liquefied natural gas (LNG). The Commission has facilitated this development by, for example, authorizing the resumption of LNG imports at Cove Point, Maryland. Similarly, we granted Hackberry LNG, an import terminal facility located in Louisiana, authority to provide service without becoming subject to unnecessary rate and tariff regulation. The Commission expects to receive applications for other LNG facilities in the future, based on current market conditions.

In a series of orders, the Commission clarified credit and collateral requirements that pipelines may impose on their customers. These policies allow for the construction of pipeline infrastructure needed to meet critical demand growth, such as new electric generation, while protecting the pipeline and its existing customers from the risks and costs of a non-creditworthy customer's future default. Credit and collateral issues continue to arise in Commission proceedings and require prompt action to ensure that financial risks are allocated fairly among market participants.

In 2003, we issued a Proposed Pricing Policy for Efficient Operation and Expansion of Transmission Grid. This proposed policy will reward transmission owners for joining regional transmission organizations (RTOs) and turning their assets over for RTO operation by providing them with the opportunity to earn higher rates of return on assets than would otherwise be available. It also would reward transmission owners for forming independent transmission companies or taking other measures which make their transmission facilities operationally independent from the activities of market participants. It would also reward transmission owners for pursuing additional measures to operate and expand the transmission grid efficiently in ways that solve RTO-identified system needs using either traditional transmission investments or innovative technologies. Further Commission action is needed to implement this proposed policy.

Energy Markets

Crises can erupt quickly in energy markets, especially in electricity markets, and we are acting to provide a much more stable long-term platform for these markets. Two initiatives are especially important:

- Wholesale Power Market Platform; and
- Market Oversight and Investigation.

Wholesale Power Market Platform. In July 2002, after ten months of unprecedented outreach and dialogue with state commissions, the public, and customer groups, the Commission issued a market design proposal. Since that time, the Commission has continued its extensive outreach efforts with interested parties and has reconsidered several aspects of its proposal to address concerns raised by various stakeholders. In a White Paper on Wholesale Power Market Platform, issued on April 28, 2003, the Commission 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 Wholesale Power Market Platform proposal advances the competitive markets envisioned by two earlier Commission orders, Order Nos. 888 and 2000. Order No. 888, issued in 1996, opened up the Nation's transmission grid through open access transmission tariffs. In 1999, the Commission issued Order No. 2000, which encouraged the creation of RTOs. RTOs bring about increased efficiency through improved grid management and increased customer access to competitive power supplies.

The proposal is designed to establish a customer-based wholesale power market platform. Among its customer-focused objectives are:

- Reliable service – sufficient power to meet demand;
- Fairness – transmission and power at just and reasonable rates;

- Stability – service in a marketplace marked by certainty and fairness;
- Mitigation of market power – ensuring that customers are protected from the types of market power abuses that occurred in California markets in 2000-2001;
- Predictability – good price signals to encourage investment in needed generation and transmission infrastructure; and
- Innovative technology – future technological advances will be accommodated.

In addition, the proposal envisions that regional authorities will play a significant role in establishing regional power markets. The Commission will rely on regional state committees to address significant market design features for their regions while ensuring that “seams” issues between regions are minimized. State commission and market participants in each region will have sufficient flexibility to work out the details of how certain core elements will be implemented in their respective regions.

Market Oversight and Investigation. One of the clearest lessons stemming from the electricity crisis in the West is that we need to do a much better job of policing natural gas and electric markets and addressing problems before they become severe. In August 2002, we established a new OMOI. OMOI assesses market performance, ensures conformance with Commission rules, and reports on its findings to the Commission and the public. OMOI also analyzes overall energy markets to identify and remedy key issues before they become major problems, and serves as the “cop on the beat” to ensure that individual market players play by the rules. The Commission has two main objectives in meeting this goal:

- Assure pro-competitive market structures and operations; and
- Remedy individual market participant behavior as needed to ensure just and reasonable outcomes.

OMOI has given us the ability to identify market conditions and address market problems quickly and effectively. This is a necessary part of restoring public confidence in energy markets. We have developed a new Commission meeting process to update Commissioners frequently on market developments, the first essential change in how the Commission does business in many years. As a new office within the Commission, OMOI is developing rapidly and will continue to expand its ability to quickly identify problems in energy markets and pursue enforcement issues.

Program Performance

To ensure the FERC is making strides in fulfilling its mission, the Commission developed its Strategic Plan and Business Plan as discussed above, as well as performance measures, in accordance with the Government Performance and Results Act of 1993 (GPRA). Performance measures included in this overview were drawn from the FERC's Annual Performance Plan as submitted to Congress with the FERC's FY 2003 Budget Request as well as the FY 2002 Annual Performance Report (February 2003), which assesses FY 2002 performance efforts and highlights the goals for FY 2003 and FY 2004.

Included below is a sampling of the Commission's most significant performance measures by program goal for FY 2003. A complete list of the Commission's FY 2003 performance measures and results is included at the end of this Management's Discussion and Analysis as other accompanying information.

The Commission is continuing to develop better performance measures to capture the effectiveness and efficiencies of its programs based on the Commission's new strategic direction. The Commission's Strategic Plan for Fiscal Years 2003-2008, issued in September 2003, reflects a sampling of these new measures.

Performance Measurements for Energy Infrastructure
Goal: Promote a Secure, High-Quality, Environmentally Responsible Infrastructure through Consistent Policies

Performance Measurement	Performance Target	Result
Implement generic policy on Large Generator Interconnections and Small Generator Interconnections	Issue final rules on both policies in FY 2003	The Large Generator Interconnection final rule was issued on July 24, 2003, and became effective on October 20, 2003. The Small Generator Notice of Proposed Rulemaking was also issued on July 24, 2003. The final rule will be issued in FY 2004.

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

To address this issue, the Commission issued the Standardization of Generator Interconnection Agreements and Procedures Notice of Proposed Rulemaking (NOPR) in April 2002. A final rule for interconnections of large generators was issued in the summer of 2003. In August 2002 the Commission began a separate proceeding to specifically address generators no larger than 20 megawatts in size.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

The Commission issued a NOPR for interconnections of small generators in the summer of 2003, and is expected to issue a final rule in 2004. These procedures and agreements will give most competitive energy market participants reasonable certainty about the costs they will bear and the terms and conditions that will affect interconnection to the electric transmission system, and will hasten the interconnection process.

Performance Measurement	Performance Target	Result
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.

For licensing cases processed in FY 2003, there was an additional 10.7 megawatts of additional capacity authorized as part of the licensing process. In addition, over 186 megawatts of energy was authorized through approval of five license amendments.

Performance Measurement	Performance Target	Result
Percentage of hydropower licenses approved within specified time frames	<p>75% of licenses approved within the following time frames:</p> <ul style="list-style-type: none"> < Alternative Licensing Process (ALP) median case, less than 16 months < Traditional median case, less than 43 months 	<p>< 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.</p> <p>< 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.</p>

Licensing applications and subsequent amendments to applications can be prepared using either the collaborative ALP process or the traditional process. The Commission encourages licensing participants to use the more collaborative approach because the applications are more quickly processed and, more often than not, the end result is a license that includes conditions more reflective of the stakeholders' interests.

With regard to the processing of license applications, the Commission's ability to issue a timely license is often constrained by external processes. This is true for both the collaborative and traditional approaches. While the Commission has instituted actions that should provide for faster processing, license issuance, in a large number of cases, is delayed because of other mandatory processes that are beyond our control. These processes include issuance of water quality

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

certification and coastal zone management (CZM) consistency review by state agencies.

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	< 148 days for Category 1
	< protested cases that involve no precedential issues, 304 days	< 193 days for Category 2
	< cases of first impression or containing larger policy implications, 365 days	< 272 days for Category 3
	< cases requiring a major environmental assessment or environmental impact statement, 480 days	< 469 days for Category 4

The Commission was well within the case processing time goals for all categories of pipeline certificate cases. Although the numbers reflected above are based on completing 85% of the cases within the respective category goals, the Commission actually exceeded the goals by completing: 88% of Category 1 cases in 159 days or less; 100% of Category 2 cases in 304 days or less; 100% of Category 3 cases in 365 days or less; and 96% of Category 4 cases in 480 days or less.

