

FEDERAL ENERGY REGULATORY COMMISSION



AGENCY FINANCIAL REPORT FISCAL YEAR 2016



Chairman Norman C. Bay
November 2016

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF THE CHAIRMAN

Letter from Chairman Bay

I am pleased to present the Federal Energy Regulatory Commission (Commission) Agency Financial Report for fiscal year 2016. This report was prepared in accordance with the guidelines set forth in Office of Management and Budget Circular Number No. A-136.

The Commission's mission is to assist consumers in obtaining reliable, efficient and sustainable energy services at a reasonable cost through appropriate regulatory and market means. This report illustrates how we manage our resources and highlights our major accomplishments in meeting our mission.

As outlined in the Management Assurances section of this report, the Commission has completed evaluations of its assessment of the effectiveness of internal control over operations, systems, and financial reporting. I am providing reasonable assurance that the Commission meets the objectives required by the Federal Managers' Financial Integrity Act and that our financial systems conform to government-wide standards. In addition, I can provide assurance that the performance information contained in this report is complete and reliable and describes the results achieved towards our goals.

Sincerely,

A handwritten signature in blue ink that reads "Norm C. Bay" followed by a checkmark.

Norman C. Bay
Chairman
Federal Energy Regulatory Commission
November 14, 2016

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STRATEGIC PLAN SUMMARY

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.

GOAL 1: ENSURE JUST AND REASONABLE RATES, TERMS, AND CONDITIONS.

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

Objective 1.1: Establish Commission rules and policy that will result in just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions of jurisdictional service.

Objective 1.2: Increase compliance with FERC rules; detect and deter market manipulation.

GOAL 2: PROMOTE SAFE, RELIABLE, SECURE, & EFFICIENT INFRASTRUCTURE.

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

Objective 2.1: Foster economic and environmental benefits for the nation through approval of natural gas and hydropower projects.

Objective 2.2: Minimize risks to the public associated with FERC-jurisdictional energy infrastructure.

GOAL 3: MISSION SUPPORT THROUGH ORGANIZATIONAL EXCELLENCE

Achieve organizational excellence by using resources effectively, adequately equipping FERC employees for success, and executing responsive and transparent processes that strengthen public trust.

Objective 3.1: Manage Commission resources effectively and efficiently.

Objective 3.2: Empower Commission employees to drive success.

Objective 3.3: Facilitate public trust and understanding of Commission activities by promoting transparency, open communication, and a high standard of ethics.

Management's Discussion and Analysis (Unaudited)

INTRODUCTION

In accordance with the guidelines set forth in the Office of Management and Budget (OMB) Circular No. A-136 and Section 230 of Circular No. A-11, this report presents the Federal Energy Regulatory Commission's (the Commission, FERC) fiscal years (FY) 2016 and 2015 audited annual financial statements and program performance report. The financial section includes the Commission's audited balance sheets, statements of net cost, changes in net position, budgetary resources, custodial activity, and notes to the financial statements. Additionally, this report includes an overview of the Commission, including its mission and organizational structure.

This Agency Financial Report serves as a guide to the Commission's key initiatives and activities during FY 2016. Approximately 1,472 full time equivalents (FTEs) carried out the Commission's mission in FY 2016 using an appropriation of \$319,800,000.

The Commission has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). The Commission will include its FY 2016 Annual Performance Report with its Congressional Budget Justification and will post it on the Commission's web site at www.ferc.gov.

ORGANIZATIONAL STRUCTURE

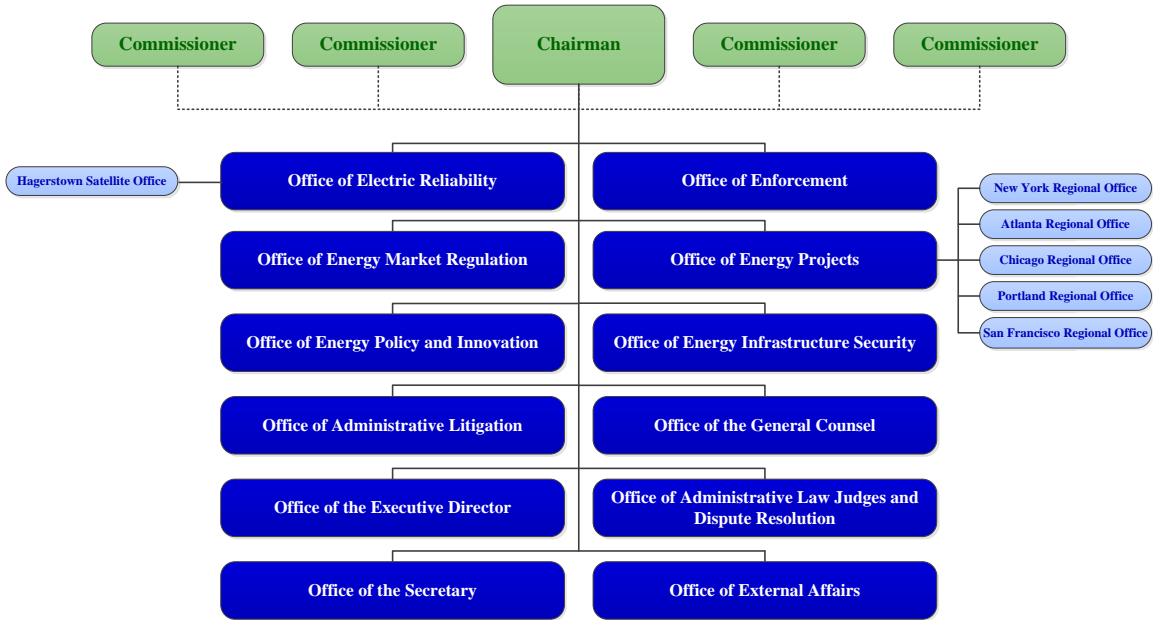
The Federal Energy Regulatory Commission is an independent regulatory agency within the U.S. Department of Energy (DOE). The Commission's statutory authority centers on major aspects of the Nation's wholesale electric, natural gas, hydroelectric, and oil pipeline industries.

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.

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 four Commissioners, FERC is organized into 12 separate functional offices; each 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 authority.

An organizational chart, including a brief description of each office, is included below.



The Office of Electric Reliability (OER)

Oversees the development and review of mandatory reliability and security standards by the Electric Reliability Organization (ERO) and ensures compliance with the approved mandatory standards by the users, owners, and operators of the bulk power system.

The 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. OEMR also analyzes filings submitted by the ERO dealing with its budget, rules of procedure, and bylaws.

The Office of Energy Policy and Innovation (OEPI)

Provides leadership in the development and formulation of policies and regulations for the Commission’s consideration. OEPI focuses on potential reforms that advance the goals of the Commission, including policies to ensure the efficient development and use of transmission, generation, storage and wholesale and interstate markets generally. OEPI undertakes policy and quantitative analysis and conducts outreach with a range of entities.

The Office of Administrative Litigation (OAL)

Advances the public interest in cases set for hearing by providing expert and independent legal and technical analyses; building complete evidentiary records through the presentation of expert testimony and cross examination of witnesses at hearings; briefing issues to law judges; and negotiating settlements that achieve prompt rate reductions, provide rate certainty, and conserve Commission resources.

The Office of the Executive Director (OED)

Provides administrative support services to the Commission including human resources, procurement, information technology, organizational management, financial, logistics and security.

The Office of the Secretary (OSEC)

Serves as the 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. OSEC 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 Office of Enforcement (OE)

Protects customers by conducting oversight of energy markets, identifying and remedying market problems in a timely manner, assuring compliance with rules and regulations, and detecting and investigating market manipulation.

The Office of Energy Projects (OEP)

Fosters economic and environmental benefits for the nation through the approval and oversight of hydroelectric, natural gas pipeline, natural gas storage, and liquefied natural gas projects that are in the public interest.

The Office of Energy Infrastructure Security (OEIS)

Identifies and—working with other governmental agencies, industry, and other stakeholders—seeks comprehensive solutions to potential threats to FERC-jurisdictional infrastructure from cyber and physical attacks, including geomagnetic disturbance and electromagnetic pulse events.

The Office of the General Counsel (OGC)

Provides sound and timely legal counsel to the Commission and Commission staff as it fulfills responsibilities such as assisting in the development of Commission draft orders, rulemakings and other decisions; representing the Commission before the courts; advising the Commission and Commission staff on legal matters; and advising other government agencies, regulated entities and the public on matters within the Commission's jurisdiction.

The Office of Administrative Law Judges and Dispute Resolution (OALJDR)

Develops an evidentiary record in contested cases as directed by the Commission. Through trial-type hearings and the issuance of an initial decision, OALJDR ensures that the rights of all parties are preserved. In addition, the Administrative Law Judges act as settlement judges, mediators, and arbitrators to help resolve contested matters. OALJDR also assists interested parties engaged in disputes to achieve consensual decision making through services such as mediation, negotiation, conciliation, arbitration, and facilitation with the Dispute Resolution Service.

The Office of External Affairs (OEA)

Communicates with the public, other governmental entities and industry on behalf of the Commission. OEA provides informational and educational services to Congress; federal, state and local governments; the news media and the public; regulated industries; and consumer and public interest groups. This office also is the Commission's liaison with foreign governments.

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 appropriations.

PROGRAM PERFORMANCE OVERVIEW

The United States has the world's most durable market economy, of which every sector depends vitally on energy. Within the energy realm, the Commission's statutory authority centers on major aspects of the Nation's wholesale electric, natural gas, hydroelectric, and oil pipeline industries. The statutes and laws from which the Commission draws its authority are listed in Appendix A.

On March 4, 2014, the Commission submitted to Congress its updated Strategic Plan which will serve as a guide through fiscal year 2018. The full Strategic Plan can be found at <http://www.ferc.gov/about/strat-docs/strat-plan.asp>.

As set forth in its Strategic Plan, FERC's mission is to 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 three primary goals: (1) ensuring that rates, terms and conditions of jurisdictional energy services are just, reasonable and not unduly discriminatory or preferential; (2) promoting the development of safe, reliable, secure and efficient infrastructure that serves the public interest; and (3) achieving organizational excellence by using resources effectively, adequately equipping FERC employees for success, and executing responsive and transparent processes that strengthen public trust.

GOAL 1: Ensure that rates, terms and conditions of jurisdictional energy services are just, reasonable and not unduly discriminatory or preferential.

One of the Commission's fundamental statutory responsibilities is to ensure that rates, terms and conditions for wholesale sales and transmission of electric energy and natural gas are just and reasonable and not unduly discriminatory or preferential. The Commission uses a combination of regulatory and market means to achieve this goal. When competitive markets exist and there are assurances against the exercise of market power, FERC leverages competitive market forces to promote efficiency for consumers while taking measures to make those markets more efficient. When competitive market conditions do not exist and competitive forces are inadequate to protect consumers, FERC relies on traditional rate-setting authority and tools such as cost-of-service ratemaking. FERC determines the appropriate approach, balancing two important interests: protecting consumers against excessive rates, and providing an opportunity for regulated entities to recover their costs and earn a reasonable return on their investments. Regardless of the approach, the Commission ensures that interested stakeholders have the opportunity to provide their views

and that the Commission's ultimate decisions are adequately supported by the evidentiary record.

Oversight of the energy markets and enforcement of the associated laws, rules and regulations are essential complements to the regulatory and market means. In an effort to increase compliance with rules and to deter market manipulation, the Commission promotes internal compliance programs and self-reporting of violations by regulated entities. The Commission also engages in extensive outreach to educate market participants and affected stakeholders on compliance programs. Further reflecting a balanced approach to oversight and enforcement, the Commission conducts surveillance and analysis of market trends and data; employs robust audit and investigation programs; and, where appropriate, exercises the Commission's civil penalty authority.

OBJECTIVE 1.1: Establish Commission rules and policy that will result in just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions of jurisdictional service.

A significant portion of FERC's work to establish just, reasonable and not unduly discriminatory or preferential rates, terms and conditions of service is accomplished through the review of rates and tariff provisions and other requests for FERC action from regulated entities and interested stakeholders. In FY 2016, FERC received more than 7,900 such filings. In response to some filings and responsive pleadings, FERC is able to address the merits of the case within the statutory time frame. In other instances, FERC determines that there are issues of material fact that necessitate a trial-type evidentiary hearing or that other procedures are needed to augment the factual record on which the Commission will base its decision.

Where FERC determines that additional procedures are needed, it may also recognize the value of resolving issues through consensual means where possible and encourages parties to the proceeding to explore settlement. Under the auspices of an administrative law judge who oversees negotiations, OAL staff plays a lead role to facilitate the settlement of matters that the Commission has set for hearing. Settlement negotiations frequently take months, often involve numerous highly technical issues, and require a balancing of interests. Settling cases benefits energy consumers as it reduces the time, expense, and resources that the Commission and outside parties would otherwise devote to litigating these cases. In FY 2016, FERC's administrative law judges held 356 settlement conferences; and, 86 full or partial settlements were certified to the Commission. Savings to ratepayers from settlements that occurred in FY 2016 totaled approximately \$604 million stated on an annual basis (\$143 million in electric utility matters and \$461 million in natural gas pipeline and oil pipeline matters). The bulk of these savings to energy customers will continue in future years, until a subsequent rate case is filed.

