

ANNUAL REPORT

2008



FEDERAL ENERGY REGULATORY COMMISSION



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CHAIRMAN JOSEPH T. KELLIHER

I am pleased to submit to Congress the Federal Energy Regulatory Commission's annual report, covering the fiscal year from October 1, 2007, through September 30, 2008. This is the 88th Annual Report issued by the Commission and its predecessor, the Federal Power Commission.

Competition in wholesale electric and natural gas markets has been the foundation for federal energy policy for the past 30 years, and has guided much of the Commission's work over that period. For FERC, competition policy is not "deregulation," for the simple reason that the Commission never stopped regulating wholesale power sales or the transmission of electricity and natural gas. Competition policy relies on both competitive forces and regulation and it seeks the best possible mixture of the two. Practically speaking, it requires the establishment of clear and enforceable rules that allow competitive energy markets to benefit consumers and market competitors alike.



The heart of FERC's competition policy in fiscal year 2008 continued to be to seek the best possible combination of competition and regulatory forces so that competition is effective, efficient and above all, fair. That requires a continuous effort, since electricity and natural gas markets are highly dynamic. Competition policy is not an event, but a process that moves continuously toward more perfect competition. The direction of competition policy at FERC has been consistent for many years. But competitive energy markets will continue to evolve, and FERC policies must accommodate and adapt to those changes to continue ensuring effective competition and consumer protection, and to meet the challenges facing the Commission in the future.

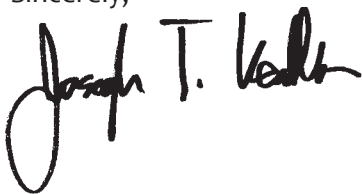


Competitive markets cannot function properly without an adequate infrastructure, and much of the Commission's work is dedicated to promoting a robust energy infrastructure. That is reflected in our transmission investment policy and our incentive decisions on particular grid projects, as well as our approval of forward wholesale power capacity markets, and our policies governing rates for interstate natural gas pipelines.

Fiscal year 2008 marked a year in which FERC continued to lay the groundwork for the competitive energy markets of the future – markets that will incorporate generation, transmission and demand resources. In particular, we promoted effective competition in wholesale power markets through targeted reforms to improve energy efficiency and demand response and encourage greater entry of generation and demand resources during periods of peak demand. We clarified and formalized our policy with respect to regional market monitors. We acted to speed the interconnection of renewable energy generation and address the growing backlog of wind projects. We encouraged compliance with FERC regulatory requirements by adopting new policies to encourage strong compliance programs by regulated companies and entities. We also established new rules to improve the transparency of the price and availability of natural gas.

I am proud of the FERC staff for its knowledge and dedication to serving energy consumers in this nation, and I would like to praise my colleagues for their leadership in helping FERC achieve its goals of ensuring effective competition and guarding the consumer. To them, I convey my thanks and congratulations.

Sincerely,



Joseph T. Kelliher
Chairman





Suede G. Kelly
Commissioner



Philip D. Moeller
Commissioner



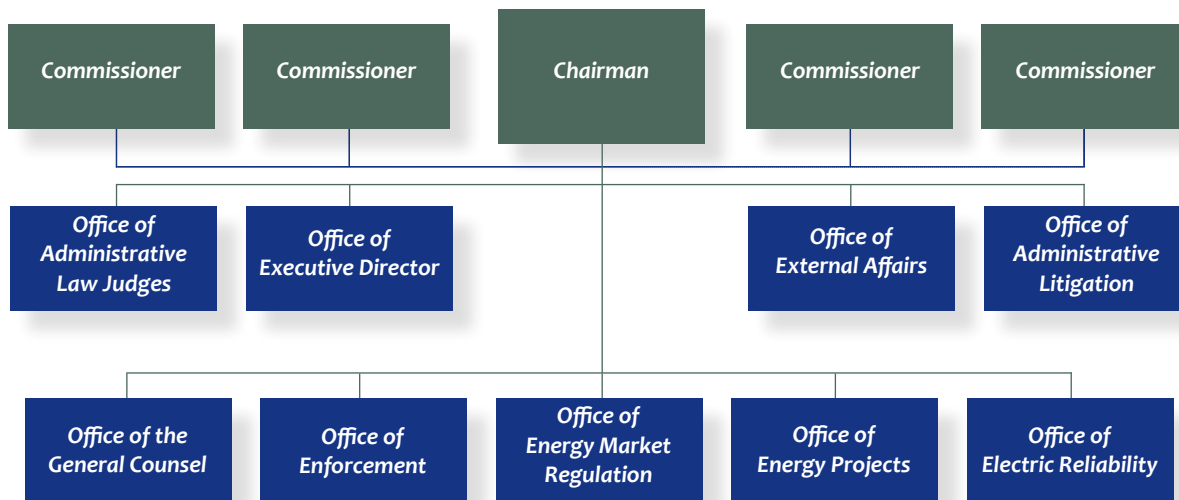
Marc Spitzer
Commissioner



Jon Wellinghoff
Commissioner



Federal Energy Regulatory Commission



Note: This organization chart depicts the Commission in FY 2008.





MANAGEMENT SUMMARY

Organization

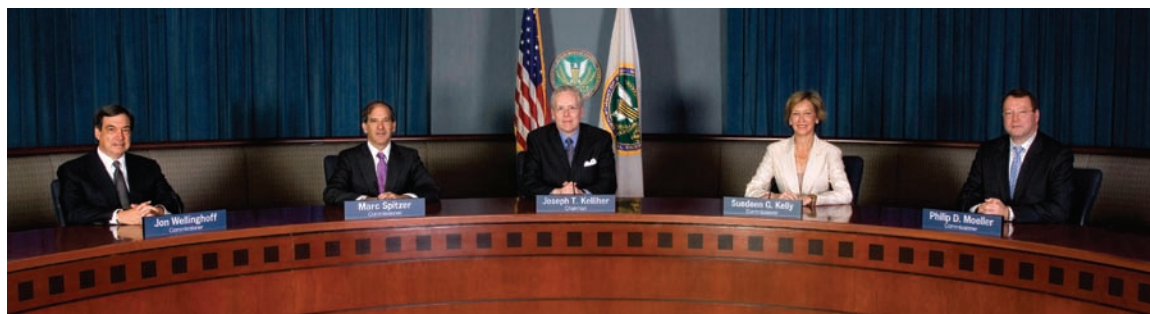
The Commission is an independent regulatory agency whose function is to regulate the nation's electric, natural gas, hydroelectric and oil pipeline industries. It is headed by a bi-partisan, five-member Commission, comprised of the Chairman and four Commissioners, appointed by the President and confirmed by the Senate. The Chairman serves as the chief executive officer of the agency, and is responsible for management of the agency's staff and budget, and for development of the Commission's agenda. In FY 2008, FERC was organized into nine functional offices (see chart on left). The Commission's headquarters are in Washington, D.C., and it has five regional offices throughout the country dedicated to hydroelectric dam safety.

In FY 2008, Congress appropriated \$260,425,000 to support Commission activities. As of September 30, 2008, the Commission had 1,349 staff, including 1,332 permanent staff and 17 temporary staff.

Summary

In FY 2008, the Commission took actions to support competitive markets and promote a strong energy infrastructure, consistent with its mission. Enforcement activities continue to promote compliance with the Commission's rules, and protect consumers from the consequences of market participant misconduct. The Commission also continued its work toward responding to the current and growing demand for electricity and natural gas.

This document outlines the Commission's substantive accomplishments in these areas, as summarized below. The report that follows provides more detail, and is divided to reflect the Commission's five priorities for the year: Energy Infrastructure, Market Regulation, Safety, Reliability, and Enforcement.



Energy Infrastructure

Our nation relies upon a robust energy infrastructure, which supports competitive markets and assures reliability of supply. A strong infrastructure can protect against higher prices, greater price volatility, lower supply reliability and less effective competition. In FY 2008, the Commission took the following significant actions:

- The Commission continued to certificate new natural gas storage facilities and new pipeline projects, including the Rockies Express East Pipeline, which consists of 639 miles of new pipeline and the Midcontinent Express Pipeline, which consists of 508 miles of new pipeline.
- The Commission approved the Broadwater and Bradwood liquefied natural gas (LNG) projects.
- The Commission approved the Floridian storage project, Florida's first in-state natural gas storage facility.
- The Commission issued original licenses, re-licenses and 5 MW exemptions totaling 2,788.4 megawatts (MW) of non-federal hydropower.
- The Commission issued its first hydrokinetic license, for the Makah Bay Offshore Wave Project in the Pacific Ocean off the coast of Washington State.
- The Commission for the first time initiated the pre-filing process for siting a proposed transmission line, from California to Arizona.

Market Regulation

The central charge of the Commission under the Natural Gas Act and the Federal Power Act is to protect energy consumers by ensuring that rates for energy and transportation services are just and reasonable

and not unduly discriminatory or preferential. Many of the orders and rules issued by the Commission relate to its responsibility to ensure that rates, terms and conditions of jurisdictional sales are just and reasonable. To fulfill its responsibility, the Commission relies on a mix of regulation and competition. In FY 2008, the Commission took the following actions:

- The Commission implemented new rules aimed at ensuring comparable treatment of all resources (generation, transmission and demand resources), including Order No. 890 (open access transmission) and Order No. 719 (wholesale competition in organized markets).
- The Commission prevented the accumulation and exercise of market power by largely affirming its rules and codifying regulations for market-based wholesale electric power sales.
- The Commission addressed the need for transmission development by responding to proposals for regional cost allocation and acting on requests for incentives for transmission projects.
- The Commission convened a conference and directed Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) to address proactively the growing backlog of generator interconnection requests, many of which are for the interconnection of renewable energy.

The Commission commenced work on a number of legislative mandates, including the assessment of demand response and interoperability standards pursuant to the Energy Independence and Security Act of 2007.

The Commission promulgated new rules under Energy Policy Act of 2005 (EPA 2005) authority to improve the transparency of the price and availability of natural gas.



Safety

The Commission regulates the safety of on-shore LNG and non-federal hydropower facilities throughout the entire life cycle of a project: design review, construction and operation. In FY 2008, the Commission took the following significant actions:

- The Commission reviewed and approved the final engineering design and safety aspects of nine LNG projects.
- The Commission conducted biennial operational inspections at six LNG peak-shaving facilities and annual operational inspections at five LNG import terminals, and at one LNG export terminal.
- The Commission also cooperated with a large number of federal and state agencies including, more recently, the Department of Homeland Security, to ensure and promote dam safety.
- The Commission conducted over 2,000 dam safety inspections, and evaluated over 300 independent consultant inspection reports.

Reliability

Since passage of EAct 2005, the Commission has continued to make progress in improving reliability of the bulk power electric grid. Over the past three years the Commission certified an Electric Reliability Organization (ERO) and has issued rules underpinning the reliability program. In FY 2008, the Commission established an Office of Electric Reliability and took the following significant actions:

- The Commission approved eight new mandatory critical infrastructure protection reliability standards to protect the nation's bulk power system against potential disruptions from cyber security breaches, and ordered significant modifications to those standards to further improve protection.

- The Commission initiated a proceeding to address the cyber security of nuclear power stations in a cooperative manner with the Nuclear Regulatory Commission (NRC).
- The Commission adopted an administrative policy for its review of notices of penalty filed by the Commission-certified ERO.

Enforcement

The Commission continues to use its enforcement authority to protect consumers. It monitors activities in the market to identify potential problems, and its priority is to strengthen compliance with the agency's rules throughout the regulated community. EAct 2005 provided the Commission with stronger civil penalty authority, which it has used to penalize violations of its rules and regulations. EAct 2005 also gave the Commission the authority to implement a broad ban on market manipulation. Finally, this legislation allowed the Commission to increase transparency in energy markets. In FY 2008, the Commission took the following actions:

- The Commission issued a package of orders designed to strengthen the Commission's enforcement program and provide the industry with guidance to encourage compliance.
- The Commission held a technical conference on enforcement and issued a staff report on enforcement policy.
- The Commission held a compliance workshop with industry groups.
- The Commission revised its natural gas and electric utility financial forms to improve transparency and accuracy of reporting.







ENERGY INFRASTRUCTURE

Ensuring safe and reliable energy infrastructure for the nation is a priority for the Commission. The agency authorizes the construction and operation of LNG facilities, certifies interstate natural gas pipelines and storage projects, issues permits for electric transmission facilities in interstate commerce (under certain circumstances) and licenses non-federal hydropower projects. Throughout all of these application processes, the Commission's goal is to reduce the time it takes to review projects without compromising its environmental protection and public participation responsibilities. Reconciling competing interests, however, remains a significant challenge to this process. The Commission believes these issues are best addressed openly and early in the application process. In fact, the Commission encourages, and sometimes even requires, project proponents to engage state and federal agencies, Indian tribes, affected landowners and the general public early in the process.

The Commission further stimulates infrastructure by setting appropriate pricing policies and operating procedures. Pricing policies and operating procedures influence the level of infrastructure investment, timing of infrastructure development and the efficiency of infrastructure operations.

The Commission encourages rate designs that support competitive wholesale markets for electric power and natural gas and provide incentives for companies to build and efficiently operate new projects. When consistently applied to infrastructure projects, pricing policies must give investors confidence that they will have an opportunity to recover their investment as well as provide certainty to customers. Without such assurances, investors will face greater risks, companies will find it more difficult to obtain financing for jurisdictional facilities, and fewer energy projects will be constructed than the nation needs. That, in turn, will undermine the provision of adequate and reliable energy service. Wholesale electric utility and natural gas and oil pipeline customers need regulatory certainty about: (1) the transportation costs they can expect to face; (2) the fairness of these costs; (3) continued access to nondiscriminatory transportation services; and (4) adequate transportation capacity. The Commission works to ensure that terms and conditions of service provide reliable access to service for all customers.



Natural Gas

Gas Pipelines

To meet the growing demand for natural gas, the Commission must continue to respond quickly when companies propose to expand and construct needed pipelines and related facilities. Through its promotion of the pre-filing process, which engages stakeholders early and results in the completion of a substantial portion of the environmental review and the identification of significant issues prior to the filing of an application, the Commission has been able to expedite the certification process. In FY 2008, Commission staff actively participated in 31 projects that used the pre-filing process. The staff's participation and initiative in these efforts led to better and more complete certificate applications, enabling more efficient and expeditious consideration by the Commission.



Overall, the Commission approved more than 2,200 miles of natural gas pipelines in FY 2008. This demonstrates the Commission's ability to approve pipeline projects quickly, in response to changing patterns of domestic natural gas production, while still ensuring adequate protection of the environment.

In FY 2008, the Commission approved 2,587 miles of new pipeline construction. The following major projects comprise 2,160 miles:

- In November 2007, the Commission issued a certificate to Transwestern Pipeline Company, LLC to construct and operate its proposed Phoenix Expansion Project in Arizona and New Mexico. The 280-mile pipeline project will allow the transportation of up to 500,000 dekatherms of natural gas per day (Dth/d) from Ash Fork, Arizona, to the markets in central and southern Arizona.
- In December 2007, the Commission issued a certificate to Guardian Pipeline to construct and operate its proposed G-II Expansion Project from Ixonia, Wisconsin to Green Bay, Wisconsin. The 119-mile pipeline project will allow for the transportation of an additional 537,200 Dth/d from Joliet, Illinois to Ixonia, Wisconsin.
- In April 2008, the Commission issued a certificate to Gulf Crossing Pipeline Company, LLC and Gulf South Pipeline Company, LP to construct and operate facilities to be known as the Gulf Crossing Project. The 353.2-mile pipeline project will have a capacity of 1,732 Dth/d extending from a point near Sherman, Texas to an interconnection in Madison Parish, Louisiana.
- In May 2008, the Commission issued a certificate to Texas Gas Transmission, LLC to construct and operate the Fayetteville/Greenville Expansion Project in Arkansas and Mississippi. The 262.6-mile pipeline project will have a capacity of 1,609 Dth/d.
- In May 2008, the Commission issued a certificate



to Rockies Express Pipeline, LLC to construct and operate the REX-East project, which will extend from Audrain County, Missouri, through Illinois and Indiana, terminating in Monroe County, Ohio. The 639-mile pipeline project will transport more than 1,800,000 Dth/d of Rocky Mountain natural gas.

- In July 2008, the Commission issued a certificate to Midcontinent Express Pipeline to construct and operate the Midcontinent Express Project in Oklahoma, Texas, Louisiana, Mississippi and Alabama. The 506.1 mile pipeline project will transport up to 1,500,000 Dth/d to customers in southern and eastern markets.

In FY 2008, the Commission took the following industry-wide actions to provide greater regulatory certainty and facilitate the expansion and construction of needed pipelines and related facilities:

- In October 2007, the Commission issued a final rule amending its regulations to modify the landowner notification requirements and require a noise survey following the completion of projects involving compressor facilities undertaken pursuant to blanket certificate authority. The regulatory revisions will enhance public participation in the Commission's consideration of proposed projects.
- In April 2008, the Commission adopted a new policy that will allow Master Limited Partnerships to be included in rate of return proxy groups for determining rates for services provided by interstate natural gas and oil pipelines. The proposed change was made in response to structural changes that have occurred in both the natural

gas and oil pipeline sector in recent years. These structural changes have impaired the usefulness of the Commission's prior approach towards proxy group composition. As a result of mergers, acquisitions and other changes in the natural gas industry, fewer and fewer interstate natural gas companies have satisfied our prior requirements for proxy group composition.