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 Emergency Action Plan (EAP) requirements	100% of qualifying dams in compliance with EAP requirements	100% of qualifying dams were in compliance with EAP requirements

To protect the life, health, and property, the Commission works to protect the safety of the approximately 2,600 non-federal hydropower dams it licenses. FERC's program inspects high- and significant-hazard-potential dams (about 1,000) once a year and the remaining dams (low-hazard-potential dams) at least once every three years. Many of the Nation's dams were constructed more than 100 years ago. Therefore, FERC is working with licensees, dam safety experts, and other federal and state agencies to develop and apply state-of-the-art safety criteria appropriately.

Even with the best safety program, emergencies can occur. Emergency action plans (EAPs) specify actions owners must take, in coordination with federal, state and local preparedness agencies, in case of emergencies such as floods, earthquakes, project failures, or improper operation. FERC conducts tests to ensure that EAPs work as designed.

Performance Measurements for Competitive Markets

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

Performance Measurement	Performance Target	Result
Percentage of country covered by approved Regional Transmission Organizations (RTOs) or Independent System Operators (ISOs) (as measured by percentage of electricity load).	70% of electricity load in regions where we have jurisdiction	59% of load in jurisdictional areas under an RTO/ISO.

The Commission believes that the best sustainable path to competitive power markets is to establish regional transmission organizations (RTOs) implementing fair market rules that are consistent across the Nation's bulk power markets. RTOs must operate the transmission system across large geographic areas, operating independently of market participants. As a result, the most immediate task is to complete development of RTOs and independent electric wholesale markets.

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 for use in FY 2004.	<p>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.</p> <ul style="list-style-type: none"> < 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.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

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

In addition to the WEQ, FERC is working with NAESB's Wholesale Gas Quadrant (WGQ) to develop creditworthiness standards for shippers on natural gas pipelines which will lower information costs to shippers and increase market efficiency. Input from both shippers and the pipelines have proven crucial to the Commission's understanding of the credit issues faced by industry participants.

Performance Measurement	Performance Target	Result
<p>Establish RTOs/ISOs with sufficient market monitoring and mitigation measures in place</p>	<p>Fewer complaints about rates in RTOs and ISOs filed with the Commission</p>	<p>In FY 2002, 19 complaints were filed against RTOs/ISOs (ISO-New England 10, New York ISO 5, California ISO 4).</p> <p>In FY 2003, 6 complaints were filed against RTOs/ISOs (ISO-New England/New England Power Pool 3, New York ISO 1, California ISO 1 and Pennsylvania-New Jersey-Maryland 1).</p> <p>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.</p> <p>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.</p>

As RTOs/ISOs are established, each will have a Market Monitoring Unit (MMU). Five MMUs are in place today. MMUs have detailed knowledge of the markets they monitor and tailor their monitoring programs to deal with specific characteristics of their own markets as well as generic issues. Thus they can identify developing problems rapidly and will be the first line of defense against market problems. However, the MMUs may have limited understanding of markets outside their area of operations, and may know relatively little about other markets (including financial and gas) that affect their market areas. FERC's market oversight function should provide the broader view of how markets interact, inform MMUs and be informed by them.

Performance Measurement	Performance Target	Result
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 RTOs/ISOs (California ISO, New York ISO (NYISO), Pennsylvania-New Jersey-Maryland (PJM), and ISO-New England (ISO-NE)) 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.

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

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

- < Ensuring that wholesale markets facilitate equal participation by demand-side and supply-side resources;

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

- < Encouraging states to adopt programs that let customers respond to changing prices; and
- < Helping to remove any impediments that prevent full demand-side participation in electricity markets.

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.

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

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

After issuance of a proposed rule in 2002, FERC reviewed the 1,000 plus comments received and issued a white paper on wholesale market design in April 2003, in which we modified some of the positions in the Notice of Proposed Rulemaking by acknowledging the appropriateness of regional and timing flexibility in the adoption of key market design elements. RTOs and ISOs in

many parts of the country are already implementing many key market design elements. For example, in the Northeast where most market design elements are already in place and the region is continuing to move toward a common market design across all three ISOs, New England implemented locational marginal transmission pricing in early 2003. California, the Electric Reliability Council of Texas (ERCOT), and the Midwest are also working to implement most of the market design elements. Even in regions that do not yet have functioning independent system operators or RTOs, RTO proposals have incorporated most of the major principles in the proposed rule, particularly in the Northwest (RTO West) and parts of the Southeast (SeTrans).

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

Performance Measurements for Market Oversight

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

Performance Measurement	Performance Target	Result
Enhance institutional capability for overseeing energy markets	Establish the Office of Market Oversight and Investigation (OMOI)	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.

At the center of the Commission's oversight effort is the OMOI. Organized in August 2002, OMOI provides an authoritative understanding of energy markets to the Commission and the public.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

Performance Measurement	Performance Target	Result
Establishment of protocols between the Commission and independent market monitoring units (MMU) of RTOs	All approved RTOs	Target achieved

Protocols established with MMUs at all current ISOs and RTOs include:

- < Joint mission statement expressing the common goals of MMUs and OMOI;
- < Market monitoring plan requirements expressing what issues MMUs need to address in their plan;
- < Clear contact lists and standard periodic conference calls for each region;
- < Agreed on triggers (i.e., market events or conditions) that lead MMUs to contact OMOI;
- < Information sharing between MMUs and OMOI, codified by Commission order on January 15, 2003; and
- < Standard joint meetings between all MMUs and OMOI twice a year.

Performance Measurement	Performance Target	Result
Percentage of cases in time frames < Alternative Dispute Resolution (ADR) processes completed	<ul style="list-style-type: none"> < 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 	<p>ADR Cases – Office of Administrative Law Judges/Office of Administrative Litigation (OALJ/OAL): 76 cases were successfully completed through the use of ADR:</p> <ul style="list-style-type: none"> < 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 (46%) <p>ADR Cases – Dispute Resolution Service (DRS): 20 cases were completed through the use of ADR:</p> <ul style="list-style-type: none"> < 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%)
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.

The Commission encourages parties to use alternative dispute resolution (ADR) whenever appropriate, to resolve conflicts quickly, satisfactorily, less expensively, and with the use of fewer resources. The Commission's Dispute Resolution Service is becoming a greater resource for facilitation and mediation, and also offers consultation and training in effective negotiation skills to individuals and organizations that do business with the Commission. The Hotline continues to be

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

a quick, effective, and increasingly popular resource for addressing informal disputes. By the close of the third quarter of FY 2003, the Hotline had fielded 241 calls, as compared to 249 calls through all of FY 2002. In addition, the Commission's administrative law judges may serve as settlement judges or mediators, thereby offering another alternative to litigation that allows the parties to exercise greater control over the outcomes.

Performance Measurement	Performance Target	Result
Timeliness of formal complaints resolutions	Complete 80% within target time frames for various paths for resolution of complaints as specified by the Commission	Office of Administrative Law Judges/Office of Administrative Litigation (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 cases in time frames < Litigated cases reaching initial decision	<ul style="list-style-type: none"> < 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 	Litigated Cases – OALJ/OAL: <ul style="list-style-type: none"> < 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%

In some cases, the best approach to a possible abuse of market power will be through our formal litigation process. This is especially true when it is important to establish, in open proceedings, the exact facts of a case. The openness of the process can also promote credibility in important cases. Since litigation can be costly and time-consuming, we are always seeking to streamline the process as much as possible. The Commission has a centralized litigation staff to guide the efficient handling of the unique, complex issues that arise in a pro-competitive environment, and speed their resolution.

Performance Measurements for Management Initiatives

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.

The Commission is focusing its human capital activities on targeted recruiting, retraining, and the rightsizing and reallocation of staff based upon our Human Capital Plan. These critical areas will determine how efficiently and effectively FERC meets current objectives and prepare for future ones.

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

Additionally, to meet the Commission's staffing requirements, FERC is enhancing its recruiting and training processes, finding new ways to retain needed talent, and aligning staff assignments with its most important strategic goals. The Commission has initiated an aggressive entry-level recruitment effort to bring new talent into the Commission. Since its inception at the end of FY 2001, this program has brought 87 new employees into the Commission with a variety of skills including accounting, auditing, engineering, economics, and law. The Commission has supplemented this effort with a reinvigorated summer intern program, designed to create a pool of future employees who can learn how the Commission works while demonstrating their skills and potential. In 2003, 42 summer interns worked at the Commission; 40 worked at FERC in summer 2002.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

Performance Measurement	Performance Target	Result
Percentage of transactions accepted electronically	95% of transactions accepted electronically	57% of all documents received were eligible to be e-filed; 57% 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 issuances made electronically	100%
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.

