FEDERAL ENERGY REGULATORY COMMISSION

Chairman Jon Wellinghoff

FY 2014 Congressional Performance Budget Request

April 2013

TABLE OF CONTENTS

THE FEDERAL ENERGY REGULATORY COMMISSION'S MISSION

Reliable, Efficient, and Sustainable Energy for Consumers

Assist consumers in obtaining reliable, efficient, and sustainable energy services at a reasonable cost through appropriate regulatory and market means.

Fulfilling this mission involves pursuing two primary goals:

1. **Ensure that rates, terms and conditions are just, reasonable and not unduly discriminatory or preferential.**

2. **Promote the development of safe, reliable and efficient energy infrastructure that serves the public interest.**

Proposed Appropriation Language

For necessary expenses of the Federal Energy Regulatory Commission to carry out the provisions of the Department of Energy Organization Act (42 U.S.C. 7101 et seq.), including services as authorized by 5 U.S.C. 3109, the hire of passenger motor vehicles, and official reception and representation expenses not to exceed $3,000, $304,600,000, to remain available until expended: Provided, That notwithstanding any other provision of law, not to exceed $304,600,000 of revenues from fees and annual charges, and other services and collections in fiscal year 2014 shall be retained and used for necessary expenses in this account, and shall remain available until expended: Provided further, That the sum herein appropriated from the general fund shall be reduced as revenues are received during fiscal year 2014 so as to result in a final fiscal year 2014 appropriation from the general fund estimated at not more than $0.

Note: A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.

Full Cost Recovery

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

	FY 2012 Actual	FY 2013 C.R. Level	FY 2014 Request
Appropriation	$ 304,893,274	$ 306,464,000	$ 304,600,000
Offsetting Collections	(304,893,274)	(306,464,000)	(304,600,000)
Net Appropriation	$ -	$ -	$ -

****

FY 2014 Request Summary

The Federal Energy Regulatory Commission (FERC or the Commission) requests $304,600,000 to support 1,480 full-time equivalents (FTEs) for fiscal year (FY) 2014. This request will support FERC in its reliability and critical infrastructure protection standards development and compliance processes; infrastructure siting and inspection responsibilities; enforcement efforts; and policy reforms related to competitive energy markets and regulatory policies, including removal of barriers to renewable resources and advanced technologies. A regular FY 2013 appropriation has not been enacted at the time this budget was prepared. Therefore, the Commission is operating under a continuing resolution (C.R.). The amounts included in this budget for FY 2013 reflect the levels provided by the C.R.

Resources by Strategic Goals and Objective

Strategic Goal and Objective (Dollars in thousands)		FY 2012 Actual	FY 2013 C.R. Level	FY 2014 Request	Percent Change FY 2012 to FY 2014
Goal 1: Just and Reasonable Rates, Terms and Conditions	**Funding**	**$ 164,354**	**$ 166,402**	**$ 165,684**	**0.8%**
	FTEs	**804**	**818**	**818**	**1.7%**
Objective 1.1: Regulatory and Market Means	Funding	$ 121,811	123,765	123,342	1.3%
	FTEs	597	605	605	1.2%
Objective 1.2: Oversight and Enforcement	Funding	$ 42,543	42,636	42,342	-0.5%
	FTEs	207	213	213	2.9%
Goal 2: Infrastructure	**Funding**	**$ 140,539**	**$ 140,062**	**$ 138,916**	**-1.2%**
	FTEs	**664**	**663**	**663**	**-0.2%**
Objective 2.1: Infrastructure Development and Siting	Funding	$ 74,860	74,142	73,519	-1.8%
	FTEs	342	339	339	-0.7%
Objective 2.2: Safety	Funding	$ 32,950	32,408	32,115	-2.5%
	FTEs	164	161	161	-1.8%
Objective 2.3: Reliability	Funding	$ 32,729	33,512	33,281	1.7%
	FTEs	158	162	162	2.6%
TOTAL	**Funding**	**$ 304,893**	**$ 306,464**	**$ 304,600**	**-0.10%**
	FTEs	**1,468**	**1,480**	**1,480**	**0.80%**

Resources by Industry

Regulated Industry (Dollars in thousands)		FY 2012 Actual	FY 2013 C.R. Level	FY 2014 Request	Percent Change FY 2012 to FY 2014
Electric	Funding	$ 161,878	$ 163,855	$ 163,214	0.83%
	FTEs	787	802	802	1.84%
Hydro	Funding	$ 71,925	$ 70,446	$ 69,786	-2.97%
	FTEs	335	330	330	-1.35%
Natural Gas	Funding	$ 62,571	$ 63,486	$ 63,001	0.69%
	FTEs	304	306	306	0.70%
Oil	Funding	$ 8,519	$ 8,677	$ 8,599	0.93%
	FTEs	42	42	42	-0.26%
TOTAL	**Funding**	**$ 304,893**	**$ 306,464**	**$ 304,600**	**-0.10%**
	FTEs	**1,468**	**1,480**	**1,480**	**0.82%**

OBJECT CLASS TABLE (Dollars in Thousands)				
		FY 2012 Actual	FY 2013 C.R. Level	FY 2014 Request
11.9	**Personnel Compensation**	$ 167,737	$ 176,083	$ 176,435
12.1	**Benefits**	46,462	49,059	49,742
13.0	**Benefits for Former Personnel**	574	-	-
	Subtotal, Personnel Compensation & Benefits	**$ 214,773**	**$ 225,142**	**$ 226,177**
21.0	**Travel and Transportation of Persons**	3,837	3,074	3,045
22.0	**Transportation of Things**	30	4	4
23.1	**Rental Payments to GSA**	22,652	22,817	22,995
23.2	**Rental Payments to Others**	626	647	671
23.3	**Communications, Utilities & Misc. Charges**	2,048	1,816	2,050
24.0	**Printing and Reproduction**	1,726	1,799	1,790
25.1	**Advisory and Assistance**	8,709	8,765	8,291
25.2	**Non-Federal**	8,189	6,711	5,646
25.3	**Federal**	2,025	1,552	1,601
25.4	**Operation & Maintenance of Facilities**	2,200	1,691	1,634
25.7	**Operation & Maintenance of Equipment**	29,897	28,386	26,518
26.0	**Supplies and Materials**	2,031	2,155	2,143
31.0	**Equipment**	6,090	1,813	1,950
32.0	**Leasehold Improvements**	-	5	-
41.0	**Grants, Subsidies & Contributions**	61	62	62
42.0	**Insurance Claims and Indemnities**	-	25	25
	TOTAL, OBLIGATIONS	**$ 304,893**	**$ 306,464**	**$ 304,600**
	GROSS BUDGET AUTHORITY	**$ 304,893**	**$ 306,464**	**$ 304,600**
	Offsetting Receipts	**$ (304,893)**	**$ (306,464)**	**$ (304,600)**
	NET BUDGET AUTHORITY	**$ -**	**$ -**	**$ -**

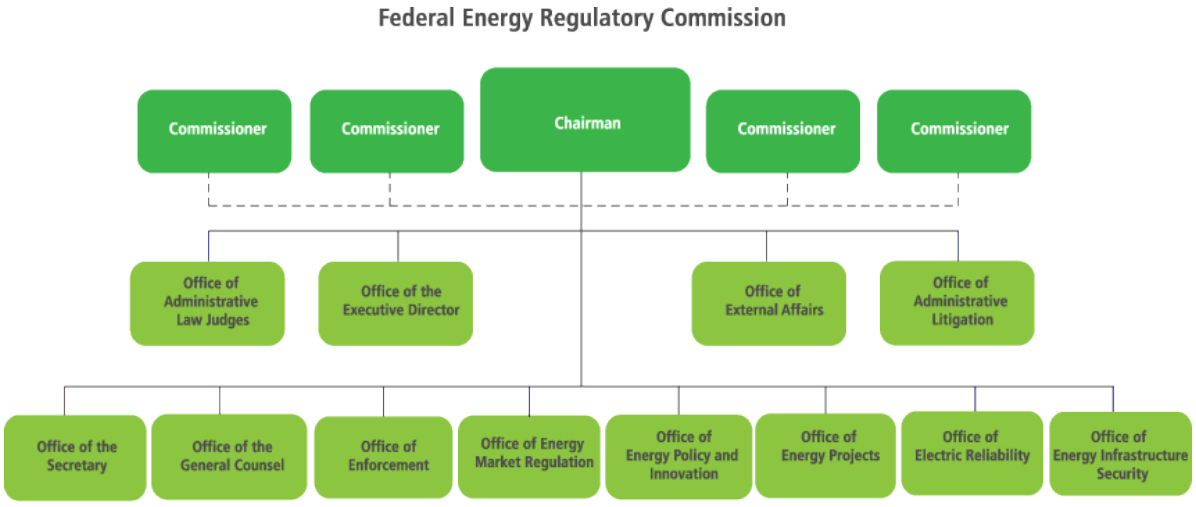
OVERVIEW OF THE FEDERAL ENERGY REGULATORY COMMISSION

The Commission is an independent regulatory agency within the U.S. Department of Energy. The Commission's statutory authority centers on major aspects of the Nation's wholesale electric, natural gas, hydroelectric, and oil pipeline industries.

The Commission was created through the Department of Energy Organization Act on October 1, 1977. At that time, the Federal Power Commission (FPC), the Commission's predecessor that was established in 1920, was abolished and the Commission inherited most of the FPC's regulatory mission. As authorized by statute, including the Omnibus Budget Reconciliation Act of 1986, the Commission recovers the full cost of its operations through annual charges and filing fees assessed on the industries it regulates. This revenue is deposited into the Treasury as a direct offset to its appropriation, resulting in no net appropriation.

FERC is composed of up to five commissioners who are appointed by the President of the United States with the advice and consent of the Senate. Commissioners serve staggered five-year terms and have an equal vote on regulatory matters. To avoid any undue political influence or pressure, no more than three commissioners may belong to the same political party. One member of the Commission is designated by the President to serve as Chairman and as FERC's administrative head. FERC's decisions are not reviewed by the President or Congress, maintaining FERC's independence as a regulatory agency, and providing for fair and unbiased decisions.

In addition to the Chairman and Commissioners, FERC is organized into 12 separate functional offices; each is responsible for carrying out specific portions of the Commission's responsibilities. The offices work in close coordination to effectively carry out the Commission's statutory authorities.



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

Office of Administrative Litigation (OAL)
Litigates or otherwise resolves cases set for hearing. Represents the public interest and seeks to litigate or settle cases in an equitable manner while ensuring the outcomes are consistent with Commission policy. The Dispute Resolution Service is located within OAL and provides neutral, third-party assistance using alternative dispute resolution (ADR) methods to parties in regulatory and environmental conflict; trains staff and energy stakeholders in collaborative problem-solving tools to develop and ensure a reliable infrastructure.

Office of Electric Reliability (OER)
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.

Office of Energy Infrastructure Security (OEIS)
Provides leadership, expertise and assistance to the Commission to identify, communicate and seek comprehensive solutions to potential risks to FERC-jurisdictional facilities from cyber attacks and physical threats.

Office of Energy Market Regulation (OEMR)
Analyzes filings submitted by electric utilities, and natural gas and oil pipelines to ensure that rates, terms and conditions of service are just and reasonable and not unduly discriminatory or preferential. Provides support to the Commission on matters involving market design relating to electric, natural gas, and oil pipeline services. Analyzes filings submitted by the Electric Reliability Organization dealing with its budget, rules of procedure, and bylaws.

Office of Energy Policy and Innovation (OEPI)
Issues, coordinates, and develops proposed policy reforms to address emerging issues affecting wholesale and interstate energy markets, including such areas as climate change, the integration of renewable resources, and the deployment of demand response.

Office of Energy Projects (OEP)
Fosters economic and environmental benefits for the Nation through the approval and oversight of hydroelectric, natural gas, (including pipelines, storage, and liquefied natural gas (LNG) facilities), and electric transmission projects that are in the public interest.

Office of Enforcement (OE)
Protects customers through understanding markets and their regulation, timely identifying and remedying market problems, assuring compliance with rules and regulations, and detecting violations and crafting appropriate remedies, including civil penalties.

Office of External Affairs (OEA)
Responsible for the communications and public relations of the Commission. OEA provides informational and educational services to Congress; federal, state and local governments; the news media and the public; and regulated industries, consumer and public interest groups. OEA also is the liaison with foreign governments.

Office of the Executive Director (OED)
Provides administrative support services to the Commission including human resources (HR), aquisition, information technology (IT), organizational management, financial, and logistic functions.

Office of the General Counsel (OGC)
Provides legal services to the Commission. Represents the Commission before the courts and Congress and is responsible for the legal aspects of the Commission's activities.

Office of the Secretary (OSEC)
Serves as the official focal point through which all filings are made for all proceedings before the Commission, notices of proceedings are given, and from which all official actions are issued by the Commission. The Secretary promulgates and publishes all orders, rules, and regulations of the Commission and prescribes the issuance date for these unless such date is prescribed by the Commission.

THE CURRENT CHAIRMAN and COMMISSIONERS

Chairman Jon Wellinghoff
Sworn In: July 31, 2006
Term Expires: June 30, 2013

Commissioner
Tony Clark
Sworn In: June 15, 2012
Term Expires: June 30, 2016

Commissioner
Cheryl A. LaFleur
Sworn In: July 13, 2010
Term Expires: June 30, 2014

Commissioner
Philip D. Moeller
Sworn In: July 24, 2006
Term Expires: June 30, 2015

Commissioner
John R. Norris
Sworn In: June 18, 2012
Term Expires: June 30, 2017

REGULATORY AUTHORITY HISTORY AND OVERVIEW

The Commission has an important role in the development of a reliable energy infrastructure and the protection of wholesale customers from unjust and unreasonable rates and undue discrimination and preference. The Commission draws its authority from various statutes and laws that are described below.

Hydropower

Congress passed the Federal Water Power Act of 1920 which gave the FPC its original authority to license and regulate nonfederal - hydropower projects on navigable waterways and federal lands. As the regulatory authority of the FPC expanded, the Federal Water Power Act ultimately became Part I of the FPA. Part I of the FPA has been amended by subsequent statutes including the Electric Consumers Protection Act of 1986 and the Energy Policy Act of 1992. The Commission relies on these authorities to carry out its hydropower responsibilities including: the issuance of preliminary permits; the issuance of licenses for the construction of a new project; the issuance of licenses for the continuance of an existing project (relicensing); the investigation and assessment of headwater benefits; and the oversight of all ongoing project operations, including dam safety and security inspections, public safety and environmental monitoring. While the Commission's responsibility under the FPA is to strike an appropriate balance among the many competing developmental and environmental interests, several other laws, statutes, and executive orders affect hydropower regulation. These include, but are not limited to, the National Environmental Policy Act (NEPA), Clean Water Act, Coastal Zone Management Act, Endangered Species Act, Fish and Wildlife Coordination Act, and National Historic Preservation Act.

Electric

Since 1935, the Commission has regulated certain electric industry activities under Part II of the FPA. Under FPA sections 205 and 206, the Commission ensures that the rates, terms and conditions of sales for resale of electric energy and transmission in interstate commerce by public utilities are just, reasonable, and not unduly discriminatory or preferential. Under FPA section 203, as amended by the Energy Policy Act of 2005 (EPAct 2005), the Commission reviews mergers and acquisitions, and certain other corporate transactions involving public utilities and public utility holding companies. Under FPA section 204, the Commission reviews the issuance of securities or assumptions of liabilities by public utility companies subject to its jurisdiction.

The Commission is also ultimately responsible for protecting and improving the reliability of the bulk power system. Section 215 of the FPA provides for the establishment of a federal regulatory system of mandatory and enforceable electric reliability standards for the Nation's bulk power system. The standards, developed by a Commission-certified Electric Reliability Organization (ERO) and approved by the Commission, apply to all users, owners, and operators of the bulk power system. The ERO operates within the 48 contiguous states and is under the direct oversight of the Commission. The Commission is ultimately responsible for the effective enforcement of the standards.

The Commission also has other 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 (EISA), the Commission, along with the Department of Energy and National Institute of Standards and Technology (NIST), 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.

The Commission also has limited authority over the siting of electric transmission facilities. Under section 216 of the FPA, the Commission is responsible, subject to certain conditions, for authorizing interstate electric transmission facilities that are proposed in National Interest Electric Transmission Corridors, designated by the Secretary of Energy.

The Commission's regulations apply primarily to investor-owned utilities. Government-owned utilities (e.g., Tennessee Valley Authority, federal power marketing agencies), state and municipal utilities, and most cooperatively-owned utilities are not subject to Commission regulation (with certain exceptions). Regulation of retail sales and local distribution of electricity are matters left to the states. In addition, the Commission does not have a role in authorizing the construction of new generation facilities (other than non-federal hydroelectric facilities) which is the responsibility of state and local governments.

Natural Gas and Liquefied Natural Gas

The Commission's role in regulating the natural gas industry is largely defined by the Natural Gas Act of 1938 (NGA). Under section 3 of the NGA, the Commission reviews the siting, construction, and operation of facilities to import and export natural gas, including LNG terminals. As part of its responsibility, the Commission conducts cryogenic design and technical review of the operational aspects of LNG facilities during the certificate process. Once a facility is constructed and operational, the Commission conducts safety, security and environmental inspections for the life of the facility.

Under section 7 of the NGA, the Commission issues certificates of public convenience and necessity for the construction and operation of interstate natural gas pipelines and storage facilities. FERC is also responsible for conducting compliance inspections of the natural gas pipelines and storage facilities during construction. Although the Commission does not have any jurisdiction over the safety or security of natural gas pipelines or storage facilities once they are in service, it actively works with other agencies with these responsibilities, most notably the Pipeline and Hazardous Materials Safety Administration of the Department of Transportation.

As required by NEPA, the Commission prepares environmental documents for proposed natural gas and LNG facilities and acts in conformance with other environmental statutes as appropriate, including the Endangered Species Act, National Historic Preservation Act, and Coastal Zone Management Act.

Under sections 4 and 5 of the NGA, the Commission oversees the rates, terms and conditions of certain sales for resale and transportation of natural gas in interstate commerce. The Commission is also responsible for determining fair and equitable rates for intrastate pipelines transporting or storing natural gas under the Natural Gas Policy Act of 1978 (NGPA) section 311 program. The Commission's jurisdiction over sales for resale of natural gas is limited by the NGPA and the Natural Gas Wellhead Decontrol Act of 1989. Regulation of the production and gathering of natural gas, as well as retail sales and local distribution, are matters left to the states.

Oil

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.