LNG Facilities

Importation of LNG offers an option to augment North American natural gas production and reduce energy price volatility during peak demand periods. The demand for natural gas in the United States has been exceeding domestic supply for most of the decade. However, the nation is seeing developments in the production of non-conventional sources of natural gas (coal bed methane, tight sands formations, and shale) that may increase North American gas supply. Nevertheless, the development of LNG facilities will allow the United States the option to import LNG when global price levels are favorable compared to domestic price levels. Further, the large amount of domestic underground storage allows



additional flexibility by permitting the import of LNG at any time it is financially advantageous. These options will allow the United States to supply ample amounts of natural gas to growing markets at the lowest possible price levels. In FY 2008, the Commission approved two LNG terminals:

- In March 2008, the Commission authorized, with conditions, the construction and operation of the Broadwater Project in the Long Island Sound. The floating terminal would meet increasing energy demand in New York and Connecticut. The Broadwater project would deliver up to 1.25 billion cubic feet (Bcf) of natural gas per day to fuel electric generating plants and heat homes. During the review of this project, the Commission held or participated in 35 community and state and federal agency meetings. Commission staff prepared a draft environmental impact statement (EIS) of 825 pages and a final EIS that exceeded 2,200 pages. The total record in this proceeding consisted of some 7,100 documents and exhibits. In addition, the Commission's response to comments is over 1,200 pages long. Altogether, Commission review of this project took more than three years (38 months) and 25,000 staff hours.
- In September 2008, the Commission authorized, with conditions, a proposed terminal by Bradwood Landing, LLC and NorthernStar Energy, LLC, which would deliver up to 1.3 Bcf per day to the Pacific Northwest. The LNG terminal would be constructed and operated on the Columbia River in Clatsop County, Oregon, and would consist of a single marine berth and two insulated LNG storage tanks, among other related facilities.

The terminal would serve rising energy demand in the Pacific Northwest. The approval of the project requires the applicant to fully implement 109 mitigation measures designed to enhance the safety and security of the facilities and to ensure the project has limited effects on the environment. The total record in this proceeding consisted of over 50,000 pages.

Storage Projects

Volatility of natural gas prices in today's market, and its impact on customers, can be moderated by hedging supplies through the use of natural gas storage. Underground storage facilities can be used to balance a variable demand with a nearly constant supply of natural gas provided by the pipeline system.



Storage fields are, in effect, warehouses with a ready supply of natural gas that can serve a market with high peak demands in warm or cold weather. The Commission is acting to encourage expansion of gas storage capacity through the adoption of pricing reforms, consistent with EAct 2005. In FY 2008, the Commission continued to certificate projects to increase the storage capacity in the United States. Specifically, the Commission certificated the following major storage projects and expansions:

- In December 2007, the Commission issued a certificate to Monroe Gas Storage Company to construct a natural gas storage facility approximately 2.5 miles northeast of the City of Amory in Monroe County, Mississippi. The project would provide 12.08 Bcf of working gas storage capacity and 10.96 Bcf of cushion gas.
- In December 2007, the Commission issued a certificate to Golden Triangle Storage, Inc. to construct a natural gas storage facility and associated pipeline facilities in Jefferson and Orange Counties, Texas. The facility will consist of two caverns each with a working gas capacity of 6.0 Bcf and a cushion gas capacity of 3.1 Bcf.
- In March 2008, the Commission issued a certificate to PetroLogistics Natural Gas Storage, LLC to operate a salt dome natural gas storage facility and associated pipeline facilities in Iberville Parish, Louisiana. The project would provide 6 Bcf of working gas storage capacity and 3 Bcf of cushion gas.
- In April 2008, the Commission issued a certificate to Enstor Houston Hub Storage and Transportation, LP to operate a salt dome natural gas storage facility and associated pipeline facilities in Liberty County, Texas. The project will consist of four natural gas storage caverns providing an ultimate total working gas capacity of 30 Bcf.
- In June 2008, the Commission issued a certificate to Steckman Ridge, LP to operate a natural gas storage facility and associated facilities in Bedford County, Pennsylvania. The project will have a total capacity of 17.7 Bcf (12 Bcf working gas and 5.7 Bcf cushion gas).
- In June 2008, the Commission issued a certificate to Black Bayou Storage, LLC to construct and operate a salt dome natural gas storage facility in Cameron Parish, Louisiana. The two fully developed salt storage caverns that make up this project will have a total capacity of nearly 20.8 Bcf (15 Bcf of working gas and 5.8 Bcf of cushion gas).
- In June 2008, the Commission issued a certificate to Tarpon Whitetail Gas Storage, LLC to construct and operate a natural gas storage facility and associated facilities in Monroe County, Mississippi. The project will have a total capacity of 22.8 Bcf (8.6 Bcf working gas and 14.2 Bcf cushion gas).
- In August 2008, the Commission issued a certificate to Floridian Natural Gas Storage Company, LLC to construct and operate a new liquefied natural gas storage facility in Martin County, Florida, that would involve the liquefaction and revaporization of up to 8 Bcf of domestic natural gas. This storage facility is Florida's first in-state natural gas storage facility.



Environmental Mitigation

The Commission includes environmental protection, mitigation and enhancement measures in certificates and authorization for natural gas pipelines and storage facilities. During FY 2008, Commission staff completed the environmental review of 441 gas

To assist members of the industry in understanding the Commission's environmental regulations, Commission staff held two industry seminars for environmental training in May and September 2008. These seminars explained construction and restoration requirements for natural gas pipeline construction projects and provided a detailed overview of the



pipeline and LNG filings, including 72 Environmental Assessments (EAs) and nine EISs. Concurrently, Commission staff continued work on an additional 23 EAs and seven EISs, primarily for new gas pipelines. As a result of the effective use of the Commission's pre-filing process, the average time for the completion of an EIS was about nine months.

Recommendations from the environmental review of pipeline and LNG applications are frequently included as conditions in the certificate orders. For example, the Commission included 147 environmental conditions in the order approving the Rockies Express-East pipeline. These conditions were necessary to ensure that the pipeline would be constructed in a manner to prevent or mitigate adverse environmental impacts. For LNG applications, safety conditions are imposed in addition to environmental conditions. For example, in the Broadwater LNG Project, the Commission imposed more than 80 mitigation measures to enhance safety and security and to ensure limited environmental impacts.

FERC Upland Erosion Control, Revegetation and Maintenance Plan, and the FERC Wetland and Waterbody Construction and Mitigation Procedures.

Over the past four years, the Commission has seen a steady increase in the number of certificate holders seeking to engage in third-party compliance monitoring as a way of achieving a higher level of compliance with Commission regulations and certificate conditions. The compliance monitoring program establishes a full-time, on-site presence, and provides natural gas companies with a mechanism for "reminding" the construction work force of the importance of environmental compliance, and also provides the Commission with immediate access to detailed information on field conditions. Access to real-time information enables both the natural gas industry and the Commission to respond more quickly to the many issues that can arise during construction.



Electric

The transmission grid is the interstate highway system for wholesale power markets. A robust grid is necessary to assure reliability and support competitive markets. The grid no longer consists of a multitude of local systems. Rather, the U.S. transmission system is regional in nature, with some systems extending into Canada and part of Mexico. Transmission investment has roughly doubled in recent years, after suffering from a sustained period of underinvestment. In response to the broad recognition of the national importance of a robust transmission grid, Congress gave the Commission significant new regulatory authority in EAct 2005 to improve and ensure the reliability and security of the grid. The way this law affects the Commission's work related to infrastructure development is described further below.

Transmission Investment

Section 1241 of EAct 2005 directed the Commission to establish, by rule, incentive-based (including performance-based) rate treatments for the transmission of electric energy in interstate commerce by public utilities. In 2006, the Commission issued a final rule (Order No. 679) designed to implement those incentive rate treatments, provide regulatory certainty and support expanded and improved transmission infrastructure while ensuring that transmission rates remain just and reasonable. The purpose of establishing rate-based incentives is to encourage investment in transmission for the purpose of reducing transmission congestion, ensuring reliability and reducing the cost of delivered power.

In FY 2008, the Commission approved a number of incentive rate proposals to encourage transmission investment:

- In November 2007, the Commission approved Southern California Edison's request for incentives for three projects. The first is the Devers-Palo Verde II Project. This consists of the construction of two major transmission lines. The second is the Tehachapi Project, comprising more than 200 miles of 500 kilovolt (kV) transmission line, approximately 10 miles of 220 kV transmission line and three new substation facilities. The third is Rancho Vista Project. It includes a proposed new 500 kV substation.
- In December 2007, the Commission conditionally granted Xcel Energy Services, Inc.'s request for incentive transmission rates as part of that company's plan for six transmission upgrades to meet state renewable energy generation standards and serve increased power demand in the Upper Midwest states of the U.S.
- In February 2008, the Commission granted the Potomac-Appalachian Transmission Highline's request to implement a transmission cost-of-service formula rate for a proposed transmission project and implement incentive rate authorization for the project, which is a proposed 290-mile transmission line from West Virginia to Maryland.
- In April 2008, the Commission granted certain transmission rate incentives for a PPL Electric Utilities Corporation and Public Service Electric and Gas Company project, designated the Susquehanna-Roseland Line, which will span 130 miles across Pennsylvania to northern New Jersey.
- In August 2008, the Commission granted Pepco Holdings, Inc.'s request to implement a transmission rate incentive plan for eight transmis-



sion projects in Maryland, New Jersey and the Delmarva Peninsula that will improve reliability and reduce congestion.

- In August 2008, the Commission granted Virginia Electric Power Company's request for transmission incentives, increasing its return on equity for 11 transmission projects in Virginia and parts of the PJM Interconnection.
- In September 2008, the Commission granted in part and denied in part New York Regional Interconnect, Inc.'s request for certain incentives for a proposed 1,200 megawatt transmission line to span 190 miles between Marcy, New York, and New Windsor, New York. The Commission's conditional rate approval includes a 275 basis point, or 2.75%, addition to the return on equity that the company will earn.

Transmission Expansion Cost Allocation

In FY 2008, the Commission reviewed proposed transmission cost allocation plans in certain organized markets to ensure that they result in rates that are not unduly discriminatory or preferential:

- In January 2008, the Commission accepted a compliance filing on fixed cost recovery policies for pricing transmission service between the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) and PJM Interconnection, LLC (PJM), and within the Midwest ISO. First, the Commission addressed two competing proposals submitted by Midwest ISO and PJM to establish a methodology for allocating the cost of new transmission facilities that are built for reliability purposes in an RTO but that provide benefits to another RTO (known as cross-border

facilities), and approved and adopted Midwest ISO's proposal. Next, the Commission affirmed the justness and reasonableness of a pricing design proposal that would continue to use the existing inter-RTO rate design to price transmission service between the RTOs after the initial transition period that ended January 31, 2007. Lastly, the Commission affirmed the justness and reasonableness of the existing rate design for transmission service within the Midwest ISO and approved its continued use after the initial transition period that ended January 31, 2007.

- In February 2008, the Commission denied rehearing of an order that conditionally accepted proposed revisions to the Midwest ISO's Open Access Transmission and Energy Markets Tariff to incorporate a cost allocation methodology for Regionally Beneficial Projects (i.e., transmission upgrades that provide economic benefits by reducing congestion) that was established through the Midwest ISO's Regional Expansion Criteria and Benefits Task Force.

Transmission Line Siting

The Commission now has limited siting authority for electric transmission facilities through Congressional action that added a new section 216 to the Federal Power Act. EPOA 2005 authorized the Commission to issue construction permits for the siting and construction of electric transmission facilities in certain circumstances. The siting authority entrusted to the Commission is limited in scope. Congress took a very different approach with respect to federal transmission siting than it took with federal siting of interstate natural gas pipelines. When Congress acted on federal siting of interstate natural gas pipelines, it provided for exclusive and preemptive federal



siting. By contrast, transmission siting is not exclusive. Federal transmission siting supplements state siting, instead of supplanting state siting.

Beginning February 2, 2007, the Commission's new rules over its siting authority went into effect. These rules govern the filing requirements and procedures for entities asking the Commission to exercise its supplemental authority to site interstate transmission facilities under EAct 2005. The final rule reflects the Commission's extensive experience in licensing transmission for hydroelectric generation



facilities and issuing certificates for interstate natural gas pipelines, and it applies this knowledge and experience to the electric transmission construction permit program.

The Commission's authority is limited to National Interest Electric Transmission Corridors. In October 2007, the Department of Energy (DOE) issued an order designating two national interest electric transmission corridors. The Mid-Atlantic Area National Corridor includes portions of Delaware, Maryland, New Jersey, New York, Ohio, Pennsylvania, Virginia, West Virginia and Washington, DC. The Southwest Area National Corridor includes portions of southern California and western Arizona.

In FY 2008, the Commission received its first request to initiate the pre-filing process for a proposed transmission line. Southern California Edison's (SCE) Devers-Palo Verde No. 2 project (DPV2) is a 267-mile 500 kV transmission line from California to Arizona (97 miles in Arizona). The proposed project consists of two segments: the Devers-Harquahala Line (225 miles) and the Devers-Valley No. 2 Line (42 miles). DPV2 would run adjacent to the existing 500 kV DPV1 line and would be located entirely within DOE's Southwest National Interest Electric Transmission Corridor.

During the pre-filing process, Commission staff has worked with SCE to make sure that all interested stakeholders, including the Arizona Corporation Commission, have been made aware of the proposed project and have had the opportunity for their views and recommendations to be considered. Milestones reached in the pre-filing process in FY 2008 include the following:

- SCE initiated consultation with the Office of Energy Projects on February 25, 2008.
- SCE filed a pre-filing request on May 16, 2008.
- The Office of Energy Projects Director approved SCE's pre-filing request on May 30, 2008.
- The Commission issued the Notice of Intent to prepare a draft EIS on June 17, 2008.
- Commission staff held two scoping meetings in Arizona, July 8-9, 2008.

In FY 2008, the Commission staff issued "A Guide to the FERC Electric Transmission Facilities Permit Process." This guide was created to inform the public on the permitting process. The Commission also created a webpage for the public to access important information on pending projects and other relevant materials.



Hydropower

Hydropower Projects

Hydropower remains an important renewable component of the nation's energy portfolio and supports efficient, competitive electric markets by providing low-cost energy reserves and ancillary services. Hydropower projects provide public benefits such as managed water supply, recreation, economic development and flood control while minimizing adverse impacts on environmental resources. In FY 2008, the Commission authorized 303.8 MW of additional capacity at existing licensed hydropower projects, including 66 MW of additional capacity at the Bear Swamp Hydroelectric Project in Massachusetts.

The Commission also granted an increasingly large number of preliminary permits authorizing feasibility studies for more than 3,800 MW of conventional capacity for 79 new projects. The purpose of a preliminary permit is to maintain priority of application for a license for three years while the permit holder conducts investigations and secures data necessary to determine the feasibility of a new project and prepares an application to develop it. In addition, 9,400 MW hours of incremental generation increases were certified at 13 projects for production tax credits pursuant to EPCRA 2005.

During FY 2008, the Commission acted on a total of 19 hydropower applications, which included a total of 13 relicensing applications. These relicensing applications represented an installed capacity of over 2,659.78 MW. The Commission also initiated the processing of 14 relicensing applications, three of which have an installed capacity in excess of 200 MW.

Several original hydropower licenses and a 5 MW exemption were issued representing an increase in capacity of 128.57 MW. The following actions took place in FY 2008:

- In October 2007, the Commission issued a new 30-year license to Northern Indiana Public Service Company to continue operation and maintenance of the 16.4 MW Norway-Oakdale Hydroelectric Project, located on the Tippecanoe River, near the town of Monticello, in Carroll and White Counties, Indiana.
- In December 2007, the Commission issued a new 40-year license to PPL Montana for its 11.25 MW Mystic Lake Project on West Rosebud Creek near Fishtail, Montana.
- In April 2008, the Commission issued a new 30-year license to PacifiCorp for its 41.56 MW Prospect Nos. 1, 2 and 4 Hydroelectric Project. The project is located on the Rogue River, Middle Fork Rogue River, and Red Blanket Creek in Jackson County, Oregon.
- In April 2008, the Commission issued a new 44-year license to the Public Utility District No. 2 of Grant County, Washington for the continued operation of the 1,993.6 MW Priest Rapids Hydroelectric Project on the mid-Columbia River in Washington.
- In April 2008, the Commission issued a new 30-year license to the City of Ottumwa, Iowa to continue operation and maintenance of the 3.2 MW Ottumwa Project, located on the Des Moines River in the City of Ottumwa, Wapello County, Iowa.
- In May 2008, the Commission issued a new 30-year license to Georgia Power Company for the continued operation and maintenance of the 16.8 MW Morgan Falls Hydroelectric Project, which is located on the Chattahoochee River in Cobb and Fulton Counties, Georgia.