In instances where settlement is not possible, FERC's administrative law judges conduct on-the-record hearings and issue initial decisions that are presented to the Commission for review. In preparation for hearing, parties and OAL staff conduct comprehensive discovery to develop facts relevant to the issues set for hearing. After discovery is complete, parties and OAL staff file expert testimony and exhibits. The hearing itself allows for cross-examination of these expert witnesses. During FY 2016, there were a total of 50 days of hearings that led to 11 initial decisions, creating a detailed administrative record for further consideration by the Commission. This record is further supplemented by briefs on and opposing exceptions that may be filed by OAL staff and the parties.

FERC's work on several issues illustrates the benefits to the public that derive from FERC's work to establish rules and policy that result in just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions of jurisdictional service. For example, over the past four years FERC has placed high priority on exploring the interdependencies of the electric and natural gas industries. Due to historically low natural gas prices and other factors, the electric industry has become increasingly reliant on natural gas as a fuel

for generation. Recognizing this trend, and after conducting extensive public outreach and building on prior work, in April 2015 FERC issued Order No. 809, a final rule, to improve the coordination and scheduling of natural gas pipeline capacity with electricity markets. In October 2015, FERC also issued Order No. 587-W which adopted North American Energy Standards Board (NAESB) standards to revise the scheduling and nomination timelines for interstate natural gas pipelines. These efforts have facilitated greater gas-electric coordination and greater situational awareness on the part of the operators of the bulk power system, in turn promoting more reliable operation of that system. In October 2016, NAESB filed a report on the development of new Wholesale Gas Quadrant standards as requested by the Commission.

Another example of the Commission's work to ensure just, reasonable and not unduly discriminatory or preferential rates, terms and conditions of service in wholesale markets is the continued effort to ensure that resources that are technically capable of providing services needed in markets operated by regional transmission organizations and independent system operators (RTO/ISO) have the opportunity to do so. At its November 19, 2015 open meeting, the Commission hosted a panel on electric storage issues to discuss developments in that emerging industry and the participation of electric storage resources in the RTO and ISO markets. In April 2016, Commission staff issued data requests to each of the six RTOs/ISOs, seeking information about the rules in their markets that affect the participation of electric storage resources. Concurrently, staff issued a request for comments from all interested parties on whether barriers exist to the participation of electric storage resources in the RTO/ISO markets. The Commission staff is evaluating the RTO/ISO responses and the comments received. Also, as part of a May 2016 technical conference discussing generator interconnection issues raised in a petition for rulemaking (Docket No. RM15-21), the Commission staff explored other interconnection topics, including the interconnection of electric storage resources. Post-technical conference comments were requested and received.

In FY 2016, FERC continued its efforts to improve price formation in the energy and ancillary services markets operated by RTOs and ISOs. Proper price formation ensures just and reasonable rates in those markets. In September 2015, the Commission issued its first proposal on price formation to address two practices that fail to provide appropriate signals. In a Notice of Proposed Rulemaking, the Commission proposed to require that each RTO/ISO align settlement and dispatch intervals by settling energy transactions in real-time markets at the same time interval that it prices operating reserves, and that each RTO/ISO trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs. The Commission also indicated that it expects to undertake further action addressing various price formation topics, including offer price caps, mitigation, uplift transparency, and uplift drivers. In June 2016, the Commission issued the final rule, Order No. 825, which became effective in September 2016.

In November 2015, the Commission took another step to address price formation by directing the RTOs/ISOs to submit reports addressing five price formation issues, including pricing of fast-start resources, commitments to manage multiple contingencies, look-ahead modeling, uplift allocation, and transparency. In addition to providing an update on the RTOs/ISOs' current practices in the five areas, the reports will assist in identifying best practices that in turn provide incentives to maintain reliability, to facilitate accurate and transparent pricing, to reduce uplift, and for market participants to operate consistent with dispatch signals. The information will also assist the Commission in understanding the reasons why each RTO/ISO has made its set of policy choices.

In January 2016, the Commission issued a Notice of Proposed Rulemaking to revise the caps imposed on supply offers in day-ahead and real-time energy markets run by RTOs/ISOs. Extreme weather in the winter of 2013-14 led to a significant rise in the price of natural gas that could have caused some resources to face short-run marginal costs in excess of the existing cap. In that winter and in the two following winters, the

Commission was asked to take actions quickly to allow some RTOs/ISOs to either raise their offer cap or permit cost recovery above their offer cap through uplift. In the proposed rule, the Commission proposed that RTOs/ISOs would cap each resource's incremental energy offer at the higher of \$1,000/megawatt-hour or that resource's verified cost-based incremental energy offer. This proposed rule is pending and would, if made final, result in clearing prices that better reflect the marginal cost of production, and also ensure that a resource can recoup its short-run marginal costs when those costs exceed the offer cap.

In FY 2016, FERC also took notable steps with respect to developments in specific regions. FERC approved tariff changes filed by the California Independent System Operator Corporation (CAISO) to provide greater flexibility to CAISO (and thus enhance grid reliability and price stability) in dealing with operational changes caused by the outage of the Aliso Canyon gas storage facility. In addition, FERC took timely action on filings by public utilities to integrate into the Energy Imbalance Market (EIM) in the West, including NV Energy, Arizona Public Service Company and Puget Sound.

OBJECTIVE 1.2: Increase compliance with FERC rules; detect and deter market manipulation.

FERC's commitment to market oversight and enforcement similarly advances the goal of ensuring that rates, terms and conditions of jurisdictional energy services are just, reasonable and not unduly discriminatory or preferential and benefits the public by complementing FERC's use of regulatory and market means. Whereas regulatory and market means focus on establishing rules and policy, market oversight and enforcement focus on increasing compliance of regulated entities and detecting and deterring market manipulation.

Today's 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 transactions that require in-depth and time consuming data analysis to relatively straightforward one-to-one interactions. In this context, FERC's market oversight and enforcement program takes proactive steps to detect problems in energy markets and to reduce the probability that violations of applicable laws, FERC's regulations, or market rules will occur. FERC uses a balanced approach to market oversight and enforcement, aspects of which include conducting surveillance and analysis of market trends and data; promoting jurisdictional entities' internal compliance programs; employing robust audit and investigation programs; and, when appropriate, exercising the Commission's civil penalty authority to deter violations. FERC also makes certain market data transparent to the public and market participants so that market efficiency is promoted and anomalies and areas of concern may be identified and reported.

An illustrative FERC priority in this area is FERC's ongoing effort to improve its ability to identify market misbehavior as it happens. FERC has developed and uses algorithmic screening methods, which incorporate public and non-public data from multiple sources, including data from the RTOs and ISOs, Intercontinental Exchange, and other federal agencies, to identify potential market manipulation and other misconduct. In FY 2016, screening activities resulted in seventeen electric inquiries and six gas inquiries. Three of those inquiries (one relating to gas activities and two relating to electric activities) were referred from the OE Division of Analytics and Surveillance to the OE Division of Investigations for investigation. FERC processes approximately 140 surveillance screen trips per week.

In addition, FERC continued its efforts to enhance its surveillance of the electric markets in FY 2016 by issuing a Notice of Proposed Rulemaking (NOPR) on Data Collection for Analytics and Surveillance and Market-Based Rate Purposes (Docket RM16-17-000). The NOPR proposes to revise the Commission's regulations to collect certain information relating to the relationships among entities from market-based

rate sellers and entities trading virtual products or holding financial transmission rights. This NOPR, which is still pending, would, if made final, assist FERC's efforts to detect market manipulation by providing it with a more complete view of the relationships between electric market participants and the incentives underlying their trading activities.

In furtherance of its enforcement efforts, FERC opened 17 new investigations in fiscal year 2016, and closed 11 pending matters with either no action or a FERC-approved settlement. The settlements involved six agreements with 11 separate subjects, assessing a total of \$12.3 million in civil penalties and disgorgement of \$5.7 million. Five of these matters involved market manipulation (one of which also involved reliability standards and tariff violations) and one other involved violations of tariff provisions. Two of these settlements resolved matters that had been pending in federal district court.

During fiscal year 2016, FERC initiated two proceedings regarding eight subjects in federal district court seeking \$40.5 million in civil penalties and approximately \$4.4 million in unjust profits. FERC currently has pending, in federal district court six different proceedings regarding 21 subjects seeking approximately \$506.1 million in civil penalties and \$45.5 million in unjust profits. With respect to one additional proceeding, an Administrative Law Judge reached an Initial Decision concluded that the company engaged in market manipulation and made factual findings regarding \$20.1 million in civil penalties and \$0.2 million in unjust profits. Following additional briefing the Commission upheld that decision and the subject sought rehearing, which is still pending before the Commission.

During FY 2016, in compliance with the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, the Commission issued an Interim Final Rule amending the Commission's regulations governing the maximum civil penalties assessable for violations of statutes, rules, and orders within the Commission's jurisdiction.

Finally, in FY 2016 FERC commenced 13 audits and completed 14 audits of oil pipeline, public utility, and natural gas companies. These FERC audits were selected using a risk-based approach and cover a variety of audit scope areas. The resulting audit reports are available to the public. The audits resulted in 214 recommendations for corrective action and improved compliance, all of which were accepted by the audited companies, and directed \$5.3 million in refunds and recoveries. The audit recommendations directed improvements to and compliance with the audited companies' internal processes and procedures, financial reporting for accuracy and transparency, web site postings, and efficiency and cost-effectiveness of operations. FERC ensured that 98 percent of these recommendations were implemented within six months of the audit report date. Collectively, these refunds, recommendations, and prevented charges (i.e., savings), and procedural and process enhancements benefit ratepayers and market participants.

GOAL 2: Promote the development of safe, reliable, secure and efficient infrastructure that serves the public interest.

The Commission is charged by Congress with the responsibility to promote the development of robust, reliable, and secure energy infrastructure that operates safely, reliably, and efficiently.

The Commission authorizes the construction and operation of interstate natural gas pipelines and storage projects, liquefied natural gas (LNG) facilities, and non-federal hydropower projects. In executing this siting authority, the Commission recognizes that competing interests remain a significant challenge throughout the infrastructure siting process, which can be complex, lengthy, and contentious. The Commission addresses this challenge by conducting outreach with stakeholders to promote the exchange of information and to ensure an understanding of Commission procedures with the goal of reconciling competing interests.

In addition to its siting authority, the Commission ensures the safety of non-federal hydropower projects and LNG facilities throughout their entire life cycle. Pursuant to this responsibility and to minimize risks to the public associated with jurisdictional energy infrastructure, the Commission is working to develop and incorporate risk-informed decision making (RIDM) into the Owners Dam Safety Program. This transition to RIDM could have several positive impacts on the Owners Dam Safety Program including, among others, a better understanding of potential failure modes, a better understanding of the consequences of potential failure modes on life, health and property, and an improved ability to evaluate risk reduction alternatives.

The Commission also oversees the development and review of, as well as compliance with, mandatory reliability and security standards for the bulk power system.

The Commission also collaborates with regulated entities and other federal and state governmental agencies to identify and seek solutions to cyber and physical threats to FERC-jurisdictional infrastructure. The Commission further promotes improvement to energy infrastructure security through the use of its assessment capabilities and conducting outreach with facility owners and operators.

OBJECTIVE 2.1: Foster economic and environmental benefits for the nation through approval of natural gas and hydropower projects.

Demand for natural gas in the United States is at its highest levels on record. Among its many uses, natural gas is a substantial and growing resource for electric power generation, in part due to the current low price of natural gas. In this context, the responsible development of interstate natural gas infrastructure—pipelines, storage, and LNG facilities—is a critical link in ensuring that natural gas supply can reach market areas. In FY 2016, the Commission acted on applications for construction, operation, modification, or abandonment of natural gas pipeline, gas storage, and LNG facilities; conducted pre-filing reviews for proposed pipeline projects and proposed LNG export facilities; and completed final environmental documents for proposed pipeline projects and LNG facilities. To ensure pipelines are constructed and restoration is completed according to the conditions in the authorization granted by the Commission, Commission staff also conducted pipeline project inspections.

Interest in developing hydropower projects also has increased, in part because hydropower offers the benefits of a renewable, domestic energy source that supports efficient, competitive electric markets. Hydropower projects may also provide other benefits to the public, such as environmental protection and enhancement, water supply, irrigation, recreation and flood control. In FY 2016, the Commission acted on hydropower licensing applications, and issued draft and final environmental documents with respect to hydropower projects. In addition, to streamline the processing of federal licensing and permit applications for non-federal hydropower projects at dams owned by the U.S. Army Corps of Engineers (Corps), FERC and the Corps in FY 2016 revised a Memorandum of Understanding between the agencies to incorporate guidance for the agencies and developers to use to facilitate concurrent agency processing, including preparation of a single National Environmental Policy Act (NEPA) document to be used by both agencies.