Oversight and Enforcement

Through the EPAct 2005, Congress granted the Commission enhanced authority to assess civil penalties for violations of the FPA, NGA, and NGPA. EPAct 2005 made three major changes to the Commission's civil penalty authority.

1. Congress expanded the Commission's FPA civil penalty authority to cover violations of any provision of Part II of the FPA, as well as of any rule or order issued there under.

2. Congress extended the Commission's civil penalty authority to cover violations of the NGA or any rule, regulation, restriction, condition, or order made or imposed by the Commission under NGA authority.

3. Congress established the maximum civil penalty the Commission may assess under the NGA, NGPA, or Part II of the FPA as $1,000,000 per violation for each day that it continues.

In addition, Congress expanded the scope of the criminal provisions of the FPA, NGA, and NGPA by increasing the maximum fines and increasing the maximum imprisonment time that apply when the Commission refers the case to the Department of Justice for criminal prosecution.

****

GOAL 1: JUST AND REASONABLE RATES, TERMS AND CONDITIONS

Ensure that rates, terms and conditions are just, reasonable and not unduly discriminatory or preferential.

Introduction

The Commission's statutory responsibility is to ensure that rates, terms and conditions of jurisdictional service are just and reasonable and not unduly discriminatory or preferential. To achieve this goal, the Commission uses a combination of 1) effective regulation, including the review of proposed rates and market rules, and 2) market means, e.g., competition. While guarding ratepayers from unjust and unreasonable rates and protecting them from undue discrimination or preferential treatment, the Commission ensures that service providers have the opportunity to receive a fair return on their investments in infrastructure.

The Commission is also responsible for enforcing its authorizing laws and its regulations. The Commission uses a balanced approach in its oversight and enforcement efforts including 1) informing entities about market rules and other regulations, 2) promoting internal compliance programs, 3) employing robust audit and investigation programs and, where appropriate, and 4) exercising the Commission's civil penalty authority.

Strategic Goal and Objective (Dollars in thousands)		**FY 2012 Actual**	**FY 2013 C.R. Level**	**FY 2014 Request**	**Percent Change FY 2012 to FY 2014**
Objective 1.1: Regulatory and Market Means	**Funding**	**$ 121,811**	**$ 123,765**	**$ 123,342**	**1.3%**
	FTE	**597**	**605**	**605**	**1.2%**
Program	Funding	$ 101,632	$ 102,947	$ 102,711	1.1%
	FTE	493	498	498	0.9%
Support	Funding	$ 20,178	$ 20,818	$ 20,631	2.2%
	FTE	104	107	107	2.8%
Objective 1.2 Oversight and Enforcement	**Funding**	**$ 42,543**	**$ 42,636**	**$ 42,342**	**-0.5%**
	FTE	**207**	**213**	**213**	**2.9%**
Program	Funding	$ 35,558	$ 35,327	$ 35,076	-1.4%
	FTE	171	175	175	2.6%
Support	Funding	$ 6,985	$ 7,309	$ 7,265	4.0%
	FTE	36	38	38	4.4%
Total Goal 1: Just and Reasonable Rates, Terms and Conditions	**Funding**	**$ 164,354**	**$ 166,402**	**$ 165,684**	**0.8%**
	FTE	**804**	**818**	**818**	**1.7%**

OBJECTIVE 1.1: REGULATORY AND MARKET MEANS

Ensure implementation of appropriate regulatory and market means for establishing rates.

Improving the competitiveness of wholesale electric markets is important to achieving just and reasonable rates, terms and conditions of service. Competition encourages new entry among supply-side and demand-side resources, spurs innovation and deployment of new technologies, improves operating performance, and exerts downward pressure on costs. Notable benefits also stem from more broadly diversifying the fuels available to generate electricity. The Commission's open access transmission policies support competition and its related benefits to consumers.

The Commission also regularly reviews proposals from regional transmission organizations (RTOs) and independent system operators (ISOs) to reform wholesale organized markets to ensure that the dynamics for buying, selling and transmitting energy are robust and working as intended.

A significant portion of the Commission's workload lies in one of its core activities, the review of rates and tariff provisions. The Commission will focus on four strategies in support of this critical function.

Strategy 1:	Establish rules that enhance competition by allowing non-discriminatory market access to all supply-side and demand-side energy resources
Strategy 2:	Promote operational efficiency in wholesale markets through the exploration and encouragement of the use of software and hardware that will optimize market operations
Strategy 3:	Develop and implement a common set of performance metrics for markets within and outside of ISOs/RTOs
Strategy 4:	Promote broad participation, including the use of alternative dispute resolution services, in the Commission's processes and procedures

STRATEGY 1

Establish rules that enhance competition by allowing non-discriminatory market access to all supply-side and demand-side energy resources

In competitive energy markets, supply and demand forces work in concert, yielding a just and reasonable rate. The Commission will work with RTOs and ISOs to identify possible reforms to market rules related to market access that, if adopted, can improve the competitiveness of wholesale energy markets. This work is especially important for new or emerging services and technologies, such as demand response, renewable energy, and electric energy storage.

Demand response means a reduction in the consumption of electric energy by customers from their expected consumption in response to an increase in the price of electricity or to incentive payments designed to induce lower consumption of electricity energy.

Demand-Side Resources.

The development of demand-side energy resources supports many of the Commission's responsibilities by improving the operation of wholesale electric power markets and enhancing the reliability of the bulk power system. Demand response, for example, can provide competitive pressure to reduce wholesale electric power prices, increase awareness of energy usage, mitigate market power, enhance reliability, and, in combination with certain new technologies, support the use of renewable energy resources and distributed generation. Demand resources also can be used by system operators to meet certain system needs potentially more efficiently and effectively than other resources. Demand-side resources include energy efficiency resources and plug-in electric vehicles.

Barriers to Demand Resources.

In order to overcome barriers to the development of demand response resources and in compliance with Congressional mandates, FERC staff published a National Action Plan on Demand Response[1] that, among other things, identifies requirements for technical assistance and a national communications program, and develops or identifies tools and other materials to support the development of demand response. Subsequently, FERC staff, in a joint effort with staff from DOE, submitted to Congress a proposal for implementing the National Action Plan on Demand Response.[2]

In FY 2012, FERC staff pursued the implementation of the National Action Plan by assisting DOE conduct a National Forum, a DOE sponsored effort that consists of four working groups focused on the following research and policy issues: demand response cost-effectiveness, demand response measurement and verification, demand response program design and delivery, and demand response estimation tools and materials. In FYs 2013 and 2014, the Commission will evaluate whether additional actions or activities are necessary to address barriers to participation by demand resources in wholesale markets.

Demand Response Compensation.
In FY 2012, the Commission reviewed the tariff revisions filed by the RTOs and ISOs in compliance with Order No. 745, which requires that demand response resources participating in energy markets operated by RTOs and ISOs be compensated at the market price for energy when certain conditions are met. The Order also requires RTOs and ISOs to study the requirements for and impacts of improving the cost-effective selection of demand response resources by enhancing dispatch algorithms. The RTOs and ISOs filedthe results of their studies with the Commission in September 2012. The Commission is reviewing the RTOs and ISOs September 2012 reports and evaluating whether additional actions or activities are necessary in FYs 2013 and 2014.

Additional Market Reform Efforts.
In April 2012, the Commission issued a Notice of Proposed Rulemaking on the implementation of standards for measurement and verification adopted by the North American Energy Standards Board (NAESB) for demand response and energy efficiency in organized wholesale electric markets. Adoption of these standards is intended to improve the methods and procedures used to accurately measure demand response and energy efficiency resource performance. Additionally, these standards should help RTOs and ISOs to

[1] National Action Plan on Demand Response, June 2010 http://www.ferc.gov/legal/staff-reports/06-17-10-demand-response.pdf

[2] Implementation Proposal for the National Action Plan on Demand Response, July 2011 http://www.ferc.gov/legal/staff-reports/07-11-dr-action-plan.pdf

properly credit demand response and energy efficiency for their services.

The Commission will continue to consider proposed market rules and encourage the development of rules that permit energy efficiency resources to participate in wholesale markets. Like demand response, energy efficiency has the potential to improve the operation of wholesale power markets by mitigating market power and enhancing reliability. While there are currently limited opportunities for these resources to participate in organized markets, ISO New England and PJM Interconnection, LLC (PJM) have allowed participation of energy efficiency resources in their forward capacity markets. In June 2012, the Commission approved a proposal by Midwest Independent Transmission System Operator, Inc. (MISO) to allow energy efficiency to participate in meeting its resource adequacy requirements to be implemented in FY 2013.

In FYs 2013 and 2014, the Commission will continue to explore further market reforms to address barriers to the integration of demand side resources into wholesale markets.

Renewable Resources.

Renewable energy resources have the potential to be a cost-effective means to diversify fuels used for electric generation. The Commission has been responsive to requests for flexibility in how it approaches transmission rate design, recognizing that renewable resources are often "location-constrained," and do not have the flexibility to locate near existing transmission lines. For example, in May 2012, the Commission approved Rock Island Clean Line LLC's proposal to allocate ownership rights and to offer capacity at negotiated rates for the transmission of 3,500 megawatts of renewable location-constrained generation resources in South Dakota and nearby portions of other Midwestern states with markets and customers in Illinois. In April 2012, the Commission approved the Zephyr Power Transmission, LLC and Pathfinder Power Transmission, LLC petition for declaratory order requesting to transfer negotiated rate authority and the confirmation of capacity rights in the Zephyr merchant transmission project to Duke-American Transmission Company, LLC. The project is a 1,100 mile, 500 kV high voltage transmission line originating in southeast Wyoming and terminating south of Las Vegas, Nevada. The project is expected to be capable of delivering approximately 3,000 megawatts of generation to the southwestern United States. In June 2012, the Commission approved a proposal by PJM for accounting and billing revisions related to the recovery of lost opportunity costs for wind units. Also, in September 2012, the Commission approved negotiated rate authority for the 750-mile 600 kV high voltage direct current transmission Plains and Eastern Clean Line project. This project would be capable of delivering up to 3,500 megawatts from western Oklahoma, southwestern Kansas, and the Texas Panhandle to Memphis, Tennessee.

The Commission anticipates that in FYs 2013 and 2014 it will continue to receive requests to adopt innovative or flexible approaches to transmission cost allocation, rate design, and terms and conditions of service, particularly as more renewable resources seek to interconnect to the grid to satisfy various state renewable portfolio standards.

The Commission will also continue to consider whether generic market reforms are necessary to allow all resources, including renewable energy resources, to compete in jurisdictional markets on a level playing field.

Based on its review of comments received during a multi-year rulemaking proceeding, the Commission in June 2012 issued a final rule implementing reforms to remove barriers to the integration of variable energy resources such as wind, solar and hydrokinetic generation. The final rule requires public utility transmission providers to offer intra-hourly transmission scheduling and requires interconnection customers whose generating facilities are variable energy resources to provide meteorological and forced outage data to the public utility transmission provider for the purpose of power production forecasting. In FY 2013, the Commission will engage in outreach with public utility

transmission providers to support implementation of these reforms and will begin review of related compliance filings to be filed in November 2013, with that review continuing into FY 2014.

In February 2012, the Solar Energy Industry Association submitted a petition for rulemaking asking the Commission to amend its regulations regarding small generator interconnection to speed and streamline the interconnection of solar energy generation devices. Commission staff held a technical conference in July 2012 to gather additional information regarding potential reforms and issued a Notice of Proposed Rulemaking in January 2013. Continuing into FY 2013, the Commission will assess comments received on this topic and take additional action if appropriate possibly including implementation of reforms in FY 2014.

Resource Capacity.

The Commission also has taken action to ensure the procurement of adequate capacity for future periods in organized competitive markets. The Commission has approved forward-looking, auction-based markets in the PJM and ISO New England regions to allow load-serving entities to procure adequate capacity to meet the long-term energy needs of consumers. In the region operated by the New York Independent System Operator, the Commission has approved an auction-based capacity market. In other regions, including those operated by the California Independent System Operator (CAISO) and MISO, the Commission has approved alternative approaches to the mandatory forward-capacity procurement design. While CAISO does not have a capacity market, CAISO has a capacity procurement mechanism that it utilizes as a backstop mechanism to procure capacity to address a deficiency or supplement resource adequacy procurement by load serving entities, as needed, in order to maintain grid reliability. In 2012, the Commission approved MISO's proposal to allow load serving entities to meet Planning Reserve Margin requirements for the next planning year either, or in combination, through: (1) participation in Local Resource Zone annual actions; (2) self-scheduling; or (3) opting completely or partially out of the auction by demonstrating they have ownership or contracts for resources. Load serving entities that are capacity deficient and fail to cure the deficiency through purchases of capacity through bilateral contracts or voluntary action are assessed financial penalties.

While the market mechanisms the Commission approves often vary in design, all are intended to provide the proper price signals to both retain existing resources and encourage the entry of new resources to meet increasing electric supply needs.

The establishment of forward capacity markets and other similar markets has resulted in a substantial increase in the participation of demand-side resources in the markets, providing for greater competition among generation and demand resources. For example, in PJM, participation of demand side resources in the capacity market has increased significantly since the inception of its forward capacity market in 2007. During the 2007-2008 capacity delivery year, about 127 megawatts of demand-side resources cleared in the forward capacity market, compared to nearly 15,000 megawatts in the 2015 – 2016 capacity delivery year. According to PJM's independent market monitor, the substantial participation of demand-side resources has had a significant downward impact on capacity auction prices. Additionally, in ISO-NE, participation of demand resources in the capacity market has also been steadily increasing with 2,279 megawatts clearing in the auction for the 2010-2011 delivery year and 3,783 megawatts clearing in the auction for the 2015-2016 capacity delivery year.

The Commission will continue in FYs 2013 and 2014 to act on proposals regarding capacity markets.

Ancillary Services.

A number of services are necessary to support the transmission of electric power under the Commission's Open Access Transmission Tariff, referred to as ancillary services. In October 2011, the Commission acted to remedy undue discrimination and ensure just and reasonable rates in the

RTO and ISO markets for providers of an ancillary service that balancing area authorities use to balance second-to-second deviations in supply and demand and ensure the reliability of their systems by issuing Order No. 755, Frequency Regulation Compensation in Organized Wholesale Power Markets. Order No. 755 requires RTOs and ISOs to compensate frequency regulation resources based on the actual service provided. Commission staff held various discussions with the ISOs and RTOs on market design features and industry challenges in complying with this compensation methodology. In FYs 2012 and 2013, the Commission reviewed the tariff revisions filed by the RTOs and ISOs to comply with Order No. 755 and issued initial orders on these compliance filings. The Commission will process subsequent compliance filings to comply with Order No. 755 in FY 2013.

In June 2012, the Commission proposed revisions to its pricing policies governing the sale of ancillary services at market-based rates. The Commission also proposed to require public utility transmission providers outside of the organized RTO and ISO energy markets to explain in their tariffs how they will determine regulation and frequency response reserve requirements, taking into account speed and accuracy of the resources. Revisions to accounting and reporting requirements also were proposed to better account for the report transactions involving energy storage technologies. The Commission will review comments on these proposals in FY 2013 and take actions as appropriate possibly including implementation of reforms in FY 2014.

The Commission will continue to evaluate and make improvements to the Open Access Transmission Tariff through FYs 2013 and 2014, as needed.

STRATEGY 2

Promote operational efficiency in wholesale markets through the exploration and encouragement of the use of software and hardware that will optimize market operations

The utility industry is by nature capital intensive, requiring the use of sophisticated software and significant investment in hardware to optimize market operations. Within the organized markets operated by RTOs and ISOs, which often share common features, there are opportunities to enhance efficiency by expanding implementation of best practices and innovations in new software. Many of these efforts involve new techniques designed to allow more useful and realistic power system modeling.

Conferences were held in March, April, and June 2012 to explore and further encourage progress in this area. The efforts completed to date will allow the Commission to pursue voluntary adoptions of best practices and innovative new practices in power system modeling and optimization. In FYs 2013 and 2014 the Commission plans to conduct additional workshops, give presentations and engage in further outreach to facilitate implementation of the identified best practices and innovative modeling enhancements.

STRATEGY 3

Develop and implement a common set of performance metrics for markets within and outside of ISOs/RTOs

In Order No. 2000, the Commission encouraged the voluntary formation of RTOs to operate the electric transmission grid and to create organized wholesale electric markets. The development of RTOs and modified market structures was aimed at increasing the efficiency of wholesale electric market operations and ensuring non-discriminatory access to the transmission grid. The Commission mandated that RTOs be independent from market participants, fairly exercising operational authority over all transmission facilities under their control. With extensive stakeholder input, RTOs and ISOs design tariffs that are responsive to the needs of their regions, submitting their tariff proposals for review by the Commission. The Commission works to ensure that RTO and ISO tariffs promote nondiscriminatory access to transmission and support just and reasonable rates for energy and services in their markets.

Today, RTOs and ISOs serve roughly two-thirds of all electricity consumers in the United States by providing transmission service, interconnecting new resources to the transmission grid, and operating wholesale markets for the sale of electricity. The Commission has issued orders implementing reforms to the services provided and the markets operated by RTOs and ISOs in an effort to enhance competition and increase efficiency.

To support further enhancements and to evaluate the effectiveness of the Commission's decision to encourage the creation of RTOs and ISOs, Commission staff led an 18-month voluntary and collaborative process with RTOs, ISOs, market participants, and other stakeholders and interested experts to develop a set of operational and financial metrics. The resulting 57 metrics are designed to measure RTO and ISO performance on three dimensions: market benefits, organizational effectiveness, and reliability.

In December 2010, each of the RTOs and ISOs submitted a report containing data for these metrics covering the period 2005 – 2009. Based on Commission staff's analysis of this data, the Chairman issued a report to Congress in April 2011 communicating the benefits of RTOs/ISOs and, where appropriate, identifying possible changes to address any performance concerns. Beginning in FY 2011, Commission staff has been engaged in a voluntary and collaborative process with a diverse group of utilities that are in regions outside RTO and ISO markets to develop operational and financial performance metrics. Proposed metrics were issued for public comment and comments were received in May 2012. Commission staff issued a report in October 2012 recommending a final list of performance metrics. Participating utilities are in the process of submitting performance data on the final list of metrics.

In FY 2013, using the non-RTO/ISO utilities' performance metrics, along with performance metrics for RTOs and ISOs, the Commission will establish appropriate common metrics between the two groups, refining the metrics as necessary. In FY 2014, the Commission will monitor the performance of markets within and outside of RTOs and ISOs using these common metrics.

Commission staff will analyze this data and complete a final report that compares the results of the non-RTO/ISO performance metrics with performance data provided by RTOs and ISOs.