The Commission has made major advances in its use of electronic filing in the past two years. In April 2002, the Commission initiated the FERC On-Line project to achieve the President's Management Agenda initiatives of expanding electronic government (e-government). Citizens and businesses can make electronic submissions of comments, motions, briefs, and other documents related to proceedings before the Commission. E-Filing will be extended to all documents submitted in Commission proceedings, reducing the cost and time for making a filing for our customers while reducing the cost and handling time for FERC to receive and process the document. Since November 2000, the Commission has received 22,000 documents electronically. Companies regulated by the Commission have also filed 15,000 forms and reports electronically. More than half of the documents received annually can be filed electronically.

Performance Measurement	Performance Target	Result
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.

In FY 2003, the Commission completed a comprehensive redesign of its internet web site, FERC.gov, to make it more useable for: energy practitioners; landowners and citizens affected by natural gas and hydroelectric projects; and the press, financial community, and Commission staff. FERC improved server reliability, providing a powerful search engine, making it easier to navigate its Internet site, making notices available to the public within minutes of issuance, and ensuring the quality and usefulness of the information disseminated through the website.

Financial Performance Overview

As of September 30, 2003, and 2002, the financial condition of the Commission was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure obligations did not exceed budget authority. The Commission prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.

Sources of Funds

The Commission has one appropriation, and funds for this appropriation are available until expended. The Commission collects the full cost of its operations from annual charges and fees authorized by the Federal Power Act of 1986 and other laws. The Commission's total FY 2003 budget authority was \$192 million. This represents an overall increase in new budget authority of \$7.8 million over FY 2002.

Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1986, as amended, the Commission collected fees to offset 100 percent of its new budget authority in FY 2003.

Audit Results

The Commission received an unqualified audit opinion on its FY 2003 financial statements. This was the 9th consecutive year the agency has received an unqualified opinion. For FY 2003, the auditors identified no material weaknesses.

Financial Statement Highlights

The Commission's financial statements summarize the financial activity and financial position of the agency.

Analysis of the Balance Sheet

The Commission's assets were approximately \$138.6 million as of September 30, 2003. This is an increase of \$16.0 million from the end of FY 2002 and is mainly due to an increase in amounts Due from Regulated Entities. The assets reported in the Commission's Balance Sheet are summarized in the Asset Summary table.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

Asset Summary (In millions)

Asset	FY 2003	FY 2002
Fund Balance with Treasury	\$87.7	\$93.9
Accounts Receivable, Net	\$25.3	\$14.5
Property, Plant, & Equipment, Net	\$10.5	\$14.2
Due from Regulated Entities	\$15.1	0
Total Assets	\$138.6	\$122.6

The Fund Balance with Treasury represents the Commission's largest asset of \$87.7 million as of September 30, 2003, a decrease of \$6.2 million from the FY 2002 year-end balance. This balance represents appropriated funds, collected license fees, and other funds maintained at the U.S. Treasury to pay current liabilities.

Accounts Receivable, Net, as of September 30, 2003, were \$25.3 million and includes an offsetting allowance for doubtful accounts of \$7.6 million.

The value of Property, Plant, and Equipment, Net, was \$10.5 million. The majority of the balance is comprised of equipment, furniture, leasehold improvements, and computer hardware and software.

The \$15.1 million associated with the Due from Regulated Entities line item represents the adjustment made to accrue revenue which will be billed next year for the excess of the Commission's costs over estimated billings.

The Commission's liabilities were \$116.3 million as of September 30, 2003. The Liabilities Summary table shows an increase in total liabilities of \$16.8 million from the FY 2002 year-end balance of \$99.5 million.

Liabilities Summary (In millions)

Liabilities	FY 2003	FY 2002
Accounts Payable	\$7.9	\$11.8
Federal Employee Benefits	\$5.5	\$10.0
Other Liabilities	\$102.9	\$77.7
Total Liabilities	\$116.3	\$99.5

The difference between total assets and total liabilities, net position, was \$22.3 million as of September 30, 2003. The Net Position Summary table shows a decrease of \$.9 million from the FY 2002 year-end balance. This decrease is a combination of an increase in costs and a decrease in expended appropriations. Unexpended Appropriations are the amount of authority granted by Congress that has not been expended. Cumulative results of operations represent net results of operations since the Commission's inception.

Net Position Summary (In millions)

Position	FY 2003	FY 2002
Unexpended Appropriations	\$14.8	\$11.7
Cumulative Results of Operations	\$7.5	\$11.4
Total Net Position	\$22.3	\$23.1

Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of the Commission's three strategic goals as identified in the Commission's Annual Strategic Plan. The purpose of this statement is to link program performance under GPRA reporting to the cost of programs. The Commission's net cost of operations for the year ended September 30, 2003, was \$.2 million, which is a decrease of \$.1 million over the FY 2002 net cost of \$.3 million. Net costs by strategic goal are shown in the Net Cost of Operations table.

Net Cost of Operations (In millions)

Operation	FY 2003	FY 2002
Goal 1	\$.11	\$.20
Goal 2	\$.04	\$.07
Goal 3	\$.03	\$.03

Analysis of Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components: Cumulative Results of Operations and Unexpended Appropriations. The change in Net Position of \$.8 million from FY 2002 to FY 2003 represents the net change in Cumulative Results of Operations and Unexpended Appropriations.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources shows the sources of budgetary resources available and the status at the end of the period. It presents the relationship between budget authority and budget outlays, and reconciles obligations to total

outlays. For FY 2003, Commission had budgetary resources available of \$196.9 million, the majority of which was derived from new budget authority. This represents a decrease from FY 2002 budgetary resources available of \$198.3 million.

For FY 2003, the status of budgetary resources showed obligations incurred of \$193.4 million, or 98.2 percent of funds available. This is comparable to FY 2002 obligations incurred of \$196.4 million, or 97.8 percent of funds available. Total outlays for FY 2003 were \$10.9 million, which represents a \$6.6 million increase from FY 2002 total outlays of \$4.3 million.

The Statement of Financing

The Statement of Financing is designed to provide the bridge between accrual-based (financial accounting) information in the Statement of Net Cost and obligation-based (budgetary accounting) information in the Statement of Budgetary Resources by reporting the differences and reconciling the two statements. This reconciliation ensures that the proprietary and budgetary accounts in the financial management system are in balance. The Statement of Financing takes budgetary obligations and reconciles to the net cost of operations by deducting non-budgetary resources, costs not requiring resources, and financing sources yet to be provided.

The Statement of Custodial Activity

The Statement of Custodial Activity shows the total Custodial Revenue Activity and the Disposition of Collections related to that revenue activity. The effect should be Net Custodial Revenue Activity equal to zero.

Systems, Controls, and Legal Compliance

This section provides information on the Commission's compliance with the:

- Federal Managers' Financial Integrity Act of 1982
- Federal Financial Management Improvement Act of 1996
- Prompt Payment Act
- Debt Collection Improvement Act of 1996

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act) mandates that agencies establish controls that reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. This act encompasses program, operational, and administrative areas as well as accounting and financial management. The act requires the Chairman to provide an assurance statement on the adequacy of management controls and conformance of financial systems with Government wide standards.

Integrity Act Statement

During Fiscal year 2003, the Commission responded to the challenge of a changing energy industry as it becomes more competitive. Our strategic plan contains four primary Commission goals which reflect the Commission's vision of "dependable, affordable energy through sustained competitive markets." We are progressing on each goal and are tracking our achievements so that the real benefits of competition to consumers and the industry are not delayed. Our goals are: (1) Promote a secure, high quality, environmentally responsible infrastructure through consistent policies; (2) Foster nationwide competitive energy markets as a substitute for traditional regulation; (3) Protect customers and market participants through vigilant and fair oversight of the transitioning energy markets; and (4) Strategically manage agency resources.

To accomplish our goals, we must manage our resources efficiently and integrate our budget, business plan, performance measures, and management controls to improve performance and accountability. We have developed a business plan that outlines detailed objectives and resources for each goal and through this plan we track our progress. Problems that impede our progress continue to be brought to the attention of management and resolved within the Commission at the appropriate level. The auditors' FY 2002 report on the Commission's internal control structure disclosed no material weaknesses or reportable conditions and no instances of noncompliance with laws and regulations. We will continue to maintain a strong management control system.