FERC places particular emphasis on stakeholder input with respect to potential development of natural gas and hydropower projects. For example, in FY 2016 FERC staff revised the public meeting format for natural gas projects to improve stakeholder engagement in the Commission's environmental review process. FERC staff also continues to hold natural gas environmental training seminars, which provide guidance and insight on FERC's environmental review process and compliance-related matters. These sessions provide an opportunity for open dialogue between FERC staff and stakeholders and are attended by state, local and federal agency officials, among others. With respect to hydropower projects, FERC staff held shoreline

management and recreation workshops to assist licensees in working with the public and developing sound plans for their projects. FERC staff also updated its website with new guidance on hydropower compliance, including development of a comprehensive Compliance Handbook.

OBJECTIVE 2.2: Minimize risks to the public associated with FERC-jurisdictional energy infrastructure.

Another important aspect of FERC's pursuit of this goal stems from FERC's commitment to minimizing risks to the public associated with jurisdictional infrastructure. FERC recognizes that failure of an LNG facility or a non-federal hydropower project potentially could result in loss of life and significant environmental and economic consequences. To help ensure the safety of these facilities, FERC relies on physical inspections and technical reviews for detecting and preventing potential catastrophic structural failures, with the aim of protecting the public against the risk associated with such an event. FERC engineers are highly trained and work closely with local and other Federal officials at all stages of project development and operation.

In FY 2016, FERC staff conducted LNG inspections at the four terminal expansions and one new LNG terminal under construction. 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 2016, FERC staff conducted operational inspections and technical reviews at peak-shaving facilities and LNG terminals.

With respect to hydropower projects, FERC is able, through its ongoing operations inspections, to verify whether the dams meet current FERC dam safety criteria, identify whether investigations, remedial modifications or required maintenance are in order, and ensure compliance with license requirements. In FY 2016, FERC conducted approximately 2,000 inspections. FERC also requires that comprehensive inspections and engineering evaluations of the high and significant hazard potential dams be conducted by independent consultants every five years. All independent consultant inspection reports are thoroughly reviewed and evaluated by FERC staff to determine whether additional studies are required or if remedial measures are necessary. FERC staff reviewed approximately 185 independent consultant reports in FY 2016 to make certain the structural integrity of the jurisdictional dams is maintained or improved as appropriate.

FERC also oversees the development and review of, as well as compliance with, mandatory reliability and security standards for the bulk power system. In fulfilling this responsibility, FERC analyzes standards proposed by the North American Electric Reliability Corporation (which FERC has certified as the ERO) to determine whether those standards support the reliable operation of the grid. For example, FERC reviewed and approved sequential versions of the ERO's Critical Infrastructure Protection (CIP) reliability standards, which focus on cyber security. In addition, FERC has identified related issues that warrant further consideration. For example, in FY 2016, FERC directed the ERO to develop a new supply chain risk management standard to protect the bulk power system from security vulnerabilities and malware threats. Also in FY 2016, FERC built on a prior directive to the ERO by approving a new standard addressing the vulnerability of electric transmission systems to geomagnetic disturbances.

Once FERC approves mandatory reliability and security standards for the bulk power system, FERC enforces and oversees the enforcement of those standards by the ERO as they apply to users, owners and operators of the bulk power system. In this role, FERC oversees audits, investigations, and proposed penalties by the ERO and the ERO regional entities to help ensure that their efforts will result in strong compliance with mandatory standards. FERC also reviews major blackouts to determine whether standards were violated or should be changed to help prevent future blackouts. In FY 2016, FERC produced a joint report with the ERO and regional entities that assessed and verified a sampling of electric utility system restoration and recovery plans and assessed the effectiveness of related mandatory Reliability Standards in achieving plans that

provide for quick and orderly recovery from reliability events such as blackouts caused by weather, bulk power system disturbances or possible cyber/physical attacks.

In addition to this responsibility, FERC actively coordinates with its federal partners, states, and regulated entities to create awareness of threats, activities, and capabilities of adversaries that may initiate a cyber or physical attack on FERC jurisdictional energy infrastructure. With cyber and physical security threats becoming increasingly frequent and sophisticated, an agile and focused approach provides an important complement to FERC's related responsibilities for both regulatory requirements and enforcement. In FY 2016, FERC coordinated 10 briefings with its government partners and industry stakeholders to share cyber and physical security threat information and mitigation measures.

Goal 3: Achieve organizational excellence by using resources effectively, adequately equipping FERC employees for success, and executing responsive and transparent processes that strengthen public trust.

To support the Commission's mission and to serve the public interest, the Commission must operate in an efficient, responsive and transparent manner. The Commission achieves this operational state by maintaining processes and providing services in accordance with governing statutes, authoritative guidance, and prevailing best practices.

Internally, the Commission will focus on managing its resources effectively by addressing staffing vulnerabilities related to the potential retirement of 30 percent of the Commission's workforce over the next two years. The Commission will also invest in modern information technologies to provide innovative solutions that provide an appropriate return on investment. The Commission will modernize its facilities in order to make more efficient use of available office space.

Commission employees are directly responsible for achieving FERC's mission and the Commission's leadership places extremely high value on its employees and ensuring their success. To support employee learning and development, the Commission will enhance its existing training programs and develop a corporate knowledge management approach to ensure staff is equipped with the requisite knowledge to meet the agency's needs going forward.

To ensure employees' needs are being met, the Commission will use internal surveys and results from the Federal Employee Viewpoint Survey to gauge employee perceptions on the tools and services provided to them. The Commission will take action on areas not favorably rated in order to improve processes and services to maintain the Commission's history of organizational excellence. Through these investments in the organization and employees, the Commission will be in a better position to meet the challenges facing the energy industry going forward.

OBJECTIVE 3.1: Manage Commission resources effectively and efficiently.

The Commission continues to prioritize resource allocations and make prudent investments to support specific program activities and challenges. Federal statutes require the Commission to recover its operating costs from the entities it regulates. The Commission must do this in a manner that avoids unnecessarily increasing the cost of energy to consumers. Given these considerations, the Commission must be steadfast in its commitment to use its resources in an effective and efficient manner. In meeting this commitment, the Commission will make continued investments in its human capital, information and communications technology (IT), and physical infrastructure. These investments will facilitate mission accomplishment while providing measurable efficiencies in future operating cycles.

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The Commission achieved notable results in FY 2016 relative to the effective management of its resources. In FY 2016, the Commission collected over \$335.7 million in offsetting collections/receipts during the fiscal year, which was more than \$15.9 million in excess of its statutory collections requirements, and obtained its 23rd consecutive unmodified opinion on its financial statements. The Commission paid 99 percent of its invoices on time according to the Prompt Payment Act, with an error rate of less than 1 percent. Also in FY 2016, the Commission awarded a new multi-year contract which supports the Commission's financial systems and related hosting services. This contract will facilitate the effective management of Commissions resources while complying with financial regulations.

In FY 2014, with Congressional approval, the Commission began an effort to meet new space standards prescribed by the General Services Administration (GSA). To this end the Commission began a modernization project that will consolidate occupancy within its Headquarters building by vacating approximately 52,000 square feet, or 12 percent of existing occupancy. The project plan includes relocating employees currently located at 1100 First Street back to the Commission's Headquarters building. This overall project will require considerable effort and is expected to conclude in FY 2020. In FY 2016, the Commission, partnering with GSA and the building owner, completed extensive planning and design efforts focused on achieving the required space reductions. The Commission also solicited input from Commission employees to balance the new mandatory space policy limitations with business support requirements necessary to effectively perform the agency's work.

With approximately 30 percent of the Commission staff eligible to retire by FY 2018, Commission management conducted extensive analyses of recruiting and employment data to formulate strategic hiring plans. Through these plans the agency mitigated critical staffing vulnerabilities ahead of forecasted attrition. Additionally, this process enabled the Commission to target competencies required to meet the demands of an evolving mission.

In FY 2016, the Commission hired 142 employees, comprising approximately 10% of the agency's budget staffing level. While the Commission experienced an attrition rate of 9% during the fiscal year; it filled vacancies, on average, within 52 days, which exceeded the established target average by 6%.

OBJECTIVE 3.2: Empower Commission employees to drive success.

The Commission seeks to become an employer of choice. With this objective in mind, the Commission recognizes that a model regulatory organization must ensure that its employees are equipped with the requisite tools and services they need to accomplish the mission. In FY 2016, results showed that the Commission was one of the top agencies in the federal government, ranking fourth out of 37 departments and large agencies relative to employee engagement. Employees rated the agency leadership's efforts favorably regarding the creation of work which ensures employees can reach their potential, contribute to the success of the agency environment, and ultimately the entire federal government.

The Commission is building on the positive opinions expressed by employees during the previous survey period. In FY 2016, the Commission engaged its employees in discussions about agency survey results. Program offices established focus group sessions to discuss strengths and growth opportunities. Agency efforts in this regard further enhanced the importance of the survey and 82 percent of all eligible employees participated in the FY 2016 survey. This marks the highest rate of participation since the Office of Personnel Management began administering the survey in 2002. Going forward, the Commission will analyze its annual results and conduct additional employee outreach activities to gauge the effectiveness of its employee-related process and services. The agency will develop action plans to

address any areas not favorably rated and take corrective action to improve processes and services that impact related employee perceptions.

The Commission is investing in developing training programs to mitigate the loss of institutional knowledge. These training programs will preserve corporate knowledge to ensure employees possess the specialized skills, knowledge, and ability required to successfully support the agency's mission. To this end, the Commission has teamed with a capable consultant that will assist the agency in the design of development programs to support proficiency in the mission related skills and abilities.

OBJECTIVE 3.3: Facilitate public trust and understanding of FERC's activities by promoting transparency, open communication, and a high standard of ethics.

Facilitating understanding of how FERC carries out its responsibilities and maintaining public trust in FERC are important components of the FERC's commitment to organizational excellence. FERC advances this objective by promoting transparency and open communication with respect to conduct of FERC's business and by cultivating relationships with sister government agencies and stakeholder groups. FERC also promotes a high standard of ethics, which encourages public confidence in FERC's activities and ability to fulfill its responsibilities.

The Commission's FERC.gov web page is its primary communication tool. All Commission announcements, updates and news releases are posted there; the web page is the primary feed for all Commission public media sites. In FY 2016, FERC began preparing for a complete reconstruction and update of the web page, the scope of which has not been performed on the FERC.gov page since 2001. The goal is to expand usability for the public and stakeholders and accommodate new forms of media into the FERC.gov system. FERC anticipates project completion in 2017.

In addition, FERC in FY 2016 expanded its public information program to video, with the introduction of a three-minute "What is FERC?" video geared toward the public, particularly individuals who are affected by proposed natural gas and hydropower projects that come before the Commission. The video introduces viewers to the Commission, what it does and how to participate in its process. The video is posted on FERC's web page, its YouTube page and shared over social media. It will be followed up by videos explaining specifically how members of the public can comment and look up specific information at FERC.gov. FERC is also looking to take advantage of additional tools, like podcasts, to enhance its public communications efforts; as well as, expanding its following on social media.

Communicating with Congress on FERC's actions is also an important priority, and staff pays particular attention to orders that affect individual members and their constituents, notifying them when significant decisions or milestones arise. Additionally, FERC responds in a timely and transparent manner to all Congressional inquiries. FERC staff also provides briefings to Congressional staff members on matters affecting constituents.

Communicating with state officials, particularly state regulators, is also a priority for FERC. Staff consistently notifies appropriate regulators and other state officials of FERC actions that are of interest, and frequently offers briefings via conference calls or webinars on major issues. In addition, staff communicates with state officials to become aware of state priorities and trends.

Through the use of FERC's eLibrary and eSubscription web pages, the public can obtain extensive information concerning documents both submitted to and issued by the Commission. The Commission continues to invest in document handling and processing systems to ensure the timely processing of

incoming documents and timely and accurate FERC issuances, such as notices, orders, and major rules. The Commission invested in the flow of information through all levels of the agency and to all interested parties.

In addition, FERC's ethics program aims to promote the highest standards of ethical conduct by counseling, advising and training employees to increase awareness of and promote conformance with statutes and regulations that set standards of conduct for federal employees. FERC continues to utilize innovative annual ethics training, which has been recognized repeatedly for excellence among government agencies. To promote transparency and public confidence in FERC's programs, FERC staff responds to requests from the public under the Freedom of Information Act, 5 U.S.C. § 552 in a timely manner.

FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2016, the financial condition of the Commission was sound with sufficient funds to meet program needs and adequate controls in place to ensure Commission obligations did not exceed budget authority. The Commission prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and with OMB Circular No. A-136, Financial Reporting Requirements.