STRATEGY 4

Promote broad participation, including the use of alternative dispute resolution services, in the Commission's processes and procedures

The Commission recognizes the value of resolving filings involving jurisdictional companies through consensual means and using alternate dispute resolution techniques in the energy markets it oversees. Settling these cases benefits energy consumers as it dramatically limits the time, expense and resources that the Commission and outside parties would otherwise devote to these cases. A settlement not only provides ratepayers reduced rates and refunds far more quickly than litigation, but also provides business certainty and facilitates the construction of needed infrastructure in a far more timely manner than if the matter proceeded through the entire litigation process. Finally, the resolution of a case through settlement is likely to be more acceptable to the parties, and therefore reduces the likelihood of an appeal.

Settlements, Litigation and ADR.

The Commission's administrative law judges (serving as settlement judges), trial staff and dispute resolution staff all play an important role in ensuring just and reasonable rates, terms and conditions of service.

During FY 2012, the trial staff and the administrative law judges settled, in whole or in part, the great majority of cases set for hearing by the Commission and the dispute resolution staff assisted parties in resolving matters without litigation.

The trial staff, settlement judges and dispute resolution staff play a pivotal role in structuring these settlements, which frequently provide for refunds for energy customers. The trial staff's participation in the settlement process alone has helped secure significant refunds and rate reductions for the ratepayers. For example, in FY 2012, the trial staff's participation in the settlement process helped secure one-time refunds and annual rate reductions of over $106 million in electric utility proceedings and over $319 million in natural gas and oil pipeline matters. The total ongoing savings achieved for American residential, commercial, and industrial energy consumers through one-time refunds and ongoing annual rate reductions in FY 2012 in natural gas pipeline, electric utility, and oil pipeline cases was more than $1.4 billion.

If a settlement cannot be achieved, the trial staff will actively participate in the litigation of the proceeding by conducting discovery, filing expert testimony, cross-examining witnesses at hearings, participating in oral arguments and filing briefs and other pleadings with the judge and Commission.

Alternative dispute resolution also has played a role in resolving disputes. One such case involved the appropriate role of incentive rates in a proposed transmission infrastructure project. Dispute resolution staff helped the parties reach a settlement that sharply narrowed the issues and facilitated a Commission decision. Commission staff also works with parties to achieve negotiated resolution of a variety of issues, including hydropower and natural gas pipeline compliance matters and settlement of hydropower licensing proceedings.

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

The Commission advances these four strategies through one of its core functions: the evaluation of rate and tariff filings, including various accounting requirements. All jurisdictional public utilities, natural gas pipelines, and oil pipelines are required to have their rates, terms and conditions on file with the Commission. The Commission must review proposed changes to filed rates, terms, and conditions and all comments filed in response before making a determination on whether to accept, accept with modifications, or reject the proposed changes. To give parties an opportunity for further discussion of the proposed changes, the Commission may also suspend the effectiveness of the proposed changes and establish a hearing or a technical conference.

The Commission reviews applications for market-based rate authorizations for the sale for resale of electricity, capacity, or ancillary services by public utilities, for storage services provided by natural gas companies; and for transportation services provided by oil pipelines. The Commission grants market-based rate authorization where the ability to exercise market power either is not present or has been mitigated and where other conditions are met. Public utilities with market-based rate authority must submit Electric Quarterly Reports in order to maintain this authority.

Public utilities, natural gas pipelines and oil pipelines that have not been granted market-based rate authority must establish their rates using a cost-based rate structure. When reviewing cost-based rate proposals, the Commission considers the opportunity to recover investments in energy infrastructure and the fair allocation of costs among ratepayers.

In the natural gas industry, the Commission also permits natural gas pipelines to charge negotiated rates, subject to the availability of a cost-based recourse rate.

Because of the large number of rate and tariff filings received annually, the Commission dedicates a significant amount of resources to this analysis and will continue to do so in FYs 2013 and 2014.

Rate and Tariff Filings by Industry

	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Estimate
Electric	5,977	5,304	5,087	5,000	5,000
Gas	1,894	1,755	1,349	1,950	1,700
Oil	801	630	621	600	600

Estimates are based on historical data and expected filings.

PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 1.1

Performance Measure 1	
Further barriers to participation by demand resources in organized wholesale electric markets will be identified and eliminated.	
FY 2012 TARGET	As appropriate, issue Final Rule on further steps to eliminate barriers to demand resources.
FY 2012 RESULT	Target Met. On December 15, 2011, the Commission issued Order 745-A, Demand Response Compensation in Organized Wholesale Energy Markets order on rehearing.
FY 2013 TARGET	Implement Final Rule as appropriate
FY 2014 TARGET	Monitor implementation and performance. Evaluate performance and seek changes as necessary

Performance Measure 2	
Best practices for demand response products and procedures will be explored and, as appropriate, implemented in organized wholesale electric markets.	
FY 2012 TARGET	Implement Final Rule as appropriate
FY 2012 RESULT	Target Met. The Commission has reviewed the filings made by six RTOs and ISOs to comply with Order No. 745, Demand Response Compensation in Organized Wholesale Energy Markets. The Commission determined that implementation of the Final Rule as proposed by five of the six RTOs and ISOs is appropriate, subject to additional compliance requirements in some instances, and issued orders on these five compliance filings. The Commission is determining whether implementation of the Final Rule as proposed in the sixth compliance filing is appropriate. Further, the Commission addressed other best practices by issuing a notice of proposed rulemaking on Standards for Business Practice and Communication Protocols for Public Utilities - Wholesale Electric Quadrant Demand Response Standards on April 19, 2012.
FY 2013 TARGET	Monitor implementation and performance
FY 2014 TARGET	Evaluate performance and seek changes as necessary

Performance Measure 3	
All resources that are technically capable of providing needed ancillary services will have the opportunity to provide those services.	
FY 2012 TARGET	Implement Final Rule as appropriate
FY 2012 RESULT	Target Met. The Commission issued Order Nos. 755 and 755-A, Frequency Regulation Compensation in Organized Wholesale Power Markets on October 20, 2011 and February 16, 2012, respectively. The Commission has reviewed the filings made by five RTOs and ISOs to comply with the Final Rule. The Commission determined that implementation of the Final Rule as proposed by three of the RTOs and ISOs is appropriate, subject to additional compliance requirements in some instances, and issued orders on these three compliance filings. The Commission is determining whether implementation of the Final Rule as proposed in the two remaining compliance filing is appropriate. Further supporting this measure, the Commission issued a notice of proposed rulemaking on Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies on June 21, 2012.
FY 2013 TARGET	Monitor implementation and performance
FY 2014 TARGET	Evaluate performance and seek changes as necessary

Performance Measure 4	
Market reforms which will allow renewable resources to compete fairly will be explored and, as appropriate, implemented in Commission-jurisdictional markets.	
FY 2012 TARGET	Issue Final Rule on market reforms, if appropriate
FY 2012 RESULT	Target Met. On June 21, 2012, the Commission issued Order No. 764, Integration of Variable Energy Resources. The Commission also issued a notice of inquiry on Open Access and Priority Rights on Interconnection Facilities on April 19, 2012.
FY 2013 TARGET	Monitor implementation and performance
FY 2014 TARGET	Evaluate performance and seek changes as necessary

Performance Measure 5	
Efficiency in market operations will be enhanced through deployment of new software and optimization of hardware.	
FY 2012 TARGET	Follow-up workshops on best practices implementation; issue Final Rule, if relevant
FY 2012 RESULT	Target Met. On March 20, 2012, a workshop on best practices in software planning modeling was held. A Final Rule is not relevant for this performance measure. In FY 2011, it was determined that a technical conference would be more effective in furthering implementation of best practices than initiating a rulemaking proceeding. Without a rulemaking proceeding in FY 2011, pursuance of a Final Rule in FY 2012 was no longer relevant. Rather, staff held a follow-up workshop to identify best practices in the specific area of software planning modeling.
FY 2013 TARGET	Monitor implementation and performance
FY 2014 TARGET	Evaluate performance and seek changes as necessary

Performance Measure 6[3]	
The performance of markets within and outside of ISOs/RTOs will be measured using a common set of metrics.	
FY 2012 TARGET	Explore and develop appropriate operational and financial metrics for non-ISO/ RTO regions
FY 2012 RESULT	Target Not Met. Beginning in FY 2011, Commission staff has been engaged in a voluntary and collaborative process with a diverse group of non-RTO utilities to develop proposed operational and financial performance metrics. It has taken longer than anticipated for this group to organize and reach consensus on a list of proposed metrics. In February 2012, the draft metrics were issued for public comment with an extended comment period of 75 days, 45 days longer than the typical 30 day comment period. Commission staff expects to issue in FY 2013 a report that will recommend a final list of performance metrics. This will not have a negative impact on program performance.
FY 2013 TARGET	Establish appropriate common metrics between ISOs/RTOs and non-ISOs/RTOs
FY 2014 TARGET	Monitor implementation and performance

Performance Measure 7[4]	
Appropriate filings and issues will employ alternative dispute resolution and collaborative processes first.	
FY 2012 TARGET	Implement rules setting forth guidelines/tariff provisions and initiate pilot programs
FY 2012 RESULT	Target Not Met. No additional measures for consensual resolution were identified as feasible; therefore, this measure is no longer applicable. This will not have a negative impact on program performance.

****

[3] The FYs 2012 - 2014 Performance Targets reflect adjustments made to the Commission's Strategic Plan as allowed by the GPRA Modernization Act of 2010.
[4] The FYs 2012 - 2014 Performance Targets reflect adjustments made to the Commission's Strategic Plan as allowed by the GPRA Modernization Act of 2010.

OBJECTIVE 1.2: OVERSIGHT AND ENFORCEMENT

Increase compliance with the Commission's rules and deter market manipulation.

The Commission's oversight and enforcement program takes proactive steps on a variety of fronts to reduce the probability that violations will occur and to detect problems before they become severe or widespread. To prevent market participants and regulated entities from unknowingly violating the Commission's rules, the Commission works with stakeholders to explain the intent and requirements of its rules. In order to increase compliance with its rules, the Commission provides recommendations and guidance to regulated entities.

The Commission aims to prevent market conditions that would hurt competition and lead to unjust and unreasonable rates. This effort entails ongoing reviews of market behavior and results, a deliberate strategy of disseminating findings, and performing sophisticated analysis of market anomalies. These three integrated activities provide state regulators and the public a comprehensive view of the energy markets. This practice yields an increased level of confidence from the public, which is critical to properly functioning energy markets.

The Commission also ensures that rates are just and reasonable and not unduly discriminatory or preferential by requiring that financial and market information is recorded in a useful form, is transparent, and is in compliance with the Commission's accounting regulations. The Commission also improves competitiveness in wholesale electric markets by preventing the accumulation and exercise of market power as it reviews proposed mergers, dispositions, and acquisitions, thereby ensuring that all such transactions are consistent with the public interest.

It is important for the Commission to have clear rules and requirements and fair processes to guarantee that each entity involved in a Commission investigative or enforcement action understands both the applicable rules and regulations and the due process rights available. These key facets of the Commission's enforcement program ensure that enforcement actions are consistent, fair, and can withstand legal challenges.

The Commission's general oversight and enforcement role is one of its core activities. The Commission will focus on two strategies in support of this critical function.

Strategy 1:	Promote internal compliance programs and self-reporting of violations
Strategy 2:	Use a risk-based approach to plan and prioritize audits of jurisdictional companies' operations

STRATEGY 1

Promote internal compliance programs and self-reporting of violations

The Commission is committed to encouraging better compliance with statutory and regulatory requirements and will continue to engage the public and the regulated community to encourage comprehensive compliance initiatives. Since FY 2008, the Commission has encouraged regulated entities and market participants in electric and natural gas markets to place more emphasis on their internal compliance protocols.

In FYs 2013 and 2014, the Commission will continue to encourage entities subject to the Commission's regulatory requirements to develop robust internal compliance programs and to self-report violations that occur.

Review of compliance programs will be part of the Commission's compliance audits and, as appropriate, will be discussed in publicly available audit reports. The Commission will continue to engage in formal and informal outreach efforts to promote effective compliance programs and to examine compliance practices as a standard component of investigations. In addition, consistent with the FERC Penalty Guidelines, the Commission may lower the amount of a civil penalty if an organization had an effective compliance program in place at the time a violation occurred. These Penalty Guidelines specify the maximum amount of credit an organization can receive for an effective compliance program, and also allow for partial credit, depending on the particular features of the program. Under the Penalty Guidelines, an effective compliance program could result in a substantial penalty reduction when combined with other mitigating factors. In addition to providing credit for effective compliance programs, the Penalty Guidelines also offer substantial guidance to organizations on compliance, specifically describing seven elements organizations should follow to establish effective compliance programs.[5]

As a result of these efforts, the Commission anticipates that it will find, through its audits and investigations, an increase in the number of entities that have implemented effective compliance practices and protocols that are reflective of a culture of compliance. The Commission further expects that this culture of compliance will lead to entities actively addressing and minimizing areas of systematic noncompliance.

The Commission continues to receive self-reports of violations from regulated entities and market participants. In FY 2012, the Commission received 89 self-reports. Many of the self-reported matters were resolved without any sanctions, while some more serious matters resulted in investigations.

The information gathered from these self-reports is provided to the public and regulated entities in the Commission's annual report on enforcement activities. The 2012 Report on Enforcement was released on November 15, 2012. Such information assists regulated entities in identifying risks to address through their compliance programs and underscores the benefits of self-reporting and voluntary compliance. In the Commission's experience, as regulated entities and market participants improve their internal compliance monitoring, they will continue to self-report violations.

[5] Revised Policy Statement on Penalty Guidelines, §1B2.1:http://www.ferc.gov/whats-new/comm-meet/2010/091610/M-1.pdf

Seven Elements of an Effective Compliance Program
1. Standards to prevent and detect violations.
2. High-level personnel to ensure the effectiveness of the program and personnel to run the program who have appropriate resources, authority, and access to the governing authority.
3. Preclude individuals who have engaged in violations from positions of authority.
4. Effective training of all levels of personnel.
5. Monitor and periodically evaluate the effectiveness of the program and allow for anonymous reporting without fear of retaliation.
6. Promote and enforce the compliance program through appropriate incentives and disciplinary measures.
7.Respond appropriately to detected violations and prevent further similar violations.

STRATEGY 2

Use a risk-based approach to plan and prioritize audits of jurisdictional companies

The Commission uses a risk-based methodology to prepare an annual audit plan that addresses a variety of audit topics based on the Commission's priorities.

The Commission conducts a variety of compliance, performance, and other types of audits. These audits are undertaken to ensure that jurisdictional companies comply with the Commission's authorizing statutes, orders, rules, and regulations. Also, audits of jurisdictional entities are performed to address accountability, transparency, and any other objectives and goals the Commission deems appropriate. In line with the Commission's key objectives and strategies, an increasing amount of audit staff time is devoted to reviewing jurisdictional entities' compliance programs and providing guidance on enhancing these programs.

In FY 2012, the Commission completed 44 audits of public utilities, natural gas pipelines, and storage companies. These audits resulted in 99 recommendations for corrective actions. In many cases, the recommended corrective actions improve and strengthen jurisdictional companies' compliance programs. The topic areas of the Commission's FY 2013 audits and those anticipated for FY 2014 include: transmission incentives, demand response, capacity markets, energy trading, market-based rates, formula rates, open access transmission tariffs, mergers and acquisitions, and gas tariffs.

The risk assessment considers several sources of information including, but not limited to, forms filed with the Commission, state commissions, and the Securities and Exchange Commission; rate information gathered from Commission filings; pertinent financial information; a review of Commission and state rate actions; information gleaned from conversations with industry and state officials; and discussions with Commission senior officials and staff.

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

The Commission advances these two strategies through its core oversight, investigation, enforcement, and accounting functions.

General Oversight and Enforcement

Accounting.

The Commission's accounting program is an instrumental component of its process to ensure that rates established for jurisdictional companies are just and reasonable and not unduly discriminatory or preferential. The program is designed to evaluate financial, market, and other information filed or reported to the Commission for compliance with the Commission's accounting rules. It further provides reasonable assurance that the information used in setting rates is useful, accurate, and transparent. The accounting function also is engaged in, and informs the Commission of, emerging accounting issues that affect jurisdictional industries.

Market Oversight.

Today's ever evolving natural gas and electric markets require increasingly sophisticated data collection and analysis for effective oversight. Both natural gas and electric energy are traded in a variety of ways in a variety of markets which range from extremely complex, requiring in-depth and time consuming data analysis, to relatively straightforward one-to-one interactions. The Commission examines and monitors many elements of the physical and financial energy markets including the structure, operations, and interaction between the natural gas and electric markets, among other things. This regular monitoring of energy markets is designed to maintain market intelligence to identify market anomalies, participant misbehavior, and to promote market efficiency.

The Market Oversight Program
Gather large volumes of data to reflect ongoing market conditions
Validate data to ensure accuracy and relevancy
Process data to uncover meaningful patterns
Develop real-time information capabilities to address rapidly developing situations and emergencies
Identify areas of market intelligence to fill in gaps where available market data is inadequate

Market Monitoring and Surveillance.
On an ongoing basis, Commission staff accesses and synthesizes a large variety and quantity of data to review market fundamentals and identify emerging trends. Commission staff reviews this information and develops intelligence on market events as they occur. Analyses of market data also create the ability to identify market outcomes that cannot be readily explained by supply and demand fundamentals. The Commission examines such anomalies to determine, among other things, whether they are indications of market power, or possible fraud or manipulation.

In an effort to improve the Commission's ability to identify market misbehavior as it happens, Commission staff continues the use of algorithmic screening methods to identify inappropriate market participant activity. This expanded screening allows the Commission to incorporate data already generated in the markets to more acutely determine market health. The Commission issued in May 2012, a final rule to collect detailed, market-participant level activity data from the RTOs. In December 2012, the Commission issued an order granting staff access to all electronic tags (e-Tags) generated by market participants. In addition, a Notice of Inquiry was issued in October 2012 by the Commission seeking comment on a proposal to collect jurisdictional market participant level natural gas sales data. Incorporating these data in the analysis and surveillance of the jurisdictional markets will facilitate the Commission's development and evaluation of its policies and regulations and will enhance Commission efforts to detect anti-competitive or manipulative behavior, or ineffective market rules, thereby helping to ensure just and reasonable rates. The Commission staff also performs detailed transaction analysis throughout the lifecycle of market manipulation investigations. This forensic analysis, which requires the assessment of millions of lines of sensitive data, allows the Commission to create a complete picture of the trading activities under review.