Pat Wood, III
Chairman
Federal Energy Regulatory Commission
September 10, 2003

Management Control Review Program

Managers throughout the Commission are responsible for ensuring that effective controls are implemented in their areas of responsibilities. Each office director and regional administrator prepared an annual assurance statement that identified any control weaknesses that required the attention of the chairman. These statements were based on various sources and included:

- Management knowledge gained from the daily operation of agency programs and reviews
- Management reviews
- Annual performance plans
- Inspector General and General Accounting Office reports

The Commission's ongoing management control program requires, among other things, that management control deficiencies be integrated into office action plans. The action plan process has provisions for periodic updates and for attention from senior managers. The management control information in these plans, combined with the individual assurance statements discussed previously, provides the framework for monitoring and improving the agency's management controls on an ongoing basis.

FY 2003 Integrity Act Results

The Commission evaluated its management control systems for the fiscal year ending September 30, 2003. This evaluation provided reasonable assurance that the Commission's management controls achieved their intended objectives. As a result, management concluded that the Commission did not have any material weaknesses in its programmatic or administrative activities.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (Improvement Act) requires each agency to implement and maintain systems that comply substantially with: (i) Federal financial management system requirements, (ii) applicable Federal accounting standards, and (iii) the standard general ledger at the transaction level. The act requires the Chairman to determine whether the agency's financial management systems comply with the Improvement Act and to develop remediation plans for systems that do not comply.

FY 2003 Improvement Act Results

As of September 30, 2003, the Commission evaluated its financial management system to determine if it complied with applicable federal requirements and accounting standards required by the improvement act. We found that the Commission financial management system was in substantial compliance with the Federal financial management system requirements. In making this determination we undertook financial reporting tests of the system and reviewed entries at the transaction level, determined compliance with Federal requirements and

accounting standards required by the Improvement Act.

Prompt Payment

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. The Commission made over 99% of its payments on-time that were subject to the Prompt Payment Act. The Commission incurred \$44.70 in interest penalties in FY 2003. Over 99 percent of the Commission's vendor payments were made electronically.

Debt Collection

The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the delinquent debt owed to the Commission at year-end at less than one percent of its annual billings. The Commission continues to meet its goal and has kept delinquent debt at less than one percent for the past five years. The Commission continues to aggressively pursue the collection of delinquent debt and continues to meet the requirement that all eligible delinquent debt over 180 days is referred to the U.S. Treasury for collection.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the Commission, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Commission in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Other Accompanying Information: Performance Measurement Results

Performance Measurements for Energy Infrastructure (Goal 1)

FY 2003		
Performance Measurement	Performance Target	Result
Percentage of natural gas pipelines with approved Order No. 637 compliance filings	100% of pipelines subject to Order No. 637	By the end of FY 2003, the Commission issued orders approving and establishing effective dates for 92 out of a total 94 (98%) pending Order No. 637 compliance filings. The two pipeline filings that were not completed were Northern Natural Gas Pipeline Company, Docket No. RP00-404, and El Paso Natural Gas Co., Docket No. RP00-336. The Northern Natural Order is scheduled for the October 22, 2003 Commission agenda. Action on the Order No. 637 compliance issues in El Paso are delayed pending resolution of pre-existing capacity allocation issues. Those allocation issues need to be resolved before the Commission can move forward on the Order No. 637 compliance issues.
Statutory cases by workload category	All cases competed by statutory action date	Of the nearly 3,000 statutory items whose due date fell in FY 2003, 99.7% were completed by the statutory action date.
Merger and qualifying facilities workload (regulatory cases)	80% of cases completed by regulatory deadline	Approximately 325 QF filings were received in FY 2003. Of these 325, 9 filings were applications for Commission QF certification or re-certification. The Commission completed 100% of the applications for certification or re-certification within 90 days specified in the Commission's regulations (18 C.F.R. § 202.207(b)(3)(2003)). Orders were issued in response to all 9 applications, 3 of which were issued pursuant to delegated authority and 6 of which were Commission issued orders. No merger applications were received in FY 2003.
Number of cases requiring additional remedial action	Less than 20% of all cases processed in FY 2003 require additional remedial action	The Commission received no merger applications in FY 2003; therefore, we have no results to report for this performance measure.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

FY 2003		
Performance Measurement	Performance Target	Result
Timely processing of filings seeking recovery of security and safety expenses in jurisdictional rates	<p>Process filings:</p> <ul style="list-style-type: none"> < within 30 days for gas and oil rate filings < within 60 days for electric filings 	<p>The following filings were acted on in FY 2003:</p> <p><u>RP02-129-000, Southern LNG</u> Filed: December 21, 2001 Order Issued: January 31, 2002 (Suspension order setting case for hearing) Case settled: Letter order issued October 10, 2002, accepting a settlement and closing out the case. Target: While this case was not acted on within 30 days, action did meet our statutory guidelines as we acted prior to the proposed effective date of February 1, 2002. The suspension order was dated January 31, 2002; the case was settled in early FY 2003.</p> <p><u>IS03-457, Plantation Pipe Line Co.</u> Filed: July 31, 2003 Order Issued: August 29, 2003 Target: Met</p> <p><u>IS03-475, West Shore Pipe Line Co.</u> Filed: August 12, 2003 Order Issued: September 30, 2003 Target: While this case was not acted on within the 30-day target, it met our statutory guidelines as we acted prior to the proposed effective date of October 1, 2003.</p>
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.
Percentage of pipeline certificate cases completed in specified time frames	<p>85% of cases completed within the following time frames:</p> <ul style="list-style-type: none"> < 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 	<ul style="list-style-type: none"> < 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.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

FY 2003		
Performance Measurement	Performance Target	Result
Percentage of hydropower licenses approved within specified time frames	<p>75% of licenses approved within the following time frames:</p> <ul style="list-style-type: none"> < ALP median case, less than 16 months < Traditional median case, less than 43 months 	<p>< 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.</p> <p>< 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.</p>
Inspect each major onshore pipeline project at least once every four weeks during ongoing construction activity	100% of qualifying projects inspected per established schedule	All 7 major onshore pipeline projects were inspected at least once every 4 weeks during ongoing construction activity.
Increase the percentage of hydropower licenses issued using ALP	2% increase over FY 2002	13% increase over FY 2002
Evaluate and improve the effectiveness of required environmental enhancement and mitigation measures in hydropower licenses	Conduct 5 site visits	Conducted 5 site visits and evaluated the effectiveness of the targeted environmental mitigation measures.
	Hold 2 regional meetings with stakeholders	Held 3 regional outreach meetings with stakeholders, i.e., 2 shoreline management outreach meetings in Wisconsin and South Carolina, and a water quality mitigation effectiveness outreach meeting in New York.
	Disseminate 2 environmental effectiveness reports	Disseminated 2 environmental effectiveness reports: "Mitigation Effectiveness Studies at the Federal Energy Regulatory Commission: Final Water Quality Report"; and "Mitigation Effectiveness Studies at the Federal Energy Regulatory Commission: Draft Fish Passage Report".
Percentage of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams inspected annually	100% of high- and significant-hazard-potential dams were inspected.
Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards	Percentage of high- and significant-hazard-potential dams meeting all current structural safety standards remains uniformly high	95% of high- and significant-hazard-potential dams met all current structural safety standards
Percentage of high- and significant-hazard-potential dams in compliance with EAP requirements	100% of qualifying dams in compliance with EAP requirements	100% of qualifying dams were in compliance with EAP requirements
Update and add new chapters to the Engineering Guidelines, as appropriate	Issue new or revised Engineering Guidelines chapters, as appropriate	Developed and issued a new Engineering Guidelines chapter on the Dam Safety Performance Monitoring Program.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

Performance Measurements for Competitive Markets (Goal 2)

FY 2003		
Performance Measurement	Performance Target	Result
Timely processing of RTO filings	Benchmarks to be established in FY 2003	<p>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.</p> <p>A sampling of other RTO filings or petitions for declaratory orders also revealed significant variances in processing times, as shown below:</p> <ul style="list-style-type: none"> < 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 (as measured by percentage of electricity load)	70% of electricity load in regions where we have jurisdiction	59% of load in jurisdictional areas under an RTO/ISO.
Timely processing of proposed rulemakings adopting consensus industry-wide business practice and reliability standards (North American Energy Standards Board (NAESB) and North American Electric Reliability Council (NERC))	Benchmarks to be established in FY 2003	<p>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.</p> <ul style="list-style-type: none"> < 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.

**Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report**

FY 2003		
Performance Measurement	Performance Target	Result
<p>Establish RTOs/ISOs with sufficient market monitoring and mitigation measures in place</p>	<p>Fewer complaints about rates in RTOs filed with the Commission</p>	<p>In FY 2002, 19 complaints were filed against ISO/RTOs (ISO-NE 10, NYISO 5, CAISO 4).</p> <p>In FY 2003, 6 complaints were filed against ISO/RTOs (ISO-NE/NEPOOL 3, NYISO 1, CAISO 1 and PJM 1).</p> <p>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.</p> <p>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.</p>
<p>RTO/ISO wholesale market design includes demand-response features</p>	<p>Measure increasing percentage of operating RTOs and ISOs with demand response programs</p>	<p>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.</p>

**Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report**

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.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

Performance Measurements for Market Oversight (Goal 3)

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

**Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report**

FY 2003		
Performance Measurement	Performance Target	Result
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).
Number of requests and referrals for ADR services	Maintain at or increase levels achieved in FY 2001	DRS: 38 requests or active cases were initiated in FY 2003. This number includes simple inquiries about ADR, cases in which persons eventually indicated that they were not interested in using ADR, cases referred to Enforcement Hotline, and cases that are ongoing into FY 2004. Note: There were 51 requests in FY 2002, and 38 requests in FY 2003. While this represents a decrease in cases, the DRS efforts devoted to outreach projects have increased dramatically by comparison.
Percentage of customers satisfied with ADR processes	85%	DRS: 14 of 20 cases (70%) that were completed in FY 2003 achieved settlement.
Percentage of processes that achieve consensual agreements	Maintain at or increase levels achieved in FY 2001	OALJ/OAL: 112 cases were closed in OALJ. Out of the 112 cases, 16 cases were terminated by initial decision, leaving 94 cases where ADR was used. Of the 94 cases, settlement was achieved in 76 cases (81% success). Settlement was not successful in 18 of the 94 cases. DRS: 14 of 20 cases (70%) that were completed in FY 2003 achieved settlement. Note: This includes 7 cases that were begun prior to FY 2003 but completed in FY 2003. It does not include simple inquiries 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).

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

FY 2003		
Performance Measurement	Performance Target	Result
<p>Percentage of cases in time frames < ADR processes completed < Litigated cases reaching initial decision</p>	<p>ADR Cases: < 20% within 60 days < 30% within 100 days < 75% within 150 days < 100% within 200 days</p> <p>Litigated Cases: < 95% of simple cases within 206 days (29.5 weeks) < 95% of complex cases within 329 days (47 weeks) < 95% of exceptionally complex cases, 441 (63 weeks)</p> <p>Complaints: < 95% of regular complaints within 60 days</p>	<p>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</p> <p>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%)</p> <p>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</p> <p>Regular Complaints – OGC: 97%</p>

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

Performance Measurements for Management Initiatives

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; 57% 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 issuances made 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.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

FY 2003		
Performance Measurement	Performance Target	Result
Standard office automation platform and PC rate of refresh	33%	During this performance period, in an effort to reduce costs, the replace cycle has been changed from 3 years to 3.5 years. During this period 335 CPUs were replaced that were 3.5 years or older. All primary FERC workstations are now newer than 3.5 years old. The performance measure should reflect the new 28.5% target.
Timeliness of virus definition files updates on servers and workstations	Updates within 24 hours from release by vendors	The performance target has been met. We currently have our servers set up to Auto Update each morning at 1 a.m. for any Virus Engine Updates and at 2 a.m. for any DAT (virus definition file) Updates. They are set to update daily and to scan local drives 'On Access' and boot sectors and floppy drives on shutdown. Updates are received via the internal FERC 'McAfee/NetShield' FTP server which in turn is getting the updates straight from the secure Network Associates, Inc. (NAI) site. We update to this server and use it as an internal update point for security and ease of configuration. All workstations are configured to check virus update from FTP server hourly.
IT system changes to comply with enterprise IT architecture and configuration management practices	Implement 98% reviews	Although an Enterprise IT Architecture has not been completed for FERC, 100% of configuration changes are reviewed and approved or rejected by the FERC DCIO Configuration Control Board. All change requests and approvals are documented in the FERC configuration management library.

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

FY 2003		
Performance Measurement	Performance Target	Result
Improved integration of work processes and electronic filing	Refresh integrated filing, docket, and document management system	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Monitoring of manage-to-budget process	Bi-weekly tracking of office salary levels and quarterly review of salary levels between CFO and Office Directors	<p>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.</p>
Timeliness of annual charges collections	Within 45 days of billing	<p>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.</p>
Invoices paid by electronic funds transfer	98%	<p>The Commission processed over 99% of its disbursements via electronic funds transfer.</p>

*Federal Energy Regulatory Commission
Fiscal Year 2003 Annual Financial Report*

FY 2003		
Performance Measurement	Performance Target	Result
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.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Federal Energy Regulatory Commission and the
Inspector General, United States Department of Energy:

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission (the Commission) as of September 30, 2003 and 2002, the related statements of net costs, changes in net position, budgetary resources, financing, and custodial activities for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the Commission's internal control over financial reporting and tested the Commission's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the Commission's financial statements as of and for the years ended September 30, 2003 and 2002, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses.

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Commission's financial statements, our consideration of the Commission's internal control over financial reporting, our tests of the Commission's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission as of September 30, 2003 and 2002, the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activities for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of September 30, 2003 and 2002, its net cost, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.





The information in the Management's Discussion and Analysis section and note 15 to the financial statements is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

We did, however, note other matters involving internal control over financial reporting and its operation that we will report to the management of the Commission in a separate letter.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations described in the Responsibilities section of this report, exclusive of those referred to in the Federal Financial Management Improvement Act (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed no instances in which the Commission's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

RESPONSIBILITIES

Management's Responsibilities

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures), required supplementary information, and required supplementary stewardship information; and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.



Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2003 and 2002 financial statements of the Commission based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2003 audit, we considered the Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Commission's fiscal year 2003 financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Commission. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No 01-02 and FFMIA, we are required to report whether the Commission's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.



DISTRIBUTION

This report is intended for the information and use of the Commission's management, the Department of Energy's Office of the Inspector General, OMB, General Accounting Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2003

FEDERAL ENERGY REGULATORY COMMISSION

Balance Sheets

September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Assets		
Intragovernmental assets:		
Fund balances with Treasury (note 4)	\$ 87,704,134	93,920,722
Intragovernmental receivables (notes 5 and 14)	249,664	—
Total intragovernmental assets	<u>87,953,798</u>	<u>93,920,722</u>
Accounts receivable, net (note 5)	25,025,019	14,521,092
Due from regulated entities (note 6)	15,094,967	—
Property and equipment, net (note 7)	<u>10,531,658</u>	<u>14,204,345</u>
Total assets	\$ <u>138,605,442</u>	<u>122,646,159</u>
Liabilities and net position		
Intragovernmental liabilities:		
Accounts payable (note 14)	\$ 1,489,726	1,268,285
Accrued payroll benefits (note 14)	527,391	1,174,905
Resources transferable to Treasury and other entities (note 6)	40,238,611	36,199,310
Miscellaneous receipts transferable to Treasury	25,700	16,661
Workers' compensation payable (notes 9 and 14)	<u>521,508</u>	<u>422,836</u>
Total intragovernmental liabilities	42,802,936	39,081,997
Accounts payable	6,408,615	10,385,505
Due to regulated entities (note 6)	—	111,973
Accrued payroll and benefits	4,406,338	8,405,251
Collections due to states (note 3)	267,468	2,942,157
Revenue collected under protest (note 12)	52,655,131	29,062,800
Accrued leave (note 9)	9,760,361	9,537,901
Advances from others	<u>29,855</u>	<u>—</u>
Total liabilities	<u>116,330,704</u>	<u>99,527,584</u>
Commitments and contingencies (notes 8 and 12)		
Net position:		
Unexpended appropriations	14,802,030	11,652,047
Cumulative results of operations	<u>7,472,708</u>	<u>11,466,528</u>
Total net position	<u>22,274,738</u>	<u>23,118,575</u>
Total liabilities and net position	\$ <u>138,605,442</u>	<u>122,646,159</u>