Sources of Funds. The Commission is financed from offsetting collections. However, the Commission initially receives a General Fund appropriation at the beginning of the fiscal year, which is used to fund its operating and capital expenditures. Throughout the year, the Commission collects monies through annual charges and filing fees, and returns the appropriated amount to the Treasury by year-end, resulting in a net zero appropriation. The offsetting collections serve as the financing source for any unexpended appropriations at year-end.

Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1986, as amended, the Commission collected fees to offset 100% of its budget authority in FY 2016.

The Commission received an appropriation for FY 2016 in the amount of \$319.8 million. Additional funds available to obligate in FY 2016 were \$17.1 million from prior-year unobligated appropriations and \$10.9 million of prior-year obligations that were subsequently de-obligated in the current year. The sum of all operating funds available to obligate in FY 2016 was \$347.8 million. Separately, the Commission pays states the fees collected for the occupancy and use of public lands. The Commission’s payment to states budget authority for FY 2016 was \$4.1 million, which included a \$0.3 million sequestered amount that was identified as temporarily unavailable.

Costs by Function. The Commission incurred costs of \$325.9 million in FY 2016, which was an increase of \$10.2 million from FY 2015. Approximately 75 percent of costs were used for salaries and benefits. The remaining 25 percent was used to obtain technical assistance for the Commission’s principal regulatory programs, to cover operating expenses, staff travel, and reimbursable work. For FY 2016, salaries and benefits increased by \$8.3 million as compared to FY 2015 with the net effect on the other cost categories of an increase of \$1.9 million.

Costs by Function (millions)

Costs by Function	FY 2016	FY 2015
Salaries and Benefits	\$244.5	\$236.2
Travel/Transportation	2.6	3.0
Rent/Communication/Utilities	32.6	26.0
Contract Support	38.2	43.0
Printing/Supplies/Other	8.0	7.5
Total Costs	\$325.9	\$315.7

Audit Results. The Commission received an unmodified audit opinion on its FY 2016 financial statements. This was the 23rd consecutive year that the Commission has received an unmodified opinion. For FY 2016,

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no material weaknesses or significant deficiencies in internal control over financial reporting were identified by the audit.

Financial Statement Highlights. The Commission's financial statements summarize the financial activity and financial position of the agency. The financial statements and footnotes appear in the financial section of this report.

Analysis of the Balance Sheet

The Commission's assets were approximately \$136.6 million and \$119.1 million as of September 30, 2016 and 2015, respectively. FY 2016 increased by \$17.5 million as compared to September 30, 2015. The assets reported in the Commission's Balance Sheet are summarized in the Asset Summary table below.

Assets Summary (millions)

Assets	FY 2016	FY 2015
Fund Balance with Treasury	\$105.7	\$95.6
Accounts Receivable, net	14.7	11.7
Unbilled Receivable	1.9	1.2
Property and Equipment, net	14.3	10.6
Total Assets	\$136.6	\$119.1

The Fund Balance with Treasury represents the Commission's largest asset of \$105.7 million as of September 30, 2016, which is an increase of \$10.1 million over the FY 2015 balance. This increase is primarily due to a higher amount of available funding for operations which increased approximately \$8 million at the end of FY 2016 as compared to FY 2015.

The Accounts Receivable, net and Unbilled Receivable has a balance of \$16.6 million as of September 30, 2016. This balance represents the outstanding amounts due from annual charges, civil penalties or other penalties issued by the Commission to entities under its regulation net of allowance for estimated uncollectible amounts. Approximately, \$7.8 million of the accounts receivable balance is represented by agreed upon unjust disgorged settlements currently pending before Commission re-hearings. The \$3.7 million net increase in FY 2016 compared to FY 2015 is primarily due to an overall increase in accounts receivable from civil penalties at the end of FY 2016 compared to FY 2015.

The Property and Equipment, net was \$14.3 million as of September 30, 2016, an increase of \$3.7 million over FY 2015. The balance is comprised of the net value of the Commission's equipment, furniture, leasehold improvements, computer hardware and software and construction in process. The \$3.7 million net increase is primarily due to the capitalization of various projects such as the network refresh and the building modernization effort.

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The Commission's liabilities were \$71.7 million and \$61.5 million as of September 30, 2016 and 2015, respectively. The Liabilities Summary table shows an increase in total liabilities of \$10.2 million over FY 2015. FY 2016 total liabilities included an increase of approximately \$3.4 million in civil penalties that were due to Treasury in FY 2016, an increase of \$2.1 million in revenue collected under protest, and a \$2.1 million increase in refunds and other amounts due. The remaining increase is made up of normal fluctuations in accounts payable and accrued payroll and benefits.

Liabilities Summary (millions)

Liabilities	FY 2016	FY 2015
Accounts Payable	\$13.6	\$15.5
Federal Employee Benefits	8.8	7.9
Resources Transferable to Treasury and Other Federal Entities	6.8	3.8
Accrued Leave	15.0	14.9
Other Liabilities	27.5	19.4
Total Liabilities	\$71.7	\$61.5

The difference between total assets and total liabilities is the Net Position. The Commission's net position was approximately \$64.9 million as of September 30, 2016.

Analysis of Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position during the reporting period. The Commission's net position was \$64.9 million and \$57.7 million at September 30, 2016 and 2015, respectively. Net position is affected by changes in the Commission's Cumulative Results of Operations. The increase in cumulative results of operations is primarily related to imputed financing from health, life and retirement costs of \$12.7 million absorbed by others, offset by transfers to Treasury without reimbursement in excess of appropriations used of \$5.4 million.

Net Position Summary (millions)

Position	FY 2016	FY 2015
Unexpended Appropriations	\$0	\$0
Cumulative Results of Operations	64.9	57.7
Total Net Position	\$64.9	\$57.7

Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of the Commission's three strategic goals as identified in the Commission's Strategic Plan. The purpose of the statement is to show separately the components of the net cost of operations that can be linked to the costs of program performance under the Government Performance and Results Act of 1993 (GPRA).

The Commission's net cost by strategic goal for FY 2016 and FY 2015 was \$0. The Commission is a full cost recovery agency and recovers all of its costs through the allocated annual charges to the entities that it regulates. Overall FY 2016 costs increased by approximately \$10.2 million over FY 2015 costs. This increase was largely due to \$3.5 million in additional work performed within the Just and Reasonable Rates goal and \$3.9 million in additional work performed within the infrastructure strategic goal as compared to FY 2015.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources shows the sources of budgetary resources available and the status at the end of the period. It represents the relationship between budget authority and budget outlays, and reconciles total obligations to total outlays. For FY 2016, the Commission had budgetary resources available of \$352.0 million, the majority of which was derived from offsetting collections. This represents an increase of \$15.1 million over FY 2015 budgetary resources available of \$336.9 million. The FY 2016 increase in the Commission's budgetary resources was primarily the result of higher spending authority in FY 2016 compared to the spending authority in FY 2015. The status of budgetary resources includes obligations incurred of \$329.3 million, or 93.6 percent of funds available. Similarly, FY 2015 obligations incurred were \$319.7 million, or 94.9 percent of funds available. The unobligated budget authority available at September 30, 2016 was \$22.7 million, which is an increase of \$5.6 million over the FY 2015 amount of \$17.1 million.

Total net outlays for FY 2016 were \$24.7 million, which represents a \$3.6 million increase over FY 2015 net outlays of \$21.1 million. The increase from last year is the result of approximately \$11.8 million increase in gross outlays in FY 2016 as compared to FY 2015, primarily due to the increase in Commission costs in FY 2016 compared to FY 2015.

Analysis of the Statement of Custodial Activity

The Statement of Custodial Activity displays the total Custodial Revenue and Disposition of Collections related to that revenue activity. This statement ensures that revenue billed and collected by the Commission on behalf of other federal agencies will not be reported twice as revenue on the consolidated government's Statement of Net Cost. The Commission reported \$38.5 million in custodial revenue in both FY2016 and FY2015.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

- Federal Managers' Financial Integrity Act of 1982;
- Revised OMB Circular No. A-123;
- Federal Financial Management Improvement Act of 1996;
- Prompt Payment Act; and
- Debt Collection Improvement Act of 1996;

Management Assurances

During Fiscal Year 2016, the Commission focused its efforts on assisting consumers in obtaining reliable, efficient, and sustainable energy services at a reasonable cost through appropriate regulatory and market means. In fulfilling this mission, the Commission has pursued three primary goals. First, we have worked diligently to ensure that rates, terms and conditions for jurisdictional services, including wholesale sales and transmission of electric energy and natural gas, are just, reasonable and not unduly discriminatory or preferential. Second, we continue to promote the development of safe, reliable, and efficient energy infrastructure that serves the public interest. Third, we are achieving organizational excellence by maintaining processes and providing services in accordance with governing statutes, authoritative guidance, and prevailing best practices. We are progressing in each of these areas while we continue to improve our capabilities to meet the challenges of the energy issues confronting our nation.

To accomplish our goals, we must manage our resources efficiently and integrate our budget, performance measures, and management controls to improve performance and accountability. The Commission's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), as detailed in the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control (Circular A-123). Our internal control program is helping us meet these responsibilities by monitoring our financial, human capital and information resources to safeguard our assets, improve the integrity of our reporting, and use our resources more effectively in reaching our goals. Problems that impede our progress or our ability to safeguard our assets continue to be brought to the attention of management and are addressed appropriately.

In accordance with OMB Circular A-123, we evaluated the effectiveness and efficiency of our internal controls over operations and our compliance with applicable laws and regulations as of September 30, 2016. Based on the results of our evaluations, the Commission can provide reasonable assurance that its internal controls are operating effectively and that no material weaknesses were found in the design or operation of our internal controls

FY 2016 Agency Financial Report (Unaudited)

In addition, the Commission assessed the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets, and our compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123, Appendix A. The results of this assessment found no material weaknesses in the design or operation of our controls over financial reporting. The Commission can provide reasonable assurance that its internal controls over financial reporting as of June 30, 2016, are operating effectively.

Furthermore, the Federal Financial Management Improvement Act (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management system requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level.

The results of related reviews did not disclose any material weaknesses and found the Commission to be in substantial compliance with FFMIA.

Norman C. Bay
Chairman
Federal Energy Regulatory Commission
November 2016

Federal Managers' Financial Integrity Act of 1982

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

Management Control Review Program.

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

- Management knowledge gained from the daily operation of agency programs and reviews;
- Management reviews;
- Annual performance plans; and,
- Inspector General and Government Accountability Office reports.

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

FY 2016 Integrity Act Results

The Commission evaluated its management control systems for the fiscal year ending September 30, 2016. This evaluation provided reasonable assurance that the Commission's management controls achieved their intended objectives. As a result, management concluded that the Commission did not have any material weaknesses in its programmatic or administrative activities.

FY 2016 OMB Circular No. A-123, Appendix A

The Commission evaluated its internal controls over financial reporting for the fiscal period ending June 30, 2016. Based on the results of this evaluation, the Commission can provide reasonable assurance that its internal controls are operating effectively and that no material weaknesses were found in the design or operation of our internal controls.

Federal Financial Management Improvement Act of 1996

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

FY 2016 FFMIA Results.

As of September 30, 2016, the Commission evaluated its financial management system to determine if it

complied with applicable Federal requirements and accounting standards required by FFMIA. We found that the Commission's financial management system was in substantial compliance with the Federal financial management system requirements, applicable Federal accounting standards and the U.S. standard general ledger at the transaction level. In making this determination, we undertook financial reporting tests of the system and reviewed entries at the transaction level, and determined compliance with Federal requirements and accounting standards required by FFMIA.

Prompt Payment Act

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. As of September 30, 2016, the Commission made 99 percent of its payments, that were subject to the Prompt Payment Act, on-time. The Commission incurred \$942 in interest penalties in FY 2016 and \$0 in FY 2015. The agency made 100 percent of its vendor payments electronically in FY 2016.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the Federal Government to service and collect debts. The agency goal is to maintain the delinquent debt owed to the Commission at year-end at less than two percent of its current annual billings. As of September 30, 2016, delinquent debt was approximately \$0.1 million, which is approximately three-ten thousandths of a percent of its current annual billings. The Commission continues to aggressively pursue the collection of delinquent debt and continues to meet the requirement that all eligible delinquent debt over 120 days is referred to the U.S. Treasury for collection.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

Certain hydroelectric licensees have filed appeals claiming the Commission erroneously accepted certain "other agency costs" (costs incurred by Other Federal agencies in administering Part I of the FPA component of the licensees' annual charges) in its calculation of FY annual charges. In addition, certain licensees have filed appeals against their hydropower administrative annual charges to seek a partial or 100% municipal exemption. The combined liability of these appeals total \$5.5 million and \$3.4 million as of September 30, 2016 and 2015, respectively, and is included herein as revenue collected under protest. The FY 2016 liability is fully funded and therefore poses no adverse or material future effect on the Commission's financial position.