Outreach and Communication.
The Commission staff develops and presents its analyses, the annual State of the Markets Report, and seasonal assessments at the Commission's open meetings and subsequently posts this information on the Commission's website.

The Commission's staff also holds monthly conference calls with state energy officials to review developments in natural gas and power markets. Commission staff develops and posts on the Commission website various graphs and charts providing the public with easy access to market fundamentals. This process provides the public and state regulators access to and understanding of market information that they may not otherwise obtain and affords the Commission the opportunity to learn of relevant state-level developments.

Transparency.
In order to meet its statutory obligations under the Federal Power Act and the Natural Gas Act, the Commission requires that companies participating in markets under its jurisdiction submit annual and quarterly reports regarding jurisdictional sales, financial statements, and operational data. This information is used by the Commission and market participants for a variety of purposes, including evaluating whether existing rates continue to be just and reasonable and for indications that public utilities have obtained market power.

Of special note is the Electric Quarterly Report which provides the Commission and the public a record of each transaction under the Commission's jurisdiction in the electric market. Electric quarterly report filings are used for ex-post analysis of entities' with market based rate authority. The Commission's staff also analyzes the electric quarterly report data to identify participant level activities in the electric market.

To increase transparency and to adapt to changes in the market since the electric quarterly report was created in 2002 the

Commission initiated a rulemaking in April 2011. On September 21, 2012, the Commission issued a final rule in Order No. 768 that requires market participants that are excluded from the Commission's jurisdiction under FPA section 205 and that have more than a de minimis market presence to file electric quarterly reports with the Commission. The rule also provides additional information which would improve market participants' ability to assess supply and demand fundamentals and to price interstate wholesale market transactions. It also strengthens the Commission's ability to identify potential exercises of market power or manipulation and aids the Commission in the evaluation of applications for market-based rates, proposed mergers and acquisitions, and enforcement proceedings. In December 2012, the Commission issued Order 771, Availability of E-Tag Information to Commission Staff, to grant Commission access, on a non-public and ongoing basis, to the complete e-Tags used to schedule the transmission of electric power interchange transactions in wholesale markets.

In FYs 2013 and 2014, the Commission will continue to review the data available under these rules to better inform policies and decision making.

Approximately 1,700 companies were authorized to participate in wholesale power markets as of September 2012.

Corporate Activities and Mergers.

The Commission ensures that the disposition, consolidation, or acquisition of jurisdictional facilities is in the public interest by reviewing each proposed transaction to determine its potential effect on rates, regulation, competition, and cross-subsidization.

The Commission will protect customers from affiliate abuse and guard against cross subsidization through oversight of public utility holding companies and by dealing with complex issues associated with ownership and control of utility assets.

Investigations and Enforcement.

In FYs 2013 and 2014, the Commission will continue to focus on the following investigation and enforcement priorities:[6]

- Fraud and market manipulation;
- Anticompetitive conduct;
- Serious violations of Reliability Standards, and;
- Conduct that threatens the transparency of regulated markets.

Conduct involving fraud and market manipulation poses a significant threat to the markets overseen by the Commission and, therefore, to Commission's efforts to provide for energy services at a reasonable cost. Further, anticompetitive conduct and behavior that threatens market transparency undermine the confidence that market participants and consumers have in the energy markets.
While many market participants act in good faith and observe the relevant rules and regulations, there are instances in which some participants engage in manipulative behavior or violate known requirements when it is in their economic interest to do so. When such instances are suspected or identified, the Commission conducts an investigation.

While investigations are non-public activities, the Commission provides guidance to the regulated community where possible, including in the annual Report on Enforcement. The Commission also has regular interactions with regulated entities, conducts outreach efforts, encourages companies to implement effective compliance programs, and when appropriate, releases reports of investigations of alleged fraud or manipulation. Moreover, if a violation is found after the non-public investigation,

[6] Investigations and enforcement of reliability standards is discussed in Goal 2, Objective 3: Reliability. This Strategic Objective is reserved for the oversight and enforcement related to Just and Reasonable Rates, Terms, and Conditions and associated Commission rules.

most matters become public through a public notice of alleged violations, an order approving settlement or an order to show cause. These actions, and the Commission's demonstrated willingness to impose civil penalties or other sanctions where circumstances warrant, act as a deterrent to fraud, market manipulation and other violations. The outcomes of the Commission's investigations and enforcement actions continue to build a public record to illustrate to the regulated community and the public the consequences of different types of violations. Furthermore, the Commission's robust oversight and enforcement program provides reassurance to potential infrastructure investors that the markets are actively monitored and rules are consistently enforced.

Pursuant to its anti-manipulation authority, the Commission has investigated the energy commodities trading of banks and energy marketers that affect jurisdictional transactions. In FY 2012, the Commission approved settlements of nine investigations, totaling $148 million in civil penalties and $119 million in disgorged unjust profits. One significant settlement involved Constellation Energy Commodities Group, Inc., which paid a civil penalty and disgorgement of unjust profits totaling $235 million. Also in FY 2012, Commission staff issued notices of alleged violations concerning conduct by Deutsche Bank Energy Trading, LLC and Barclays Bank, PLC. The Commission approved a settlement with Deutsche Bank in January 2013 – one of eleven settlements approved by the Commission in the first two quarters of FY 2013 (through March 31, 2013), which involve a total of $17 million in assessed civil penalties and $6 million in disgorged unjust profits. The Commission continues to bring subpoena enforcement actions in district court, when appropriate, against entities who do not comply with investigation requests. Pursuant to the civil penalty authority granted by EPAct 2005, Commission-assessed penalties have returned almost $290 million in civil penalties to the US Treasury. Commission enforcement actions have also resulted in disgorgement of over $160 million in unjust profits.

In FY 2012, the Commission opened 16 investigations and closed or settled 21 investigations that were pending from prior years. The length of an investigation depends upon its nature and complexity; some close in a few months while others may be ongoing for multiple years. The Commission issued five orders to show cause based on enforcement investigations.

Enforcement Hotline.
The Commission operates an Enforcement Hotline whereby the public or industry participants can anonymously provide information to the Commission concerning potential regulatory violations, market anomalies, or market participant misconduct. In FY 2012, the Commission received 185 calls to the Enforcement Hotline, most of which resulted in prompt, informal resolution. However, three of the investigations opened in FY 2012 stemmed from Hotline calls.

PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 1.2

Performance Measure 8	
Percent of company compliance programs reviewed on Commission audits for the audit focus areas are found to be adequate to demonstrate a culture of compliance.	
FY 2012 TARGET	40%
FY 2012 RESULT	Target Met. The Commission found that 67% (8 of 12) compliance programs were adequate to demonstrate a culture of compliance.
FY 2013 TARGET	55%
FY 2014 TARGET	70%

Performance Measure 9	
Percent of company compliance programs reviewed through investigations that involve a penalty are found to be sufficiently robust to merit credit to reduce the penalty.	
FY 2012 TARGET	40%
FY 2012 RESULT	Target Met. In 43% of the relevant cases, the Commission found compliance programs in place at the time of the violation to be sufficiently robust as to merit credit to reduce or eliminate penalties.
FY 2013 TARGET	55%
FY 2014 TARGET	70%

Performance Measure 10	
Percentage of audits included in the audit plan planned based on risk.	
FY 2012 TARGET	80%
FY 2012 RESULT	Target Met. 88% (43 of 49) of the audits were planned by the Commission staff using a risk-based approach.
FY 2013 TARGET	80%
FY 2014 TARGET	80%

****

GOAL 2: INFRASTRUCTURE

Promote the development of safe, reliable, and efficient infrastructure that serves the public interest.

Introduction.

The Commission has an important role in the development of a strong and secure energy infrastructure that operates safely, reliably and efficiently. The Commission's infrastructure siting authority rests in licensing non-federal hydropower projects, certificating interstate natural gas pipelines and storage projects, authorizing LNG facilities and, in certain circumstances, permitting electric transmission lines. Throughout all of these processes, the Commission remains dedicated to expediting application processing without compromising security, safety, environmental responsibilities or public participation opportunities. Reconciling these competing interests, however, remains a significant challenge. The Commission believes that issues are best addressed openly and early in the application process, encourages, and in certain circumstances requires, project proponents to engage in early involvement of state and federal agencies, Indian tribes, affected landowners, and the public. Post-authorization, the Commission relies heavily on physical inspections of hydropower and LNG facilities to ensure safety, and in many cases, continues to work with local public and safety officials throughout the life of a project.

The Commission is working towards improving the efficiency of the Nation's infrastructure. Efficient energy infrastructure includes both economic and operational efficiencies realized from the use of new secure technologies and procedures. The use of certain advanced technologies on the electric transmission system may result in decreased line losses, or it may enable customers to reduce or shift demand. Commission staff is also exploring potential ways for natural gas facilities to recover waste heat energy generated by compressor units and then use that heat to run generators and create electricity.

The Commission's oversight of the development and implementation of mandatory and enforceable reliability standards plays an important role in the protection and improvement of the reliability and security of the Nation's bulk-power system. The ERO and the eight Regional Entities, as approved by the Commission, play vital roles in the Commission fulfilling this responsibility.

Spanning across these three important objectives is the Commission's commitment to the security of the transmission system, oil and gas pipelines, liquefied natural gas facilities and hydropower infrastructure for which the Commission has regulatory responsibilities under the Federal Power Act, the Natural Gas Act, and the Interstate Commerce Act. Growing cyber and physical security threats necessitate a significantly more agile and focused approach to infrastructure security than the Commission has used in the past. Because of the widespread and serious consequences that a successful cyber or physical security attack may bring, it is important that swift, consistent and effective action be taken by entities to prevent such attacks.

With the newly created Office of Energy Infrastructure Security (OEIS), the Commission will leverage its existing resources in a coordinated manner to provide leadership, expertise and assistance in identifying, communicating, and seeking comprehensive solutions to potential cyber and physical security risks to the energy infrastructure under the Commission's jurisdiction. OEIS will identify current and emerging defense and mitigation strategies for cyber and physical security threats to energy infrastructure.

OEIS was established to focus on cyber and other security matters in each of the Commission's areas of jurisdiction, the transmission system, oil and natural gas pipelines, liquefied natural gas terminals, and hydropower infrastructure. Beyond the threats of cyber to the critical energy sectors, OEIS also provides expertise in physical threats. OEIS will not require mandatory actions and does not have enforcement or compliance authorities. Rather, OEIS engages with stakeholders to openly share information on threats, vulnerabilities, and mitigation efforts. Engaging with the regulated community outside of standards and compliance processes and expanding reliability monitoring efforts to all sectors under the Commission's authority accommodates the necessary and timely exchange of information and subsequent implementation of protective measures. In addition to working directly with the stakeholders, OEIS partners with other agencies, the Intelligence Community, national laboratories, vendors and universities to aid in identifying, communicating, and validating mitigating alternatives for cyber and physical security threats to Commission jurisdictional energy infrastructure.

Strategic Goal and Objective (Dollars in thousands)		**FY 2012 Actual**	**FY 2013 C.R. Level**	**FY 2014 Request**	**Percent Change FY 2012 to FY 2014**
Objective 2.1: Infrastructure Development & Siting	**Funding**	**$ 74,860**	**$ 74,142**	**$ 73,519**	**-1.8%**
	FTE	**342**	**339**	**339**	**-0.9%**
Program	Funding	$ 63,319	$ 62,482	$ 61,948	-2.2%
	FTE	282	279	279	-1.1%
Support	Funding	$ 11,541	$ 11,660	$ 11,572	0.3%
	FTE	59	60	60	1.7%
Objective 2.2: Safety	**Funding**	**$ 32,950**	**$ 32,408**	**$ 32,115**	**-2.5%**
	FTE	**164**	**161**	**161**	**-1.8%**
Program	Funding	$ 27,400	$ 26,853	$ 26,611	-2.9%
	FTE	136	133	133	-2.2%
Support	Funding	$ 5,550	$ 5,555	$ 5,504	-0.8%
	FTE	29	29	29	-0.0%
Objective 2.3: Reliability	**Funding**	**$ 32,729**	**$ 33,512**	**$ 33,281**	**1.7%**
	FTE	**158**	**162**	**162**	**2.6%**
Program	Funding	$ 27,392	$ 27,937	$ 27,748	1.3%
	FTE	131	134	134	2.3%
Support	Funding	$ 5,337	$ 5,575	$ 5,533	3.7%
	FTE	28	29	29	3.6%
Total Goal 2: Infrastructure	**Funding**	**$ 140,539**	**$ 140,062**	**$ 138,916**	**-1.2%**
	FTE	**664**	**663**	**663**	**-0.2%**

OBJECTIVE 2.1: INFRASTRUCTURE DEVELOPMENT AND SITING

Increase efficient infrastructure consistent with demand.

The Commission will promote the development of efficient energy infrastructure in several ways, including encouraging the use of advanced technologies in developing infrastructure, providing incentive rates for new transmission projects where appropriate, and promoting transmission planning processes that address all stakeholders' needs and result in the development of a more efficient transmission system. In addition to its core infrastructure authorities, the Commission will focus on three strategies to achieve this objective.

Strategy 1:	Encourage new electric transmission facilities that advance efficient transmission system operation
Strategy 2:	Support electric transmission planning through the use of open and transparent processes that include analysis and consideration on a comparable basis of proposed solutions involving any of generation, transmission, and demand resources
Strategy 3:	Promote efficient design and operation of natural gas facilities

STRATEGY 1

Encourage new electric transmission facilities that advance efficient transmission system operation

The lack of adequate transmission facilities creates a significant barrier to trade between markets and among regions. Furthermore, the Nation's electric grid largely uses decades-old technology and has not extensively incorporated new advanced technologies.

Smart Grid.

Advanced technologies have transformed other industries and a similar change is now developing in the electric grid. The development and deployment of such technologies, including smart grid technology has the potential to improve reliability, security and efficiency of the bulk-power system, and to realize the efficiency improvements that are possible on the utility side of the meter.

The "smart grid" concept involves automating the electric grid by outfitting it with smart controls, two-way communications systems, and/or sensors. This has the potential to reduce power consumption through demand response, facilitate grid connection to renewable resources and distributed generation, enable the deployment of storage technologies, and improve grid reliability.

The Energy Independence and Security Act of 2007 provides roles for the National Institute of Standards and Technology (NIST) and the Commission with respect to development of smart grid standards.

Section 1305 of the Energy Independence and Security Act of 2007 directs the Commission to determine if NIST's work in this area has led to sufficient consensus on smart grid standards and, if so, to initiate a rulemaking through which it may adopt standards and protocols developed by the NIST process to govern the implementation of smart grid technologies. A Technical Conference on Smart Grid Interoperability Standards was held in November 2010 in conjunction with the National Association of Regulatory Utility Commissioners/FERC Collaborative on Smart Response. The Commission convened an additional technical conference in January 2011 and issued a Supplemental Notice in February 2011 soliciting comments on a number of issues. In July 2011, the Commission found that there was insufficient consensus for the five families of standards under consideration. For this reason, the Commission did not institute a rulemaking proceeding with respect to these standards. Instead, the Commission encouraged stakeholders to actively participate in the NIST interoperability framework process to work on the development of interoperability standards and to refer to that process for guidance on smart grid standards.

In FYs 2013 and 2014, the Commission will monitor the development of interoperability standards in the NIST framework process and evaluate standards as appropriate to determine whether there is sufficient consensus for adoption.

Incentive Rates.

In EPAct 2005, Congress directed the Commission to provide incentive rates to encourage development of the Nation's transmission infrastructure, with the goal of ensuring reliability and reducing transmission congestion. In FY 2006, the Commission issued Order No. 679 identifying specific incentives available to qualifying applicants, including: return on equity adders, recovery of 100 percent of prudently incurred abandoned plant costs, inclusion in rate base of 100 percent of prudently incurred construction work in progress, recovery of pre-commercial operations costs, hypothetical capital structures and accelerated depreciation.

Since then, the Commission has reviewed more than 90 applications for transmission incentives under Order No. 679.

In May 2011, the Commission issued a Notice of Inquiry seeking comment on the scope and implementation of its electric transmission incentive regulations and policies. Through the Notice, the Commission has sought input from stakeholders regarding the steps it could take in evaluating future requests to ensure that its incentive policies appropriately encourage the development of transmission infrastructure in a manner consistent with its statutory responsibilities. In November 2012, the Commission issued a policy statement to provide additional guidance on how it will evaluate applications for electric transmission incentives intended to encourage infrastructure investment while maintaining just and reasonable rates for customers.

In FYs 2013 and 2014, the Commission will process requests for incentive rates under applicable statutory and regulatory requirements using the guidance provided in the policy statement.

Non-traditional Business Models Supporting New Transmission Investment.

Increasingly, the Commission is asked to approve requests from prospective developers of transmission facilities based on non-traditional business models.

Commission staff held a workshop in February 2012 to seek input on potential reforms to the Commission's policies governing the allocation of capacity on merchant transmission projects and new cost-based participant-funded transmission projects. In April 2012, the Commission issued a Notice of Inquiry exploring whether its current policy concerning priority rights and open access with regard to certain interconnection facilities should be reformed. In July 2012, the Commission issued for comment a proposed policy statement which seeks to clarify and refine current policies governing the allocation of capacity for new merchant transmission projects and new non-incumbent, cost-based, participant-funded transmission projects. Based on comments

received, the Commission issued a final policy statement in January 2013. The Commission will continue to evaluate its policies in FYs 2013 and 2014.

STRATEGY 2

Support electric transmission planning through the use of open and transparent processes that include analysis and consideration on a comparable basis of proposed solutions involving any of generation, transmission, and demand resources

Although ownership of the interstate transmission grid is highly disaggregated, with more than 500 owners, transmission planning must be considered not only on a local basis, but also on a regional basis. To ensure that needed transmission is developed with the interests of all stakeholders in mind, the Commission requires that all public utility transmission providers establish and participate in open and transparent regional transmission planning processes. These processes aim to improve the coordination of transmission planning among utilities and to support the development of an efficient transmission system, facilitating competitive markets by reducing barriers to trade between markets and among regions. To that end, the Commission requires public utility transmission providers to consider alternatives offered by developers in the transmission planning processes, including generation and demand response solutions.