- In June 2008, the Commission issued a new 30-year license to Virginia Electric Power Company to continue operation and maintenance of its 7.5 MW Cushaw Hydroelectric Project, which is located on the James River in Bedford and Amherst Counties, Virginia.
- In June 2008, the Commission issued an original 50-year license to the City of Hamilton, Ohio to construct, operate and maintain the proposed 105 MW Meldahl Hydroelectric Project. The project would be located on the Ohio River, near the City of Augusta, Bracken County, Kentucky.
- In June 2008, the Commission issued licenses for the continued operation of four hydroelectric projects located on the North Fork Lewis River in Cowlitz and Skamania Counties, Washington. Specifically, the Commission issued new licenses for the 240 MW Swift No. 1 Project, the 134 MW Yale Project, the 136 MW Merwin Project and the 70 MW Swift No. 2 Project.
- In August 2008, the Commission issued a new 40-year license to FPL Energy Maine Hydro, LLC to continue operation and maintenance of its 4.0 MW Bar Mills Hydroelectric Project located on the Saco River in York County, Maine.
- In September 2008, the Commission issued a new 40-year license to United Water Conservation District to continue



operation and maintenance of its 1.42 MW Santa Felicia Project located on Piru Creek, a tributary of the Santa Clara River, in Ventura County, California.

- In September 2008, the Commission issued an original 50-year license to the Borough of Lehighton to construct, operate and maintain the proposed 2.6 MW Beltzville Hydroelectric Project. The project would be located on the Lehigh River northeast of the Borough of Lehighton in Carbon County, Pennsylvania.

The Integrated Licensing Process (ILP) was designated by the Commission as its default licensing process in 2005. The ILP was designed to fully engage Commission staff in the pre-filing portion of the process

and help stakeholders define the scope of the licensing process along with the type and number of studies to be undertaken, which, in the end, would enable the Commission to take final action on a license application within 18 months of filing. In FY 2008, the number of hydro-power projects using the ILP increased from 28 to 37. Of significant note, in December 2007, the Commission issued a new license for the Mystic Lake Project and in May 2008, the Commission issued a new license for the Morgan Falls Project. These were the first and second licenses issued for projects whose applications were prepared



using the ILP. Throughout FY 2008, the Commission continued to educate the industry, resource agencies, tribes, nongovernmental organizations, citizen groups and other stakeholder groups on the ILP. Commission staff made presentations and led discussions on the ILP at several national hydropower meetings.

Headwater Benefits

Headwater benefits refer to additional electric generation that results at a downstream project from regulation of the flow of the river by an upstream headwater project. These benefits are usually attributable to increasing or decreasing the release of water from a storage reservoir. Pursuant to section 10(f) of the Federal Power Act, in FY 2008 the Commission assessed \$7,638,000 in headwater benefits in 26 river basins covering 116 hydroelectric projects for energy benefits provided by federal headwater storage facilities. Headwater benefit assessments are returned to the U.S. Treasury to offset headwater project construction costs.

Hydrokinetic Energy

Hydrokinetic energy is hydroelectric generation from ocean waves, tides and currents as well as from free-flowing rivers. In the past, efficient and reliable conversion of kinetic energy from water has proven elusive, but with recent advances in technology, rising fuel costs and a growing demand for renewable energy, the potential for hydropower using new technologies is on the rise. The development of this new source of hydropower has the potential to add a substantial amount of power to the nation's

generation capacity, particularly in the area of renewable energy. At present, however, the development and commercialization of the new technologies are just beginning. In FY 2008, the Commission issued 76 preliminary permits to study the feasibility of 2,880 MW of hydrokinetic energy projects.

In late FY 2007, the Commission created the Pilot License program which allows developers to: test new technologies; determine appropriate sites and confirm environmental effects while connected to the grid; complete the full project licensing process in as few as six months; and provide for Commission oversight and input from affected states and other federal agencies. The process is available for projects that are five MW or smaller, removable or able to shut down on relatively short notice, and located in waters that have no sensitive designations. In December 2007, the Commission issued its first license for a hydrokinetic energy project, which will be located in the Pacific Ocean off the coast of Washington State. The license, for the Makah Bay Offshore Wave Project, includes mitigation measures to protect the environment, and was issued for a term of five years.

In addition to this license, in FY 2008, the Commission took several other important steps to foster the development of hydrokinetic energy proposals:

- In October 2007, Commissioner Moeller, accompanied by Commissioner Wellinghoff and staff, hosted a workshop on the proposed process for hydrokinetic pilot projects in Portland, Oregon. Staff described the pilot license proposal and panelists and audience members provided comment.
- In December 2007, the Commission issued a



policy statement that allows the Commission to issue conditioned licenses for hydrokinetic energy projects under appropriate circumstances. This process is for hydrokinetic projects only. The Commission may issue a project license where it has completed processing an application while other authorizations under federal law remain outstanding. Licenses issued under these circumstances would preclude the developer from starting construction until the licensee has obtained all necessary authorizations required by federal law and filed those with the Commission.

- In March 2008, the Commission and the State of Oregon signed a Memorandum of Understanding (MOU) to coordinate procedures and schedules for review of wave energy projects in state waters off the coast of Oregon. The MOU establishes Oregon's support of the Commission's procedures for a shorter-term, experimental pilot license that ensures environmental, economic and social protections.
- In April 2008, Commission staff provided the public with answers to frequently asked questions concerning hydrokinetic pilot project licensing and the conditioned license program.

Environmental Mitigation

The Commission safeguards the environment by requiring that all hydropower applicants communicate with affected federal and state natural resource agencies, tribes, and state water quality agencies prior to submitting an application to the Commission. In FY 2008, Commission staff completed the environmental review of more than 1,400

hydroelectric license and exemption amendment applications, including 40 EAs and five EISs. Concurrently, Commission staff continued work on 11 draft EAs and three draft EISs.

Hydropower licenses include requirements that are designed to protect, mitigate and enhance the environmental resources of project areas. These terms and conditions address such things as water quality, land use, wildlife, water supply, flood control, endangered species, recreation, cultural resources and fish habitat and passage. For example, the license issued for the Priest Rapids Project contained over 200 license articles implementing environmental recommendations made during the license proceeding.

Regulated lakes and reservoirs throughout the country are seeing continuing changes in demographics, intense interest in water recreation, increased developmental pressures including building lake front properties with associated docks and marinas, and the desire of people to have their primary homes along the 55,000 miles of shoreline that are associated with the Commission's licensed projects. Along with this interest comes increasing public involvement in the Commission's post-licensing process of reviewing shoreline management plans, recreation plans and shoreline development applications.

In FY 2008, the Commission continued to monitor compliance through its environmental inspection program. Commission staff conducted more than 125 inspections and evaluated and assessed implementation and compliance with the environmental and public use requirements of licenses to ensure the protection and enhancement of resources at each project.



Oil Pipelines

The United States has about 200,000 miles of oil and oil products pipelines, with ten companies accounting for more than half of the total miles. There are more than 200 interstate pipelines, comprised of a few large companies and many small pipelines.

In FY 2008, the Commission encouraged and supported the construction and expansion of petroleum product lines through its orders on pipeline petitions for declaratory orders. In these orders, the Commission approved certain flexible rate methodologies and granted other rate assurances prior to construction in order to reduce the uncertainty and risk inherent with these large infrastructure projects. Specifically, the Commission took the following major actions:

- In December 2007, the Commission approved a request to confirm the proposed capacity allocation and rate structure for a planned expansion of the Spearhead Pipeline. The expansion will increase Spearhead's average annual capacity between Flanagan, Illinois, and Cushing, Oklahoma, by 65,000 barrels per day of crude oil.
- In December 2007, the Commission approved a proposed rate structure for the United States portion of the planned Southern Lights Pipeline, which will transport light liquid hydrocarbons from Chicago, Illinois, to Edmonton, Alberta, for use in transporting heavy crude petroleum produced from Canada's oil sands.
- In May 2008, the Commission approved the proposed tariff structure for the Southern Access Extension Pipeline. The pipeline will extend approximately 178 miles south from Flanagan, Illinois, to the major oil pipeline hub at Patoka, Illinois.



- In August 2008, the Commission approved a rate structure for the Texas Access Pipeline Project, consisting of pipeline facilities from the Patoka, Illinois hub to crude oil terminals near Nederland and Houston, Texas. The proposed project would provide for an estimated monthly capacity of approximately 445,000 barrels per day.

In addition to these infrastructure rate issues, in June 2008, the Commission acted on an oil matter related to the Trans-Alaska Pipeline System (TAPS). It found that the existing methodology TAPS used to calculate rates was no longer just and reasonable. The Commission required the TAPS pipeline to institute a new rate methodology that would meet the Commission's requirement for justness and reasonableness.



Landowner Issues

One of the most difficult aspects of regulating infrastructure is the balance between the nation's need for new energy facilities, and the concerns of landowners, who are most directly impacted by their construction. FERC is committed to ensuring that the review process allows landowners ample opportunity to have their issues and concerns heard and considered. FERC notifies property owners of a proposal, convenes public hearings and provides assistance for landowners seeking to get involved in the pre-filing or filing phases of proposal review.

tunity to provide information or comments that will be included in the formal record for the proceeding. Public concerns raised in these hearings may result in changes reflected in FERC's final orders.

The pre-filing process is designed to enable stakeholders to identify issues and to reach a cooperative resolution of issues raised about proposed routes. Landowners are encouraged to participate in the pre-filing process, as well as the formal environmental review. If such issues cannot be resolved, FERC has



Public hearings play an important role in Commission decisions. For long pipelines or transmission projects, such hearings will occur at a number of sites along the proposed route. Hearings are held during the day, in the evening and on weekends. These hearings give the public a convenient oppor-

tion demonstrated its willingness under certain circumstances to change route segments for projects to avoid problems with individual landowners' homes or businesses. Landowners are also encouraged to submit their comments directly into the record developed on the proposed project. After a project





is authorized, construction is allowed to begin only after the developer has satisfied conditions in the Commission's order designed to prevent or mitigate impacts. The Commission's technical staff monitors construction progress by conducting on-site inspections. Similarly, operation of the new facility may commence only after compliance with pipeline testing, route restoration and other completion requirements.

In addition, Commission staff will investigate landowner complaints about developers' operations before, during and after construction of facilities. During project development, this may be done by staff from FERC's Office of Energy Projects (OEP). Others may be addressed by FERC's Enforcement Hotline in conjunction with OEP.

During FY 2008, FERC's Enforcement Hotline received various landowner complaints about natural

gas interstate pipeline construction. These included allegations of improper landowner notification prior to commencement of construction, disturbances and/or damage caused to property by pipeline construction, inadequate post-construction restoration of property, trespassing on landowners' property (such as when pipeline construction crews strayed beyond the pipeline's right-of-way) and other issues.

Staff answering calls for the Hotline can explain the Commission's rules and regulations and help landowners understand the pipeline construction process and their rights. They also understand the obligations of the pipeline sponsor during construction as well as any specific requirements established in the certificate issued by the Commission, which authorizes construction. If necessary, Hotline staff resolves issues by contacting the company, and coordinates with Commission technical staff overseeing pipeline construction to determine appropriate





resolution. Under certain circumstances, the Commission's technical staff from OEP will conduct additional on-site inspections to determine the extent of the problems that may be occurring.

The Commission's web site includes information about current pipeline projects and pamphlets that help citizens understand the process and how to get involved, through www.FERC.gov. These materials include lists of projects in various areas of the

country, information on how to get involved, and guides to gas facilities, LNG, electric transmission siting, hydropower licensing and the pre-filing process. In FY 2008, the Commission expanded landowners' access to project materials by creating a gas pipeline webpage, which includes lists of pipelines approved, pending and on the horizon. The webpage (www.FERC.gov/industries/gas/indus-act/pipelines.asp) offers easy access to the important documents in those proceedings.







MARKET REGULATION

For more than 20 years, the Commission has promoted effective competition in the wholesale markets it regulates by providing open access to transmission facilities. Over time, the natural gas and electric industries transformed from companies using their monopoly-owned transportation and transmission facilities to supply all the needs of their own wholesale customers, to companies providing competing suppliers and wholesale customers with open and non-discriminatory access to their facilities, under Commission-approved tariffs. This allows independent suppliers to compete for natural gas and electric energy sales and to offer market choices for customers at wholesale. The development and operation of RTO, ISO and independent transmission companies in the electric industry, and market hubs in the gas industry, has increased competitive opportunities in the provision of services for buying and selling energy. The Commission monitors wholesale power and natural gas markets to ensure that its policies mitigate market power.

The Commission is charged by statute with ensuring that prices in jurisdictional energy markets remain just and reasonable and are not unduly discriminatory or preferential. The Commission pursues this duty by developing rules that encourage fair and effective competitive markets and prevent the accumulation and exercise of market power. The Commission's flexible regulatory approach allows it to react effectively to changes in energy markets caused by concerns for the environment, new technology and emerging issues related to the ongoing evolution of markets and their operations. This flexibility also allows the Commission to find the best possible mix of regulation and competition to encourage fair and effective competitive markets. The Commission's statutory authority includes the following:

- Authority to assure just and reasonable rates and prevent undue discrimination and preference under sections 205 and 206 of the Federal Power Act.
- Responsibility under section 203 of the Federal Power Act to assure mergers and acquisitions and other corporate transactions are in the public interest.
- Rate jurisdiction and authority to prevent undue discrimination and preference under sections 4 and 5 of the Natural Gas Act and section 311 of the Natural Gas Policy Act of 1978.



- Duty to prevent manipulation of wholesale power and natural gas markets and transmission services under section 222 of the Federal Power Act and section 4A of the Natural Gas Act.
- Authority to assure transparency of electricity and gas markets under section 220 of the Federal Power Act and section 23 of the Natural Gas Act.

The agency's continuing efforts to promote competitive markets are taking place at a time when the costs of natural gas and primary fuels used to generate electricity are unusually volatile. In 2002, the wholesale average national citygate price of natural gas was \$4.12/Mcf. Through July 2008, the average citygate price was \$10.23/Mcf, an increase of \$6.11/Mcf or 148%. Such increases were borne by natural gas consumers. They are also borne by electricity consumers, since increasing fuel costs put upward pressure on power prices.

The Commission continues to advance and respond to the ongoing evolution of energy markets and their operation. Some of the momentum of continued evolution is arising from actions at the state level. States have acted on their concern over the cost and siting of new energy infrastructure to meet growing demand through legislation and regulations that mandate increased demand response and energy efficiency. The concern about energy security and environmental quality, including climate change, has also had effects on energy markets and their operations. More than half of the states in the nation have adopted renewable portfolio standards. There are now three regional accords to develop greenhouse gas cap-and-trade systems.



The Commission formed a new group within its Office of Energy Market Regulation, the Energy Innovations Sector, in October 2007, to study the implications of new developments on Commission policy, such as distributed generation, renewable energy issues, greenhouse gas emissions policies, and advanced technologies. In December 2007, Congress gave the Commission mandates related to some of these aspects of continued market evolution in the Energy Independence and Security Act of 2007. The new group began helping the Commission meet its new requirements and coordinate related policy with regard to jurisdictional transmission and wholesale energy markets.



Fair and Efficient Competitive Market Rules

The Commission ensures that access to markets is available to all market participants at reasonable prices on a nondiscriminatory basis by requiring natural gas pipelines and electric utilities to provide open access transmission service. This is the foundation for fair and efficient competitive wholesale energy markets for electricity and natural gas. In exercising its jurisdiction over wholesale markets and transportation in interstate commerce, the Commission strives to reduce barriers to access in both gas and electric markets. Furthermore, the Commission seeks to adopt approaches that are complementary to those of the states in their regulation of retail markets.

Market Rule Changes

The Commission continues to strengthen competitive wholesale power and gas markets. In particular, it has proposed a number of reforms and taken specific actions in FY 2008 to make continued progress towards more perfect competition:

- In January 2008, the Commission addressed issues in wholesale competitive markets by issuing a proposal to improve operations in organized electric markets, boost competition and bring additional benefits to consumers. The proposed reforms are designed to ensure just and reasonable rates, to remedy undue discrimination and preference and to improve wholesale competition in organized markets. They address demand response and market pricing during a period of reserve shortage, long-term power contracting, market-monitoring policies and responsiveness of RTOs and ISOs to stakeholders and customers.
 - In June 2008, the Commission approved a rule designed to enhance competition in secondary natural gas capacity release markets. This is accomplished principally by removing price caps on short-term releases of capacity, and increasing flexibility afforded asset management agreements under the Commission's capacity release rules.
- In addition, the Commission strengthened competitive wholesale markets by addressing proposed market rule changes to reform specific markets through the following actions:
- In February 2008, the Commission conditionally accepted Midwest ISO's proposal to implement a day-ahead and real-time ancillary services market. Under the ancillary services market, the Midwest ISO will determine operating reserve requirements and procure operating reserves through a single market from all qualified resources in place of the current system of local management and procurement of reserves by the 24 balancing authorities. This will allow for price competition among resources and provide for greater participation by demand resources and simultaneous co-optimization of energy and operating reserve markets, which should substantially improve efficiency and reliability in one of the largest organized markets in North America.
 - In March 2008, the Commission conditionally accepted Midwest ISO's proposal to address comprehensively long-term resource adequacy requirements in its markets. The provisions contain mandatory requirements for any market participant serving load in the Midwest ISO



region to have and maintain access to sufficient planning resources. The proposal represents an important step in establishing the framework for efficient and reliable energy and operating reserves markets in this region in the future.