In addition, the Commission has four legal cases as of September 30, 2016 that require a contingent liability. The four cases consist of one Freedom of Information Act case totaling \$60,168 and three Equal Employment Opportunity (EEO) cases totaling \$502,614. The Commission also has three EEO cases pending where the probability of success for the claimants is reasonably possible. The amount of monetary relief in the three EEO cases could total \$575,000, as of September 30, 2016.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

Financial Section

**FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426**

Office of the
Executive Director

Message from the Chief Financial Officer

I am pleased to present the Federal Energy Regulatory Commission's (Commission) comparative financial results for fiscal years 2016 and 2015. The accompanying financial statements and related notes fairly present the Commission's financial position and were prepared in conformity with accounting principles generally accepted in the United States of America, and requirements set forth in Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements.

During FY 2016, the Commission continued to focus on its statutory responsibilities. Through strict adherence to its primary mission, the Commission assisted consumers in obtaining reliable, efficient, and sustainable energy services at a reasonable cost through appropriate regulatory and market means. In fulfilling this mission, the Commission continued to establish policies and processes designed to ensure that rates, terms, and conditions for wholesale sales and transmission of electric energy and natural gas are just, reasonable, and not unduly discriminatory or preferential. Additionally, the agency took action to continually promote the development of safe, reliable, and efficient energy infrastructure that serves the public interest.

My organization continued to focus on core responsibilities that supported mission accomplishment through organizational excellence. In this regard, we maintained a robust internal control environment which facilitated compliance with an extensive regulatory framework. We continued to implement innovative processes that allowed us to effectively manage Commission resources while providing quality services that met our customers' needs. Moreover, we have built and maintained a highly-skilled workforce that successfully executed operational and policy requirements. This strategic approach to managing our acquisition and financial functions has aligned my organization's efforts with the broader mission of the agency. This Agency Financial Report further demonstrates this vital alignment of resources to agency mission.

Additionally, I would like to offer the following major achievements to demonstrate the effectiveness and efficiency of the Commission's acquisition and financial functions.

- The Commission obtained an unmodified opinion on its financial statements for the 23rd consecutive year. In addition, it strengthened its internal control program by continuing on-going self-assessment efforts as required by OMB Circular No. A-123, Management's Responsibility for Internal Control. This assessment resulted in the Commission's assertion that it has reasonable assurance that its internal controls over financial reporting were operating effectively during FY 2016.
- The Commission collected over \$335.7 million in offsetting receipts during the fiscal year, which was more than \$15.9 million in excess of its statutory collections requirements. In FY 2016, the Financial Management staff issued 100 percent of the related regulatory assessments electronically to jurisdictional entities.
- The Commission awarded 100 percent of its contract actions without successful protests.
- The Commission paid 99 percent of its invoices on time according to the Prompt Payment Act with an error rate of less than 1 percent.

Our keen focus on program performance and significant financial accomplishments demonstrate the high regard we have for accountability and public disclosure. This report demonstrates a lasting commitment to fulfill our

fiduciary responsibilities to Commission stakeholders. In striving to be a partner within the Commission by providing high quality services and products through financial stewardship, innovative solutions, and customer engagement, I am proud of the role my organization has played in furthering the cause of the mission of the Commission and protecting the interests of the American public.

W. Doug Foster, Jr.
Chief Financial Officer
Federal Energy Regulatory Commission
November 2016

INDEPENDENT AUDITOR'S REPORT



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Energy Regulatory Commission (the Commission), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Energy Regulatory Commission as of September 30, 2016 and 2015, and its net



costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites outside the Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Letter from Chairman Bay, Strategic Plan Overview, Message from the Chief Financial Officer, Other Information – including the Combined Schedule of Spending, Improper Payments Information Act (IPIA) Reporting, and Civil Monetary Penalty Adjustment for Inflation – and the Appendices of the Agency Financial Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the Commission's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.



Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 14, 2016

FEDERAL ENERGY REGULATORY COMMISSION

Balance Sheets

As of September 30, 2016 and 2015

(in dollars)

	<u>2016</u>	<u>2015</u>
Assets (note 3):		
Intragovernmental:		
Fund balance with Treasury (note 4)	\$ 105,740,836	\$ 95,599,584
Accounts receivable (note 5)	46,335	33,498
Total intragovernmental	<u>105,787,171</u>	<u>95,633,082</u>
Accounts receivable, net (note 5)	14,681,533	11,656,549
Unbilled receivable (note 5)	1,884,515	1,242,398
Accounts receivable, net and unbilled receivable (note 5)	<u>16,566,048</u>	<u>12,898,947</u>
Property and equipment, net (note 6)	14,266,236	10,574,451
Total assets	<u>\$ 136,619,455</u>	<u>\$ 119,106,480</u>
Liabilities:		
Intragovernmental:		
Accounts payable	\$ 2,768,336	\$ 2,658,960
Other (note 7):		
Accrued payroll and benefits	1,750,639	1,323,806
Resources transferable to Treasury and other		
Federal entities	6,771,507	3,756,904
Workers' compensation payable (note 9)	<u>598,588</u>	<u>639,178</u>
Total intragovernmental	<u>11,889,070</u>	<u>8,378,848</u>
Accounts payable	10,875,348	12,904,948
Other (note 7):		
Accrued payroll and benefits	7,015,352	6,482,530
Collections due to states (note 13)	4,414,099	4,593,476
Contingent Liability (note 11)	562,782	-
Revenue collected under protest (note 11)	5,543,619	3,435,900
Refunds and other amounts due	6,521	502,216
Accrued leave (note 9)	14,985,778	14,863,340
FECA actuarial liability (note 9)	2,818,833	2,420,211
Resources transferable to other entities from		
disgorged funds	7,834,759	7,834,759
Other liabilities with related budgetary obligations	2,663,253	-
Capital Lease Liability (note 8)	<u>3,085,217</u>	<u>-</u>
Total liabilities	<u>\$ 71,694,631</u>	<u>\$ 61,416,228</u>

continued on next page

Net Position:

Unexpended appropriations - other funds	\$	-	\$	-
Cumulative results of operations - other funds		<u>64,924,824</u>		<u>57,690,252</u>
Total net position		<u>64,924,824</u>		<u>57,690,252</u>
Total liabilities and net position	\$	<u><u>136,619,455</u></u>	\$	<u><u>119,106,480</u></u>

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION
 Statements of Net Cost
 For Years Ended September 30, 2016 and 2015
 (in dollars)

	2016	2015
Program costs:		
Regulation:		
Just and Reasonable Rates, Terms, & Conditions (note 14):		
Gross costs	\$ 150,046,660	\$ 146,560,643
Less: earned revenue	150,046,660	146,560,643
Net program costs	\$ -	\$ -
Infrastructure (note 14):		
Gross costs	\$ 114,598,909	\$ 110,670,761
Less: earned revenue	114,598,909	110,670,761
Net program costs	\$ -	\$ -
Mission Support (note 14):		
Gross costs	\$ 61,268,371	\$ 58,434,182
Less: earned revenue	61,268,371	58,434,182
Net program costs	\$ -	\$ -
Total (note 14):		
Gross costs	\$ 325,913,940	\$ 315,665,586
Less: earned revenue	325,913,940	315,665,586
Net Cost of Operations	\$ -	\$ -

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Changes in Net Position
 For Years Ended September 30, 2016 and 2015
 (in dollars)

	<u>2016</u>	<u>2015</u>
Cumulative Results of Operations:		
Beginning balances	\$ 57,690,252	\$ 50,778,310
Budgetary Financing Sources:		
Appropriations used	256,785,259	254,922,813
Other Financing Sources (Non-Exchange):		
Transfers – out to Treasury without reimbursement	(262,213,163)	(260,350,875)
Imputed financing from costs absorbed by others (note 10)	12,662,476	12,340,004
Total Financing Sources	<u>7,234,572</u>	<u>6,911,942</u>
Net Cost of Operations	<u>-</u>	<u>-</u>
Net Change	<u>7,234,572</u>	<u>6,911,942</u>
Cumulative Results of Operations	<u>\$ 64,924,824</u>	<u>\$ 57,690,252</u>
Unexpended Appropriations:		
Beginning balances	\$ -	\$ -
Budgetary Financing Sources:		
Appropriations received	319,800,000	304,389,000
Appropriations used	(256,785,259)	(254,922,813)
Other Adjustments - Appropriations Returned to Treasury	(63,014,741)	(49,466,187)
Total Budgetary Financing Sources	<u>-</u>	<u>-</u>
Total Unexpended Appropriations	<u>\$ -</u>	<u>\$ -</u>
Net Position	<u>\$ 64,924,824</u>	<u>\$ 57,690,252</u>

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Budgetary Resources

For Years Ended September 30, 2016 and 2015

(in dollars)

	<u>2016</u>	<u>2015</u>
Budgetary Resources:		
Unobligated balance, brought forward, Oct 1	\$ 17,135,217	\$ 27,673,015
Recoveries of prior year unpaid obligations	10,852,076	517,137
Other changes in unobligated balance	-	(78,082)
Unobligated balance from prior year budget activity, net	<u>27,987,293</u>	<u>28,112,070</u>
Appropriations	4,135,019	4,279,951
Spending authority from offsetting collections	<u>319,850,000</u>	<u>304,472,022</u>
Total Budgetary Resources	<u>\$ 351,972,312</u>	<u>\$ 336,864,043</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (note 15)	\$ 329,279,810	\$ 319,728,826
Unobligated balances, end of year:		
Apportioned, unexpired accounts	22,676,000	17,134,287
Unapportioned, unexpired accounts	16,502	930
Unobligated balance, end of year (total)	<u>22,692,502</u>	<u>17,135,217</u>
Total budgetary resources	<u>\$ 351,972,312</u>	<u>\$ 336,864,043</u>
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, Oct 1	\$ 58,967,599	\$ 43,381,425
New obligations and upward adjustments	329,279,810	319,728,826
Outlays (gross)	(315,400,202)	(303,625,515)
Recoveries of prior year unpaid obligations	<u>(10,852,076)</u>	<u>(517,137)</u>
Unpaid obligations, end of year	61,995,131	58,967,599
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, Oct 1	(78,080)	(197,248)
Change in uncollected payments, Federal sources	<u>(20,885)</u>	<u>119,168</u>
Uncollected payments, Federal sources, end of year	<u>(98,965)</u>	<u>(78,080)</u>
Memorandum (non-add) entries:		
Obligated balance, start of year	<u>\$ 58,889,519</u>	<u>\$ 43,184,177</u>
Obligated balance, end of year	<u>\$ 61,896,166</u>	<u>\$ 58,889,519</u>

continued on the next page

FEDERAL ENERGY REGULATORY COMMISSION
 Statements of Budgetary Resources, continued
 For Years Ended September 30, 2016 and 2015
 (in dollars)

Budget Authority and Outlays, Net:

Budget authority, gross	\$	323,985,019	\$	308,751,973
Actual offsetting collections		(319,829,115)		(304,591,189)
Change in uncollected customer payments from Federal Sources		(20,885)		119,168
Budget authority, net	\$	<u>4,135,019</u>	\$	<u>4,279,952</u>
Outlays, gross	\$	315,400,202	\$	303,625,515
Actual offsetting collections		(319,829,115)		(304,591,189)
Outlays, net		(4,428,913)		(965,674)
Less: Distributed offsetting receipts		(20,243,633)		(20,101,886)
Agency outlays, net	\$	<u>(24,672,546)</u>	\$	<u>(21,067,560)</u>

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION
 Statements of Custodial Activity
 For Years Ended September 30, 2016 and 2015
 (in dollars)

	2016	2015
Revenue Activity:		
Sources of Cash Collections:		
Cash collections:		
Annual Charges	\$ 30,757,182	\$ 33,561,022
Other	4,318,343	2,775,000
Total Cash Collections	35,075,524	36,336,022
Accrual adjustments	3,399,782	2,140,890
Total custodial revenue (note 12)	38,475,306	38,476,912
Disposition of Collections:		
Transferred to others:		
United States Army – Corps of Engineers	(7,906,268)	(8,638,511)
Department of Interior	(8,638,132)	(8,595,642)
United States Treasury	(14,430,810)	(14,807,004)
Various states	(4,100,315)	(4,294,865)
Decrease (increase) in Amounts Yet to be transferred	(3,399,781)	(2,140,890)
Total Disposition of Collections	(38,475,306)	(38,476,912)
Net Custodial Activity	\$ -	\$ -

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

(1) Description of Reporting Entity

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

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

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

The Commission's main legal authority is derived from the Federal Power Act of 1935, the Energy Policy Act of 2005, the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978, the Interstate Commerce Act and the Public Utility Regulatory Policies Act of 1978.

On March 4, 2014, the Commission submitted to Congress its updated Strategic Plan which will serve as a guide through FY 2018. As part of the update process, the Commission reviewed and updated its strategic objectives to align its core functions and authorities with the intended outcome. Further, the Commission added a third goal to capture management initiatives and responsibilities related to public trust, transparency and communication. The Commission reviewed its resource alignment and made changes where appropriate.