Following an extensive rulemaking process, the Commission issued Order No. 1000 in July 2011, Order No. 1000-A in May 2012, and 1000-B in October 2012. This rulemaking was designed to correct deficiencies in the current transmission planning processes and ensure the rates for transmission service are just and reasonable. Specifically, Order No. 1000 requires public utility transmission providers to improve transmission planning processes and allocate costs for new transmission facilities to beneficiaries of those facilities, thereby aligning transmission planning and cost allocation. Order No. 1000 also enhanced the Commission's transmission planning requirements by directing public utility transmission providers to participate in regional transmission planning processes that produce regional transmission plans, provide for consideration of transmission needs driven by public policy requirements established by local, state or federal laws or regulations, and enable coordination between pairs of neighboring transmission planning regions. The rule also promotes competition in regional transmission planning processes by removing from Commission-approved tariffs and agreements a federal right of first refusal for transmission facilities selected in a regional transmission plan for purposes of cost allocation, subject to certain limitations.

Public utility transmission providers in over half of the proposed Order No. 1000 transmission planning regions submitted compliance filings on October 11, 2012. Public utility transmission providers in four other regions received extensions and submitted their compliance filings on October 25, 2012. Public utility transmission providers in one region received an extention until February 8, 2013, to make their compliance filing. All public utility transmission providers must make compliance filings addressing Order No. 1000's interregional requirements by April 2013.

To assist public utility transmission providers during development of these regional compliance filings, Commission staff has actively engaged with regional stakeholders and participated in regional and interregional planning meetings throughout 2012. During FYs 2012 and 2013, Commission staff attended various Order No. 1000 open meetings held by the public and utility transmission providers in person and through teleconference. At these meetings staff provided assistance to stakeholders and other interested parties with their compliance progress. Commission staff also served as keynote presenters in stakeholder and state commission

sponsored conferences to provide information and respond to questions regarding the requirements of Order No. 1000. Commission staff will continue to be engaged with interregional stakeholders and will participate in interregional planning meetings through FY 2014.

In FY 2013 and 2014, the Commission will review the compliance filings it receives to ensure they meet the requirements of Order No. 1000.

STRATEGY 3

Promote efficient design and operation of natural gas facilities

The Commission continues its efforts to explore ways to improve the efficiency in the design and operation of jurisdictional natural gas facilities. In FYs 2010, 2011 and 2012, Commission staff examined 60 percent of the Commission's jurisdictional natural gas companies for feasibility of installing waste heat recovery systems. By the end of FY 2012, 22 jurisdictional pipelines have identified 64 stations that meet the initial requirements for feasibility. Commission staff will continue conducting quarterly reviews of Electronic Bulletin Boards[7] to gauge participation across the industry. Staff will also review the FERC Form 567, annual flow diagrams, to identify which companies have facilities that may be candidates for waste heat recovery efforts. By the end of FY 2014, Commission staff will have examined 100 percent of the Commission's jurisdictional natural gas companies for feasibility of installing waste heat recovery systems.

Waste heat recovery is the process of collecting the waste heat emitted from compressor units as a by-product of combustion, and then using that heat to run generators and create electricity.

[7] Electronic Bulletin Boards are internet sites where pipeline companies must post certain information to be in compliance with Part 284.12 and 284.13 of the Commission's regulations.

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

In addition to these three strategies, the Commission will continue to play a key role in its core function: the development, siting, and regulation of infrastructure, in accordance with its statutory responsibilities.

Hydropower.

Hydropower is an essential component of the Nation's energy portfolio and offers the benefits of a renewable, domestic energy source that supports efficient, competitive electric markets by providing low-cost energy reserves and ancillary services. Hydropower projects may also provide other public benefits such as environmental protection and enhancement, water supply, irrigation, recreation and flood control.

The Commission's hydropower responsibilities include: issuance of licenses for the construction of new projects (original licenses as well as small hydro and conduit exemptions); issuance of licenses for the continued operation of an existing project (relicenses), including any primary transmission lines; amendments to existing licenses; and oversight of all ongoing project operations, including dam safety inspections,[8] environmental monitoring, and ensuring compliance with license requirements.

The Commission regulates over 1,600 non-federal hydroelectric projects at over 2,500 dams and impoundments. Together, these projects represent 54 gigawatts of hydroelectric capacity, more than half of all the hydropower in the United States.

Pre-Filing.
The pre-filing process typically begins three years prior to the filing of a license application.[9] Throughout this process, Commission staff will meet with stakeholders to develop study plans and ensure that the licensing proposal will be considered "complete" by the time the application is filed. The Commission anticipates processing 59 pre-filing applications in FY 2014. To process these pre-filing applications, the Commission expects its staff to attend 47 scoping and study plan meetings, and to participate in numerous tribal consultations.

Applications.
Commission staff conducts environmental analyses for all filed license and small hydro exemption applications. The Commission is responsible for ensuring that the environmental document analyzes the project's effects on potentially affected resources, including geology and soils, aquatic resources (including water quality), terrestrial resources, threatened and endangered species, recreation, land use and aesthetic resources, cultural resources, and examines alternatives and makes recommendations for the protection, mitigation, and enhancement measures to be included in any license issued. The Commission expects its staff to participate in 49 post-filing public meetings associated with its environmental analysis of applications in FY 2014.

In FY 2012, the Commission acted on 31 applications representing a total capacity of 1,271 megawatts. The number of applications received is expected to increase through FY 2014 due to a continued interest in developing new projects.

In addition to license applications, the Commission processes preliminary permit applications and monitors compliance with issued permits. A permit guarantees the holder "first-to-file" status for a particular site in cases where multiple applications are received by the Commission for a hydropower license. Permits also allow the holder to study a particular site for up to three years. A permit does not authorize construction, nor is it required to apply for, or receive, a license. The overall

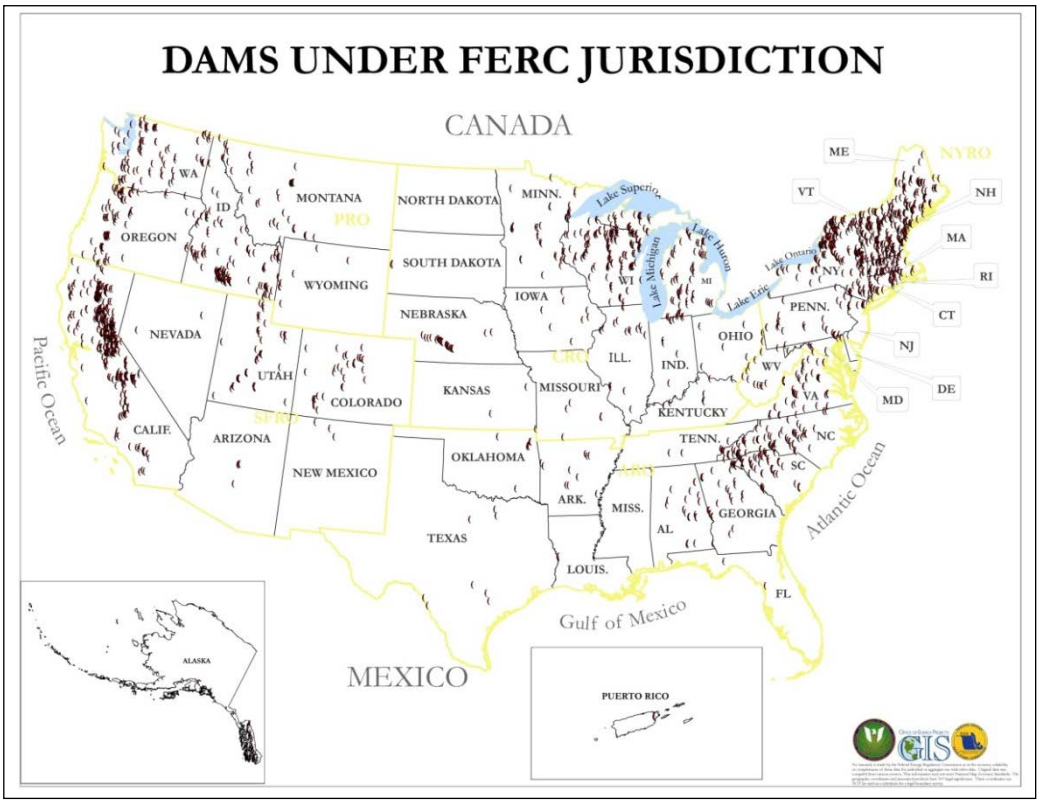
[8] The Commission's dam safety program is detailed in Objective 2.2: Safety.
[9] A relicense application must be filed with the Commission no later than two years before the license expires.

complexity and number of permit applications has dramatically increased over the past several years. In FY 2012, there were over 400 permits in effect. The increase in the number of these applications can be attributed to the current and near-term interest in retrofitting existing dams with hydropower and to new hydro technology development.

Environmental and Engineering Compliance. Hydropower licenses issued by the Commission include terms and conditions that are designed to protect, mitigate, and enhance the environmental resources of project areas. These terms and conditions address resources such as water quality, land use, wildlife, erosion control, endangered species, recreation, cultural resources, and fish habitat and passage.

As specified by the issued license, licensees are required to implement specific environmental and operational measures, generally after filing detailed plans, proposals and reports regarding the implementation of the measures. In addition, licensees proposing to undertake certain activities not already authorized by the project license must file amendment applications.

The Commission processes these filings and prepares environmental documents and engineering reports as necessary to review license amendments. The Commission works collaboratively with licensees and other stakeholders to ensure timely review for adequacy and on-site implementation. In FY 2012, the Commission issued 15 license amendments resulting in an increase in authorized capacity of 213 megawatts. In addition, Commission staff processed 16 conduit exemption applications for a total of almost 14 megawatts of installed capacity. The number of exemption applications is expected to increase in FY 2014 due to the increased interest in small hydropower projects.



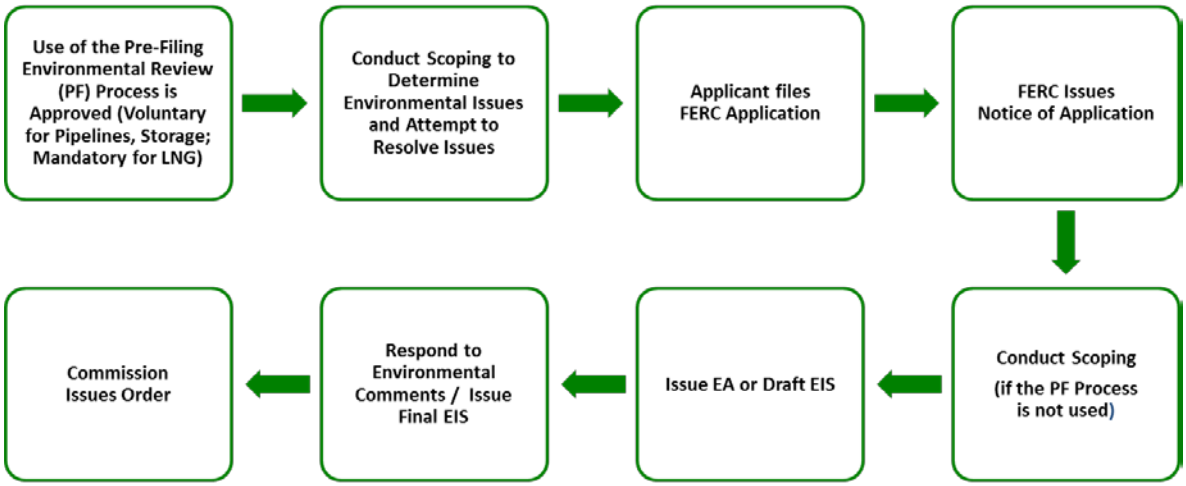
Shoreline Management, Recreation, and Outreach.
Licensees may, with Commission approval, authorize specific uses and occupancies of the licensee-controlled lands along the project reservoir shoreline that are not related to hydroelectric power production or other project purposes. Examples of non-project uses include, but are not limited to: commercial marinas, private residential boat docks and marinas, shoreline erosion control structures, water withdrawal facilities, recreation facilities, utility lines, access roads, bridge crossings, and significant dredging activities. In FY 2012 the Commission staff processed 60 applications for non-project uses of project lands, a decrease from the previous year due to poor economic conditions. Commission staff is seeing an increase in reconfigurations and improvements at existing facilities and is also processing requests for changes/reductions to previously approved facilities due to economic hardships.

In order to ensure that licensees properly manage licensee-owned lakeshore lands, some licensees prepare and file shoreline management plans. A shoreline management plan is essentially a land use plan, in which a licensee, in consultation with stakeholders and subject to Commission approval, determines what types of development and environmental protection are appropriate on the licensee's shoreline lands. Typically, certain areas are reserved for public recreation; in others, uses consistent with residential and commercial development on adjacent, non-project lands are permitted; and some are restricted in order to protect environmental values. Not all projects require shoreline management plans; these plans are generally required where it appears that the project's shoreline may be subject to competing developmental pressures such that public access or environmental resources are at risk. It is important to note that a shoreline management plan is only applicable to lands owned or controlled by a licensee, and has no effect on privately-owned lands in which a licensee has no interest.

In the past several years, the Commission staff has held workshops to assist licensees with specific issues. In FY 2012, staff held a Shoreline Management Workshop in Alabama which was attended by over 70 licensees from the entire country to discuss shoreline uses and management along the reservoirs. Staff also held recreation workshops in Charlotte, NC and Madres, OR to assist licensees in completing the Commission's Licensed Hydropower Development Recreation Report (Form 80s), which track recreational facilities and use at hydropower projects. These workshops also provide an opportunity to discuss innovations and trends in public recreation.

Environmental Inspections.
The Commission's on-site environmental inspection program evaluates and assesses implementation and compliance with the environmental and public use requirements of licenses to ensure protection and enhancement of resources at each project. In FY 2012, staff completed 67 compliance inspections, and approximately 50 inspections are expected to be conducted in FYs 2013 and 2014 each.

Process for Natural Gas Certificates



Natural Gas Pipelines & Storage Projects.

The Commission is responsible for reviewing applications for the construction and operation of natural gas pipelines and other related facilities.[10] To meet the growing demand for natural gas, the Commission must respond to these applications in a timely manner. As in hydropower siting, the pre-filing process engages stakeholders in the identification and resolution of concerns prior to a company filing a certificate application with the Commission. The Commission staff's participation and initiative in these efforts allows for the filing of more complete certificate applications and enables more efficient and expeditious determination by the Commission. As part of the natural gas pipeline certificate application process, the Commission reviews applications to ensure that the proposals are in the public interest. Among other things, the Commission reviews each application to establish initial recourse rates as well as to ensure that the proposed tariff complies with the Commission's policies and regulations. The Commission also assesses applications for embedded accounting issues in pipeline construction, acquisition purchase, and abandonment transactions. Commission staff will identify deficiencies in proposed accounting practices and will recommend appropriate corrective action. These accounting reviews in certificate filings provide greater certainty to pipelines by providing upfront guidance on accounting entries prior to the pipeline seeking formal Commission approval.

Applications.
In FY 2012, the Commission authorized 14 major natural gas pipeline projects which resulted in approximately 141 miles of additional pipeline and over 158,000 horsepower of mainline compression. The Commission also authorized 9 storage projects resulting in approximately 96 billion cubic feet of working gas capacity and 112,000 horsepower of storage compression. A continuing trend in FY 2012 was the development of projects overlying shale basins that increase the deliverability of existing pipeline systems such as pipeline looping and compressor station additions as well as short pipeline extensions. Due to the continued development of multiple shale

[10]Once natural gas pipeline projects become operational, safety is regulated, monitored and enforced by the Department of Transportation.

plays,[11] the Commission expects the number of natural gas pipeline project applications to increase in FY 2014.

Also significant in FY 2012 was the restructuring of the off-shore interstate pipeline system in the Gulf of Mexico. In June 2012, the Commission acted on several delegated orders which had the effect of redefining the transmission and gathering systems in the Gulf of Mexico. Years of declining production from off-shore fields in the Gulf along with increasing on-shore supplies lead pipeline companies to request certificate authorization to restructure the operations of their off-shore systems.

Alaska Natural Gas Pipeline Project.
The Commission has been fully engaged for several years in the pre-filing review of a proposal to construct and operate an Alaska natural gas pipeline, extending from the North Slope of Alaska to the Alaska-Canada border. In FY 2012, the project sponsor notified the Commission that it was deferring further development of its project option to Alberta while it investigated an option to build an LNG export supply line to south Alaska. To the extent that project proponents continue to pursue the proposed Alaska project subject to the Commission's jurisdiction, the Commission will continue to be involved in the pre-filing review until a certificate application is filed. Should an application be filed in FY 2013, the application review process will require up to four weeks of on-site work in Alaska by the Commission staff in FY 2014.

Environmental Inspections.
The Commission includes environmental protection, mitigation, and enhancement measures in authorizations for natural gas pipelines and storage facilities. While major pipeline facilities are under construction, Commission staff conducts inspections at least once every 28 days to ensure adherence to the prescribed environmental measures. In FY 2012, 313natural gas facility compliance inspections were completed at pipeline, storage, and LNG project sites. The Commission expects to complete a similar number in each of FYs 2013 and 2014.

Outreach.
The Commission regularly conducts industry training seminars to provide guidance and insight on environmental review and compliance-related matters. These sessions, which provide an opportunity for open dialogue between the Commission staff and stakeholders, are attended by state, local and federal agency officials, natural gas pipeline companies, and consulting firm staff. These sessions provide information on the filing requirements for environmental reports, reporting requirements for blanket certificate projects, new regulations, overview of the Commission's Wetland and Waterbody Construction and Mitigation Procedures, and more. The seminars are instrumental in developing the understanding of and successful adherence to the Commission-issued certificates and authorizations. In FY 2012, Commission staff conducted several outreach sessions to several natural gas companies and federal permitting agencies, addressing the Commission's certificate and environmental review processes. The staff also expanded its outreach efforts to Native American tribes to enhance their participation in the Commission's environmental review process. In FY 2013, the Commission proposes to conduct three seminars and will continue these efforts in FY 2014.

Since August 2012, Commission staff has participated in two industry task forces with the American Petroleum Institute (API): API RP 1170 and API RP 1171. The purpose of the task force is to develop industry best practices recommendations for the design and construction of underground natural gas storage facilities. API RP 1170 will be a recommended best practices publication for the design of salt cavern natural gas storage facilities, and API RP 1171 will be a recommended best practices publication for

[11]Shale is a fine grained sedimentary rock which can contain natural gas. Hydraulic fracturing of this rock may release trapped natural gas that can be produced and shipped to consumers. Geologic formations containing shale gas occur throughout the country and are referred to as shale plays.

the design of natural gas storage facilities in depleted hydrocarbon reservoirs and aquifers. These publications are expected to the released by the end of FY 2015.

LNG Facilities.