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Net Cost

Years ended September 30, 2003 and 2002

	FY 2003				FY 2002			
	Energy infrastructure	Competitive markets	Market oversight	Total	Energy infrastructure	Competitive markets	Market oversight	Total
Costs:								
Regulation:								
Intragovernmental	32,837,214	11,122,282	9,003,753	52,963,249	33,578,359	11,701,349	5,596,393	50,876,301
Public	92,637,712	31,377,290	25,400,663	149,415,665	93,467,735	32,572,090	15,577,956	141,617,781
Total	125,474,926	42,499,572	34,404,416	202,378,914	127,046,094	44,273,639	21,174,349	192,494,082
Less earned revenue -- with the public	125,363,750	42,461,916	34,373,932	202,199,598	126,824,555	44,196,436	21,137,426	192,158,416
Net program costs	111,176	37,656	30,484	179,316	221,539	77,203	36,923	335,666
Other programs:								
Intragovernmental	1,978	670	542	3,190	1,439	501	240	2,180
Public	181,598	61,509	49,793	292,900	9,592	3,343	1,599	14,533
Total	183,576	62,179	50,335	296,090	11,031	3,844	1,839	16,713
Less earned revenue -- Intragovernmental	183,576	62,179	50,335	296,090	26,867	9,363	4,478	40,708
Net program surplus	—	—	—	—	(15,837)	(5,519)	(2,639)	(23,995)
Total net cost of operations	111,176	37,656	30,484	179,316	205,703	71,684	34,284	311,671

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Changes in Net Position

Years Ended September 30, 2003 and 2002

	2003		2002	
	Cumulative results of operation	Unexpended appropriations	Cumulative results of operation	Unexpended appropriations
Beginning balances	\$ 11,466,528	11,652,047	12,226,819	15,112,335
Budgetary financing sources:				
Appropriations received	—	192,000,000	—	184,155,000
Appropriations used	188,825,215	(188,825,215)	187,615,288	(187,615,288)
Appropriations used adjustment	—	(24,802)	—	—
Transfers – out to Treasury w/o reimbursement	(202,772,655)	—	(196,621,214)	—
Other financing sources –				
Imputed financing from costs absorbed by others	10,132,936	—	8,557,306	—
Total financing sources	(3,814,504)	3,149,983	(448,620)	(3,460,288)
Net cost of operations	(179,316)	—	(311,671)	—
Ending balances	\$ 7,472,708	14,802,030	11,466,528	11,652,047

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Budgetary Resources

Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Budgetary resources:		
Budget authority	\$ 2,866,943	5,482,057
Unobligated balance	1,805,305	8,488,718
Spending authority from offsetting collections earned	<u>192,292,407</u>	<u>184,324,676</u>
Total budgetary resources	\$ <u><u>196,964,655</u></u>	<u><u>198,295,451</u></u>
Status of budgetary resources:		
Obligations incurred	\$ 193,377,167	196,490,146
Unobligated balances available and apportioned	3,524,264	1,762,681
Unobligated balances – not available	<u>63,224</u>	<u>42,624</u>
Total status of budgetary resources	\$ <u><u>196,964,655</u></u>	<u><u>198,295,451</u></u>
Relationship of obligations to outlays:		
Obligated balance, net – beginning of period	\$ 34,046,107	26,145,765
Obligations incurred	193,377,167	196,490,146
Spending authority from offsetting collections	(192,292,407)	(184,324,676)
Obligated balance, net – end of period (note 11)	<u>(24,212,895)</u>	<u>(34,046,107)</u>
Total outlays	\$ <u><u>10,917,972</u></u>	<u><u>4,265,128</u></u>
Outlay:		
Disbursements	203,133,815	188,459,730
Collections	<u>(192,215,843)</u>	<u>(184,194,602)</u>
Net outlays	\$ <u><u>10,917,972</u></u>	<u><u>4,265,128</u></u>

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Financing

Years Ended September 30, 2003 and 2002

	2003	2002
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	\$ 193,377,167	196,490,146
Less: spending authority from offsetting collections	(192,292,407)	(184,324,676)
Obligations, net of offsetting collections	1,084,760	12,165,470
Other resources:		
Imputed financing from costs absorbed by others	10,132,936	8,557,306
Transfers-out, net of appropriations received	(10,772,655)	(12,399,620)
Net other resources used to finance activities	(639,719)	(3,842,314)
Total resources used to finance activities	445,041	8,323,156
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods/services/benefits ordered but not yet provided	1,505,058	3,265,749
Resources that finance the acquisition of assets	183,102	2,760,932
Payments to states	2,891,743	5,507,239
Total resources used to finance items not part of the net cost of operations	4,579,903	11,533,920
Total resources used to finance the net cost of operations	(4,134,862)	(3,210,764)
Components of the net cost of operations that will not require or generate resources in the current period:		
Components requiring or generating resources in the future periods – increase in unfunded liabilities	321,132	182,752
Components not requiring or generating resources:		
Depreciation and amortization	3,855,789	3,338,473
Other	137,257	1,210
Total components of net cost of operations that will not require or generate resources	3,993,046	3,339,683
Total net cost of operations that do not require or generate resources in the current period	4,314,178	3,522,435
Net cost of operations	\$ 179,316	311,671

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

STATEMENTS OF CUSTODIAL ACTIVITY

Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Sources of collections:		
Cash collections – annual charges	\$ 20,645,218	15,958,829
Accrual adjustment	15,924,643	40,697
	<hr/>	<hr/>
Total custodial revenue	36,569,861	15,999,526
Disposition of revenue:		
Transferred to others:		
United States Army – Corps of Engineers	(7,164,221)	(6,365,704)
Department of Interior	(5,991,877)	(6,086,508)
United States Treasury	(4,813,878)	(201,458)
Various states	(2,891,743)	(2,807,648)
Increase in amounts to be transferred	<hr/> (15,708,142) <hr/>	<hr/> (538,208) <hr/>
Net custodial activities	\$ <hr/> <hr/> —	\$ <hr/> <hr/> —

The accompanying notes are an integral part of these statements

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(1) Description of Reporting Entity

The Federal Energy Regulatory Commission (the Commission) is an independent federal agency that oversees key operating functions of the United States' natural gas and oil pipeline transportation, electric utility, and hydroelectric power industries.

The Commission was created through the Department of Energy's (DOE) Organization Act on October 1, 1977. The Commission's predecessor, the Federal Power Commission (FPC), established in 1920, was abolished, and the Commission inherited a significant portion of FPC's energy agenda.

The Commission administers laws and regulations involving key energy issues. These include transportation and sale of natural gas and oil in interstate commerce; regulation of electric utility wholesale rates and transactions; licensing and inspection of private, municipal, and state hydroelectric projects; and oversight of related environmental matters.

The Commission's main legal authority is derived from the Federal Power Act of 1935 (FPA), the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978, and the Public Utility Regulatory Policies Act of 1978.

The Commission's activities are separated into the following three segments.

Energy Infrastructure

The Commission's overall objective is to encourage investment in the infrastructure needed to sustain energy markets by removing roadblocks, providing cost recovery clarity and welcoming innovative thinking about rates and use of new technology. By focusing on infrastructure, this segment covers many of the Commission's important traditional activities, for example, pipeline certificates, hydropower licenses and preliminary permits, compliance activities, environmental and other licensing conditions, dam safety inspections and most rate determinations.

Competitive Markets

Another Commission objective is to complete the transition to competitive energy markets as quickly and comprehensively as possible. This requires the growth of certain new institutions, particularly clearly defined and independent regional transmission organizations (RTOs), to make electric markets work. The Commission also needs to establish balanced, self-enforcing market rules in wholesale electric markets, and encourage continued efforts by industry groups to standardize reliability and business practice standards, promote the use of demand-side participation in energy markets, and establish regional transmission planning. Along with some traditional work in the area of determinations, this segment includes work on initiatives begun in the last couple of years such as RTOs and new policies for natural gas.

Market Oversight

The Commission also needs to ensure that competitive energy markets benefit the Nation over the long run. The Commission must offer the public and market participants credible assurance that the Commission will identify and remedy energy market problems to maintain just and reasonable rates. At the systemic level, the Commission needs to recognize problems when or before they develop and craft solutions quickly. The Commission must also be able to police individual behavior in markets

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

much more effectively than in the past. Work in this segment includes activities related to litigation, dispute resolution, complaints, mergers and auditing.

Cost Recovery

As described below, the Commission recovers 100% of its annual appropriation from the U.S. Treasury (the Treasury) through annual charges and filing fees authorized by the Omnibus Budget Reconciliation Act of 1986 and other laws.