The Commission's activities are separated into the following three goals:

Just and Reasonable Rates, Terms and Conditions

One of the Commission's fundamental statutory responsibilities is to ensure that rates, terms and conditions for wholesale sales and transmission of electric energy and natural gas are just and reasonable and not unduly discriminatory or preferential. The Commission uses a combination of regulatory and market means to achieve this goal, including: reviewing and analyzing tariffs and other filings; establishing rules and policy that will result in appropriate rates; and employing competitive forces through markets. Oversight of the energy markets and enforcement of the associated laws, rules and regulations are essential complements to the regulatory and market means. The Commission uses a balanced approach in its oversight and enforcement efforts, including: conducting surveillance and analysis of market trends and data; educating affected entities about market rules and other regulations; promoting internal compliance programs; employing robust audit and investigation programs; and, where appropriate, exercising the Commission's civil penalty authority as a deterrent to violations.

Safe, Reliable, Secure and Efficient Infrastructure

The Commission plays an important role in the development of a strong energy infrastructure that operates efficiently, safely and reliably. The Commission authorizes the construction and operation of interstate natural gas pipelines and storage projects, liquefied natural gas (LNG) facilities, and non-federal hydropower projects. Other Commission responsibilities include ensuring the safety of non-federal hydropower projects and LNG facilities throughout their entire life cycle; overseeing the development and review of, as well as compliance with, mandatory reliability and security standards for the bulk power system; and collaborating with regulated entities and other federal and state governmental agencies to identify and seek solutions to cyber and physical threats to FERC-jurisdictional infrastructure.

Mission Support Through Organizational Excellence

The public interest is best served when the Commission operates in an efficient, responsive and transparent manner. The Commission achieves this operational state by maintaining processes and providing services in accordance with governing statutes, authoritative guidance, and prevailing best practices.

Cost Recovery

As described below, the Commission recovers 100 percent of its annual budget authority from offsetting collections through annual charges and filing fees which are authorized by the Omnibus Budget Reconciliation Act of 1986 and other laws.

Annual Charges

The Commission recovers its administrative program costs through allocated annual charges to the entities it regulates, regardless of the number or type of services rendered to any particular entity during the year. The annual charge assessed in a fiscal year is based on an estimate of costs to be incurred during that year. Final program costs are determined from year-end accounting reports and time distribution reports by office and program. The difference in assessments that results from estimated versus final program costs is an adjustment to the following fiscal year's assessments. The authority and related implementation methods for the annual charges are summarized as follows:

Hydropower

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

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

Gas, Electric, and Oil

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

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

Filing Fees

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

These financial statements have also been prepared in accordance with the form and content for financial statements specified by OMB Circular No. A-136, Financial Reporting Requirements.

The financial statements include all activity related to the Commission’s portion of appropriation (89X0212), including the budget authority allotted by DOE to other DOE agencies. In addition, the Commission receives allotments from DOE appropriation (89X5105). Both of the Commission’s appropriations relate to budget functional classification code 276, Energy Information Policy and Regulation, and appropriation (89X5105) relates to budget functional classification code 806, Energy Information Policy and Regulation.

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

Non-entity assets disclosed in notes 3 and 5 include those assets that result from the Commission’s custodial billing activities for other Federal agencies, including the U.S. Army Corps of Engineers, the Treasury and the U.S. Department of Interior.

(b) Budgets and Budgetary Accounting

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

(c) Basis of Accounting

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

(d) Revenue and Financing Sources

As described above, the Commission is granted budget authority from offsetting collections. The Commission receives an appropriated amount from the Treasury general fund at the beginning of the fiscal year, which is used for its operating and capital expenditures. Throughout the year, the Commission collects monies through annual

charges and filing fees and returns the appropriated amount to the Treasury general fund at year-end. The offsetting collections serve as the financing source for any unexpended budget authority.

The Commission recognizes revenue for hydropower, gas, oil, and electric annual charges when earned. Annual charges are based on estimated current year program costs and adjustments from the prior year. At year-end, the Commission records a financial statement adjustment to accurately reflect the amount to be billed or credited to regulated entities based on the difference between the charges and the actual program costs for the year. The Commission adjusts the subsequent year's charge for such amount.

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

Reimbursable work agreement revenue is recognized when the related services are rendered.

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

(e) Fund Balance with Treasury

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

(f) Allowance for Doubtful Accounts

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

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Commission capitalizes property and equipment purchases (other than furniture and software) with a cost greater than \$25,000 and a total useful life exceeding two years. The Commission capitalizes individual furniture purchases with a cost greater than \$50,000 and bulk furniture purchases related to the acquisition of newly leased space or total renovation of existing Commission space with a cost greater than \$250,000. The Commission also capitalizes commercially purchased or internally developed software with a cost greater than \$100,000 and leasehold improvements over \$250,000 that are related to initial move-ins, build-outs of newly leased space, and/or a complete renovation of already leased space. Depreciation is calculated based on an estimated useful life of the shorter of 20 years or the life of the lease for leasehold improvements, 10 years for furniture, 2 to 5 years for commercially purchased or internally developed software, and 5 years for all remaining assets. Expenditures for repairs and maintenance are charged to program costs as incurred.

(h) Liabilities

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

(i) Workers' Compensation Payable

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Commission's employees under FECA are administered by the United States Department of Labor (DOL) and are ultimately paid by the Commission. The workers' compensation payable represents billings from DOL that are unpaid at year-end.

(j) Collections Due to States

The Commission disburses 37.5% of the fees it collects from licensees for the occupancy and use of public lands to affected states in the year following collection. These collections are initially deposited into the Treasury's miscellaneous receipts fund.

(k) Revenue Collected Under Protest

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

(l) Accrued Leave

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

(m) Civil Penalties and Disgorged Funds

The Commission seeks to detect abuses of market power or statutory or rule violations by investigating observed market anomalies, complaints, and referrals from regional transmission organizations and/or independent system operators, and by conducting both targeted and random audits. Once the Commission identifies violations, it applies remedies to mitigate the effects of market power, requires disgorgement of unjust profits where appropriate, and imposes civil penalties or other sanctions when available under existing laws. The Commission records an accounts receivable and liability for both civil penalties and unjust disgorged funds at the time the fine/penalty is imposed by a Commission Order. Pursuant to federal regulations imposed civil penalties are required to be paid to the U.S. Treasury and unjust disgorged profits are required to be paid to the impacted entities and/or the U.S. Treasury in accordance to the agreed upon stipulations and consents. The Commission records disgorged funds as a liability until they are disbursed to appropriate entities.

(n) Net Position Accounts

Cumulative results of operations – Represents the Commission's net results of operations since inception, including (1) the amount in the fund balance with Treasury from spending authority from offsetting collections less outstanding payables, (2) the cost of property and equipment acquired that has been financed by prior-year appropriations or financing sources, less accumulated depreciation, and (3) the amount of appropriated funding that will be needed in future periods to liquidate liabilities incurred through the current fiscal year. Funding for these items is generally received in the year that amounts become due and payable.

(o) Tax Status

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

(p) Use of Estimates

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

(3) Non-Entity Assets

Non-entity assets at September 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Intragovernmental:		
Fund balance with Treasury:		
Collections due to states	\$ 4,413,840	\$ 4,593,476
Revenue collected under protest	5,543,619	3,435,900
Miscellaneous receipts held in suspense	<u>6,521</u>	<u>502,216</u>
Total Fund balance with Treasury assets	9,963,980	8,531,592
Accounts receivable, net (note 5)	<u>14,473,484</u>	<u>11,013,799</u>
Total intragovernmental non-entity assets	24,437,464	19,545,391
Total entity assets	112,181,991	99,561,089
Total assets	<u>\$ 136,619,455</u>	<u>\$ 119,106,480</u>

(4) Fund Balance with Treasury

Fund balance with Treasury at September 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Fund Balances:		
General funds	\$ 95,776,856	\$ 87,067,992
Other:		
Collections due to states	4,413,840	4,593,476
Revenue collected under protest	5,543,619	3,435,900
Miscellaneous receipts held in suspense	6,521	502,216
Total	<u>\$ 105,740,836</u>	<u>\$ 95,599,584</u>
Status of Fund Balance with Treasury:		
Unobligated balance:		
Available	\$ 22,676,000	\$ 17,134,287
Unavailable	15,519,565	15,559,582
Obligated balance not yet disbursed	61,995,131	58,967,599
Non-budgetary fund balance with Treasury	<u>5,550,140</u>	<u>3,938,116</u>
Total	<u>\$ 105,740,836</u>	<u>\$ 95,599,584</u>

(5) Accounts Receivable, net

Entity and non-entity accounts receivable at September 30, 2016 and 2015 consisted of:

	2016		
	<u>Annual Charges</u>	<u>Other</u>	<u>Total</u>
Entity			
Uncollected billings	\$ 135,177	\$ 75,008	\$ 210,185
Unbilled receivable	1,884,515	-	1,884,515
Uncollected intragovernmental billings	-	46,335	46,335
Allowance for doubtful accounts	(2,136)	-	(2,136)
Total entity accounts receivable, net	<u>2,017,556</u>	<u>121,343</u>	<u>2,138,899</u>
Non-entity			
Uncollected billings	94,771	619,617,801	619,712,572
Allowance for doubtful accounts	-	(605,239,088)	(605,239,088)
Total non-entity accounts receivable, net (note 3)	<u>94,771</u>	<u>14,378,713</u>	<u>14,473,484</u>
Total accounts receivable, net and unbilled receivable	<u>\$ 2,112,327</u>	<u>\$ 14,500,056</u>	<u>\$ 16,612,383</u>
	2015		
	<u>Annual Charges</u>	<u>Other</u>	<u>Total</u>
Entity			
Uncollected billings	\$ 577,865	\$ 71,023	\$ 648,888
Unbilled receivable	1,242,398	-	1,242,398
Uncollected intragovernmental billings	-	33,498	33,498
Allowance for doubtful accounts	-	(6,138)	(6,138)
Total entity accounts receivable, net	<u>1,820,263</u>	<u>98,383</u>	<u>1,918,646</u>
Non-entity			
Uncollected billings	50,577	561,091,988	561,142,565
Allowance for doubtful accounts	-	(550,128,766)	(550,128,766)
Total non-entity accounts receivable, net	<u>50,577</u>	<u>10,963,222</u>	<u>11,013,799</u>
Total accounts receivable, net	<u>\$ 1,870,840</u>	<u>\$ 11,061,605</u>	<u>\$ 12,932,445</u>

As of September 30, 2016, there were eight civil penalty cases, totaling \$567.2 million, that have elected to have the district court procedures of section 31(d)(3)(a) of the Federal Power Act (FPA) apply. Under these proceedings, the district court of the United States may rule to find these defendants not liable for the imposed civil penalty in whole or part. Until final determination of the district courts, the Commission is not allowed under the FPA to collect any imposed civil penalties. Because of the uncertainties of the outcome in the final determination of the district courts, the Commission has included the related civil penalties in the Allowance for Doubtful Accounts. As of September 30, 2016, there were three agreed upon unjust disgorged settlements, totaling approximately \$7.8 million of the total accounts receivable net balance. The California parties impacted by the Western Energy Crisis of 2001 contested the initial unjust disgorged settlement agreements and seeks final determination by the

Commission. The settlement is currently before Commission re-hearings. In addition to the eight civil penalty cases in district court proceedings, as of September 30, 2016 there were two civil penalty cases totaling \$5.5 million being litigated through bankruptcy court proceedings and are deemed as uncollectible until a final determination on the amounts subject to be collected are settled. As a result of the bankruptcy court proceedings, the Commission has included the two aforementioned civil penalties in the Allowance for Doubtful Accounts.

6) Property and Equipment, net

Property and equipment and related accumulated depreciation at September 30, 2016 and 2015 consisted of:

	<u>Acquisition Amount</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Equipment	\$ 7,310,983	\$ 6,425,655	\$ 885,328
Furniture	11,500,547	10,460,929	1,039,618
Leasehold improvements	11,713,238	10,855,507	857,731
ADP software	25,164,079	22,656,166	2,507,913
Construction in process	6,483,062	-	6,483,062
Internal software in development	2,492,584	-	2,492,584
Capital leases	29,000	29,000	-
Total property and equipment, net	<u>\$ 64,693,493</u>	<u>\$ 50,427,257</u>	<u>\$ 14,266,236</u>

2015			
	<u>Acquisition Amount</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Equipment	\$ 7,320,417	\$ 5,968,185	\$ 1,352,232
Furniture	11,500,547	10,217,906	1,282,641
Leasehold improvements	11,713,238	10,594,017	1,119,221
ADP software	22,466,283	19,249,005	3,217,278
Construction in process	255,331	-	255,331
Internal software in development	3,347,748	-	3,347,748
Capital leases	29,000	29,000	-
Total property and equipment, net	<u>\$ 56,632,564</u>	<u>\$ 46,058,113</u>	<u>\$ 10,574,451</u>

As of September 30, 2016, the Commission has a new FY 2016 five year Capital Lease and has recorded the equipment received and related installation costs totaling \$0.8 million in Construction-in-Process as work continues toward final acceptance.