- In March 2008, the Commission accepted two of three proposals by PJM to revise its credit policy regarding financial transmission rights in the wake of defaults by Power Edge, LLC in PJM's market. These tariff provisions establish collateral requirements that will help PJM manage the risk and volatility of certain positions taken by traders in the Financial Transmission Rights auction markets PJM has established.
- In May 2008, the Commission established a proceeding under section 206 of the Federal Power Act to examine whether PJM's existing market power screen had become unjust and unreasonable.
- In September 2008, the Commission approved plans by a group of Western transmission providers for a two-year experimental regional transmission pricing initiative intended to encourage more efficient use of the grid and reduce customer costs by expanding access to coordinated transmission service from multiple transmission providers at a single rate.
- In September 2008, the Commission conditionally accepted the California Independent System Operator Inc.'s (California ISO) proposal to establish modeling and pricing proxy points for import and export transactions that would be consistent with the conversion to the new Market Redesign and Technology Upgrade (MRTU) market design.
- In September 2008, the Commission issued an order directing PJM to evaluate, on a prospective basis, the design of the reliability pricing model and file a progress report with the Commission by December 15, 2008. FERC also directed staff to convene a technical conference in February 2009 on the issues related to the Reliability Pricing Model buyers' complaint and other issues raised by PJM stakeholders.

The Commission also encourages business rules and practices that maximize market efficiency, ease market entry and reduce transaction costs. In part, it relies on organizations like the North American Energy Standards Board (NAESB), RTOs and ISOs, where appropriate. For example, in July 2008, the Commission revised its regulations to incorporate by reference the latest version of certain standards adopted by the Wholesale Electric Quadrant of NAESB. The NAESB standards revise existing Open Access Same-Time Information Systems and reliability-related business practice standards, and add new standards on transmission loading relief for the Eastern Interconnection and public key infrastructure. Incorporating these revised standards will provide customers with information to enable them to obtain transmission service on a non-discriminatory basis. The revised standards will assist the Commission in supporting needed infrastructure and will bolster the reliability of the interstate transmission grid.

Demand Response

Competitive markets should reflect both supply and demand conditions. Demand response programs and strategies allow users to respond to market



conditions triggered by prices or reliability signals. The Commission supports and facilitates demand response by ensuring its comparable treatment because it helps hold down wholesale power prices, reduces price volatility, increases awareness of energy usage, provides for more efficient operation of markets, mitigates market power and enhances reliability. In FY 2008, the Commission took important steps to help facilitate demand response programs:

- In February 2008, the Commission proposed new rules to improve operations in organized electric markets. Specifically, with respect to demand response, the Commission proposed to require RTOs and ISOs to: (1) accept bids from demand response resources in their markets for certain ancillary services comparable to other resources; (2) during a system emergency, eliminate a charge to a buyer for taking less energy in the real-time market than it purchased in the day-ahead market; (3) permit an aggregator of retail customers to bid demand response on behalf of retail customers; and (4) modify market rules to allow market-clearing prices, during a period of operating reserve shortage, to reach a level that rebalances supply and demand so as to maintain reliability while providing sufficient provisions for mitigating market power.
- In March 2008, the Commission conducted two national electric industry surveys. The surveys were conducted to assist the Commission in preparing an annual demand response and advanced metering report. Among information sought on the survey were the saturation and penetration rates of advanced meters and communications, the annual resource contribution

of demand response resources, and the potential for demand response as a quantifiable, reliable resource for regional planning purposes.

- In May 2008, the Commission conducted a technical conference on integrating demand response in wholesale power markets. Commission staff examined issues including: the value of demand response in organized markets; comparable compensation of demand response in organized markets; barriers to comparable treatment of demand response that have not previously been identified; solutions to eliminate such barriers; and the need for and the ability to standardize terms, practices, rules and procedures associated with demand response.

Open Access Transmission Tariff Reform

In February 2007, the Commission issued the Open Access Transmission Tariff reform final rule or Order No. 890. The primary goal of the final rule was to prevent undue discrimination and preference in transmission service, thus allowing wholesale customers to access lower-cost power supplies.

The final rule limits undue discrimination and preference by increasing the transparency of Open Access Transmission Tariff administration. The final rule also limits undue discrimination by requiring an open, transparent and coordinated transmission planning process that would consider the needs of native load customers and transmission customers, as well as transmission providers. The Commission took a number of steps to implement the provisions



of the Open Access Transmission Tariff final rule and to offer guidance to the industry in the following actions:

- In December 2007, the Commission largely affirmed Order No. 890. The Commission affirmed that, based on the extensive record of this proceeding, the particular reforms adopted in Order No. 890 were appropriate to satisfy the obligation to remedy undue discrimination.
- In June 2008, the Commission reconsidered certain other aspects of Order No. 890 that parties questioned, as well as its December 2007 affirmation of the rule described previously. The Commission also provided clarification and guidance on the rule at that time.

One of the most important reforms adopted in Order No. 890 was in the area of transmission planning. The power grid is regional in nature, and transmission planning should reflect that reality. The requirement that transmission owners engage in regional transmission planning, consistent with principles in Order No. 890, was a significant policy change. Having an open and transparent planning process helps eliminate opportunities for discrimination and provides customers with information and studies that will help them decide whether potential upgrades or other investments could reduce congestion or enable integration of new resources. Pursuant to Order No. 890, transmission providers were required to submit an Attachment K to their Open Access Transmission Tariff incorporating the transmission planning principles and concepts by December 2007. In October 2007, the Commission held technical conferences on Open Access Transmission Tariff transmission planning in three different regions of the country.

In May 2008, the Commission began approving transmission planning process compliance filings. As of the end of FY 2008, the Commission had approved 34 Open Access Transmission Tariff transmission planning compliance filings with appropriate modifications. This includes proposals from all regions of the country.



Long-Term Transmission Rights

Since July 2006, the Commission has approved a number of orders making long-term firm transmission rights available to all transmission customers. The availability of such rights provides financial certainty to load-serving entities that wish to enter into long-term power supply arrangements. In FY 2008, the Commission continued this policy by taking the following actions on filings made by RTOs and ISOs:

- In April 2008, the Commission approved, with modifications, the New York Independent System Operator, Inc.'s (NYISO) revisions to its Open Access Transmission Tariff to institute long-term firm transmission rights in New York. Under the



proposal, as modified, market participants that desire to secure long-term firm transmission rights would be able to secure these rights in sufficient quantities to meet a reasonable percentage of their load serving obligations as required under EPAAct 2005.

- In May 2008, the Commission denied rehearing of an order that accepted the Midwest ISO's long-term firm transmission rights proposal, subject to modification.
- In July 2008, the Commission denied rehearing of an order that conditionally accepted, subject to modification, proposed revisions to the California ISO's Market Redesign and Tariff Upgrade tariff to implement long-term firm transmission rights.

Reduction of Barriers to Trade

The Commission continues to make progress in reducing barriers to trade between regional electric wholesale markets. These disparities, often referred to as "seams," include differences in market rules and designs, operating and scheduling protocols, and other control-area practices that could inhibit or preclude the ability to execute transactions across regional boundaries. Significant differences in power products, pricing and rules among markets can reduce competition among suppliers across the regions and create inefficiencies. Resolving these differences could lower transaction costs, permit greater utilization of resources and, ultimately, lower costs to customers. In FY 2008, the Commission took the following actions:

- In November 2007 and July 2008, the Commission accepted the Midwest ISO and PJM's pro-

posed revisions to the Congestion Management Process of their seams management agreement. In July 2007, the Commission accepted the Midwest ISO and Southwest Power Pool Inc.'s proposed revisions to the Congestion Management Process of their seams management agreement.

- In June 2008, the Commission accepted the Midwest ISO's proposed Reliability Service and Seams Service, which provides for enhanced reliability coordination and coordination of congestion management across market-to-non-market seams on a broader, more uniform basis than had currently existed.

Interconnection Queue Issues

In 2003, the Commission issued Order No. 2003 to standardize the agreements and procedures related to the interconnection of large generating facilities. The goal of this order was to minimize opportunities for undue discrimination and to expedite the development of new generation, while protecting reliability and ensuring that rates are just and reasonable.

Queue problems have increased recently because of the surge of new entry by generators in certain regions of the country. There is great interest in gaining access to RTO and ISO markets by new generation entrants, especially those with wind and other renewable energy projects. The nature of the queue problem varies from region to region. In some regions, such as the Midwest, the queue problem arises because of the unprecedented entry of renewable energy generation, particularly wind projects. In other regions, the issues are related more to the inception of forward capacity markets.



In FY 2008, the Commission took the following major actions to encourage regional flexibility in remedying the problems:

- In December 2007, the Commission held a technical conference to seek information on queue issues that have arisen since issuance of Order No. 2003 and solutions that may have been developed or proposed to deal with those queue issues. The conference also explored existing practices that have proven effective in addressing interconnection queue problems experienced by both traditional and renewable generation.
- In March 2008, the Commission directed RTOs and ISOs to report on the status of their efforts to improve the processing of their interconnection queues. The order followed the December 2007 technical conference on interconnection queue practices, where participants complained

of transmission providers' delays in processing interconnection queues. The Commission learned that delays were especially long in RTO and ISO regions that were attracting significant new entry into generation markets and in regions where the industry is working to meet state renewable portfolio standards.

- In August 2008, the Commission approved an application by the Midwest ISO to revise its tariff to improve the process by which generators interconnect to the transmission grid it operates, especially regarding its queuing procedure.
- In September 2008, the Commission conditionally approved an application by the California ISO, which will improve the efficiency of the California ISO's interconnection process, clear the California ISO's interconnection backlog and allow the interconnection process to be better integrated into the California ISO's transmission planning process.



Preventing Accumulation and Exercise of Market Power

Competitive markets, to be fair and efficient, require transparency and oversight to prevent the accumulation and exercise of market power. Commission rules promote transparency of competitive electric and gas markets and discourage unfair trading practices. Appropriate regulatory oversight safeguards consumers from consolidations of energy assets that reduce competition, and ensures that rates customers pay for electricity and transmission services in wholesale markets are just and reasonable.

Restructuring is not uncommon in industries that are experiencing dynamic change. This restructuring includes consolidation of companies within individual segments of the industry. Mergers and other dispositions or acquisitions can bring efficiencies associated with combining operations, and can represent the success of competition as more effective business models develop. However, they also may eliminate competitors and lead to markets that are too concentrated and not fully competitive.

The Federal Power Act and the Natural Gas Act enable the Commission to identify and disallow from jurisdictional rates any imprudently incurred, unjust or unreasonable, or unduly discriminatory or preferential costs from affiliate transactions among companies in the same holding company system.

Review of Mergers and Acquisitions and Other Corporate Review

Mergers and acquisitions within the Commission's jurisdiction over the electric industry must be consistent with the public interest. In reviewing mergers and acquisitions, the Commission examines the effect of a transaction on competition, rates and

regulation, and the potential for cross-subsidization. The Commission's approach to mergers analyzes horizontal and vertical competitive concerns, and establishes filing requirements and conditions for mergers that raise market power concerns.

In reviewing mergers and other corporate transactions, the Commission uses its authority under section 203 of the Federal Power Act to prevent the accumulation of market power. A merger could potentially increase market power by eliminating a competitor or overly concentrating those markets where the merging parties have overlapping generation resources. In such a case, the Commission would either reject the merger, or impose conditions or accept applicant commitments to ensure that competition is not harmed.

EPAAct 2005 expanded the Commission's merger and corporate review authority under section 203 of the Federal Power Act. Specifically, EPAAct 2005 clarified the Commission's jurisdiction over public utility holding company mergers, and granted the Commission authority over acquisitions of generation facilities used for wholesale sales and certain holding company securities acquisitions. The Commission approved the following significant mergers and acquisitions in FY 2008:

- In October 2007, the Commission approved the two-step transaction under which Aquila Inc. will sell its Colorado-based electric utility and its Colorado, Iowa, Kansas and Nebraska natural gas operations to Black Hills Corporation, and will merge its Missouri electric utility assets with Great Plains Energy Inc.
- In November 2007, the Commission authorized



Calcasieu Power, LLC to sell, and Entergy Gulf States to acquire, a 310 MW natural gas-fired combustion turbine generating facility located in Calcasieu Parish, Louisiana.

- In December 2007, the Commission approved the acquisition of transmission facilities owned by Interstate Power & Light Company by ITC Midwest LLC, a unit of ITC Holdings Corp.
- In December 2007, the Commission authorized the merger of Energy East Corporation and the Spanish utility holding company, Iberdrola S. A.
- In April 2008, the Commission conditionally approved a merger between Washington-based Puget Energy, Inc. and an international investment consortium led by the Macquarie Group.
- In October 2007, the Commission granted blanket approval of three applications by financial and investment companies involving acquisition of securities of electric utility companies, finding that the transactions will facilitate investment in the utility industry consistent with the goals of EAct 2005, while protecting the nation's consumers from abusive market power practices.

EAct 2005 largely codified the merger test used by the Commission for some years, with one significant change. This law added to the public interest determination a required finding that a transaction will not result in cross subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company, unless such pledge or encumbrance is in the public interest. In February 2008, the Commission finalized two rules to ensure that ratepayers are protected against

unauthorized cross-subsidies by utilities of their non-utility affiliates and to accommodate greater investment in the electric utility industry. Specifically, the Commission took the following actions:

- In the first final rule, the Commission codified cross-subsidy pricing restrictions on power and non-power goods and services transactions between franchised public utilities with captive customers and their market-regulated power sales affiliates or non-utility affiliates.
- In the second final rule, the Commission granted an additional limited blanket authorization for certain dispositions of voting securities by public utilities to public utility holding companies.

In July 2008, the Commission upheld its rules protecting ratepayers against unauthorized cross-subsidization in an order that provides important clarifications to utilities and other entities. The Commission also issued a notice seeking supplemental comments on the narrow issue of the scope and form of reporting requirements that would apply to expanded blanket authorization.

Market Power in Wholesale Power Sales

Qualified applicants have been granted market-based rate authority, on a case-by-case basis, since 1988. This program first requires a seller seeking a market-based rate authorization to demonstrate that neither it nor its affiliates have market power in generation or transmission (or that any such market power is sufficiently mitigated). If such demonstration is made, the grant of market-based rate autho-





rization is conditioned on adherence to a code of conduct, filing transaction information through the Electric Quarterly Report, and filing of any change in status affecting market power.

The Commission continues to take action on market-based rate policy issues, which builds on Order No. 697, its June 2007 final rule on the proposed amendments to its market-based rate policy. The rule reflects the Commission's fundamental responsibilities to oversee wholesale power markets and protect consumers from exploitation in those markets. During FY 2008, the Commission took the following significant actions:

- In February 2008, the Commission determined that the Western Systems Power Pool Agreement's demand charge ceiling rate was no longer just and reasonable for use by public utility sellers in markets in which the sellers do not have market-based rate authority unless such sellers can cost-justify the rate, and ordered certain power sellers to justify their use of it.
- In April 2008, the Commission largely affirmed its findings in Order No. 697. The order made one substantive change to the rule: sellers that lose or surrender their market-based rate authority can file contract-specific requests to make long-term sales of a year or more at such rates. The Commission also indicated its willingness to consider case-specific sensitivity studies as part of a market power analysis.



Western Energy Settlements

During FY 2008, the Commission approved several settlements in refund proceedings for companies involved in the 2000-2001 Western energy crisis. While litigation continues in various appeals and Commission proceedings, this represents continued progress towards full resolution of the Western energy crisis.

Date	Settling Parties	Payment
December 21, 2007	Enron and the Public Utility District No. 2 of Grant County, Washington	\$3 million
January 8, 2008	Enron and the Public Utility District No. 1 of Snohomish County, Washington	\$8 million
April 2, 2008	Midway Sunset Cogeneration Company and the California Parties ¹	\$85.7 million
May 23, 2008	Public Utility District No. 2 of Grant County, Washington and the California Parties	\$26.5 million
June 4, 2008	California Parties and the Cities of Riverside Calif., Anaheim, Calif. and Azusa, Calif.	\$3.5 million
June 30, 2008	California Parties and Strategic Energy, LLC	\$1.6 million
June 30, 2008	California Parties and Pinnacle West Capital Corporation and APS Energy Services Company, Inc.	\$1.1 million

¹ The California Parties generally consist of Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, the People of the State of California, *ex rel.* Edmund G. Brown Jr., Attorney General, the California Electricity Oversight Board, and the California Public Utilities Commission. For purposes of this settlement, California Parties also include the California Department of Water Resources acting solely under authority and powers created by California Assembly Bill 1 of the First Extraordinary Session of 2001-2002, codified in sections 80000 through 80270 of the California Water Code.