Annual Charges

The Commission recovers most of its administrative program costs through allocated annual charges to the entities it regulates, regardless of the number or type of services rendered to any particular entity during the year. The annual charge assessed in a fiscal year is based on an estimate of costs to be incurred during that year. Final program costs are determined from year-end accounting reports and time distribution reports by office and program. The difference in assessments that results from estimated versus final program costs is an adjustment to the following fiscal year's assessments. In hydropower regulation, the annual charges include the Commission's program costs and, through FY 2002, the related costs incurred by several other agencies that review the Commission's hydro license applications under Part I of FPA. In FY 2003 the Commission did not collect these related costs due to a court decision ordering the Commission not to collect such costs until revised related procedures were adopted.

The authority and related implementation methods for the annual charges are summarized as follows:

Hydropower

Authority – Section 10(e) of FPA makes the general provision that licensees under Part I of FPA shall pay reasonable annual charges to recompense the federal government for the costs of administering Part I.

Implementation – The methods for assessing annual charges to hydropower licensees are codified at 18 Code of Federal Regulations (C.F.R.) Part 11. Costs are prorated based on capacity (municipal projects), on capacity and generation (nonmunicipal projects), or on a flat rate per horsepower under 1,000 (minor projects).

Gas, Electric, and Oil

Authority – Section 3401 of the Omnibus Budget Reconciliation Act of 1986 provides that the Commission shall “assess and collect fees and annual charges in any fiscal year in amounts equal to all of the costs incurred by the Commission in that fiscal year.” It further provides that “fees or annual charges assessed shall be computed on the basis of methods that the Commission determines, by rule, to be fair and equitable.”

Implementation – The methods for assessing annual charges to gas and oil pipelines and to electric utilities and power marketing administrations are codified at 18 C.F.R. Parts 382.201-203. Costs are prorated to gas pipelines based on volume transported and sold, to electric utilities and power marketing administrations based on energy sold, and to oil pipelines based on operating revenues.

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

Filing Fees

Filing fees are calculated annually. Regulated entities pay the current fee when filing with the Commission for a specific service. The fees are based on the average time spent to perform the particular type of service and the average cost per employee, including salary, benefits, and indirect costs. Fee structure and procedures are codified in 18 C.F.R. Part 381.

The Independent Offices Appropriations Act of 1952 (IOAA) authorizes agencies to prescribe regulations establishing charges for services, benefits, or items of value provided by an agency. In establishing a fee under the IOAA, the Commission must:

- Identify the service for which the fee is to be assessed;
- Explain why that particular service benefits an identifiable recipient more than it benefits the general public;
- Base the fee on as small a category of service as possible; and
- Demonstrate what direct and indirect costs are incurred by the Commission in rendering the service.

Section 3401 of the Omnibus Budget Reconciliation Act of 1986 also provides for fees and annual charges “computed on the basis of methods that the Commission determines, by rule, to be fair and equitable.”

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared to report the financial position of the Commission and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity in accordance with accounting principles generally accepted in the United States of America applicable to federal government entities.

These financial statements have also been prepared in accordance with the form and content for financial statements specified by Office of Management and Budget (OMB) in Bulletin 01-09, *Form and Content of Agency Financial Statements*.

The financial statements include all activity related to the Commission’s portion of appropriation (89X0212), including the budget authority allotted by DOE to other DOE agencies. In addition, the Commission receives small allotments from six DOE appropriations: (8990224), (8980224), (89X0224), (89X0240), (89X0243), and (89X5105). All of the Commission’s appropriations relate to budget functional classification code 276, Energy Information Policy and Regulation.

Entity assets disclosed in notes 3 and 5 include those assets that the Commission has the authority to use in its operations.

Nonentity assets disclosed in notes 3 and 5 include those assets that result from the Commission’s custodial billing activities for other federal agencies, including the Army Corps of Engineers and the Department of Interior.

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(b) Budgets and Budgetary Accounting

Congress annually adopts a budget appropriation that provides the Commission with authority to use funds from the Treasury to meet its operating and capital expenditure requirements. The appropriated funds are not restricted to use in a specific fiscal year. All revenue from annual charges and filing fees is remitted to the Treasury when received.

(c) Basis of Accounting

The Commission's financial statements are prepared using the accrual method of accounting. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the period(s) when those transactions, events, and circumstances occur, regardless of when cash is received or paid. The Commission also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority at the various stages of execution, including allotment, obligation, and eventual outlay.

(d) Revenue and Financing Sources

As described above, the Commission receives funds for its operating and capital expenditures through an appropriation allotment from DOE. For financial statement purposes, the appropriation allotment is recognized as a financing source when operating expenses (primarily salaries and benefits), other than depreciation, are incurred and when capital assets are purchased.

The Commission recognizes revenue for hydropower, gas, oil, and electric annual charges when earned. Annual charges are based on estimated current year program costs and adjustments from the prior year. At year-end, the Commission records a due from or to regulated entities to reflect the difference between the charges and the actual program costs for the year. The Commission adjusts the subsequent year's charge for such amount. Revenue is recognized for filing fees when received.

The Commission recognizes an imputed financing source for the estimated annual pension and life and health insurance costs in excess of contributions made by the Commission during the year. These costs will ultimately be funded by the Office of Personnel Management.

Reimbursable work agreement revenue, included in other programs' earned revenue, is recognized when the related services are rendered.

Transfers-out represent receipts collected and remitted to the Treasury during the year and net accounts receivable that, once collected, will be returned to the Treasury, less any amounts due to regulated entities for the excess of estimated and billed costs over actual costs incurred.

(e) Fund Balances with Treasury

The Commission does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Treasury. The balance of funds with the Treasury represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services that have not been received.

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(f) Allowance for Doubtful Accounts

The Commission calculates its allowance for doubtful accounts using historical collection data and specific account analysis.

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Commission capitalizes property (other than furniture) and equipment purchases with a cost greater than \$25,000 and a total useful life exceeding two years. The Commission capitalizes furniture purchases with a cost greater than \$50,000, and commercially purchased or developed software with a cost greater than \$25,000. Depreciation is calculated based on an estimated useful life of 20 years for leasehold improvements, 10 years for furniture, 2 to 5 years for commercially purchased or developed software, and 5 years for all remaining assets. Expenditures for repairs and maintenance are charged to program costs as incurred.

(h) Liabilities

Liabilities represent amounts owed by the Commission as the result of transactions or events that have occurred as of year-end. Liabilities for which Congress has not appropriated funds are disclosed in note 9 as liabilities not covered by budgetary resources.

(i) Revenue Collected Under Protest

Revenue collected under protest is deferred and recorded as a liability until the protest is resolved.

(j) Collections Due to States

The Commission disburses 50% of the fees it collects from licensees for the occupancy and use of public lands to affected states in the year following collection. These collections are initially deposited into the Treasury's miscellaneous receipts fund.

(k) Accrued Leave

Annual leave is accrued as a liability as it is earned. The accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates. To the extent that the current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations. Sick leave and other types of nonvested leave are charged to expense as the leave is used.

(l) Workers' Compensation Payable

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Commission's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Commission. The workers' compensation payable represents unpaid billings to DOL. An actuarial estimate of unbilled claims is recorded by DOE at the departmental level and was not separately calculated for the Commission.

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(m) Net Position Accounts

Net position account balances consist of the following components:

Unexpended appropriations – Represents amounts of spending authority that are unobligated and available to the Commission, or obligated but not expended.

Cumulative results of operations – Represents the Commission’s net results of operations since inception, including (1) the amount in the Special Receipts Fund Balance with Treasury, (2) the cost of property and equipment acquired that has been financed by appropriations, less accumulated depreciation, and (3) the amount of appropriated funding that will be needed in future periods to liquidate liabilities incurred through the current fiscal year. Funding for these items is generally received in the year that amounts become due and payable.

(n) Tax Status

The Commission, as a federal agency, is not subject to federal, state, or local income taxes, and accordingly, no provision for income tax is recorded.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(p) Comparative Data

Certain FY 2002 amounts have been reclassified to conform to the FY 2003 presentation. These reclassifications primarily affected the Statement of Net Cost, wherein amounts were reclassified to align costs and revenues with the Commission’s FY 2004 strategic goals and the Statement of Financing.