(7) Other Liabilities

Other liabilities at September 30, 2016 and 2015 consisted of:

	2016		
	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
Intragovernmental			
Accrued payroll and benefits	\$ 1,750,639	\$ -	\$ 1,750,639
Resources transferable to Treasury and other Federal entities	6,771,507	-	6,771,507
Workers' compensation payable (note 9)	519,668	78,920	598,588
Total other intragovernmental liabilities	<u>9,041,814</u>	<u>78,920</u>	<u>9,120,734</u>
Accrued payroll and benefits	7,015,352	-	7,015,352
Collections due to states	4,414,099	-	4,414,099
Contingent Liability	562,782	-	562,782
Revenue collected under protest	5,543,619	-	5,543,619
Refunds and other amounts due	6,521	-	6,521
Accrued leave (note 9)	14,985,778	-	14,985,778
FECA actuarial liability (note 9)	-	2,818,833	2,818,833
Resources transferable to other entities from disgorged funds	7,834,759	-	7,834,759
Other liabilities with related budgetary obligations	2,663,253	-	2,663,253
Capital lease liability	1,225,240	1,859,977	3,085,217
Total other liabilities	<u>\$ 53,293,217</u>	<u>\$ 4,757,730</u>	<u>\$ 58,050,947</u>

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	2015		
	Current	Non-Current	Total
Intragovernmental			
Accrued payroll and benefits	\$ 1,323,806	\$ -	\$ 1,323,806
Resources transferable to Treasury and other Federal entities	3,756,904	-	3,756,904
Workers' compensation payable (note 9)	393,824	245,354	639,178
Total other intragovernmental liabilities	5,474,534	245,354	5,719,888
Accrued payroll and benefits	6,482,530	-	6,482,530
Collections due to states	4,593,476	-	4,593,476
Revenue collected under protest	3,435,900	-	3,435,900
Refunds and other amounts due	502,216	-	502,216
Accrued leave (note 9)	14,863,340	-	14,863,340
FECA Actuarial Liability (note 9)	-	2,420,211	2,420,211
Resources transferable to other entities from disgorged funds	7,834,759	-	7,834,759
Total other liabilities	\$ 43,186,755	\$ 2,655,565	\$ 45,852,320

Resources transferable to Treasury and other Federal entities represent future collections on accounts receivable that will be forwarded to Treasury upon receipt.

Revenue collected under protest represents monies that, once the protest is resolved, may either be recognized as revenue by the Commission or returned to the protesting entity.

Refunds and other amounts due represent monies that ultimately will be returned to entities due to overpayments of prior billings and interim reporting of deferred revenues.

Resources transferable to other entities from disgorged funds represents monies that will be disbursed to specific entities in the future.

(8) Leases

Capital Leases:

As of September 30, 2016, the Commission has a future FY 2016 Capital Lease Liability for \$3,085,217 related to leased equipment over a five year period, and is in the process of placing the equipment into service. This amount is included in Other Liabilities (note 7). The lease agreement includes four option years and at the end of the lease the equipment becomes the Commission's asset. For future lease payments, the Commission calculates the capital lease liability based on the total lease payments and subtracts the maintenance costs associated with the leased equipment to arrive at the net capital lease liability. The interest rate implicit in the lease is 0% and therefore the discount rate is 0% and thus there is no impact to the capital lease liability. The equipment will be depreciated over the length of the lease using straight line method once it is placed into service.

	2016	2015
Summary of Assets Under Capital Lease:		
Machinery and Equipment	\$ 3,085,217	\$ -
Accumulated Amortization	-	-

Capital Leases – Future Payments

Fiscal Year	Equipment
FY 2017	\$ 949,785
FY 2018	949,785
FY 2019	949,785
FY 2020	949,785
Total future minimum lease payments	3,799,140
Less: Executory costs	1,319,171
Net capital lease liability (not covered by budgetary resources)	2,479,969
Current year capital lease liability (covered by budgetary resources)	605,248
Total liability	\$ 3,085,217

Operating Leases:

The General Services Administration (GSA) enters into lease agreements for government buildings and maintains those lease agreements. The Commission pays GSA a standard level users charge for the annual rental of building space, of which Commission Headquarters is in Washington, DC and several other regional offices are located in various parts of the country. The standard level users charge approximates the commercial rental rates for similar properties. The Commission generally executes an occupancy agreement with GSA, which normally includes a requirement to give 30-120 days' notice to vacate. Expenses incurred for building leases amounted to \$30.6 million and \$22.5 million for the years ended September 30, 2016 and 2015, respectively.

The table below identifies minimum lease amounts, net of executory costs, that the Commission may be liable for in the future based on current agreements or current negotiations to renew existing lease agreements. The Commission also anticipates renewing expiring leases that are not currently in negotiations, for similar terms and conditions upon the expiration of those current agreements.

Real Property Operating Leases – Future Payments

Fiscal Year	GSA	Non-GSA	Total
FY 2017	\$ 20,759,618	\$ 3,708	\$ 20,763,326
FY 2018	21,157,841		21,157,841
FY 2019	20,902,599		20,902,599
FY 2020	20,280,323		20,280,323
FY 2021	19,755,203	-	19,755,203
Beyond FY 2021	73,637,741	-	73,637,741
Total future minimum lease payments	\$ 176,493,325	\$ 3,708	\$ 176,497,033

(9) Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources at September 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Intragovernmental		
Workers' compensation payable (note 7)	\$ 598,588	\$ 639,178
Total intragovernmental	598,588	639,178
Accrued leave (note 7)	14,985,778	14,863,340
FECA Actuarial Liability (note 7)	2,818,833	2,420,211
Contingent Liability	562,782	-
Other liabilities without budgetary resources	2,479,969	-
Total liabilities not covered by budgetary resources	\$ <u>21,445,950</u>	\$ <u>17,922,729</u>

(10) Employee Benefits

Commission employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7% of their basic pay to the plan, and the Commission makes a matching contribution. For employees participating in the FERS program hired before January 1, 2013, the Commission makes a contribution of 13.7% of basic pay. For employees participating in the FERS-Revised Annuity Employees (RAE) program hired after January 1, 2013, the Commission makes a contribution of 11.9% of basic pay. For employees participating in the FERS-Further Revised Annuity Employees (FRAE) program hired after December 31, 2013, the Commission makes a contribution of 11.9% of base pay.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect either to join FERS and Social Security or remain in CSRS. FERS offers a savings plan in which the Commission automatically contributes 1% of employees' basic pay and matches any employee contribution up to an additional 4% of basic pay. For most employees hired since December 31, 1983, the Commission also contributes the employer's matching share for Social Security. Public Law 112-96, Section 5001 of the "Middle Class Tax Relief and Job Creation Act of 2013," makes a significant change to the FERS program. Beginning January 1, 2013, new employees under FERS-RAE contribute 3.1% of their basic pay compared to 0.8% contributed by employees hired prior to January 1, 2013. Furthermore, new employees hired after December 31, 2013 under FERS-FRAE contribute 4.4% of their basic pay compared to the contribution rates of FERS and FERS-RAE employees.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is, therefore, not disclosed by the Commission. For the years ended September 2016 and 2015 both plans cost approximately \$22.0 million and \$20.4 million, respectively. The total imputed costs for pension, life and health insurance recognized by the Commission for FY 2016 and FY 2015 are \$12.7 million and \$12.3 million, respectively and will ultimately be funded through the Office of Personnel Management.

(11) Commitments and Contingencies

Certain hydroelectric licensees have filed appeals claiming the Commission erroneously accepted certain "other agency costs" (costs incurred by Other Federal agencies in administering Part I of the FPA component of the licensees' annual charges) in their calculation of FY annual charges. Hydroelectric licensees occupying federal lands in the State of Alaska have filed appeals against their federal lands annual charges claiming the Commission violated its statutory requirement by unreasonably assessing increased land rates in the State of Alaska. In addition, certain licensees have filed appeals against their hydropower administrative annual charges to seek a

partial or 100% municipal exemption. The combined liabilities of these appeals total \$5.5 million and \$3.4 million as of September 30, 2016 and 2015, respectively, and are included herein as revenue collected under protest. The FY 2016 liability is fully funded and therefore poses no adverse or material future effect on the Commission's financial position.

In addition, the Commission has four legal cases as of September 30, 2016 that require a contingent liability. The four cases consist of one Freedom of Information Act case totaling \$60,168 and three Equal Employment Opportunity (EEO) cases totaling \$502,614. The Commission also has three EEO cases pending where the probability of success for the claimants is reasonably possible. The amount of monetary relief in the three EEO cases could total \$575,000 as of September 30, 2016.

(12) Custodial Activity

The Commission currently bills regulated companies annual charges as a custodian for certain Federal agencies. These agencies include the United States Army Corps of Engineers, the Department of Interior's Bureau of Reclamation, and the Treasury. Accrual accounting is used to account for the Commission's custodial activities. The receivables are maintained by the Commission, and the collections are processed to each Federal agency on a monthly basis. In addition to the annual charges, penalty and administrative costs are assessed on past-due bills and remitted to the Treasury when received. For FY 2016 and FY 2015, these custodial collections transferred to Treasury and other federal agencies totaled approximately \$35.1 million and \$36.3 million, respectively.

(13) Funds from Dedicated Collections

In accordance with the Federal Accounting Standards Advisory Board's Statement on Federal Financial Accounting Standards (SFFAS) No. 27 *Identifying and Reporting Earmarked Funds* and as amended by SFFAS No. 43 *Funds from Dedicated Collections: Amendment Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Commission is required to report separately on the Balance Sheets and Statements of Changes in Net Position, the non-exchange revenue, other financing sources, net cost of operations and net position attributable to funds from dedicated collections. In addition, the Commission must disclose the fund for which it has program management responsibility. The Commission's Collections Due to States fund meets the criteria for funds from dedicated collections, however, these funds are custodial in nature and therefore do not impact the Balance Sheet's net position or the Statement of Changes in Net Position. The balances as of September 30, 2016 and 2015 were \$4.4 million and \$4.6 million, respectively.

Funds 89X5105 and 895105 pertains to the Use of Government lands. "Reasonable annual charges for recompensing the United States for the use, occupancy, and enjoyment of its lands or its other property will be fixed by the Commission." 18 C.F.R. CH 1, part 11.2(a).

The Commission disposes of the charges arising from licenses in accordance with USC, Title 16, CH 12, Part I, Sec 810 "All other charges arising from licenses hereunder, except charges fixed by the Commission for the purpose of reimbursing the United States for the costs of administration of this subchapter, shall be paid into the Treasury of the United States and credited to Miscellaneous Receipts. 37.5 per centum of the charges arising from licenses hereunder for the occupancy and use of national forests and public lands from development within the boundaries of any State shall be paid by the Secretary of the Treasury to such state."

(14) Intragovernmental Costs and Exchange Revenue

Costs classified as “Intragovernmental” represent the cost of goods or services obtained from Federal entities. Costs classified as “Public” represent the cost of goods or services obtained from non-federal entities. Revenues classified as “Intragovernmental earned” are generated when the buyer and seller of services are Federal entities. Revenues classified as “Public earned” are generated when the buyer of services is a non-federal entity.

Intragovernmental costs and exchange revenue for the years ended September 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Just and Reasonable Rates, Terms, & Conditions		
Intragovernmental costs	\$ 37,843,719	\$ 32,948,483
Public costs	<u>112,202,941</u>	<u>113,612,160</u>
Total Just and Reasonable Rates, Terms, and Conditions costs	150,046,660	146,560,643
Intragovernmental earned revenue	36,679	16,704
Public earned revenue	<u>150,009,981</u>	<u>146,543,939</u>
Total Just and Reasonable Rates, Terms, and Conditions earned revenues	150,046,660	146,560,643
Infrastructure		
Intragovernmental costs	28,903,335	24,882,750
Public costs	<u>85,695,574</u>	<u>85,788,011</u>
Total Infrastructure costs	114,598,909	110,670,761
Intragovernmental earned revenue	28,014	196,750
Public earned revenue	<u>114,570,895</u>	<u>110,474,011</u>
Total Infrastructure earned revenues	114,598,909	110,670,761
Mission Support		
Intragovernmental costs	15,452,679	13,136,662
Public costs	<u>45,815,692</u>	<u>45,297,520</u>
Total Infrastructure costs	61,268,371	58,434,182
Intragovernmental earned revenue	14,977	6,659
Public earned revenue	<u>61,253,394</u>	<u>58,427,523</u>
Total Infrastructure earned revenues	61,268,371	58,434,182
Costs		
Intragovernmental costs	82,199,733	70,967,895
Public costs	<u>243,714,207</u>	<u>244,697,691</u>
Total costs	\$ <u><u>325,913,940</u></u>	\$ <u><u>315,665,586</u></u>
Revenue		
Earned intragovernmental revenue	79,669	220,113
Earned public revenue	<u>325,834,271</u>	<u>315,445,473</u>
Total earned revenue	\$ <u><u>325,913,940</u></u>	\$ <u><u>315,665,586</u></u>

(15) Apportionment Categories of Obligations Incurred

Apportionment categories of obligations incurred for the years ended as of September 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Category A:		
Direct	\$ 329,253,038	\$ 319,646,510
Reimbursable	26,772	82,316
Total obligations incurred	<u>\$ 329,279,810</u>	<u>\$ 319,728,826</u>

Category A apportionments distribute budgetary resources by fiscal quarters.