Transparency

The Commission continues to take action to improve market transparency under the guidance of EAct 2005. Sections 316 and 1281 of that legislation added section 23 to the Natural Gas Act and section 220 to the Federal Power Act. These sections provide that the Commission may act to facilitate price transparency in wholesale natural gas and electricity markets and authorize the Commission to adopt such rules as may be necessary to assure the timely dissemination of information about the availability and prices of natural gas, electric energy and transmission service in such markets. In FY 2008, the Commission took action to improve natural gas market transparency by requiring the gathering of information to improve the Commission's understanding of index pricing, which in turn should allow market participants to improve their confidence in index prices. Specifically, the Commission took the following actions:

- In December 2007, the Commission issued a final rule that requires certain natural gas market participants to file information annually on their wholesale, physical natural gas transactions. Specifically, the rule introduces a new annual reporting requirement, Form No. 552, for any buyer or seller of more than 2.2 million Btus of physical natural gas each year to report aggregate volumes of relevant transactions. The Form No. 552 must be filed by May 1 of each year, starting in 2009 for transactions delivered in the previous year.
- In December 2007, the Commission also sought public comment on a proposal to require both interstate and certain major non-interstate pipe-

lines to post on a daily basis, capacity, scheduled flow information and actual flow information. The proposal would facilitate transparency of price and availability of natural gas by providing a more complete picture of daily supply and demand information across the United States.

- In April 2008, Commission staff held a technical conference to address implementation issues associated with the transparency posting proposal, such as obtaining and posting actual and scheduled flow information and obtaining and posting information from storage facilities.
- In September 2008, in response to 13 requests for rehearing and clarification of the transparency rule and the comments received at the technical conference, the Commission clarified that natural gas market participants must report all data on FERC Form No. 552 for transactions that use, contribute to, or could contribute to a price index.







SAFETY

The Commission has oversight responsibility for the safety of onshore LNG and non-federal hydropower facilities throughout the entire life cycle of a project: design review, construction and operation.

The Commission reviews and approves the final engineering design of authorized LNG projects, inspects these facilities during construction to ensure compliance with the safety and reliability requirements of Commission orders, and conducts the annual and biennial safety and reliability inspections of the existing jurisdictional LNG peak shaving and marine import terminals for the life of these facilities.

Similarly, once the Commission licenses a hydropower project, it's primary duty is to assure the safe construction and operation of the project to protect the public. The Commission discharges that duty through the dam safety program, by conducting inspections, by assessing the risks posed by various projects, by requiring the development of Emergency Action Plans, and by requiring drills of those plans. It is necessary that the licensee and the community be prepared to act in the unlikely event there is a project failure, and the public is put in harm's way.



Natural Gas

Safety at LNG Facilities

Public safety is the Commission's central focus when fulfilling its Congressional mandate under the Natural Gas Act to regulate facilities for importation of natural gas. The Commission addresses safety concerns proactively and rigorously applies high safety standards to these projects. Projects that meet the Commission's safety standards and are found to be in the public interest are approved. Projects that fall short of these standards are rejected.

The Commission and other federal agencies work together to ensure public safety through a comprehensive strategy for siting and oversight of LNG facilities. The Commission works with the U.S. Department of Transportation (DOT), which is responsible for safety of gas pipelines once operational, and the U.S. Coast Guard to ensure the safe siting, operations and reliability of facilities. This process ensures that approved LNG peak-shaving facilities and LNG terminals, including associated LNG vessel traffic, meet safety and environmental requirements during construction and operation. For each project, the Commission, in coordination with DOT and the U.S. Coast Guard, conducts an engineering and siting review geared toward assuring that a facility will operate safely and securely in an environmentally sound manner.

The Commission's safety review process starts during the mandatory pre-filing phase of an application, a minimum six-month period for all LNG import terminals or major modifications. During this period, Commission staff reviews and comments on engineering and safety issues related to the proposal.

Once a complete application is filed, Commission staff convenes a Cryogenic Design and Technical Review Conference to evaluate the operability, reliability and safety of the facility's design. The recommendations from the conference are incorporated into the National Environmental Policy Act document and, subsequently, become conditions attached to a Commission authorization. In FY 2008, the Commission reviewed eight LNG applications to ensure that safety concerns were appropriately addressed.

If a company receives authorization for new LNG facilities, Commission staff monitors the project through construction, commissioning and operation. Compliance monitoring during construction includes on-site staff inspections at prescribed intervals, review and approval of final design submittals and monthly reporting by the company. In FY 2008, sixty-three construction/pre-operational inspections were conducted for five new terminals and four terminal expansions. During the later stages of construction, Commission staff is actively involved in commissioning activities to verify that the constructed facility complies with the design authorized by the Commission. No facility may enter into service until all conditions of the Commission Order have been met.

All operational LNG facilities under Commission jurisdiction are inspected throughout the entire life of the project. Commission staff conducts annual on-site inspections for each import terminal and biennial inspections of each jurisdictional peak-shaving plant. Additional inspections may be conducted at any time, as warranted by the operator's required semi-annual reports, or other conditions. In FY 2008, the Commission conducted 12 operation inspections.



Hydropower



Dam Safety

The Commission's dam safety program, through its many components, helps ensure dam safety, public safety, and reliability in the electric industry. More than 2,500 FERC-licensed dams are in the program. Periodic inspections verify the structural integrity of dams and compliance with engineering and public safety conditions and regulations. They also identify necessary maintenance and remedial modifications. Inspection types include prelicense, construction,

operation, instrumentation and special. The Commission's five regional offices conduct the inspections. Over 2,000 dam safety inspections were conducted during FY 2008.

The Commission is an active member of the Interagency Committee on Dam Safety, the U.S. Society of Dams, and the Association of State Dam Safety Officials, and also shares its dam safety expertise internationally. Additionally, during FY 2008, the Commission provided dam inspection and evalua-



tion services to the NRC and the DOE, and assisted the Director of the Federal Emergency Management Agency in implementing the National Dam Safety Program.

The Commission's dam safety program is recognized both nationally and internationally as a leading expert in Emergency Action Planning. Program staff conduct biennial open training workshops for federal, state and local dam safety and emergency response agencies for emergency action planning and conducting exercises. Emergency Action Plans (EAPs) are an integral part of the Commission's dam



safety program. The Commission's guidelines require licensees on an annual basis to test the state of training and readiness of key personnel responsible for actions during an emergency. In FY 2008, Commission staff conducted three workshops on this issue.

The Commission has developed and implemented an innovation in dam safety evaluations entitled the Potential Failure Mode Analysis. The Commission provides training to federal and state dam safety agencies in this analysis, which identifies the possible failure modes for specific dams and determines necessary actions before a problem occurs, thereby ensuring the safety of dams and preventing failure emergencies. The entire United States dam safety community has embraced the value that Potential Failure Mode Analysis brings to ensuring dam safety.

Commission staff also has assumed a leadership role in many of the important technical advancements in the areas of dam safety research, training, dam safety program design, and the importance of coordinating EAPs with the local first responder agencies.

During FY 2008, Commission staff took the following actions:

- Developed and provided individual EAPs, dam site security, and stability analysis training to dam safety offices in the States of Rhode Island, Pennsylvania, New York and Georgia, in an expanded effort to assist states with technical dam safety training.
- Successfully addressed the numerous severe flood events that occurred in the Northeast and Midwest by collaborating with dam owners and local officials on safe dam operations and public education efforts.



- Convened a Security and EAP Workshop with dam owners, federal and state dam safety agencies, and consultants to share information, solicit recommendations and review the status of security and EAP efforts.

In FY 2008, Commission staff also focused on safety issues associated with a sinkhole discovered in the crest of the Swinging Bridge Dam on the Mongaup

River in Sullivan County, New York. A report from December 2007 noted that the Swinging Bridge Dam performed as expected during the refilling stage. A Surveillance and Monitoring Program proposed by the licensee has been reviewed by the Commission and found to be adequate. The dam is under close monitoring for another year and the results of this monitoring are periodically reviewed by the licensee, by its consultants and by the Commission.







RELIABILITY

The reliability of our nation's bulk power system directly affects the security, safety and economic well-being of our citizens. The industry must have clear, unambiguous, mandatory and enforceable reliability standards and secure communications and control technology.

Historically, the Commission had no role in approving or enforcing reliability standards, even though it regulated access to the transmission grid and transmission service. Our nation's response to reliability has generally been triggered by events. In the first part of the last century, reliability of the interconnected grid was managed by individual electric utilities, or groups of utilities, accountable by varying degrees to state and local regulators. However, following the Northeast Blackout of 1965, regional reliability organizations and, later, the predecessor to the North American Electric Reliability Corp. (NERC), were formed to develop voluntary reliability rules and to encourage reliable operating practices. However, over time this voluntary regime proved to be insufficient.

Five years ago, the United States experienced the largest blackout in the nation's history. More than 50 million Americans were affected, and the economy suffered a blow. Five years later, FERC has made significant progress to reduce the prospect of another regional blackout, and to limit the extent of any such blackout.

Since the August 2003 blackout, Congress enacted a law to authorize the Commission to approve and enforce mandatory reliability standards, and FERC quickly issued rules implementing its new authority. The Commission certified an ERO to develop and propose mandatory reliability standards, and authorized delegation of enforcement powers to regional entities that are the first line of enforcement. In FY 2007, the Commission approved mandatory reliability standards, which went into effect on June 18, 2007. For the first time, reliability of the U.S. bulk power grid was protected by mandatory reliability standards.



Importantly, the Commission has taken action to strengthen reliability standards, directing the ERO to submit revisions that would clarify and improve the standards. In this manner, the Commission will steadily raise the bar for grid reliability over time. There are four necessary elements of a reliability regime: (1) mandatory reliability standards; (2) effective enforcement of those standards; (3) a commitment to operational excellence by grid operators; and (4) a more robust transmission grid. In FY 2008, the Commission has made significant progress in all four areas. Threats to reliability remain but they have been reduced.

In October 2007, the Commission recognized the importance of reliability issues by creating the Office of Electric Reliability (OER). This office is tasked with helping protect and improve the reliability and security of the nation's bulk power system through effective regulatory oversight as established by Congress

and the President in EPOA 2005. Specifically, OER oversees the development and review of mandatory reliability standards, including those related to security, and monitors compliance with the approved mandatory standards by the users, owners and operators of the bulk power system.

In FY 2008, the Commission has continued a dialogue with other government agencies to examine issues related to the bulk power system. For example, in April 2008, the Commission hosted a meeting with the NRC to discuss the status of new reactors, the regional planning process to address the new reactors, reliability standards activities affecting nuclear power plants and grid operations, cyber security and future coordination between the two agencies. This marked the third joint meeting of the two agencies since the August 14, 2003 blackout, reflecting the continuing commitment of the agencies to work together to address issues of common interest.



Reliability Standards

On June 18, 2007, 83 reliability standards became mandatory and enforceable for the users, owners and operators of the bulk electric system. During FY 2008, the Commission took the following additional steps to implement section 215 of the Federal Power Act and to ensure the establishment of mandatory reliability standards:

- In December 2007, the Commission issued a rule approving three reliability standards that set requirements for the development of system operating limits of the electricity grid for use in planning and operation horizons.
- In March 2008, the Commission proposed to approve a reliability standard that coordinates certain activities between nuclear power plants and transmission entities. The Nuclear Plant Interface Coordination Reliability Standard would require a nuclear power plant operator and its suppliers of offsite power and related transmission and distribution services to coordinate concerning requirements for safe and reliable nuclear plant operation and system operating limits.
- In July 2008, the Commission acted to improve grid reliability by approving modifications to five reliability standards related to interchange scheduling and coordination and approved NERC's interpretation of five specific requirements of Commission-approved reliability standards. This marked the first time the Commission approved modifications to strengthen previously approved reliability standards.

Compliance

In FY 2008, the Commission took several steps to strengthen the reliability of the bulk power system

by issuing several orders that govern the assessment of penalties by NERC for violations of mandatory reliability standards approved by the Commission. Specifically, the Commission took the following actions:

- In November 2007 and February 2008, the Commission issued orders that completed its approval of Violation Risk Factors for the 83 Reliability Standards approved in Order No. 693. A Violation Risk Factor represents the potential reliability risk ("high," "medium" or "lower") a violation of a requirement presents to the Bulk-Power System. A Violation Risk Factor and the Violation Severity Level are the first steps in the determination of a monetary penalty for a violation of a requirement of a Reliability Standard.
- In March 2008, the Commission provided guidance on the recovery of reliability penalty costs by RTOs and ISOs. The order directed that proposals to recover penalties be filed on a case-by-case basis. In evaluating such proposals, the Commission will consider, among other things, the nature of the reliability standard violation and the factors that contributed to the violation, including the integrity of the RTO or ISO compliance program to prevent such violations.
- In April 2008, the Commission adopted an administrative policy for its review of notices of penalty filed by the Commission-certified ERO. The administrative policy also sets out schedules for filing, intervention and review by the Commission.
- In June 2008, the Commission largely completed the matrix NERC and Regional Entities use in setting penalties for violations of mandatory electric reliability standards by approving assign-



ments of Violation Severity Levels proposed by NERC for the first 83 FERC-approved reliability standards. A Violation Severity Level is a post-violation measurement of the degree to which a requirement was violated and will be used by NERC and the Regional Entities in the determination of a monetary penalty for the violation. The guidelines for evaluating the validity of Violation Severity Level assignments to ensure consistent and objective assessments are: (1) Violation Severity Level assignments should not have the unintended consequence of lowering the current level of compliance; (2) Violation Severity Level assignments should ensure uniformity and consistency among all approved reliability standards in the determination of penalties; (3) Violation Severity Level assignments should be consistent with the corresponding requirement; and (4) Violation Severity Level assignments should be based on a single violation, not on a cumulative number of violations. The Commission required NERC to determine whether its Violation Severity Level assignments should be changed to follow these guidelines. The Commission will consider Violation Severity Level assignments for other Reliability Standards it has accepted.

- In July 2008, the Commission issued guidelines for reporting Notices of Penalty for violations of mandatory electric reliability standards filed by NERC to provide greater clarity and establish the appropriate level of information to help the Commission gauge the reasonableness of any penalty assessment. The Commission also stated that it would not institute a separate review on its own motion for the first group of penalty notices, and the guidance order is intended to minimize the number of occasions when the Commission would have to review future Notice of Penalty filings.

- Throughout FY 2008, the Commission issued orders on 10 appeals of NERC compliance registry decisions. The Commission approved NERC's compliance registry criteria, which defines whether an entity is subject to the mandatory reliability standards under one or more functions (e.g., generator owner or transmission operator). An entity registered by NERC for one or more functions may appeal its inclusion on the compliance registry. The Commission's rulings in these orders clarify which entities are required to meet the reliability standards.



Electric Reliability Standards Approved in 2008

New Approved Reliability Standards

CIP-002-1	Critical Cyber Asset Identification
CIP-003-1	Security Management Controls
CIP-004-1	Personnel and Training
CIP-005-1	Electronic Security Perimeter(s)
CIP-006-1	Physical Security of Critical Cyber Assets
CIP-007-1	Systems Security Management
CIP-008-1	Incident Reporting & Response Planning
CIP-009-1	Recovery Plans for Critical Cyber Assets
NUC-001-1	Nuclear Plant Interface Coordination
FAC-010-1	System Operating Limits Methodology for the Planning Horizon
FAC-011-1	System Operating Limits Methodology for the Operations Horizon
FAC-014-1	Establish and Communicate System Operating Limits

Approved Modifications to Standards

INT-001-3	Interchange Information
INT-004-2	Dynamic Interchange Transaction Modifications
INT-005-2	Interchange Authority Distributes Arranged Interchange
INT-006-2	Response to Interchange Authority
INT-008-2	Interchange Authority Distributes Status

Four Approved Interpretations

BAL-001-0	Real Power Balancing Control Performance, Requirement R1;
BAL-003-0	Frequency Response and Bias, Requirement R3;
BAL-005-0	Automatic Generation Control, Requirement R17;
VAR-002-1	Generator Operation for Maintaining Network Voltage Schedules, Requirements R1 and R2.

The term "bulk-power system" means:

(A) facilities and control systems necessary for operating an interconnected electric energy transmission network (or any portion thereof); and

(B) electric energy from generation facilities needed to maintain transmission system reliability.



Cyber Security

Damage from cyber attacks could be enormous. A coordinated attack could affect the electrical grid to a greater extent than the August 2003 blackout and cause more extensive damage. Cyber attacks can physically damage the generating facilities and other equipment with the result that restoration of power could take weeks or longer, instead of a few hours or days. Widespread disruption of electric service can quickly undermine the government, military readiness and economy, and endanger the health and safety of millions of citizens.