The Commission is responsible for reviewing applications for the construction and operation of LNG facilities, analyzing the design of proposed LNG plants, reviewing site compliance with federal safety standards, coordinating with the U.S. Coast Guard on waterway suitability assessments for LNG import/export terminals, completing post-authorization final design review, reviewing design change requests, ensuring compliance with conditions, and conducting construction and operation inspections (which will be discussed in Objective 2.2: Safety).

Pre-Filing & Applications.
In FY 2012, the Commission completed the review of two applications for modifications to existing LNG terminals, including the approval of facilities for the export of domestic natural gas. In addition, the Commission conducted the pre-filing review of eight LNG terminals, and reviewed four applications for new or modified LNG facilities.

Based upon industry filings with the Department of Energy, the Commission expects 16 LNG terminal applications (15 export and one import) to be under review by the Commission through FY 2014.

Electric Transmission Siting.

States have primary siting authority for electric transmission facilities. In limited circumstances, the Commission has backstop authority over the siting of electric transmission facilities. The Commission will review any eligible transmission siting application submitted to determine whether it satisfies the criteria established by Congress in EPAct 2005 and is consistent with the public interest.

Gas-Elecric Coordination.

The Commission is responsible for ensuring that its regulation of the natural gas and electric markets result in rates and terms, and conditions of service that are justified, reasonable, and not unduly discriminatory. Due to historically low natural gas prices, environmental considerations, and other factors, the electric industry has become increasingly reliant on natural gas as a fuel for generation. To explore the interdependencies of these industries, the Commission held five regional technical conferences in August 2012.

PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.1

Performance Measure 11	
Percentage of all new transmission projects will incorporate advanced technologies that meet Commission criteria.	
FY 2012 TARGET	20%
FY 2012 RESULT	Target met. Of the projects that met the criteria, 68% (17 projects) incorporated advanced technologies.
FY 2013 TARGET	35%
FY 2014 TARGET	50%

Performance Measure 12	
All public utilities will implement open and transparent transmission planning processes that include analysis and consideration on a comparable basis of proposed solutions involving any of generation, transmission, and demand resources.	
FY 2012 TARGET	Implement Final Rule as appropriate
FY 2012 RESULT	Target Met. The Commission in Order No. 1000 (issued on July 21, 2011) encouraged public utility transmission providers to engage in frequent dialogue with Commission staff to explore issues that are specific to each transmission planning region in preparing their compliance filings (which are due in October 2012). To facilitate that dialog, Commission staff identified regional meetings where public utilities intended to discuss compliance with Order No. 1000, and participated, by phone and in-person, at 173 of those meetings. Staff's participation was both to monitor the progress of each region and to act as a resource for public utility transmission providers and stakeholders about issues related to Order No. 1000. In addition, staff was available to answer questions and meet with public utility transmission providers and stakeholders that had specific questions about Order No. 1000 compliance. In addition, Order 1000-A, Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities (Order on Rehearing & Clarification) was issued on May 17, 2012.
FY 2013 TARGET	Monitor implementation and performance
FY 2014 TARGET	Evaluate performance and seek changes as necessary

Performance Measure 13	
Percent of jurisdictional natural gas companies examined for feasibility of installing waste heat recovery systems.	
FY 2012 TARGET	60%
FY 2012 RESULT	Target Met. In FY 2012, Commission staff examined a total of 62% of the Commission's jurisdictional natural gas companies (98 of 159) for feasibility of installing waste heat recovery systems. In FY 2012 specifically, Commission staff examined 33 companies.
FY 2013 TARGET	80%
FY 2014 TARGET	100%

****

OBJECTIVE 2.2: SAFETY

Minimize risk to the public.

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

The Commission's LNG program ensures the safety and reliability of proposed and operating LNG terminals in the United States through a comprehensive review process that includes working very closely with the U.S. Coast Guard, the Department of Transportation, the states, and local governments. This program ensures that approved LNG terminals and associated LNG vessel traffic meet safety and environmental requirements during construction and operation. The Commission can also independently impose safety requirements to ensure or enhance operational reliability of the LNG terminals.

The Commission's dam safety program applies advances in technology to address the technical challenges presented by the national water resources infrastructure (much of which is aging) to ensure that jurisdictional Commission dams are safe. Before projects are constructed, the Commission reviews and approves the designs, plans, and specifications of dams, powerhouses, and other structures. During construction, Commission staff engineers frequently inspect a project and once construction is complete, Commission staff engineers continue to inspect it on a regular basis.

Strategy 1: Incorporate risk-informed decision making (RIDM) into the dam safety program

STRATEGY 1

Incorporate risk-informed decision making (RIDM) into the dam safety program

Risk assessment has been used in the safety assessment of many high consequence industries since the 1960s. Risk-informed decision-making is currently used in dam safety decision making by the U.S. Department of Interior, Bureau of Reclamation (Reclamation), the U.S. Army Corps of Engineers, and dam owners and regulators in Canada, Australia, New Zealand, and the United Kingdom.

Currently, Reclamation employs RIDM in the process of continuously evaluating the safety of dams under its jurisdiction. Spurred by the effects of Hurricane Katrina, U.S. Army Corps of Engineers, in cooperation with Reclamation and with requested participation from the Commission, developed policies and procedures to guide their use of RIDM.

RIDM will improve the Commission's dam safety program. It will provide the capability to assess non-traditional failure modes, levelize risk across different loading conditions, focus inspections and surveillance on the specific potential failure modes and monitoring programs at projects and guide remediation projects to provide an overall reduced level of risk to the public.

In FY 2010, the Commission developed and finalized its RIDM Action Plan which outlines the work efforts required through

FY 2014 to incorporate RIDM into the Commission's dam safety program. As a result of performing a Screening Level Portfolio Risk Assessment of the Commission's dams in FY 2012, a determination was reached that RIDM could be incorporated into the Commission's dam safety program. During FY 2014, the Commission will continue the effort to develop the necessary risk assessment guidelines, procedures and policies, and train Commission staff, dam owners and consultants in the risk assessment procedures, methodologies and tools. Development of the guidelines and procedures will be done in an open, collaborative process with representatives of the hydropower industry, including FERC-regulated licensees. All current Commission dam safety program components will continue as scheduled during this entire development period.

PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.2

Performance Measure 14	
Incorporation of risk-informed decision making into the dam safety program.	
FY 2012 TARGET	Determine RIDM is consistent with regulatory process
FY 2012 RESULT	Target Met. As a result of the Screening Level Portfolio Risk assessment of the Commission's dams conducted in FY 2012, it was determined that RIDM could be incorporated into the Commission's dam safety program.
FY 2013 TARGET	Finalize policy and technical guidelines
FY 2014 TARGET	Fully incorporate RIDM into the dam safety program

****

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

Hydropower Facilities.

Dam Safety Program.
Inspections are the backbone of the dam safety program and are an effective tool for detecting and preventing potential catastrophic structural failures. In the event of a dam failure, there can be both loss of life and economic consequences (property damage, environmental impacts and costs associated with loss of use of the resource). Through inspections, the Commission is able to verify that the dams meet current Commission dam safety criteria, identify necessary investigations, remedial modifications or required maintenance, and ensure compliance with license requirements. In FY 2014, the Commission expects to conduct approximately 2,000 inspections.

In addition to conducting inspections, the Commission's dam safety program includes other components to minimize risk to the public. Dam safety engineering guidelines are published to provide guidance to licensee- or consultant-conducted inspections and analyses. The guidelines include the procedures and criteria for the engineering evaluation and analysis of hydropower projects. The Commission's surveillance and monitoring component provides methods to better identify and solve dam safety issues and improves coordination, abilities, and trust among all stakeholders. Another component of the dam safety program is the emergency action plans (EAP), which are required for all jurisdictional dams. These plans require the development, maintenance, and periodic testing of project-specific plans, and they help ensure coordination and cooperation among the dam owners, state and local emergency management agencies, and the Commission.

The Commission also requires comprehensive inspections and engineering evaluations of the high and significant hazard potential dams by independent consultants every five years. All independent consultant inspection reports are thoroughly reviewed and evaluated by the Commission to determine whether additional studies are required or if remedial measures are necessary. The Commission reviews approximately 225 independent consultant reports each year to make certain the structural integrity of the jurisdictional dams is maintained or improved as appropriate. The Commission expects the number of independent consultant inspection report reviews to remain steady through FY 2014.

The Frequency of Dam Inspections as Determined by its Hazard Potential Classification

Hazard Potential Classification	Possible Effects	Inspection Schedule
High	Loss of human life	Annually
Significant	Environmental and economic loss	Annually
Low	None Expected	Every 3 years

LNG Facilities.

Construction & Operational Inspections.
The Commission is responsible for inspecting LNG facilities during construction and subsequently, during their operation, to ensure compliance with the safety and reliability requirements put into place by the Commission. While facilities are under construction, Commission engineers conduct inspections at least once every eight weeks. In FY 2012, seven construction and pre-operational inspections were conducted for one terminal expansion and one peak-shaving plant expansion. The number of construction and pre-operational inspections that may occur in FYs 2013 and 2014 may be more than FY 2012, but will ultimately be determined by market conditions, as well as the number of approved LNG export facilities that move forward with construction in the next 18 months.

Once in operation, jurisdictional peak-shaving plants are inspected once every other year and LNG import or export terminals are inspected once each year. In FY 2012, 17 operational inspections were conducted for seven peak-shaving facilities and ten terminals. By FY 2014, the number of operational inspections will increase to 18.

****

OBJECTIVE 2.3: RELIABILITY

Provide for the reliable operation of the bulk power system through oversight of the development and implementation of mandatory and enforceable standards.[12]

The electric transmission grid of the United States is a complex network connecting almost 1,000,000 megawatts of resources to load, through more than 200,000 miles of bulk power transmission lines. The Commission has an important role in overseeing the reliability and security of this grid. For example, the Commission monitors and participates in the development and enforcement of mandatory reliability standards (Reliability Standards) for the bulk power system in the continental United States. These standards apply to all users, owners and operators of the bulk power system. The Commission also monitors system disturbances to identify near and long-term issues affecting the reliability and security of the bulk power system.

The Commission also communicates with various federal and state agencies, international entities and industry participants on emergency reliability and security issues. The Commission will encourage innovative approaches to system reliability and security that will improve the grid's ability to withstand and recover from abnormal events including mitigating vulnerabilities, threats, and attacks.

To maintain the reliability and security of the electric grid, the Commission will focus on three strategies.

Strategy 1:	Process Reliability Standards in a timely manner
Strategy 2:	Monitor, audit, and enforce Reliability Standards
Strategy 3:	Identify reliability parameters that affect goals of reducing carbon and increasing the penetration of renewable energy resources on the electric transmission grid

STRATEGY 1

Process Reliability Standards in a timely manner

The Commission monitors and participates in the development of mandatory Reliability Standards for the bulk power system in the continental United States, primarily through regulatory oversight of the ERO and the eight Regional Entities.

The ERO, among other tasks, is responsible for proposing mandatory Reliability Standards and interpretations of approved standards for the Commission's review and approval. All Reliability Standards and interpretations must be submitted for Commission approval in order to become mandatory and enforceable in the United States.

The ERO develops these standards through an open and inclusive process that involves extensive negotiation,

[12]The Objective statement reflects an adjustment made to the Commission's Strategic Plan as allowed by the GPRA Modernization Act of 2010.

consultation and coordination among many stakeholders. The eight Regional Entities may also develop and propose regional reliability standards. The Commission does not have statutory authority to author or rewrite standards. However, Commission staff participates as observers in these processes. If the Commission disapproves of a standard or interpretation filed, it must remand the filing to the ERO for reconsideration. The Commission may direct the ERO to develop and submit a new or modified Reliability Standard on a specific matter.

One illustration of this process involves the ERO's first cyber security, or Critical Infrastructure Protection (CIP), Reliability Standards. The Commission approved them while concurrently directing modifications. As a result of the directives, the ERO has subsequently filed modifications to the approved CIP standards. The Commission has recently approved Version 4 of the CIP Reliability Standards; however further modifications are expected to be filed in FY 2013. The number of modifications is expected to be significantly higher as compared to prior ERO CIP filings. The review of these filings will be a substantial effort in FYs 2013 and 2014.

Another example of this process involves several orders issued by the Commission that first directed and then approved revisions to the ERO's Rules of Procedure. These revisions provide the ERO with a means to respond to Commission directives when its existing Reliability Standard development process fails to develop a responsive new or modified Reliability Standard. Additionally, the Commission directed changes to the ERO's definition of the term "bulk electric system" to help ensure consistency in identifying and registering components of the bulk electric system that are subject to the approved Reliability Standards across the country. In FY 2012, the ERO filed such changes with the Commission. In early FY 2013, the Commission approved the ERO's filed definition of "bulk electric system."

A review of bulk-power system disturbances and events may necessitate development of a new Reliability Standard or modifications to the existing Standards. For example, disruptions on the bulk-power system resulting from unusually cold winter weather experienced in Texas, New Mexico, and Arizona in 2011 resulted in an inquiry and subsequent Commission and ERO joint report that indicated a need to modify the Reliability Standards for emergency preparedness and operations. The possible development of modifications to the Reliability Standards to address extreme weather is an example of the need to constantly evaluate and modify standards to ensure that they are adequate to address issues that negatively affect the reliability of the power grid – be it from weather, cyber, geomagnetic, or other events.

In FY 2012, the Commission remanded a proposed change to the Transmission Planning Reliability Standard footnote b after extensive evaluation of the filing. Further modifications are expected to be filed in FY 2013 by the ERO in response to the final order. The review of the ERO's modifications will be a substantial effort in FYs 2013 and 2014.

In early FY 2012, the Commission issued a proposed rulemaking to approve the ERO's proposed revisions to Reliability Standard for Transmission Vegetation Management. This standard aims to prevent problems caused by trees falling on, or growing too close to, transmission lines. The Commission will respond to comments on its proposed rulemaking when it issues a Final Rule on the standard.

Other Standards-related initiatives to streamline Standards and improve their efficiency include recent Commission interest in whether some requirements could be removed from the Reliability Standards with little effect on reliability, thereby increasing efficiency of the ERO compliance program. In FY 2012, the ERO and industry were invited to make specific proposals to the Commission identifying the Standards, or requirements within the Standards, that are not needed for reliability or are redundant and therefore could be streamlined or eliminated. The specific technical basis must be included for all such proposals. In

FYs 2013 and 2014, the ERO and industry will review the present body of Reliability Standards to evaluate whether specific Reliability Standards or requirements within certain Standards could be streamlined or removed.

When proposed Reliability Standards or interpretations are filed for review, it is important that the Commission analyze them and respond in a timely manner because they become mandatory and enforceable only after Commission approval. In FY 2014, the Commission is committed to analyzing and processing proposed Reliability Standards in a timely manner by issuing orders for 80 percent of filed Reliability Standards within 18 months of the filing date. In FY 2012, the Commission exceeded its target of 75 percent by processing 100 percent of filed Reliability Standards within 18 months.

The Commission will continue to explore ways to improve the efficiency and effectiveness of the Reliability Standards development and implementation process. The Commission held reliability technical conferences in FY 2012 to improve communications and expectations with the electric industry and to prioritize Reliability Standards development.

STRATEGY 2

Monitor, audit, and enforce Reliability Standards

The Commission monitors and participates in the enforcement of the Reliability Standards, primarily through its oversight of the ERO (the North American Electric Reliability Corporation) and Regional Entities. As part of that role, the Commission will monitor the ERO's short-term and long-term reliability and adequacy assessments of the bulk power system as well as compile reports on the performance of the bulk power system from information gathered from the ERO, Regional Entities, and registered entities.

In addition, as part of its outreach effort in the compliance program, the Commission regularly provides guidance to the industry on both technical and process issues at numerous regional conferences with a goal of facilitating higher levels of compliance. Similarly, the Commission's staff routinely coordinates with the ERO regarding technical and process issues relating to event analyses, investigations and violations.

The Commission also fulfills its role by participating in selected Regional Entity-led compliance audits and investigations of users, owners and operators of the bulk power system. The Commission will also perform several independent compliance audits and conduct independent investigations of significant blackouts, system disturbances, cyber security incidents, and other reliability and security issues, as warranted.

Rigorous audits and investigations of potential violations coupled with penalties when appropriate and adequate mitigation plans should lead to a culture of compliance and reduce the frequency of repeat violations of the Reliability Standards. In order to determine the effectiveness of the compliance program, the Commission will continue to track the number and type of violations and measure repeat violations. The Commission's goal is to reduce repeat violations by at least 10 percent by FY 2014.

Audits and Investigations.

In FY 2012, the Commission concluded two audits and initiated seven additional audits. These seven audits include five budget and performance audits of regional entities and two performance and

compliance audits of bulk-power system entities. Commission staff also participated in fifteen Regional-Entity-led compliance audits and nine Regional Entity-led CIP compliance audits. These audits assess the quality and execution of the audit programs to identify best practices and areas of improvement across the eight regions. The Commission is currently developing a comprehensive oversight audit schedule for FYs 2013 and 2014.

In addition, in FY 2012, the Commission completed two Reliability investigations (one approved settlement and one investigation closed without a finding of non-compliance). The Commission also completed two significant inquiries into the power outages in Arizona and Southern California that occurred on September 8, 2011 and the outages related to the Northeast Snowstorm at the end of October 2011. Commission staff continues to work on three ongoing investigations opened in prior years. As investigations are incident-based, there are none pre-planned for FYs 2013 and 2014, but investigations can be opened if any incidents occur.

Event Inquiries.

The Commission conducted two inquiries into bulk power system events during FY 2012, and conducted follow-up work on a third inquiry which was initiated in FY 2011.

Arizona-Southern California.
The Commission conducted a joint inquiry with the ERO into a September 8, 2011 power outage that left more than 2.7 million customers in Southern California, Arizona, and northern Baja California without electricity. The nearly eight-month inquiry was initiated to determine how the blackout occurred and to make recommendations to avoid similar situations in the future. ERO and Commission staff used on-site interviews, sophisticated computer modeling, event simulations and system analysis to make the determination that entities responsible for planning, operating and monitoring the bulk power system were not prepared to protect reliable operation or prevent cascading outages in the event of a single contingency: the loss of Arizona Public Service's Hassayampa-North Gila 500 kV transmission line.

A final report was issued on May 1, 2012 and included 27 findings and associated recommendations. The report found that the blackout stemmed from operating in an unsecured state due to inadequate planning and a lack of awareness of system operating conditions on the day of the event. Overall, it recommended that transmission operators and balancing authorities improve how they plan for operations to account for the status of facilities outside their individual systems, the effect of external operation on their own systems and how operation of transmission facilities under 100 kV can affect the reliability of the Bulk Power System. The Commission will be engaged throughout FY 2013 and into FY 2014 with the ERO and the Western Electricity Coordinating Council to monitor and encourage progress on implementing the report's recommendations to remedy the conditions that caused this outage and to prevent a recurrence.