(3) Non-Entity Assets

Non-entity assets at September 30, 2003 and 2002 consisted of:

	2003	2002
Fund balances with Treasury:		
Appropriated fund balance with Treasury	\$ 63,223	88,025
Collections due to states	210,327	2,942,157
Miscellaneous receipts held in suspense	25,700	1,661
Accounts receivable, net	16,559,936	497,194
Total non-entity assets	16,859,186	3,529,037
Total entity assets	121,746,256	119,117,122
Total assets	\$ 138,605,442	122,646,159

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(4) Fund Balances with Treasury

Fund balances with Treasury at September 30, 2003 and 2002 consisted of:

	<u>2003</u>	<u>2002</u>
Fund balances:		
Appropriated funds	\$ 27,526,833	47,770,932
Revenue collected under protest	48,477,803	29,062,800
Special receipts fund	7,222,919	7,222,919
Other	4,476,579	9,864,071
Total	\$ <u>87,704,134</u>	<u>93,920,722</u>
Unobligated budgetary resources:		
Available	\$ 3,524,264	1,762,681
Unavailable	63,224	42,624
Obligated balance not yet disbursed	<u>84,116,646</u>	<u>92,115,417</u>
Total	\$ <u>87,704,134</u>	<u>93,920,722</u>

(5) Accounts Receivable

Entity and nonentity governmental accounts receivable at September 30, 2003 and 2002 consisted of:

	<u>2003</u>		
	<u>Annual charges (note 6)</u>	<u>Other</u>	<u>Total</u>
Entity			
Uncollected billings	\$ 13,516,825	101,694	13,618,519
Allowance for doubtful accounts	<u>(4,875,976)</u>	<u>(27,796)</u>	<u>(4,903,772)</u>
Total entity accounts receivable, net	<u>8,640,849</u>	<u>73,898</u>	<u>8,714,747</u>
Nonentity			
Uncollected billings	18,543,962	253,962	18,797,924
Allowance for doubtful accounts	<u>(2,171,280)</u>	<u>(66,708)</u>	<u>(2,237,988)</u>
Total nonentity accounts receivable, net	<u>16,372,682</u>	<u>187,254</u>	<u>16,559,936</u>
Total accounts receivable, net	\$ <u>25,013,531</u>	<u>261,152</u>	<u>25,274,683</u>

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

		2002		
		Annual charges (note 6)	Other	Total
Entity				
Uncollected billings	\$	19,427,676	42,870	19,470,546
Allowance for doubtful accounts		(5,436,034)	(10,614)	(5,446,648)
Total entity accounts receivable, net		13,991,642	32,256	14,023,898
Nonentity				
Uncollected billings		2,355,649	732	2,356,381
Allowance for doubtful accounts		(1,859,187)	—	(1,859,187)
Total nonentity accounts receivable, net		496,462	732	497,194
Total accounts receivable, net	\$	14,488,104	32,988	14,521,092

(6) Resources Transferable to Treasury and Other Entities

Resources transferable to Treasury and other entities at September 30, 2003 and 2002 consist of:

		2003	2002
Net accounts receivable, related to annual charges (note 5)	\$	25,013,531	14,488,104
Fund balance with Treasury		—	21,823,179
Due from (to) regulated entities		15,094,967	(111,973)
Total resources transferable to Treasury		40,108,498	36,199,310
Net accounts receivable transferable to other entities		130,113	—
Total resources transferable to Treasury and other entities	\$	40,238,611	36,199,310

The fund balance with Treasury amount as of September 30, 2002 above relates to certain revenue initially collected under protest which was settled in the Commission's favor in late September 2002. The resources were transferred to the Treasury in October 2002.

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(7) Property and Equipment, Net

Property and equipment, and related accumulated depreciation at September 30, 2003 and 2002 consisted of:

	2003		
	Acquisition amount	Accumulated depreciation	Net
Equipment	\$ 4,885,633	3,375,716	1,509,917
Furniture	9,070,773	7,118,665	1,952,108
Leasehold improvements	9,491,415	3,757,257	5,734,158
Software	11,321,496	9,986,021	1,335,475
Total	<u>\$ 34,769,317</u>	<u>24,237,659</u>	<u>10,531,658</u>

	2002		
	Acquisition amount	Accumulated depreciation	Net
Equipment	\$ 4,979,504	3,077,125	1,902,379
Furniture	9,070,773	6,211,587	2,859,186
Leasehold improvements	9,491,415	3,282,687	6,208,728
Software	11,246,911	8,012,859	3,234,052
Total	<u>\$ 34,788,603</u>	<u>20,584,258</u>	<u>14,204,345</u>

(8) Building Leases

The General Services Administration (GSA) enters into lease agreements for government buildings and maintains those lease agreements. The Commission pays GSA a standard level users charge for the annual rental of building space. The standard level users charge approximates the commercial rental rates for similar properties. The Commission is not legally a party to any building lease agreements; therefore, the Commission does not disclose future minimum lease payments on buildings.

(9) Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources at September 30, 2003 and 2002 consisted of:

	2003	2002
Intragovernmental — workers' compensation payable	\$ 521,508	422,836
Accrued leave	9,760,361	9,537,901
Total	<u>\$ 10,281,869</u>	<u>9,960,737</u>

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(10) Pension Expense

Commission employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7% of their gross pay to the plan, and the Commission makes a matching contribution.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect either to join FERS and Social Security or remain in CSRS. FERS offers a savings plan in which the Commission automatically contributes 1% of employees' pay and matches any employee contribution up to an additional 4% of pay. For most employees hired since December 31, 1983, the Commission also contributes the employer's matching share for Social Security.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is therefore not disclosed by the Commission. Total pension expense paid by the Commission for both plans for fiscal years 2003 and 2002 was approximately \$9.9 million and \$10.9 million, respectively. During fiscal year 2003 and 2002, an additional \$10.1 million and \$8.6 million, respectively, of pension and life and health insurance expense was recognized by the Commission for amounts that will ultimately be funded through the Office of Personnel Management. This amount is also recorded as an imputed financing source.

(11) Statement of Budgetary Resources

The obligated balance, net – end of period at September 30, 2003 and 2002 is comprised of the following components:

	2003	2002
Accounts receivable	(110,834)	(732)
Unfilled customer order from Federal sources	(113,092)	(18,630)
Undelivered orders	11,394,424	9,889,366
Accounts payable	13,042,397	24,176,103
Total obligated balance, net – end of period	\$ 24,212,895	34,046,107

(12) Contingencies

Certain licensees have filed appeals with the Commission challenging the basis for other agencies' costs included in the annual charges billed by the Commission. These appeals total \$52.7 million and \$29.1 million as of September 30, 2003 and 2002, respectively, and are included in revenue collected under protest. If these licensees were to prevail in their argument that there is no substantial evidence to support the other agencies' costs at issue, then the Commission might be obligated to grant relief not only for the appellants, but also to all other similarly situated licensees, of which there are over 600. Related losses cannot be estimated at this time.

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 2003 and 2002

(13) Custodial Activity

The Commission currently bills regulated companies as a custodian for certain federal agencies, including the Army Corps of Engineers and the Department of Interior's Bureau of Reclamation. The receivables are maintained by the Commission, and the collections are processed directly to each federal agency on a monthly basis. In addition to the annual charges billed yearly, penalty and administrative costs are assessed on past-due bills and remitted to the Treasury when received. For fiscal years 2003 and 2002, these custodial transactions totaled approximately \$36.6 million and \$16.0 million, respectively. In 2003, the Commission issued a significant civil penalty against one of its regulated companions that is still largely uncollected. Upon collection the money will be remitted to Treasury.

(14) Required Supplementary Information – Intragovernmental Balances (Unaudited)

Intragovernmental receivables at September 30, 2003 consists of:

Department of Interior	\$	50,834
Nuclear Regulatory Commission		60,000
United States Army – Corps of Engineers		138,830
	\$	<u>249,664</u>

Intragovernmental accounts payable at September 30, 2003 and 2002 consists of:

	<u>2003</u>	<u>2002</u>
Government Printing Office	\$ 570,536	641,763
General Services Administration	768,066	416,518
Veterans Administration	—	63,933
Office of Personnel Management	80,400	18,215
Department of Health and Human Services	9,361	27,308
Others	61,363	100,548
	\$ <u>1,489,726</u>	<u>1,268,285</u>

Intragovernmental accrued payroll benefits at September 30, 2003 and 2002 consists of:

	<u>2003</u>	<u>2002</u>
Office of Personnel Management	\$ 389,484	868,426
Social Security Administration	137,907	306,479
	\$ <u>527,391</u>	<u>1,174,905</u>

Intragovernmental workers' compensation payable at September 20, 2003 and 2002 totals \$521,508 and \$442,836, respectively, and is due to the Department of Labor.