When it comes to cyber security, the Commission's approach has been very deliberate. The Commission recognizes that the cyber security standards must

strike a reasonable balance. Overly prescriptive standards may impose a "one size fits all" solution that fails to recognize the significant differences in system architectures, technologies and risk profiles among entities. However, cyber security standards lacking sufficient detail will provide little useful direction, make compliance and enforcement difficult, allow flawed implementation and result in inadequate protection. In FY 2008, the Commission took the following actions with respect to cyber security:

- In January 2008, the Commission issued a final rule that approved eight new mandatory critical infrastructure protection reliability standards to protect the nation's bulk power system against potential disruptions from cyber security breaches. They contained approximately 160 requirements and sub-requirements. The mandatory reliability standards require certain users, owners and operators of the bulk power system to establish policies, plans and procedures to safeguard physical and electronic access to control systems, to train personnel on security matters, to report security incidents, and to be prepared to recover from a cyber incident. The final rule ordered significant changes to the standards that would improve their effectiveness and the Commission's ability to monitor compliance with these mandatory standards. It also directed NERC to monitor the development and implementation of cyber security standards of the National Institute of Standards and Technology to determine if they contain provisions that will protect the Bulk-Power System better than the approved cyber security reliability standards.



- In September 2008, the Commission issued an order seeking public comment on a proposed clarification of the Cyber Security Standards, stressing that its intent is to eliminate a potential gap in the regulation of critical assets and critical cyber assets at nuclear power plants, not to subject specific facilities to dual regulation by both the Commission and the NRC.
- The Commission has engaged in an effort to address the requirements of the Energy Independence and Security Act of 2007, which announced that it is federal policy to modernize the nation's transmission and distribution grid through increased use of digital information and controls technology to improve reliability, security and efficiency of the grid. The Act directed the Commission to adopt certain standards and protocols for a smart grid interoperability framework developed by the National Institute of Standards and Technology. The Commission is especially focused on issues related to cyber security, and has been working with the National Institute of Standards and Technology in this regard.

While section 215 of the Federal Power Act is an adequate tool for protecting the bulk power system against most reliability threats, cyber security threats are different. Cyber security threats may be posed by foreign nations or others intent on undermining the nation through its electric grid. Cyber security threats stand in contrast to past causes of regional blackouts and reliability failures, such as vegetation management, relay maintenance and training. Given the national security risk of cyber security threats,

the Commission may need to act quickly to protect the bulk power system, to act in a manner that goes beyond the existing standards development process, and to protect certain information from public disclosure. In light of these concerns, the Commission has requested that Congress enact new legislation to combat cyber security threats.







ENFORCEMENT

Effective regulation is required if competitive energy markets are to succeed. Dramatic changes in both the natural gas and electricity industries have required the Commission to adjust its regulatory policies. While the core legal duties of the Commission to guard the consumer have not changed, the means of discharging this duty have evolved over time.

The Commission approves market-based rates and institutes generally-applicable sets of rules that govern market participants and, where applicable, an entire market. As a result of this regulatory approach, it is even more important for the Commission to promote compliance with, and enforce, the statutes it is responsible for implementing and the regulations it issues under those statutes.

The Commission seeks to understand market dynamics, detect problems or issues in energy markets early, prevent violations of its rules, and enforce compliance with the laws under its jurisdiction. The Commission also needs to ensure that utilities subject to its jurisdiction have effective internal monitoring and compliance programs in place to help assure that they are following established Commission rules and regulations. Commission oversight must then provide an independent and external check to ensure energy markets are operating in accordance with supply and demand fundamentals and, periodically, to audit utility compliance with Commission rules, regulations and statutory requirements.

EPAct 2005 enhanced the Commission's enforcement tools by providing, for the first time, civil penalty authority for violations of the Natural Gas Act and all of Part II of the Federal Power Act. This expanded penalty authority also applies to any entity (not just companies traditionally subject to the Commission's jurisdiction) that manipulates wholesale gas or electric markets by engaging in fraud or deceit in connection with jurisdictional transactions. Armed with this expanded authority, the Commission has created an even stronger and more effective compliance and enforcement program to protect the public interest.

The Division of Energy Market Oversight, within the Office of Enforcement, monitors markets on a daily basis and maintains regular contact with the market monitors in the Commission-approved RTOs and ISOs. The Division of Investigations conducts non-public investigations of violations of Commission orders, rules or regulations. The Division of Audits conducts operating and financial audits of regulated entities' practices.



Vigilant Oversight

Vigilant oversight requires that regulators appreciate the complexity and rapid changes that occur within an energy market. A key part of the Commission's market-oriented approach to its oversight of the natural gas and electric power industries is to identify potential problems and to address them promptly. Transparency of market operations is essential to market oversight.

Identification and Remedy of Potential Market Problems

The Commission's oversight program is a key component in its efforts to secure a well-functioning competitive market. In FY 2008, the Commission continued to enhance these efforts. Staff analysts review all key markets daily to detect both anomalous behavior by individual market participants and problems with market rules or operations that affect outcomes significantly. The program uses a real-time information capability to address rapidly developing situations and emergencies. The Commission's Market Monitoring Center provides analysts with such data from numerous sources of market information. The information includes data on prices from sources such as RTOs and the trade press on physical flows on the pipeline and electric transmission systems (largely from data aggregators), on the operating status of some generating units (for example, operational information on nuclear plants from the NRC) and on some aspects of individual transactions from some trading platforms. It acts as a nerve center where analysts can quickly examine market conditions, exchange insights, and develop shared understanding of the information observed. Through daily fact-finding meetings attended by Commission

staff, followed by briefings if warranted, the market oversight program helps keep key decision makers updated on market activities.

The Commission's market oversight program examines detailed interactions between the wholesale physical markets for natural gas and electric power and associated transmission markets. An analysis of interactions between the two industries helps to detect any possible problems as soon as possible after their occurrence. Because many other markets affect the operation of the physical electric power and natural gas markets, the oversight program also reviews related markets every day, including: financial markets for electric power and natural gas; markets for generation fuels and emissions credits; and international markets.

The Commission also continues to support state efforts to monitor power and gas markets. The Research in Market Oversight (RIMO) program allows representatives from state agencies to spend a week at the Commission to research an energy market issue of importance to their states. This program pairs the RIMO participants with the Commission's Market Oversight staff. The first RIMO project in April 2007 saw five representatives from Wyoming (including three aides to the Governor) study the effect of natural gas pipelines on prices paid to producers in Wyoming. In FY 2008, the Commission's staff hosted three RIMO programs. The first was with the Environmental Protection Agency's Program Development Branch and its Emissions Monitoring Branch, which included a review of a time series analysis of fuel and emissions prices, research on the growth of financial players in the emissions markets and historical trends in allowance transfers. The second was



with the Missouri Public Service Commission economics staff, which focused on the underlying forces that create market volatility, market distortions and market manipulation. The third was with the Chairman of Ireland's Commission on Energy Regulation and staff. Discussions covered energy financial and futures markets, emissions trading markets and regulation, the Commission's RTO/ISO initiatives and Ireland's single electricity market.

The Commission also provides opportunities for state agencies to discuss information on energy markets with our staff. Topics of discussion include natural gas supplies, prices of electric power, LNG facilities planned and under construction, coal market fundamentals, weather implications and an analysis of observed changes over the month. The program provides for a monthly regional phone discussion with representatives of various agencies that have requested participation, using information as posted on the Market Oversight web site (www.FERC.gov/oversight) and other energy issues the agencies may wish to discuss. This outreach program started out modestly and has now grown to more than 28 federal and state agencies participating each month.

The Enforcement Hotline program complements market oversight. The Hotline provides a way for market participants and the public to contact the Commission's enforcement staff on a confidential basis by telephone or email on matters affecting prices and wholesale utility service, including bidding anomalies, price spikes, inappropriate use of financial instruments, changes in available capacity on electric transmission systems or natural gas pipelines, undue discrimination in access to interstate transmission or transportation services, or violations

of the Commission's Standards of Conduct or other improper affiliate transactions. The Hotline also is available to landowners to raise concerns regarding pipeline construction and remediation that affects their property. Matters brought to the attention of the Hotline may result in investigations by the Commission's enforcement staff.

Standards of Conduct

The Commission issued a Notice of Proposed Rulemaking in March of 2008, which proposed revamping the Standards of Conduct for Transmission Providers. The last major overhaul to the Standards, made in 2003, was overturned in part with respect to the gas industry in 2006 by the U.S. Court of Appeals for the D.C. Circuit.

The proposed reforms refocused the Standards of Conduct on the areas where there is the greatest potential for affiliate abuse, making the rules clearer and thus easier to comply with and enforce. To accomplish this, the Commission proposed returning to the employee functional approach that pre-dated the 2003 changes to the Standards of Conduct. This approach confines the prohibited group of recipients of transmission function information to those employees actively engaged in marketing, thus eliminating the need for complex shared employee exemptions, and facilitating integrated resource planning and competitive bidding for system expansions. The proposed reforms also eliminated the concept of energy affiliates, streamlined and clarified posting and record retention requirements, and reorganized the Standards of Conduct as a whole to provide greater ease of use.





Market Oversight

One of the Office of Enforcement's market oversight activities involves the examination of seasonal events affecting natural gas and electricity prices. The goal of this activity is to provide information for the Commission and the public on factors affecting energy supply and demand, as well as natural gas and electricity prices. At several Commission meetings, staff presented the Commission and the public detailed information relating to current market prices and analyses, explaining those prices and their effect on supply and demand in the various regions of the Nation, including the 2007/2008 Winter Market Assessment, the 2008 Summer Market and Reliability Assessment, the State of the Market Report and an examination of the causes of and responses to rising electricity costs.

In addition, the Commission has required that all RTOs and ISOs incorporate a market monitoring function to analyze the state of the markets, propose solutions to market design flaws, and refer to

the Commission any suspected market violations. In February of 2008, the Commission issued a Notice of Proposed Rulemaking on Wholesale Competition in Regions with Organized Electric Markets, which included a section on market monitoring reforms. The Commission proposed to enhance the independence of market monitors and to expand the scope of the reporting required of market monitors. The proposed reforms included requiring market monitors to report to the RTO or ISO board of directors rather than to management, clarifying the role of market monitors in market mitigation, defining an expanded set of core market monitoring functions, requiring the RTO or ISO to provide the market monitor with adequate resources and requiring ethics standards for market monitors and their employees. The proposed reforms also required production of quarterly reports, broadened the category of recipients of market data produced by the market monitors, expanded the ability of state commissions to request information from market monitors and shortened the lag time for the release of offer and bid data.



Oversight of Reporting Requirements for Regulated Entities

During FY 2008, the Commission administered, analyzed and ensured compliance with the filing requirements for Electric Quarterly Reports (EQR) and the FERC financial forms and reporting requirements for natural gas pipelines, public utilities and licensees, oil pipeline carriers and centralized service companies.

EQRs summarize data about currently effective contracts and wholesale power sales made by public utilities during each calendar quarter. EQR data is public and is made available for use on the Commission's website. Although the primary purpose of requiring public utilities to file EQRs is to satisfy section 205(c) of the Federal Power Act's requirement to have rates on file in a convenient form and place, EQRs are also helpful in monitoring the market. For example, EQRs play a critical role in the Commission's oversight of the market-based rate program, which relies on the dual requirement of an ex ante finding of the absence of market power and sufficient post-approval reporting requirements, including the EQR.

The Commission requires electric utilities, interstate natural gas pipelines and oil pipelines subject to its jurisdiction to keep financial and related records in accordance with the Uniform System of Accounts and submit annual and quarterly financial forms. The Commission uses these financial forms for a variety of purposes, including establishing cost-based rates.



The Commission, as well as the industry, also uses the data reported in the financial reports to consider whether existing rates continue to be just and reasonable.

In FY 2008, the Commission took the following actions to improve accounting and reporting of financial information:

- In March 2008, the Commission revised the financial forms, statements and reports required of interstate natural gas companies to better reflect the current market and cost information needed for regulatory oversight of their rates and terms of service. The rule revises FERC Form No. 2, FERC Form No. 2-A and FERC Form No. 3-Q. The rule became effective beginning January 1, 2008, with the filing of the revised Form No. 3-Q beginning with the first quarter of 2009. The revised Form No. 2 and Form No. 2-A for calendar year 2008 must be filed by April 18, 2009.
- In September 2008, following up on a proposal from January 2008, the Commission revised its financial reporting forms for electric utilities and licensees to allow for fuller detail and give the Commission the information it needs to carry out its Federal Power Act responsibilities to ensure that rates are just and reasonable. The rule includes changes for the FERC Form No. 1, FERC Form No. 1-F and FERC Form No. 3-Q. The rule will take effect January 1, 2009.



Firm but Fair Enforcement

The Commission has taken a cohesive approach to enforcement, built on the central principle that Commission enforcement actions will be firm but fair. The Commission now has a full range of remedies available, including: civil penalties; disgorgement of unjust profits; or conditioning, revocation or suspension of authorizations. However, it exercises discretion when applying such penalties and remedies in a fair, reasonable and appropriate manner.

The Commission's authority is a direct result of substantially enhanced authority granted by EAct 2005. First, that law expanded the Commission's authority to assess civil penalties to include all of the Natural Gas Act and Part II of the Federal Power Act, and set the maximum civil penalty authority for the Natural Gas Act, Part II of the Federal Power Act, and the Natural Gas Policy Act of 1978 at \$1 million per violation per day. Second, EAct 2005 amended the Natural Gas Act and Federal Power Act to prohibit the use of manipulative or deceptive devices or contrivances by any entity in connection with the purchase or sale of electric energy, natural gas, or transmission or transportation services subject to the jurisdiction of the Commission.

Clear and Fair Processes

In May 2008, the Commission issued a package of reforms designed to strengthen its enforcement program and assure that the program is dedicated towards firm but fair enforcement. The package achieves this by adopting and proposing reforms that should facilitate compliance, assure fairness and protect the integrity of the conduct of investigations and enforcement actions. The package also provides greater clarity in our enforcement process,

including how the Commission conducts audits and investigations. Specifically, the following determinations comprised the May enforcement package:

- The Commission issued a new policy statement on enforcement reflecting the experience the Commission has gained in administering the enhanced enforcement tools Congress granted under EAct 2005 and responded to requests from regulated entities for more transparency in the process. The revised policy statement builds on provisions in the original policy statement issued in October 2005 by providing further guidance on factors FERC considers in its enforcement decisions. It also provides a detailed picture of how the FERC investigative process works, including the considerations that staff of the Office of Enforcement take into account when determining whether to open an investigation and, once opened, whether to close it without further action or to recommend sanctions. The policy statement also sets forth in detail the factors considered in determining a penalty, as well as the appropriate level of the penalty.
- The interpretive order expanded the scope of issues for which the Commission will permit requests for no-action letters, and the process through which regulated entities seek a determination on whether staff would recommend enforcement action if particular transactions, practices or situations are pursued. This process now will include everything within the area of energy markets jurisdiction with the exception of issues relating to the licensing of hydroelectric projects, certification of natural gas pipelines, operation of LNG terminals and enforcement of mandatory reliability standards. FERC also established



an Internet-based compliance “help desk” as another way to obtain staff guidance, to complement the current mechanisms for obtaining formal and informal guidance through petitions for declaratory order, general counsel opinion letters, accounting interpretations, the enforcement Hotline and other informal communication with the Commission staff.

- The Commission proposed to revise its regulations to clarify the application of rules governing off-the-record contacts and separation of functions in the context of non-public investigations. The proposal will ensure that the rules limiting contact with Commissioners and decisional staff apply in the same manner to outside parties as they do to litigation staff, and clarified the rule on intervention to specify that intervention is not available as a right in proceedings arising from non-public investigations.
- The Commission issued a rule amending its regulations to clarify the rights of an entity when Enforcement staff intends to seek an Order to Show Cause. The rule states that Enforcement staff, in all but extraordinary circumstances, will notify the entity when it intends to seek an Order to Show Cause. The subject will have 30 days to respond, and the response will be presented to the Commission together with Enforcement staff’s memorandum requesting an Order to Show Cause, both of which will be non-public documents.

Investigations and Enforcement

Market participants, in the course of seeking new profit opportunities, may violate rules or manipulate

markets to reap unjust profits. In FY 2008, the Commission actively monitored electric and natural gas markets to determine whether price movements were the result of market manipulation or market fundamentals. The Commission’s market oversight and investigations staff continually reviewed market activity for any possible manipulation of prices. In close coordination with investigations staff, market oversight staff performs a detailed review of wholesale electric and natural gas prices and market activity on a daily basis with the intent of identifying areas of possible manipulation. If Commission staff identifies price anomalies that are not explained by market fundamentals, it will investigate the matter.