Northeast Snow Storm.
The Commission also conducted a joint inquiry with the ERO into the October 29-30, 2011 unprecedented fall snow storm-related power outages in the Northeast. A final report was issued on May 31, 2012. The report found that the outages were primarily caused by healthy, off-right-of-way trees falling onto distribution lines. In sum, 95 percent of the customer outages were related to facilities that were either distribution facilities not subject to the Commission's jurisdiction or were transmission facilities operated at voltages less than 200 kV and not designated as critical to reliability by the Regional Entity. As such, the report found that while there is a Reliability Standard which addresses vegetation management, Reliability Standard FAC-003-1, this standard applies only to transmission facilities operated at voltages of 200 kV and above and, therefore, did not apply to the affected facilities.

Texas, New Mexico, and Arizona.
In FY 2011, the Commission completed an inquiry into the February 2011 generating facility outages and disruptions of both electric service and natural gas deliveries

experienced in Texas, New Mexico, and Arizona as a result of unusually cold weather across the Southwest. On August 16, 2011, the task force released its report, finding a majority of the electric outages and gas shortages were due to weather-related causes. Although generators and gas producers reported having winterization procedures and practices in place, responses were generally reactive in their approach to winterization and preparedness. The task force attributed most of the electric outages and natural gas shortages to prolonged freezing weather that resulted in dramatically reduced supply and unprecedented high demand. On November 9, 2011, the Commission issued a follow-up data request to the Texas Reliability Entity, the Western Electricity Coordinating Council, and Southwest Power Pool, Inc. Regional Entity for an update on the implementation of the task force recommendations. The responses indicated implementation was still in progress. Thus, the Commission conducted technical conferences in Texas and New Mexico in September 2012. Testimony at those conferences indicated that while many steps have been taken to winterize generating plants and determine plant output at extreme cold temperatures, there is a need to ensure that the lessons from the event are not lost over time. In FY 2013, the Commission plans to monitor progress of the Electric Reliability Council of Texas/Texas Reliability Entity on-site weatherization reviews.

Enforcement.

The ERO is authorized to impose, after notice and opportunity for a hearing, penalties for violations of the Reliability Standards, subject to Commission review and approval. When the Regional Entities or the ERO identifies a violation of a Reliability Standard, whether through self-reports, audits, investigations, or complaints, the ERO submits a notice of penalty filing for Commission approval. The filing includes a record supporting a finding of a violation of one or more Reliability Standards, a proposed penalty, and a mitigation plan to remedy the violation(s) and prevent recurrence. In FY 2012, the ERO filed 45 full notices of penalty addressing 904 violations (including CIP violations) of the Reliability Standards for review by the Commission.

In addition, on March 15, 2012, the Commission approved with conditions a proposal by the ERO to further streamline its violation processing by referring certain minor potential violations to a "find, fix and track" procedure. This approach foregoes all violations, penalties and related procedures, focusing instead on remediation and prospective compliance. As of September 30, 2012, this procedure was applied to resolve 823 possible violations.

Cooperation with EPA.

Additionally in FY 2012, Commission staff issued a white paper that outlined a proposal to provide a fair, timely and transparent process for the Commission to advise the Environmental Protection Agency (EPA) on requests for extension of time to comply with the Mercury and Air Toxics Standards (MATS) rule. Subsequently, on May 17, 2012, the Commission issued a policy statement on its role for providing advice to EPA and the Commission's review of requests for extension of time. Commission staff will examine whether, based on the circumstances presented, there might be a violation of a Commission-approved Reliability Standard, or identify other issues within the Commission's jurisdiction. The Commission would submit written comments on each request to the EPA.

In 2012, EPA did not receive a request for extension of time. The Commission and EPA staff continue to participate in conference calls with regional planning authorities to keep informed on issues stemming from affected power plant retirements and retrofits.

STRATEGY 3

Identify reliability parameters that affect goals of reducing carbon and increasing the penetration of renewable energy resources on the electric grid.

Some renewable resources, such as wind and solar, are variable in nature. These renewable resources may require additional reserves to address variations in deliverable energy.

The Commission will identify reliability parameters related to renewable energy resources and the electric transmission grid. In addition, the Commission will assess whether the reliability parameters are feasible for the bulk power system.

These parameters will be used to guide the reliable operation of an electric interconnection under changing circumstances and as a planning tool for managing the reliable integration of new resources, including variable renewable generation.

In FY 2012, the Commission reviewed the comments filed by industry and other interested parties on its report, "Use of Frequency Response Metrics to Assess the Planning and Operating Requirements for Reliable Integration of Variable Renewable Generation." The report introduces metrics to evaluate the resiliency of the existing electric grids in the three electrical interconnections in the United States. The Commission will prepare responses to the industry's comments and bring closure to the related docket in FY 2013.

The Commission will also continue to conduct outreach through FYs 2013 and 2014 to facilitate revision of the Frequency Response and Bias Reliability Standard (BAL-003) to better define frequency response in order to protect reliability even in the context of changing generation resources such as the expansion of renewable generating resources.

PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.3

Performance Measure 15	
Percentage of proposed Reliability Standards on which the Commission will issue a Final Rule within 18 months of filing.	
FY 2012 TARGET	75%
FY 2012 RESULT	Target Met. 100% of filed reliability standards (including regional and CIP standards) have been processed with orders issued within 18 months.
FY 2013 TARGET	80%
FY 2014 TARGET	80%

Performance Measure 16	
Reduction in the number of repeat violations by an audited or investigated entity, particularly of Reliability Standards involving high Violation Risk Factors.	
FY 2012 TARGET	Track violations per entity
FY 2012 RESULT	Target Met. The annual report analyzing FY 2011 data was completed on December 2, 2011 and an additional mid-year report was completed on July 30, 2012.
FY 2013 TARGET	Identify number of repeat violations using NOPs
FY 2014 TARGET	Decrease repeat violations by 10%

Performance Measure 17	
Reliability parameters that could affect goals of reducing carbon and increasing the penetration of renewable energy resources on the electric transmission grid will be finalized.	
FY 2012 TARGET	Track studies and identify or propose reliability parameters. Perform expanded analysis to assess if they are feasible for the bulk power system
FY 2012 RESULT	Target Met. Commission staff tracked three studies identifying several reliability parameters and performed two expanded analyses to assess their feasibility. Specifically, staff 1) performed detailed technical analysis related to the Arizona-Southern California outages showing system operating limits, interconnection reliability operating limits, voltage collapse and special protection scheme reliability parameters were not appropriately considered; 2) tracked and conducted an expanded detailed analysis of the EPA regulations on the Bulk Power System and participated in the Commission-led technical conference; and 3) analyzed documentation and conducted a technical workshop on voltage coordination on high voltage grids to assess the feasibility of adjusting voltage reliability parameters.
FY 2013 TARGET	Present analysis to industry
FY 2014 TARGET	Consider industry input and finalize the parameters

****

AGENCY ADMINISTRATION AND SUPPORT

Initiatives that support all goals, objectives and other core functions.

Strategic Plan Update

The Commission is in the process of updating its Strategic Plan, in accordance with the GPRA Modernization Act of 2010. The Commission will identify and define its priorities and strategies for the next five years towards achieving its mission: reliable, efficient and sustainable energy for consumers. The Commission will also take this opportunity to assess its performance management program to further develop a results-oriented culture throughout the agency. The Commission will engage a contractor to assist in the development of a tracking and reporting system to facilitate data-driven meetings at all levels of the Commission.

Hiring Reform

In FY 2011, the Commission deployed an automated hiring system called SmartHire to support the implementation of hiring reform as required by the Presidential Memorandum on Improving the Federal Recruitment and Hiring Process. This system provides direct benefits to job applicants by 1) supporting the creation and storage of multiple resumes on USAJOBS and seamlessly passing selected resumes for open vacancies; 2) providing auto-generated status notifications of submitted applications; and 3) minimizing the use of essay-based responses and paper-based applications. In FYs 2012 and 2013, the Commission utilized data from the application to increase the timeliness and quality of its hiring process. In FY 2014, the Commission will expand the use of data leveraged from this application to implement effective hiring and recruitment strategies based on objectives identified in its Human Capital Plan and Diversity and Inclusion Strategic Plan.

eLibrary Upgrade

The Commission uses a suite of hardware and software called eLibrary which functions as the system of record for all FERC-issued orders, industry filings, and public comments. This system is used by all Commission staff and is the single entry point for the public to access docketed information. The system was put into production over 10 years ago and is no longer optimal for the Commission's current IT infrastructure. Accordingly, the eLibrary system must be replaced with a modern document management system in order to meet its on-going business support functions. In FY 2013, the Commission plans to procure and begin the implementation of the new eLibrary system. This modernization effort will be the first in a series of upgrades to workflow and other document processing systems that work in concert with the eLibrary application. Planning and acquisition efforts for these extended upgrades will commence in FY 2013 and carry forward into FYs 2014-2015.

FERC Remote Work Capability

In FY 2012, the Commission revised its existing telework policy to incorporate provisions of the Telework Enhancement Act of 2010. In order to fully implement this mandate and support an increasingly mobile workforce, the Commission has initiated several efforts that are under the internal nomenclature of "FERC@Work". These consolidated efforts will enable the workforce to work from any location securely. These efforts include conversion to laptops as standard government issued equipment; implementation of logical access using PIV

cards; implementation of federated single sign-on; instantiation of teleconferencing technology and services; enhanced use of VPN and "smart" authentication services; and the piloting of virtual desktops. FERC's goal is to enable its users to communicate and work seamlessly regardless of location or device. These efforts will be implemented in a phased approach commencing FYs 2013 – 2015.

Cloud First

In February, 2011 the federal CIO issued a technical strategy for IT projects that requires federal IT organizations to consider cloud technologies, where possible, when planning and designing new IT systems. In FY 2013, FERC will finalize implementation of a cloud email solution.

Prospectively, FERC will continue to promote the Federal Cloud First strategy by instantiating pilots for the implementation of cloud based processing infrastructure and storage infrastructure. FERC will balance its financial and security needs to find appropriate solutions that will take it into the next few years. It is FERC's expectation that these pilots will assist in the design of solutions that will ultimately decrease the costs associated with maintaining its technology environment.

Modernization of Administrative Support Systems

Since FY 1998, the Commission has utilized the PeopleSoft Human Resources application to support key administrative functions. In FY 2012, the Commission completed an assessment focused on decommissioning its PeopleSoft HR suite. The assessment provided a roadmap which identified alternate approaches for timekeeping, training administration, background investigation management and data archiving needs. Specifically, this roadmap identified business systems within the Interior Business Center (IBC) as viable options to support its comprehensive needs. In FY 2013, the Commission will migrate to the IBC's WebTA application to modernize and streamline its timekeeping function. Additionally, the Commission is planning to utilize other IBC offerings such as its hosted Learning Management System, existing investigation management capabilities within its Federal Personnel and Payroll System, and data warehousing and reporting capabilities available in its Datamart application. These efforts will commence in FYs 2013 - 2014 and will allow the Commission to leverage more cost-effective solutions to support varied administrative processes.

E-Gov Travel System 2 (ETS2)

In May 2012, the General Services Administration (GSA) awarded a multi-year contract to a new travel support contractor for an E-Gov Travel System and related travel management and support services. Given that the current solution utilized by the Commission is not an available option under the new contract; the Commission will have to migrate to a new comprehensive solution. This new solution is being referred to as ETS2. The Commission will execute a new task order on the master contract for integration, travel management and operations services in May 2013. The Commission is planning to deploy ETS2 in FY 2014. This migration will enable the agency to extend existing capabilities by providing a comprehensive travel solution integrated with its financial application to Commission employees for the next 15 years.

****

APPENDIX A

Historical Performance Results FY 2010 – FY 2011

Goal 1: Just and Reasonable Rates, Terms and Conditions

Performance Measure 1	
Further barriers to participation by demand resources in organized wholesale electric markets will be identified and eliminated.	
FY 2010 TARGET	Evaluate ISO/RTO filings on barriers to demand response. Complete and submit National Action Plan on Demand Response
FY 2010 RESULT	Target Met. In FY 2010, issued orders evaluating 6 filings submitted by RTOs and ISOs to identify barriers to demand response and to comply with other requirements of Order No. 719. Completed and published on June 17, 2010, a National Action Plan on Demand Response (Docket No. AD09-10).
FY 2011 TARGET	As appropriate, issue Notice of Proposed Rulemaking on further steps to eliminate barriers to demand resources, including steps identified in National Action Plan on Demand Response
FY 2011 RESULT	Target Exceeded. On March 18, 2010, the Commission issued a notice of proposed rulemaking in Docket No. RM10-17-000, on Demand Response Compensation in Organized Wholesale Energy Markets, which proposed to eliminate a barrier to demand response resources receiving the same compensation as other supply-side resources selling into the organized wholesale electric market. The Commission was able meet the FY 2012 target ahead of schedule and issued the final rule, Order No. 745, on March 15, 2011. The final rule requires that demand response resources be paid the same market-clearing price as other resources.

Performance Measure 2	
Best practices for demand response products and procedures in organized wholesale electric markets will be identified and implemented.	
FY 2010 TARGET	Perform outreach with ISOs/RTOs, demand response providers, and others. As appropriate, issue Notice of Proposed Rulemaking on best practices
FY 2010 RESULT	Target Met. Engaged in outreach between October 1, 2009 and January 31, 2010 with RTOs/ISOs, demand response providers, retail industry, technology providers and state regulators regarding practices affecting demand response products and procedures. On March 18, 2010, issued a notice of proposed rulemaking (NOPR) entitled Demand Response Compensation in Wholesale Electric Markets (Docket No. RM10-17).
FY 2011 TARGET	As appropriate, issue Final Rule on best practices
FY 2011 RESULT	Target met. The Commission issued Order No. 745, Demand Response Compensation in Organized Wholesale Energy Markets, on March 15, 2011. Having identified a best practice used by some regional transmission organizations (RTOs) to compensate demand response resources at the same price received by other supply-side resources, such as generation, the final rule required all RTOs to pay comparable compensation to demand response resources in their own markets.

Performance Measure 3	
All resources that are technically capable of providing needed ancillary services have the opportunity to provide those services.	
FY 2010 TARGET	Perform outreach to identify the need for modification or creation of additional ancillary services, and issue Notice of Proposed Rulemaking, as appropriate
FY 2010 RESULT	Target Not Met. Engaged in outreach between 10/1/09 and 6/30/10 with RTOs/ISOs, storage and other technology providers, industrial customers, and research organizations. On January 21, 2010, issued a Notice of Inquiry seeking public comment on the extent to which reforms are necessary to ensure that wholesale electricity tariffs, including those governing ancillary services, remain just, reasonable and not unduly discriminatory (Integration of Variable Energy Resources, RM10-11-000). The Commission received over 2,000 pages of comments from industry, state and federal agencies, and consumer interests, which are being analyzed to determine the need to modify existing, or create additional, ancillary services through a NOPR. Because of the large number of comments, more time is needed to develop specific proposals to include in a NOPR. Work on a NOPR proposal will continue into the FY 2011. Although the Commission did not issue the NOPR in FY 2010, it will not have a negative impact on achieving subsequent targets or overall program performance.
FY 2011 TARGET	As appropriate, issue Final Rule on ancillary service products and procedures
FY 2011 RESULT	Target not met. Until recently, generation resources provided all ancillary services used to support open access transmission services offered by transmission-owning utilities, RTOs and independent system operators (ISOs). New technologies, such as demand response and energy storage devices, are now available and capable of providing some needed ancillary services. A notice of inquiry was issued on Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies on June 15, 2011 (RM11-24-000). A notice of proposed rulemaking on Frequency Regulation Compensation in the Organized Wholesale Power Markets was issued on February 17, 2011. A draft final rule was submitted for the Commission's consideration on September 29, 2011. This will not have a negative impact on program performance.

Performance Measure 4	
Pursue market reforms that will allow renewable energy resources to compete fairly in Commission-jurisdictional markets.	
FY 2010 TARGET	Perform outreach with industry and issue staff white paper identifying potential need for and types of market reforms
FY 2010 RESULT	Target Met and Exceeded. Conducted outreach between October 1, 2009 and June 30, 2010 with RTOs/ISOs, storage and other technology providers, industrial customers, and research organizations. After the outreach was completed, the Commission determined a Notice of Inquiry could be issued in lieu of a staff white paper and still achieve the same purpose. On January 21, 2010, issued an NOI seeking comment on the integration of variable energy (renewable) resources (Integration of Variable Energy Resources, Docket No. RM10-11-000).
FY 2011 TARGET	Issue Notice of Inquiry/Notice of Proposed Rulemaking on market reforms, if appropriate
FY 2011 RESULT	Target met. The Commission issued a notice of proposed rulemaking, Integration of Variable Energy Resources (RM10-17-000) on November 18, 2010.

Performance Measure 5	
Methods for modeling system operations will be enhanced and new software will be developed that increases efficiency and optimizes market operations.	
FY 2010 TARGET	Internal release of staff white paper; industry outreach, including technical conferences, to identify best practices.
FY 2010 RESULT	Target Met. Explored opportunities to enhance operational efficiency in jurisdictional markets through the deployment of new modeling software and optimization of market operations. Staff held three conferences in June 2010 to gather information from the public regarding modeling and software enhancements. On July 29, 2010, delivered a white paper to the Commission's Chief of Staff outlining opportunities for further work on this project.
FY 2011 TARGET	Pursue voluntary adoption of best practices by RTOs/ISOs; if appropriate, issue Policy Statement and/or Notice of Inquiry/Notice of Proposed Rulemaking.
FY 2011 RESULT	Target met. A technical conference exploring best practices was convened on June 28-30, 2011. At the conference, market operators and others discussed best practices, software improvements and optimization processes. This forum allows for the diffusion of knowledge of useful best practices, reports to a wide audience on improvements under development, and provides useful information that market operators can use to access improvements in their own operations based on the best practices of their peers.