(16) Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The Commission had no differences between the Statement of Budgetary Resources and the Budget of the United States as of September 30, 2015. The statement can be reconciled to the President’s budget by combining both of the budgets for Federal Energy Regulatory Commission (89-0212-0-1-176) and Payments to States under Federal Power Act (89-5105-0-2-806). The reconciliation as of September 30, 2016 is not presented, because the submission of the FY 2016 budget occurs after publication of these financial statements. The Commission’s Budget Appendix can be found under the DOE on the OMB website and will be available in early February 2017.

(17) Undelivered Orders at the End of the Period

Undelivered orders are obligations made by the Commission for services and purchases that have not been received and accepted as of the balance sheet date. The amount of Commission budgetary resources reported as undelivered orders as of September 30, 2016 and 2015 were \$32.2 million and \$31.4 million, respectively.

(18) Reconciliation of Net Cost of Operations to Budget

The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

	<u>2016</u>	<u>2015</u>
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	\$ 329,279,810	\$ 319,728,826
Less: spending authority from offsetting collections and prior year recoveries	<u>(330,702,076)</u>	<u>(304,989,159)</u>
Obligations, net of offsetting collections and prior year recoveries	(1,422,266)	14,739,667
Less: Distributed offsetting receipts	<u>(20,243,633)</u>	<u>(20,101,886)</u>
Net obligations	(21,665,899)	(5,362,219)
Other resources:		
Transfers-out and other adjustments, net of appropriations received	(5,427,904)	(11,092,428)
Imputed financing from costs absorbed by others	<u>12,662,476</u>	<u>12,340,004</u>
Net other resources used to finance activities	<u>7,234,572</u>	<u>1,247,576</u>
Total resources used to finance activities	<u>(14,431,327)</u>	<u>(4,114,643)</u>
Resources (used to) or generating finance items not part of the net cost of operations:		
Change in budgetary resources obligated for goods/ services/benefits ordered but not yet provided (+/-)	(791,958)	(12,449,323)
Resources that fund expenses recognized in prior periods:		
Budgetary offsetting receipts that do not affect the net cost of operations	20,243,633	20,101,886
Resources that finance the acquisition of assets	(8,060,928)	(1,403,681)
Payments to States	<u>(4,135,019)</u>	<u>(4,279,951)</u>
Total resources (used to) or generating finance items not part of the net cost of operations	<u>7,255,728</u>	<u>1,968,931</u>
Total resources used to finance the net cost of operations	<u>(7,175,599)</u>	<u>(2,145,712)</u>
Costs that do not require resources:		
Components requiring or (generating) resources in future periods:		
Increase (or decrease) in unfunded liabilities	3,523,221	(1,073,165)
Increase (or decrease) in exchange revenue receivable from the public	<u>382,952</u>	<u>133,180</u>
Total components of net cost of operations that will require or (generate) resources in future periods	3,906,173	(939,985)
Components not requiring or generating resources:		
Depreciation and amortization	4,369,144	3,217,630
Other	<u>(1,099,718)</u>	<u>(131,933)</u>
Total components of net cost of operations that will not require or (generate) resources	<u>3,269,426</u>	<u>3,085,697</u>
Total net cost of operations that do not require or (generate) resources in the current period	<u>7,175,599</u>	<u>2,145,712</u>
Net Cost of Operations	\$ <u>(0)</u>	\$ <u>(0)</u>

Other Information

(Unaudited)

FEDERAL ENERGY REGULATORY COMMISSION
 Combined Schedule of Spending (Unaudited)
 For the Years Ended September 30, 2016 and 2015
 (in millions)

	2016	2015
What Money is Available to Spend?		
Total Resources	\$ 352	\$ 337
Less Amount Available but Not Agreed to be Spent	23	17
Total Amounts Agreed to be Spent	\$ 329	\$ 320
How was the Money Spent/Issued?		
Personnel Compensation	177	172
Personnel Benefits	54	54
Benefits for Former Personnel	-	-
Travel and Transportation of Persons	3	3
Rent, Communication and Utilities	33	26
Printing and Reproduction	2	2
Other Contractual Services	45	56
Supplies and Materials	2	2
Equipment	5	1
Land and Structures	-	-
Grants, Subsidies and Contributions	8	4
Total Amounts Agreed to be Spent	\$ 329	\$ 320
Who Did the Money Go to?		
For Profit	97	93
Government	45	42
Higher Education	1	2
Individuals	186	183
Total Amounts Agreed to be Spent	\$ 329	\$ 320

The unaudited Schedule of Spending presents an overview of how and where the Commission spent its funding.

What Money is Available to Spend? summarizes the funds the Commission obligated during the fiscal year, the total amount agreed to be spent being equivalent to the obligations incurred shown on the Statement of Budgetary Resources (SBR). For FY2015 and FY 2016, \$313,525 and \$278,821 respectively, were not available to be spent for Payment to States; however those amounts are not presented on the Schedule of Spending due to rounding.

How Was the Money Spent/Issued? summarizes the Commission's major categories of obligations and how those obligations are agreed to be spent as shown on the SBR. These amounts are categorized by the OMB Budget Object Class definitions found in OMB Circular No. A-11.

Who did the Money go to? summarizes with whom the agencies are spending money and is based on obligations incurred as shown on the SBR. Outlays are not always made in the same fiscal year in which funds are obligated resulting in carryover obligated balances that will be disbursed in subsequent fiscal years. These timing differences are shown as increases/ (decreases) in Amounts Remaining to be Spent.

Improper Payments Information Act (IPIA) Reporting

The Commission has performed a review of its payments through September 30, 2016 and it has processed 99.5 percent of its payments without error. The Commission found only 47 erroneous payments out of 8,797 total payments. The value of those erroneous payments totaled \$0.4 million out of total payments of \$51,877,562 for FY 2016.

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the Act, and in response to multiple audits and recommendations, agencies should report annually in the Other Information section the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

Penalty (Name of Penalty)	Authority (Statute)	Previous Adjustment	Current Adjustment	Current Penalty Level (\$)
Violation of any provision of Part II of the FPA or related rule or order	16 U.S.C. § 825o-1(b), Sec. 316A of the Federal Power Act	Oct-05	Jul-16	\$1,193,970 per violation, per day
Violation of or failure/refusal to comply with any rule or regulation issued under Part I of the FPA or any related order or term of a license, permit, or exemption	16 U.S.C. § 823b(c), Sec. 31(c) of the Federal Power Act	Aug-02	Jul-16	\$21,563 per violation, per day
Violation of or willful failure to comply with any order of the Commission; file any report required under the FPA; or submit any information or document or respond to subpoena required by the Commission in the course of an investigation conducted under the FPA	16 U.S.C. § 825n(a), Sec. 315(a) of the Federal Power Act	Aug-02	Jul-16	\$2,750 per violation
Violation of any provision of the NGA or any related rule, regulation, restriction, condition, or order	15 U.S.C. § 717f-1, Sec. 22 of the Natural Gas Act	Oct-05	Jul-16	\$1,193,970 per violation, per day
Violation of any provision of the NGPA or any related rule or order	15 U.S.C. § 3414(b)(6)(A)(i), Sec. 504(b)(6)(A)(i) of the Natural Gas Policy Act of 1978	Oct-05	Jul-16	\$1,193,970 per violation, per day
Violation of or failure/refusal to comply with regulations or orders concerning posting and filing rate schedules issued by the Commission under section 6 of the ICA	49 App. U.S.C. § 6(10) (1988), Sec. 6(10) of the Interstate Commerce Act	Oct-10	Jul-16	\$1,250 per offense and \$62.50 per day after the first day
Violation of or failure to comply orders issued by the Commission under sections 3, 13, or 15 of the ICA	49 App. U.S.C. § 16(8) (1988), Sec. 16(8) of the Interstate Commerce Act	Oct-10	Jul-16	\$12,500 per violation, per day
Violation of or failure to comply with Commission's requirements to provide information in connection with the Commission's valuation of a pipeline carrier's property under section 19(a) of the ICA	49 App. U.S.C. § 19a(k) (1988), Sec. 19a(k) of the Interstate Commerce Act	Oct-13	Jul-16	\$1,250 per offense, per day
Violation of or failure to keep or submit certain accounts, records, or memoranda required by the Commission under authority granted in section 20 of the ICA	49 App. U.S.C. § 20(7)(a) (1988), Sec. 20(7)(a) of the Interstate Commerce Act	Oct-40	Jul-16	\$1,250 per offense, per day

Appendix A: Statutory Authority

Provided below is a listing of federal statutes applicable to the Commission. Links to these statutes are available on the Commission's website at www.ferc.gov under Legal Resources.

Electric, Hydropower, & General Statutes

Federal Power Act
Energy Policy Act of 2005
Energy Policy Act of 1992
Power Plant & Industrial Fuel Use Act
Department of Energy Organization Act
Electric Consumers Protection Act (ECPA)
Electronic Freedom of Information Act of 1996
Energy Independence and Security Act of 2007 (EISA)
Public Utility Holding Company Act of 2005 (PUHCA)
Public Utility Regulatory Policies Act of 1978 (PURPA)
Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA)
Information Technology Management Reform Act of 1996 (ITMRA/Clinger-Cohen Act)

Natural Gas Statutes

Natural Gas Act
Natural Gas Policy Act of 1978
Alaska Natural Gas Pipeline Act of 2004
Alaska Natural Gas Transportation Act of 1976
Outer Continental Shelf Lands Act of 1978 (OCSLA)
Natural Gas Wellhead Decontrol Act of 1989 (NGWDA)

Oil Statutes

Interstate Commerce Act
Oil Pipeline Regulatory Reform

Environmental and Other Statutes

Clean Air Act
Clean Water Act
Rivers and Harbors Act
Endangered Species Act
Wild and Scenic Rivers Act
Coastal Zone Management Act
National Historic Preservation Act
Fish and Wildlife Coordination Act
National Environmental Policy Act (NEPA)

Appendix B: Acronym Listing

FY 2016 Agency Financial Report

Acronym	Full Description
AFR	Agency Financial Report
APR	Annual Performance Report
CSRS	Civil Service Retirement System
C.F.R.	Code of Federal Regulations
CIP	Critical Infrastructure Protection
DOE	Department of Energy
DOL	Department of Labor
ECPA	Electric Consumers Protection Act
EISA	Energy Independence and Security Act of 2007
ERO	Electric Reliability Organization
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FERS	Federal Employees' Retirement System
FERC	Federal Energy Regulatory Commission
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act
FPA	Federal Power Act
FPC	Federal Power Commission
FY	Fiscal Year
FTE	Full Time Equivalent
FRAE	Further Revised Annuity Employees
GSA	General Services Administration
GPRA	Government Performance and Results Act
IOAA	Independent Offices Appropriations Act of 1952
IPIA	Improper Payments Information Act
ISO	Independent System Operator
IT	Information Technology
ITMRA	Information Technology Management Reform Act of 1996
LNG	Liquefied Natural Gas
MISO	Midcontinent Independent System Operator
NAESB	North American Energies Standards Board
NEPA	National Environmental Policy Act
NGWDA	Natural Gas Wellhead Decontrol Act of 1989
OAL	Office of Administrative Litigation
OALJDR	Office of Administrative Law Judges and Dispute Resolution
OCSLA	Outer Continental Shelf Lands Act of 1978
OE	Office of Enforcement
OEA	Office of External Affairs

FY 2016 Agency Financial Report

Acronym	Full Description
OED	Office of the Executive Director
OEIS	Office of Energy Infrastructure Security
OEMR	Office of Energy Market Regulation
OEP	Office of Energy Projects
OEPI	Office of Energy Policy and Innovation
OER	Office of Electric Reliability
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OSEC	Office of the Secretary
PJM	PJM Interconnection
PUHCA	Public Utility Holding Company Act of 2005
PURPA	Public Utility Regulatory Policies Act of 1978
RTO	Regional Transmission Organization
RAE	Revised Annuity Employees
RIDM	Risk-informed Decision Making
SPP	Southwest Power Pool
SBR	Statement of Budgetary Resources
SBREFA	Small Business Regulatory Enforcement Fairness Act of 1996
SFFAS	Statement on Federal Financial Accounting Standards
USSGL	United States Standard General Ledger