The object of the Commission’s enforcement program is compliance, and a priority of the Commission in this area is to strengthen the compliance programs within the regulated community. Strengthening compliance programs will pay great dividends over time, as the incidence and seriousness of violations decrease. It will also allow the Commission to dedicate more of its enforcement resources to identify and punish those companies determined to violate the Commission’s rules. In support of this priority the Commission took the following actions in FY 2008:

- In November 2007, the Commission held a technical conference to highlight the implementation of FERC’s enforcement authority as expanded by EAct 2005.
- In November 2007, just prior to the enforcement technical conference, staff released an enforcement report to offer insights into the evolution of the Commission’s enforcement program, and to show how the Commission uses its enforce-



ment tools to encourage companies to develop effective compliance programs and to deter and punish misconduct.

- In July 2008, Commission staff hosted a workshop to provide a forum for interested participants to share perspectives and information on federal energy regulatory compliance and the development of effective internal compliance programs.

The Commission's enforcement investigations in FY 2008 focused on possible market manipulation, undue discrimination or affiliate abuses, violations of Standards of Conduct requirements, compliance with hydropower requirements, violations of the terms and conditions of tariffs, referrals from market monitors in organized markets, and violations related to Commission rules and regulations. Enforcement investigations arise from a variety of sources, including referrals from the Commission, Enforcement Hotline calls, direct contact with enforcement staff, observations of markets, referrals from market monitors in RTOs and ISOs, and anonymous tips.

In addition to non-public investigations, in FY 2008, the Commission publicly announced that it was working on the following investigations:

- In March 2008, the Commission joined NERC and the Florida Reliability Coordinating Council's investigation into the February 26, 2008, Florida blackout by initiating a non-public, formal investigation into whether any mandatory federal reliability standards were violated during the event.
- In March 2008, the Commission's Office of Enforcement issued a staff report closing out an

investigation of the installed capacity market for New York City. The Commission had ordered the investigation in July 2007 after allegations were made by various parties that one of the suppliers of capacity had engaged in economic withholding by consistently offering its capacity at its bid cap and therefore had raised prices in the market. The report stated that Enforcement Staff found no evidence that any of the generators in the case violated the NYISO service tariff or the Commission's anti-manipulation regulations.

- In August 2008, the Commission disclosed that since May 2008, the Commission's Office of Enforcement had been undertaking a non-public investigation into the scheduling of flows over circuitous paths in the NYISO market.
- In September 2008, the Commission's Office of Enforcement issued a report closing an investigation of alleged market manipulation. The Commission had referred allegations made by DC Energy that HQ Energy had manipulated the NYISO energy and transmission congestion contract markets. The Commission denied the complaint based on the findings of the staff report.

The Enforcement Hotline continues to be a mechanism that allows industry participants to provide information to the Commission to identify potential investigations. The Commission, in FY 2008, also encouraged self-policing and reporting of violations through the Hotline.

When violations are identified, the Commission applies remedies to mitigate the effects of market power, requires disgorgement of unjust profits where appropriate, imposes civil penalties or other sanctions when available under existing laws, and requires compliance plans to prevent future violations.



Enforcement proceedings often result in settlements. Settlements benefit consumers by delivering benefits such as disgorgement of profits sooner than would be possible under litigation. They are

also administratively efficient and allow the Commission more flexibility in managing its enforcement resources. In FY 2008, the Commission approved the following settlements of enforcement matters:

Date	Subject of investigation	Total payment civil penalty, disgorgement, other	Explanation of payments and compliance plans
May 29, 2008	Duquesne Light Company	\$250,000 Civil Penalty \$1,000,000 Compliance Plan	Civil penalty and at least \$1,000,000 designated for a comprehensive compliance plan for violations of FERC cost allocation procedures, the electric quarterly report filing requirement and the standards of conduct.
May 19, 2008	Edison Mission	\$7,000,000 Civil Penalty \$2,000,000 Compliance Plan	Civil penalty and at least \$2,000,000 designated for a comprehensive compliance plan for violations of 18 C.F.R. § 35.41(b) (2007), which imposes a duty to provide accurate, factual and complete information in communications with the Commission upon electric power sellers authorized to engage in sales for resale of electric energy at market based rates.
March 11, 2008	Entergy New Orleans	\$400,000 Civil Penalty	Civil penalty resulting from self-reported violations of the Commission's shipper-must-have-title requirement.
March 11, 2008	Constellation New Energy-Gas Division LLC	\$5,000,000 Civil Penalty \$1,899,416 Disgorgement	Civil penalty, disgorgement and a compliance monitoring plan resulting from self-reported violations of the Commission's capacity release policies, including circumvention of the posting and bidding requirements for released capacity, violations of the shipper-must-have-title requirement and violations of the prohibition on buy-sell transactions.
October 25, 2007	BP Energy Company	\$7,000,000 Civil Penalty	Civil penalty and compliance monitoring plan resulting from self-reported violations of competitive bidding regulations, shipper-must-have-title requirement and prohibition on buy/sell arrangements.
October 25, 2007	MGTC, Inc.	\$300,000 Civil Penalty	Civil penalty and compliance report resulting from self-reported violations of the shipper-must-have-title requirement.



Not all enforcement actions result in settlements. As described in the previously reported period, the Commission has issued two show cause orders that made preliminary findings of market manipulation and proposed civil penalties and disgorgement of unjust profits. In FY 2008, the Commission continued to move forward with both actions:

- In May 2008, the Commission established an Administrative Law Judge (ALJ) hearing to determine whether Energy Transfer Partners, L.P. and its affiliates, Energy Transfer Company, ETC Marketing Ltd., and Houston Pipeline Company, engaged in market manipulation in violation of FERC rules by manipulating wholesale gas prices at the Houston Ship Channel to benefit ETP's financial positions and other physical positions between December 2003 and December 2005.
- In July 2008, the Commission ordered an ALJ hearing to determine whether certain natural gas futures trading activities by Amaranth Advisors, LLC, its affiliated entities and two individual traders violated the Commission's anti-market manipulation regulations.

Internal Compliance

In FY 2008, the Commission received 68 self-reports of violations of various Commission orders, rules or regulations. In many cases companies took self-corrective action before making the self-report. During FY 2008, 25 self-reports involving less serious mat-

ters were closed without further action by the Commission, upon a showing by the company that it was now in compliance. Elsewhere, the Commission has imposed civil penalties for more serious violations that were self-reported, but in doing so gave significant credit in determining the penalty amount to the company for having self-reported. The Commission encourages companies to instill a strong culture of compliance in their organizations, and to self-report violations promptly and fully.

Market, reliability and other regulatory rules must be clear, enforceable and fully understood by the jurisdictional entities that the Commission regulates. Yet the obligation to comply with those regulations, rules and standards lies with the regulated entity. Therefore, it is important that regulated entities have a rigorous internal compliance program that provides the tools, processes and high-level management support to identify problems or areas of non-compliance and to report such problems to the Commission.



Industry Compliance through Audits

A crucial component of the Commission's goal of ensuring compliance is the Office of Enforcement's audit program. In FY 2008 Commission staff conducted audits on a regular but unscheduled basis to ensure that jurisdictional companies complied with Commission regulations, orders and policies in four major program areas: Open Access Transmission Tariff; market-based rate program; market-based rate storage program; and price transparency. Audits in these major program areas are performed to ensure that jurisdictional companies are following appropriate Commission precedent when providing and obtaining transmission service, making power sales in wholesale power markets, pricing storage and storage services at market prices, and reporting trade data to price index publishers. In FY 2008, the Commission has completed major audits in these program areas to improve jurisdictional companies' compliance with Commission precedent. Corrective actions resulting from these audits included structural, process and procedural changes, as well as remedies to improve market transparency.

The Commission completed 60 audits of public utilities and natural gas pipeline and storage companies in FY 2008. The audits consisted of 21 operational audits and 39 financial audits. The jurisdictional companies implemented corrective actions to comply with the recommendations issued by the Commission. The Commission conducted these audits proactively on a regular but unscheduled basis to ensure compliance with various Commission requirements.

These audits resulted in the implementation of compliance plans to ensure adherence to the Commission's policies and procedures, including requirements to conduct training and to conduct periodic internal audits related to the areas of non-compliance, as well as requirements to make certain refunds and correct accounting entries, and to file tariff revisions.







APPENDICES:

APPENDIX A – BACKGROUND INFORMATION

Commission Overview

The Federal Energy Regulatory Commission (FERC or the Commission) is an independent agency that regulates aspects of the electric, natural gas, and oil pipeline industries. Specifically, the Commission:

- Regulates the transmission and sale of natural gas for resale in interstate commerce.
- Regulates the transmission of oil by oil pipelines in interstate commerce.
- Regulates the transmission and wholesale sales of electricity in interstate commerce.
- Reviews mergers, acquisitions, asset sales and certain security transactions in the electric industry.
- Licenses and inspects private, municipal and state hydroelectric projects.
- Approves the siting and abandonment of interstate natural gas pipeline and storage facilities, and ensures the safe operation and reliability of proposed and operating LNG terminals.
- Oversees the reliability of the high voltage interstate transmission system.
- Monitors and investigates energy markets.
- Imposes civil penalties and other remedies on energy organizations and individuals who violate FERC rules in the energy markets.
- Oversees environmental matters related to natural gas and hydroelectricity projects.
- Approves siting applications for electric transmission facilities under limited circumstances.
- Administers accounting and financial reporting regulations and conduct of regulated companies.

Regulatory Authority

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

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

The Commission has five members who are appointed by the President of the United States 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 Chairman and is the Commission's chief executive officer.

Mission

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

Vision

Abundant, reliable energy in a fair competitive market.



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

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

The Commission has electric regulatory responsibilities under portions of the Public Utility Regulatory Policies Act of 1978 and the Public Utility Holding Company Act of 2005 pertaining to qualifying facilities, exempt wholesale generators, and books and records access requirements. Under the Energy Independence and Security Act of 2007, the Commission, along with DOE and the National Institute of Standards and Technology, participates in a smart

grid taskforce to ensure awareness, coordination and integration of the federal government's diverse activities related to smart grid technologies and practices. Regulation of retail sales and local distribution of electricity are matters left to the states.

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

A major new area of Commission regulation as a result of EPOA 2005 is oversight of the ERO that will develop and enforce mandatory reliability standards for the Nation's bulk power system, subject to Commission approval pursuant to new section 215 of the FPA. On July 20, 2006, the Commission conditionally certified NERC as the ERO. On March 15, 2007, the Commission acted to protect the reliability of the nation's bulk power system by approving 83 reliability standards proposed by the Commission-certified ERO. On June 18, 2007, all owners, users and operators of the bulk power system became subject to mandatory and enforceable reliability standards approved by the Commission.

The Commission's role in regulating the natural gas industry is largely defined by the Natural Gas Act. Under sections 3 and 7 of the Natural Gas Act, the Commission regulates the construction of new on-



shore LNG import terminals and natural gas pipelines and related facilities. Under sections 4 and 5 of the Natural Gas Act, it oversees the rates, terms and conditions of sales for resale and transportation of natural gas in interstate commerce. The Commission's jurisdiction over wholesale sales of natural gas is limited by the Natural Gas Policy Act of 1978 and the Wellhead Decontrol Act of 1989. Pipeline siting and construction is authorized by the Commission if found to be required by public convenience and necessity. As with hydropower licensing, the Commission's actions on LNG and pipeline projects typically require consideration of factors under the National Environmental Policy Act of 1969, the Endangered

Species Act, the Coastal Zone Management Act and other such statutes. Regulation of the production and gathering of natural gas, as well as retail sales and local distribution of natural gas, are matters left to the states.

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



Strategic Plan

Federal Energy Regulatory Commission Strategic Plan Framework FY 2006 – FY 2011

Mission

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

Vision

Abundant, reliable energy in a fair, competitive market.

Guiding Principles that Strengthen the Commission's Overall Performance

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

Organizational Excellence

Use resources efficiently and effectively to achieve its strategic priorities.

Due Process and Transparency

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

Regulatory Certainty

Provide regulatory certainty through consistent Commission approaches and actions.

Stakeholder Involvement

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

Timeliness

Act on regulatory matters in an expeditious manner.

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

Objective A: Stimulate Appropriate Infrastructure Development

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

Objective B: Maintain a Reliable and Safe Infrastructure

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

Goal 2: Competitive Markets *Support Competitive Markets*

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

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

Objective B: Prevent Accumulation and Exercise of Market Power

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

Goal 3: Enforcement *Prevent Market Manipulation*

Objective A: Provide Vigilant Oversight

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

Objective B: Provide Firm but Fair Enforcement

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



Office Descriptions

Offices/Organizations	Descriptions
Office of Administrative Law Judges	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 Administrative Litigation	Represents the public interest and seeks to litigate or settle cases set for hearing in a timely, efficient and equitable manner while ensuring that outcomes are consistent with Commission policy.
Office of External Affairs	Handles all external communications with the public, press, Congress and the states for the Commission.
Office of the Executive Director	Provides administrative support services to the Commission including human resources, procurement, information technology, organizational management, financial, logistics and others.
Office of Energy Projects	Strengthens our energy infrastructure through the approval and oversight of hydroelectric, natural gas energy projects and electric transmission projects that are in the public interest and assures the safety of hydroelectric and LNG facilities.
Office of the General Counsel	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.
Office of Enforcement	Ensures effective regulation and protection of consumers by monitoring the operation of energy markets, identifying and remedying market problems in a timely manner, and enforcing Commission orders, rules and regulation.
Office of Energy Market Regulation	Deals with matters involving markets, tariffs and rates related to electric, natural gas and oil pipeline facilities and services.
Office of Electric Reliability	Oversees the development and review of mandatory reliability and security standards. Ensures compliance with the approved mandatory standards by the users, owners and operators of the bulk power system.



Guiding Principles that Strengthen the Commission's Overall Performance

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

- **Organizational Excellence.** Above all, the Commission strives to use its resources efficiently and effectively to achieve its strategic priorities. This includes its human resources. The Commission performs targeted recruiting and hiring and has developed a markets-oriented training curriculum for entry-level and experienced staff and a retention and mentoring program for new employees. The Commission also makes efficient use of its information technology to receive filings, produce reports and orders, and maintain data repositories. The Commission tracks the activities of its staff to ensure that they are directed at meeting the Commission's strategic goals and objectives.
- **Due Process and Transparency.** Paramount in all of its proceedings is the Commission's determination to be open and fair to all participants. All significant initial filings submitted to the Commission are announced by way of public notice published in the Federal Register. Material issues of fact are litigated in public hearings governed by due process rules. Many of the Commission's major decisions are discussed and announced at open meetings that are webcast at no charge on its website. Significant items are posted on the Commission's website and summaries of items from Commission meetings are immediately posted following the meeting.
- **Regulatory Certainty.** In each of the thousands of orders, opinions and reports issued by the Commission each year, the Commission strives to provide regulatory certainty through consistent approaches and actions. Without an assurance that the Commission's policies will be internally consistent and applied consistently, investors may be unwilling to bear the risks associated with investing in critical energy infrastructure. Where appropriate, the Commission provides generic direction to industry participants in the form of guidance orders, policy statements or rulemakings, to avoid the uncertainty present in case-by-case adjudications. The Commission also has codified market power rules designed to help prevent the exercise of market power and market abuse to provide a more stable marketplace and create an environment that will attract needed investment capital.
- **Stakeholder Involvement.** The Commission conducts regular outreach to ensure that interested parties have an appropriate opportunity to contribute to the performance of the Commission's responsibilities. The Commission also organizes technical conferences and workshops designed to explain and explore issues related to the development and implementation of its policies. Throughout FY 2008, the Commission met with state and federal regulators, industry officials and the public to discuss significant energy issues. Specifically, the Commission held the following significant technical conference and workshops:



Date	Subject	Location
October 1 and 2	Transmission Planning Draft Attachment K Technical Conference	Atlanta, GA
October 15 and 16	Transmission Planning Draft Attachment K Technical Conference	Boston, MA
October 23 and 24	Transmission Planning Draft Attachment K Technical Conference	Denver, CO
November 6	State of the Natural Gas Industry Conference	Washington, DC
November 16	Conference on Enforcement	Washington, DC
December 11	Technical Conference on Interconnection Queuing Practices	Washington, DC
January 23	Technical Conference on Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity	Washington, DC
February 26	Technical Conference on the EQR Data Dictionary	Washington, DC
March 27	Technical Conference for Reviewing the Submitted Other Federal Agency Costs for Administering Part I of the FPA	Washington, DC
April 3	Technical Conference on Transparency Provisions of Section 23 of the Natural Gas Act	Washington, DC
April 22	Technical Conference on Form No. 552	Washington, DC
May 7	Technical Conference on Forward Capacity Markets in the New England and PJM Regions	Washington, DC
May 19	Form No. 552 Follow-up Workshop	Washington, DC
May 21	Technical Conference on Demand Response in Organized Electric Markets	Washington, DC
July 1	Conference to Review the Current and Future State of Regional Wholesale Electricity Markets	Washington, DC
July 8	Compliance Workshop	Washington, DC

The Commission also held regional conferences to identify infrastructure conditions, needs and investment, as well as environmental and landowner concerns. Finally, in processing hydropower and gas-related permit applications, the Commission conducts an extensive collaborative pre-filing process, during which it receives input from a multitude of stakeholders, including: citizen groups; environmental organizations; tribal interests; and local, state and federal resource agencies.