Performance Measure 6	
The performance of markets within and outside of ISOs/RTOs will be measured using a common set of metrics.	
FY 2010 TARGET	Explore and develop appropriate operational and financial metrics for ISOs/RTOs
FY 2010 RESULT	Target Not Met. During FY 2010, Commission staff worked with RTO and ISO staff, stakeholders and other experts to develop standardized metrics to track the performance of RTOs and ISOs and transactions in the markets they administer. Proposed metrics were made publicly available for comment in February 2010, and Commission staff has reviewed comments submitted on the proposed metrics. While the final metrics were not issued during FY 2010, this had no adverse impact on the program. The Commission released the final metrics in early FY 2011 and collected data from the RTOs and ISOs shortly thereafter.
FY 2011 TARGET	Explore and develop appropriate operational and financial metrics for non-ISO/RTO regions
FY 2011 RESULT	Target not met. Commission staff has been engaged in a voluntary and collaborative process with a diverse group of non-RTO utilities to develop proposed operational and financial performance metrics for non-RTO regions. Outreach meetings were held in September 2011 with major industry organizations to discuss the proposed performance metrics. Following these outreach meetings, the proposed performance metrics will be issued for public comment. In FY 2012, Commission staff will issue a report that addresses the comments and recommends the final list of performance metrics. Participating non-RTO utilities will then issue their reports on these final metrics and Commission staff will issue a final report. While the final metrics were not issued during FY 2011, Commission staff is on schedule to issue final metrics in FY 2012 which will have no adverse impact on the program. Commission staff expects to release the final metrics and collect data from non-RTO utilities on these metrics by the third quarter of FY 2012.

Performance Measure 7	
Appropriate filings and issues will employ alternative dispute resolution and collaborative processes first.	
FY 2010 TARGET	Develop guidelines/tariff provisions to apply to filings/issues amenable to consensual resolution
FY 2010 RESULT	Target Not Met During FY 2010, staff reviewed and categorized two years of recent Commission orders which set cases for consensual resolution/hearing. Internal dialogue with senior staff and program managers provided additional understanding into the types of cases which may be amenable to consensual resolution. Through these efforts, a baseline of the types of cases and issues that the Commission traditionally sets for consensual resolution/hearing was established. Following this internal communication, staff identified a list of approximately 30 external stakeholders who could provide valuable insight to the guideline development process. Securing the necessary internal clearances took more time than was initially contemplated. Further, acquiring the input from these external stakeholders has taken significantly more time than anticipated because the number of external parties is much higher than originally planned. The meetings that have occurred to date have been very productive and the Commission staff will continue to meet with the remaining parties throughout the first and second quarters of FY 2011. Although the Commission did not finalize the guidelines in FY 2010, it will not have a negative impact on overall program performance.
FY 2011 TARGET	Implement rules setting forth guidelines/tariff provisions and initiate pilot programs
FY 2011 RESULT	Target not met. The Commission was not able to meet this target due to the retirement of key management personnel during FY 2011. However, staff was able to make significant progress by meeting with 13 external stakeholder organizations. These organizations represent a broad spectrum of industries subject to Commission regulation. Their input was sought on new areas and types of issues where collaborative processes could foster the settlement of proceedings. Based on suggestions received in these meetings, staff prepared recommendations on additional issues and types of Commission proceedings where collaborative processes may be the most effective. Although the guidelines were not implemented in FY 2011, it will not have a negative impact on overall program performance.

Performance Measure 8	
Percent of company compliance programs reviewed on Commission audits for the audit focus areas are found to be adequate to demonstrate a culture of compliance.	
FY 2010 TARGET	10%
FY 2010 RESULT	Target Met. 50% (2/4) of compliance programs were found to demonstrate an adequate culture of compliance. Because this performance measure is new for FY 2010, only audits that were started and completed in FY 2010 were included. In determining which audits would be included in the universe for this measure, the Commission developed general guidelines. In order to maintain consistency over time, only large, multi-scope audits will be included in this measure's universe.
FY 2011 TARGET	25%
FY 2011 RESULT	Target met. The Commission found that 63% (5/8) of compliance programs were adequate to demonstrate a culture of compliance.

Performance Measure 9	
Percent of company compliance programs reviewed through investigations that involve a penalty are found to be sufficiently robust to merit credit to reduce the penalty.	
FY 2010 TARGET	10%
FY 2010 RESULT	Target Met. In 26% (20 out of 77) of the relevant cases in FY 2010, the Commission found compliance programs in place at the time of the violation to be sufficiently robust as to merit credit to reduce or eliminate penalties.
FY 2011 TARGET	25%
FY 2011 RESULT	Target met. In 32% (32/100) of the relevant cases, the Commission found compliance programs in place at the time of the violation to be sufficiently robust as to merit credit to reduce or eliminate penalties.

Performance Measure 10	
Percentage of audits included in the audit plan planned based on risk.	
FY 2010 TARGET	40%
FY 2010 RESULT	Target Met. 55% (52/94) audits planned using a risk-based approach.
FY 2011 TARGET	40%
FY 2011 RESULT	Target met. 85% (57/67) of the audits were planned by the Commission staff using a risk-based approach.

Goal 2: Infrastructure

Performance Measure 11	
Percentage of all new transmission projects will incorporate advanced technologies that meet Commission criteria.	
FY 2010 TARGET	5%
FY 2010 RESULT	Target Met. 9%. In FY 2010, the Commission acted on 11 requests for incentives or negotiated rate authority for new transmission. Of those 11 requests, the Commission found one project (9 percent) which included advanced transmission technologies.
FY 2011 TARGET	10%
FY 2011 RESULT	Target met. Of the projects that met the criteria, 67% (10/15) incorporated advanced technologies.

Performance Measure 12	
All public utilities will implement open and transparent transmission planning processes that include analysis and consideration on a comparable basis of proposed solutions involving any of generation, transmission, and demand resources.	
FY 2010 TARGET	Assessment of transmission planning process best practices, including the potential for collaborative decision making, and issue Notice of Proposed Rulemaking, as appropriate (Assessment includes how options to transmission are considered.)
FY 2010 RESULT	Target Met. Upon review of more than 3,000 pages of comments and significant staff-led outreach, staff prepared recommendations for Commission consideration that led to the issuance of a NOPR on June 17, 2010 (Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities, Docket No. RM10-23-000).
FY 2011 TARGET	As appropriate, issue Final Rule on transmission planning process best practices
FY 2011 RESULT	Target met. The Commission issued the final rule, Order No. 1000, Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities, (RM10-23-000) on July 17, 2011.

Performance Measure 13	
Percent of jurisdictional natural gas companies examined for feasibility of installing waste heat recovery systems.	
FY 2010 TARGET	20%
FY 2010 RESULT	Target Met. 20%. In FY 2010, Commission staff examined 44 (20 percent) of the Commission's jurisdictional natural gas companies for feasibility of installing waste heat recovery systems.
FY 2011 TARGET	40%
FY 2011 RESULT	Target met. Commission staff examined a total of 40% of the Commission's jurisdictional natural gas companies (65 of 159) for feasibility of installing waste heat recovery systems. In FY 2011 specifically, Commission staff examined 32 companies.

Performance Measure 14	
Incorporation of risk-informed decision making into the dam safety program.	
FY 2010 TARGET	Develop Action Plan
FY 2010 RESULT	Target Met. In FY 2010, the Commission developed and finalized its RIDM Action Plan which outlines the work efforts required over the next four years to incorporate RIDM into its dam safety program.
FY 2011 TARGET	Portfolio Risk Assessment of FERC Dam Inventory
FY 2011 RESULT	Target not met. In FY 2011 the Commission did not complete the Portfolio Risk Assessment; however, the screening level portfolio risk assessment tool was finalized.

Performance Measure 15	
Percentage of proposed Reliability Standards on which the Commission will issue a Final Rule within 18 months of filing.	
FY 2010 TARGET	75%
FY 2010 RESULT	Target Met. 96% of filed reliability standards have orders issued within 18 months.
FY 2011 TARGET	75%
FY 2011 RESULT	Target met. 96% of proposed reliability standards have been processed with orders issued within 18 months.

Performance Measure 16	
Reduction in the number of repeat violations by an audited or investigated entity, particularly of Reliability Standards involving high Violation Risk Factors.	
FY 2010 TARGET	Establish tracking process
FY 2010 RESULT	Target Met. The Commission developed in FY 2010 a database to track violations from Notices of Penalty filed by the ERO. As part of this process, the Commission determined the measurable parameters (e.g., what constitutes a repeat violation over a designated time period) to facilitate a determination as to the observed rate of repeat violations of the Reliability Standards.
FY 2011 TARGET	Track violations per entity
FY 2011 RESULT	Target met. Through the tracking mechanism established in FY 2010, staff has been tracking violations per entity during FY 2011 to analyze the current rate of violations and establish a baseline rate. A report analyzing the collected data from Notices of Penalty filed by the ERO was completed by 8/31/11.

Performance Measure 17	
Reliability parameters that could affect goals of reducing carbon and increasing the penetration of renewable energy resources on the electric transmission grid will be finalized.	
FY 2010 TARGET	Establish contacts and develop research, data collection and reporting processes
FY 2010 RESULT	Target Met. In FY 2010, Commission staff established approximately 100 industry contacts across the nation and internationally. The Commission has led and participated in the efforts to conduct technical studies on Frequency Response, Electromagnetic Pulse. The research the Commission staff has done on complex and highly technical studies provide guidance and direction in establishing the parameters to protect and preserve reliability.
FY 2011 TARGET	Track studies and identify or propose reliability parameters. Perform initial analysis to assess if they are feasible for the bulk-power system
FY 2011 RESULT	Target met. Commission staff performed and completed analyses on the Frequency Response study including identifying reliability parameters. The internal report on Frequency Response was issued in January 2011. The North American Electric Reliability Corporation's (NERC) Reliability Metrics Work Group adopted Frequency Response as a reliability parameter to track on a trial basis.

****

APPENDIX B

Workload Tables

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Pipeline Certificates	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Construction Activity	44	70	74	40	120	120	40	120	120	40
Prior Notice & Abandonments	23	69	65	27	100	100	27	100	100	27
Compliance Filings & Reports	157	281	206	232	300	532	0	300	300	0
Environmental Analysis	34	169	144	59	170	180	49	170	180	39
Compliance & Safety Inspections	0	313	313	0	400	400	0	400	400	0
LNG Inspections	0	17	17	0	17	17	0	18	18	0
Rehearings	16	18	21	13	20	21	12	16	15	13
Complaints	0	1	0	1	2	2	1	2	2	1
Declaratory Orders	1	3	3	1	3	3	1	3	3	1
Remands	1	0	0	1	1	1	1	1	1	1
Dispute Resolution Services	17	51	55	13	60	61	12	64	62	14

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Hydropower Licensing	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Original Licenses	30	17	15	32	20	11	41	15	10	46
Relicenses	53	11	9	55	9	16	48	11	10	49
5 MW Exemptions	5	4	4	5	5	4	6	5	10	1
Preliminary Permits	229	150	286	93	125	175	43	100	125	18
Rehearings	7	64	70	1	25	22	4	25	23	6
Declaratory Orders	1	2	1	2	1	1	2	1	1	2
Remands	1	0	0	1	0	1	0	1	1	0
Cases Set for Hearing	0	0	0	0	0	0	0	0	0	0
Dispute Resolution Services	0	1	0	1	2	2	1	2	1	2

Key: P = Pending at year-end; R = Received; C = Completed

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Project Compliance and Administration	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Amendments	417	2,343	2,254	506	2,400	2,500	406	2,450	2,500	356
Jurisdiction	5	11	9	7	10	8	9	9	9	9
Federal Lands	97	170	181	86	130	150	66	130	150	46
Headwater Benefits	8	129	134	3	135	133	5	126	124	7
Compliance	220	611	764	67	750	600	217	700	700	217
Surrenders, Transfers	5	48	42	11	50	45	16	50	48	18
Conduit Exemptions	9	16	17	8	11	15	4	15	15	4
Environmental Inspections And Assistance	0	67	64	3	60	63	0	65	65	0
Rehearings	15	49	44	20	15	18	17	15	16	16
Complaints	1	1	1	1	1	2	0	1	1	0
Dispute Resolution Services	0	1	1	0	1	1	0	2	1	1

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Dam Safety and Inspections	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Operational Inspections	1,094	1,453	1,405	1,142	1,485	1,475	1,152	1,495	1,675	972
Prelicense Inspections	3	11	8	6	9	9	6	5	5	6
Construction Inspections	76	197	159	114	180	188	106	180	182	104
Exemption Inspections	191	288	271	208	288	290	206	288	295	199
Special Inspections	36	158	137	57	140	147	50	150	152	48
Engineering Evaluation & Studies	1,583	8,356	8,453	1,486	8,500	8,719	1,267	8,650	8,775	1,142
Part 12 Reviews	86	167	114	139	168	175	132	168	176	124
Dam Safety Reviews	5	12	14	3	28	24	7	26	26	7
EAP Tests – Functions	30	76	64	42	60	55	47	68	70	45
EAP Tests – Table Top	6	38	28	16	25	27	14	32	32	14

Key: P = Pending at year-end; R = Received; C = Completed

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Rates and Tariffs	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Gas Certificates & Rate Evaluations	102	61	65	98	70	80	88	70	80	78
Market-Based Rates	896	2,624	2,583	937	2,500	2,600	837	2,400	2,600	637
Cogeneration/Small Power Producers (QF)	24	888	892	20	800	800	20	800	800	20
Dispute Resolution Services (Electric)	4	6	7	3	11	12	2	13	12	3
Rehearings (Electric)	389	192	150	431	212	200	443	200	225	418
Complaints (Electric)	32	60	44	48	50	50	48	50	55	43
Declaratory Orders (Electric)	24	100	74	50	65	75	40	65	75	30
Remands (Electric)	5	0	0	5	2	5	2	2	4	0
Negotiated Rates	56	549	554	51	575	600	26	575	575	26
Cost-Based Rates	931	3,580	3,610	901	4,055	3,955	1,001	3,685	3,860	826
Dispute Resolution Services (Gas)	0	1	1	0	4	3	1	4	4	1
Rehearings (Gas)	51	40	38	53	45	45	53	40	50	43
Complaints (Gas)	2	0	0	2	1	3	0	1	1	0
Declaratory Orders (Gas)	0	18	9	9	4	12	1	2	3	0
Remands (Gas)	2	0	0	2	1	3	0	1	1	0
RTO and ISO Filings	126	312	346	92	450	450	92	450	450	92
Dispute Resolution Services (Oil)	0	1	1	0	2	2	0	2	2	0
Rehearings (Oil)	26	8	1	33	30	30	33	25	40	18
Complaints (Oil)	5	10	11	4	8	10	2	10	10	2
Declaratory Orders (Oil)	2	12	5	9	15	20	4	15	15	4
Remands (Oil)	0	0	0	0	1	1	0	1	1	0

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Corporate Applications	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Interlocking Positions, Other Corporate Filings	104	860	845	119	850	850	119	850	850	119
Mergers, Acquisitions & Dispositions	18	159	156	21	150	150	21	160	160	21

Key: P = Pending at year-end; R = Received; C = Completed

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Electric Grid Reliability	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Reliability Standards	22	34	41	15	141	117	39	162	150	51
Interpretations/Erratas of Reliability Standards	3	10	11	2	16	14	4	16	16	4
Reliability Filings by ERO/RE	24	9	9	24	30	42	12	30	33	9
Standards Compliance Audits	3	19	17	5	18	21	2	18	18	2
Notices of Penalty-Violations	223	1,610	1,667	166	1,560	1,596	130	1,500	1,505	125

	FY 2011 Actual	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
Legal Matters	**P**	**R**	**C**	**P**	**R**	**C**	**P**	**R**	**C**	**P**
Cases Set for Hearing	53	105	93	65	100	100	65	100	100	65
Settlement Judge Proceedings	33	75	65	43	75	75	43	75	75	43
Appellate Review	130	120	125	125	115	125	115	120	130	105
Audits	49	32	44	37	30	40	27	30	30	27
Accounting	61	178	206	33	200	210	23	200	200	23

Key: P = Pending at year-end; R = Received; C = Completed

****

APPENDIX C

Guiding Principles

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

Organizational Excellence.

Above all, the Commission strives to use its resources efficiently and effectively to achieve its strategic priorities. This includes its human resources. The Commission performs targeted recruiting and hiring and has developed a markets-oriented training curriculum for entry-level as well as experienced staff. The Commission also makes efficient use of 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. Filings are publicly accessible through the Commission's website, and filings to change rates, terms and conditions of service are announced by way of public notice published in the Federal Register. Material issues of fact are resolved through hearings governed by due process rules; the Commission also encourages the use of ADR procedures, which provide for more informal public participation in resolution of a proceeding. The Commission often holds public conferences at which it receives input from members of the public on controversial issues of national importance. Finally, many of the Commission's major decisions are discussed and announced at meetings that are open to the public and also are webcast at no charge on its website.

Regulatory Certainty.

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

Stakeholder Involvement.

The Commission conducts regular outreach to ensure that interested persons have an appropriate opportunity to contribute to the performance of the Commission's responsibilities. The Commission also organizes technical conferences and workshops designed to explain and explore issues related to the development and implementation of its policies. When processing hydropower and gas facility applications, the Commission conducts an extensive collaborative pre-filing process, during which it receives input from a multitude of stakeholders including citizen groups, environmental organizations, tribal interests, and local, state and federal resource agencies. The Commission has adopted a similar pre-filing process for resolution of transmission siting applications.

Timeliness.

The Commission's goal is to reach an appropriate resolution of each proceeding in an expeditious manner. Toward that end, the Commission has steadily decreased the time it takes to act on proposed 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 decisions on initial decisions, complaints, and FPA section 203 applications.

****

APPENDIX D

Acronyms and Abbreviations

Acronyms and Abbreviations	
ADR	alternative dispute resolution
API	American Petroleum Institute
CAISO	California Independent System Operator
CIP	Critical Infrastructure Protection
C.R.	continuing resolution
DOE	U.S. Department of Energy
EAP	Emergency Action Plan
EISA	Energy Independence and Security Act of 2007
EPA	Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
ERO	Electric Reliability Organization
e-tag	electronic tag
FERC or the Commission	Federal Energy Regulatory Commission
FPA	Federal Power Act
FPC	Federal Power Commission
FTE	Full-time equivalent
FY	fiscal year
IBC	Interior Business Center
ISO	independent system operator
kV	kilovolt
LNG	liquefied natural gas
MISO	Midwest Independent Transmission System Operator, Inc.
NAESB	North American Energy Standards Board
NEPA	National Environmental Policy Act
NGA	Natural Gas Act of 1938
NGPA	Natural Gas Policy Act of 1978
NIST	National Institute of Standards and Technology
PJM	PJM Interconnection, LLC
Reclamation	U.S. Department of Interior-Bureau of Reclamation
Reliability Standards	mandatory reliability standards
RIDM	risk-informed decision making
RTO	regional transmission organization

****

This page intentionally left blank.