- **Timeliness.** The Commission’s goal is to reach an appropriate resolution of each proceeding in an

expeditious manner. Toward that end, the Commission has steadily reduced the time it takes to act on projects, such as LNG import terminals, gas storage facilities and interstate natural gas pipelines. It has done so without compromising its environmental protection and public participation responsibilities. The Commission also sets and tracks compliance with goals for timely resolution of filings for cost recovery, new services or changes to existing services, as well as issues opinions resolving initial decisions, complaints and applications pursuant to section 203 of the Federal Power Act.



APPENDIX B

SETTLEMENTS AND THE ALTERNATIVE DISPUTE RESOLUTION PROCESS

The Commission's program on alternative dispute resolution (ADR) for energy conflict prevention and resolution serves as a model federal program. This past year the program continued to resolve complex energy cases successfully, instruct staff and external entities on ADR training and related skill sets in interest-based negotiation, conduct outreach to federal agencies and other energy stakeholders, and proactively pursue broad-scale program initiatives such as ADR provisions in rulemakings to increase the systematic use of ADR methods to resolve regulatory disputes in the 21st century.

In FY 2008, the Commission's Dispute Resolution Service had another successful year in mediating and facilitating energy cases across the four regulated energy industries: electricity, hydropower, natural gas and oil. The DRS addressed 57 new ADR requests and referrals. The DRS had a 90% success rate in assisting parties achieve consensual resolution of cases (18 out of 20 cases were resolved). For casework concluded during the period, all participants who completed evaluations gave the DRS staff favorable comments, for a satisfaction rate of 100%, and all respondents indicated that the use of ADR resulted in savings of time and/or money over traditional processes.

The DRS conducted a three-part annual training series on an *Overview of ADR Methods, Facilitation and Group Problem Solving and Interest-Based Negotiation* to Commission staff and developed new, customized ADR training for the Commission's Office of Enforcement. The DRS produced a desktop manual

for the Administrative Law Judges on ADR and provided training on ADR to the National Association of Regulatory Utility Commissioners, the U.S. Department of the Interior's Minerals Management Service and a regional office of the U.S. Fish and Wildlife Service in Portland, Oregon. The DRS hosted *Collaboration for the Federal Manager: Engaging Citizens in Government Decision-Making*, which was attended by approximately 50 federal agency representatives and continued to host a number of brown bags at the Commission on ADR topics.

In FY 2008, the DRS made numerous presentations to energy groups and trade associations, government partners, dispute resolution providers and affected stakeholders. The DRS renewed publication and dissemination internally and externally of *The Commission's ADR News*. Foreign delegations visiting the Commission and other federal agencies expressed interest in learning about the Commission's ADR program and the possibility of adopting ADR to help resolve conflicts in their emerging regulatory programs, in many cases involving government-owned energy infrastructures. The Commission's Dispute Resolution Service met with delegations from China, Thailand and South Africa and made presentations on nine years of the successful application of ADR to energy conflicts at the Commission.

The DRS assisted with several initiatives aimed at creating increased awareness of the benefits of ADR for energy and environment-related energy conflicts and ensuring the systematic application of ADR to resolve energy conflicts, as appropriate. For ex-



ample, three Commission rulemakings incorporated ADR provisions for companies to consider the use of ADR for energy disputes.

To increase transparency in transmission planning on a nondiscriminatory basis, the Order 890 rulemaking included a dispute resolution provision in a list of best practices. The dispute resolution principle requires transmission providers to identify a process to manage disputes that arise in the transmission planning process. Transmission providers consider ADR in a three-step process of negotiation, mediation and either arbitration or filing with the Commission. In FY 2008, the Commission had received over 40 filings from energy companies that address the dispute resolution provision.

Having mechanisms in place to resolve disputes effectively, efficiently and in a timely manner will further reduce barriers to trade between markets and among regions. Through negotiation or mediation, in which a neutral third-party provides assistance, disputants are more likely to achieve resolution amicably and in less time, develop durable agreements and solve problems more creatively to meet the interests of all involved. In addition, negotiation and ADR processes that result in successful outcomes will reduce the number of complaints filed with the Commission.

The Commission issued its first two *Annual Reports on Environmental Conflict Resolution (ECR) Activities at the Commission* to the Office of Management and Budget (OMB) and the Council on Environmental

Quality (CEQ). The new annual reports were prompted by the OMB-CEQ joint policy memo encouraging agencies to use more ECR and collaborative problem-solving in stakeholder processes in carrying out their missions and environmental decision-making. Remarkably, the Commission's program is one of the few in the federal government that offers comprehensive ECR case services for energy-related environmental matters, ADR/ECR skills training for participants and leaders in collaborative, multi-party environmental decision-making processes and certified full-time dispute resolution staff to perform the functions as outlined in the OMB-CEQ policy memo.

The Commission highlighted in the recent ECR report the relicensing proceeding of the Upper American River Project and the Chili Bar Hydroelectric Project, comprised of eight hydroelectric developments. The projects are located in California on the American River and its tributaries and produce a significant amount of power (1,095 MW). A total of 16 stakeholders signed the settlement agreement, including the Sacramento Municipal Utility District, Pacific Gas & Electric Co., federal and state resource agencies, environmental interest groups and others. The Commission's DRS participated in numerous settlement discussions over a period of several months that set the tone for resolution of a multitude of issues among the various parties. Within a year, the parties signed the settlement agreement, which contributed to faster relicensing of the projects. The agreement provides for numerous environmental and recreational enhancements over the new license term.



APPENDIX C

HYDROELECTRIC POWER TABLE

Projects for which licenses will expire between January 1, 2008 and December 31, 2013

Project No.	Project Name	Licensee	Waterway	State	Authorized KW	Issue Date	Expiration Date
2197	YADKIN	ALCOA POWER GENERATING INC.	YADKIN RIVER	NC	216380	5/1/1958	4/30/2008
2206	YADKIN-PEE DEE	PROGRESS ENERGY CAROLINAS, INC.	PEE DEE RIVER	NC	108600	5/19/1958	4/30/2008
659	LAKE BLACKSHEAR	CRISP COUNTY POWER COMM (GA)	FLINT RIVER	GA	15200	8/14/1980	8/9/2008
2232	CATAWBA-WATEREE	DUKE ENERGY CAROLINAS, LLC.	WATEREE RIVER	SC	804940	9/17/1958	8/31/2008
2225	SULLIVAN LAKE (STORAGE)	PUD NO 1 OF PEND OREILLE CNTY (WA)	SULLIVAN CREEK	WA	0	11/25/1958	9/30/2008
2242	CARMEN-SMITH	CITY OF EUGENE	MCKENZIE RIVER	OR	120500	1/8/1959	11/30/2008
67	BIG CREEK NOS 2A,8 & EASTWOOD	SOUTHERN CALIFORNIA EDISON CO (CA)	SOUTH FORK SAN JOAQUIN RIVER	CA	373320	8/9/1978	2/28/2009
120	BIG CREEK NO 3	SOUTHERN CALIFORNIA EDISON CO (CA)	SAN JOAQUIN RIVER	CA	165375	9/7/1977	2/28/2009
2175	BIG CREEK NO.1 & NO.2	SOUTHERN CALIFORNIA EDISON CO (CA)	SAN JOAQUIN RIVER	CA	150150	3/27/1959	2/28/2009
2655	EAGLE & PHOENIX MILLS	EAGLE & PHENIX HYDRO CO INC (SC)	CHATTAHOOCHEE RIVER	GA	27660	4/29/1975	2/28/2009
2088	SOUTH FEATHER POWER	SOUTH FEATHER WATER AND POWER AGENCY	SOUTH FORK FEATHER RIVER	CA	104100	7/21/1952	3/31/2009
2281	WOODLEAF KANAKA T. L.	PACIFIC GAS AND ELECTRIC CO (CA)	BUTTE CO	CA	0	11/1/1961	3/31/2009
4851	SLY CREEK T. L.	PACIFIC GAS AND ELECTRIC CO (CA)		CA	0	2/12/1982	3/31/2009
9988	JOHN P. KING MILL	AUGUSTA CANAL AUTHORITY	SAVANNAH RIVER	GA	2125	6/29/1989	5/31/2009
2261	LOLO-IMNAHA T. L.	AVISTA CORPORATION		OR	0	12/22/1959	7/22/2009
7528	CANAAN	PUBLIC SERVICE CO OF NH (NH)	CONNECTICUT RIVER	VT	1100	8/24/1984	7/31/2009
1005	BOULDER CANYON	BOULDER, CITY OF (CO)	MIDDLE BOULDER CREEK	CO	20000	4/28/1981	8/31/2009
803	DESABLA-CENTERVILLE	PACIFIC GAS AND ELECTRIC CO (CA)	WEST BRANCH FEATHER RIVER	CA	26650	6/12/1980	10/11/2009
2801	GLENDALE	LITTLEVILLE POWER CO INC (MA)	HOUSATONIC RIVER	MA	1140	11/23/1979	10/31/2009
6885	CINNAMON RANCH	MOSS, RICHARD	MIDDLE CREEK	CA	175	12/26/1985	12/31/2009
2543	MILLTOWN	CLARK FORK AND BLACKFOOT, LLC.	CLARK FORK	MT	3200	6/3/1968	12/31/2009
2244	PACKWOOD LAKE	ENERGY NORTHWEST	LAKE CREEK	WA	26125	7/7/1960	2/28/2010
2210	SMITH MOUNTAIN	APPALACHIAN POWER CO (VA)	ROANOKE (STAUNTON) RIVER	VA	636000	4/25/1960	3/31/2010
785	CALKINS BRIDGE	CONSUMERS ENERGY CO (MI)	KALAMAZOO RIVER	MI	2550	9/10/1980	4/10/2010
733	OURAY	JACOBSON, ERIC R	UNCOMPAGRE RIVER	CO	700	1/30/1980	4/12/2010
1992	FIRE MOUNTAIN	WILLIS, KEN	FERN SPRINGS CREEK	CA	15	5/6/1980	4/30/2010
400	TACOMA-AMES	PUBLIC SERVICE CO OF COLORADO (CO)	SAN MIGUEL RIVER	CO	11500	9/1/1981	6/30/2010
503	SWAN FALLS	IDAHO POWER CO (ID)	SNAKE RIVER	ID	25000	12/22/1982	6/30/2010
2277	TAUM SAUK	UNION ELECTRIC CO (MO)	EAST FORK BLACK RIVER	MO	408000	8/26/1965	6/30/2010
2677	BADGER-RAPIDE	KAUKAUNA, CITY OF (WI)	FOX RIVER	WI	8000	1/30/1989	8/11/2010



Project No.	Project Name	Licensee	Waterway	State	Authorized KW	Issue Date	Expiration Date
516	SALUDA	SOUTH CAROLINA ELECTRIC & GAS CO (SC)	SALUDA RIVER	SC	207300	6/1/1984	8/31/2010
3041	HETTINGER	MACKAY BAR CORP (ID)	SMITH CREEK	ID	12	11/14/1980	10/31/2010
13	GREEN ISLAND	GREEN ISLAND POWER AUTHORITY	HUDSON RIVER	NY	6000	2/7/1977	3/2/2011
2211	MARKLAND	DUKE ENERGY INDIANA, INC.	OHIO RIVER	IN	64800	5/31/1961	4/30/2011
2985	WILLOW MILL	MEAD PAPER CORP (MA)	HOUSATONIC RIVER	MA	100	5/1/1981	4/30/2011
2157	HENRY M JACKSON (SULTAN)	EVERETT, CITY OF (WA)	SULTAN RIVER	WA	118000	6/16/1961	5/31/2011
739	CLAYTOR	APPALACHIAN POWER CO (VA)	NEW RIVER	VA	75000	8/20/1980	6/30/2011
2106	MCCLOUD-PIT	PACIFIC GAS AND ELECTRIC CO (CA)	PIT RIVER	CA	340500	8/18/1961	7/31/2011
2144	BOUNDARY	SEATTLE, CITY OF (WA)	PEND OREILLE RIVER	WA	1024000	7/10/1961	9/30/2011
2594	LAKE CREEK	NORTHERN LIGHTS INC (ID)	LAKE CREEK	MT	4500	12/16/1981	11/30/2011
2621	PACOLET	LOCKHART POWER CO (SC)	PACOLET RIVER	SC	800	2/5/1982	1/31/2012
2558	OTTER CREEK	OMYA, INC. (VT)	OTTER CREEK	VT	18130	2/23/1976	3/31/2012
2615	BRASSUA	BRASSUA HYDROELECTRIC LTD PART (ME)	MOOSE RIVER	ME	4180	9/16/1977	3/31/2012
2851	NATURAL DAM	CELLU TISSUE CORPORATION	ST. LAWRENCE RIVER	NY	1020	4/13/1982	3/31/2012
2149	WELLS	PUD NO 1 OF DOUGLAS COUNTY (WA)	COLUMBIA RIVER	WA	774250	7/12/1962	5/31/2012
2850	EMERYVILLE	HAMPSHIRE PAPER CO INC (NY)	ST. LAWRENCE RIVER	NY	3481	6/17/1982	5/31/2012
2662	SCOTLAND	FIRSLIGHT HYDRO GENERATING CO.	SHETUCKET RIVER	CT	2000	10/5/1982	8/31/2012
4362	RIVERDALE	INMAN MILLS (SC)	ENOREE RIVER	SC	1240	9/29/1982	8/31/2012
12751	MAKAH BAY	FINAVERA RENEWABLES OCEAN ENERGY	PACIFIC OCEAN	WA	1000	12/21/2007	11/30/2012
2713	OSWEGATCHIE RIVER	ERIE BOULEVARD HYDROPOWER, L.P.	OSWEGATCHIE RIVER	NY	28471	1/10/1983	12/31/2012
2079	MIDDLE FORK AMERICAN RIVER	PLACER COUNTY WATER AGENCY (CA)	MIDDLE FORK AMERICAN RIVER	CA	211153	3/1/1963	2/28/2013
2309	YARDS CREEK	JERSEY CENTRAL POWER & LIGHT CO (NJ)	YARDS CREEK	NJ	364500	3/14/1963	2/28/2013
2479	FRENCH MEADOWS T. L.	PACIFIC GAS AND ELECTRIC CO (CA)		CA	0	6/30/1965	2/28/2013
2266	YUBA-BEAR	NEVADA IRRIGATION DISTRICT (CA)	SOUTH YUBA RIVER	CA	79920	6/24/1963	4/30/2013
2310	DRUM-SPAULDING	PACIFIC GAS AND ELECTRIC CO (CA)	SOUTH YUBA RIVER	CA	181205	6/24/1963	4/30/2013
2784	ROLLINS T. L.	PACIFIC GAS AND ELECTRIC CO (CA)		CA	0	4/13/1978	4/30/2013
349	MARTIN DAM	ALABAMA POWER CO (AL)	TALLAPOOSA RIVER	AL	154200	5/11/1978	6/8/2013
2305	TOLEDO BEND	SABINE RIVER AUTHORITY-LA & TX (TX)	SABINE RIVER	TX	85750	10/14/1963	9/30/2013
2469	TRANSMISSION LINE NO. 2469	PACIFICORP (OR)		AZ	0	3/5/1969	12/31/2013



APPENDIX D

LIST OF ACRONYMS

Acronyms and Abbreviations

ADR	alternative dispute resolution	LNG	Liquefied Natural Gas
ALJ	Administrative Law Judge	Midwest ISO	Midwest Independent Transmission System Operator Inc.
Bcf	billion cubic feet	MMC	Market Monitoring Center
Btu	British thermal unit	MMU	Market Monitoring Unit
California ISO	California Independent System Operator Inc.	MOU	memorandum of understanding
CEQ	Council on Environmental Quality	MRTU	Market Redesign and Technology Upgrade
Commission	Federal Energy Regulatory Commission	MW	megawatts
DOE	U.S. Department of Energy	NAESB	North American Energy Standards Board
DOT	U.S. Department of Transportation	NERC	North American Electric Reliability Corporation
Dth/d	dekatherms of natural gas per day	NEPA	National Environmental Policy Act of 1969
EA	Environmental Assessment	NRC	Nuclear Regulatory Commission
EAP	Emergency Action Plan	NYISO	New York Independent System Operator, Inc.
ECR	Environmental Conflict Resolution	OASIS	Open Access Same Time Information System
EIS	Environmental Impact Statement	OEP	Office of Energy Projects
EPAct 2005	Energy Policy Act of 2005	OER	Office of Electric Reliability
EQR	Electric Quarterly Report	OMB	Office of Management and Budget
ERO	Electric Reliability Organization	PJM	PJM Interconnection, LLC
FERC	Federal Energy Regulatory Commission	RTO	Regional Transmission Organization
FPC	Federal Power Commission	SCE	Southern California Edison
ILP	Integrated Licensing Process	TAPS	Trans-Alaska Pipeline System
ISO	Independent System Operator		
kV	kilovolt		



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